

URGENT MODIFICATION PROPOSAL

Title : Meter Reading Arrangements Post 1 April 1998

Date : 25 February 1998

Proposed Implementation Date : 1st April 1998

Urgency : URGENT PROCEDURES REQUESTED

BACKGROUND:

Prior to 1 January 1998 Shippers had three options to fulfil their meter reading (MR) obligations under the Network Code for the period commencing 1 April 1998:

- A. to source an alternative Meter Reading Agent (MRA)
- B. to continue with the existing meter reading contract without liabilities
- C. to sign Transco's Incentive Based Contract (IBC)

A. Competition in MRAs

Shippers are of the opinion that impediments to competitive meter reading services still exist. To be able to assess the financial viability of any competitive contract shippers need to be capable of undertaking a cost analysis. The revised version of PC20 was only issued to shippers on 20 February 1998 and has yet to be approved by Ofgas. This revised version is substantially different to that originally published on 23 December 1997.

For shippers to unbundle two months notice had to be provided to Transco. In order for shippers to assess their options to unbundle a definitive IBC and approved PC20 equivalent would need to have been published prior to 1 February 1998.

We believe that unbundling of meter reading activities from Transco is an important part of the deregulation process and shippers have spent considerable time investigating alternative MRAs. Whilst there is some competition from PESSs, we have found that there is only one truly national MRA and one independent MRA. Despite the publication of the Ofgas' feedback on the consultation paper entitled "Competitive Gas Meter Reading: Potential Impediments toCompetition" it is felt that significant impediments still exist. Refer to Appendix 1.

Within the agreed Modification 0132A Ofgas and Transco committed to investigate the state of meter reading competition. This study was due to be completed and published by the end of June 1997. Ofgas published the findings to its study (Potential Impediments to The Development of Effective Competition - Follow-up to Ofgas' consultation document) in December 1997, the delay indicating the lack of clarity in this market. This report concluded that there was insufficient competition in gas meter reading.

Ofgas/Offer issued a further document (Dual Offers in the Gas and Electricity Markets - An OFFER and OFGAS Joint Decision Document) into the realm of sales and meter reading across the electricity and gas markets. This document highlighted definite concerns as to whether effective competition could be achieved due to distortions of competition arising from the different timescales being applied for meter reading competition in the two markets. These timescales offer economies of scale to only one set of companies, hindering the possible development of competition for gas companies.

It is felt that the issue of competition in meter reading should be considered across these two utilities and not in isolation. This modification will allow companies to progress towards an unbundled service at an appropriate pace whilst allowing deregulation of this activity to be developed with Offer on a more consistent basis.

Data Quality

Transco is currently undertaking a 'clean-up' of meter asset details for its Sites & Meters Database. This is a clear indication that the data currently held by Transco is of insufficient quality for external parties to have complete confidence in it, and was acknowledged as an issue in an Ofgas' report (Potential Impediments to the Development of Effective Competition - follow up to Ofgas' consultation document).

In an unbundled environment an MRA must try to obtain reads based on the information provided by Transco to the Shipper. Should this data be of poor quality, the obligations on Shippers under the Code to provide meter reads could be jeopardised.

Additionally, there has also been no agreement as to how alternative MRAs would pass any corrected meter asset details back to Transco. Ofgas is also awaiting a response from Transco on the issue of direct communication between Transco and MRAs, which is not expected until 28 February 1998. Shippers had requested that Transco give consideration to extending this form of communication to MRAs in their first consultations with Transco in May 1997.

Meter reads provided by an unbundled Shipper will not be validated by Transco. This should be considered in the context of the AQ Review process. Should Transco be required in future to recalculate Aqs, they will do so based upon unvalidated data, potentially leading to corrupt Aqs. Aqs are a crucial building block of the Network Code and the financial implications for Shippers cannot be emphasised enough. This major concern has not been sufficiently addressed in any other forum.

B. Meter Reading Contract (without liabilities)

Subject to paragraph 3.1.4 of the current meter reading contract and MOD 132/132A, Transco's responsibility was to review the competitiveness of the meter reading market and to offer an extension of the contract (without liabilities) prior to 1 January 1998 for a further period of six months if impediments were likely to exist and not capable of being overcome prior to 31 March 1998. Transco did not publish confirmation that this review had been undertaken and no offer to extend the Contract was made.

Shippers did not request an extension prior to 1 January 1998 as they believed that Transco would incorporate shippers views in the contract development process. Additionally the late publication of PC20 (4 Business Days prior to 1 January 1998) did not allow sufficient time for Shippers to review the full financial implications of PC20 in conjunction with the draft IBC issued early December 1997, in order that they might source alternative meter reading arrangements in accordance with Clause 1.2.6(a) of the current meter reading contract.

As two months notice is required to terminate the existing meter reading contract, and we have now passed 1 February 1998, if a Shipper has not made other arrangements, they will be obliged to adopt the current draft IBC and PC20 or run the risk of breaching the conditions of their Shippers Licence in relation to meter reading obligations.

The October 1997 Meter Reading (Liability) Contract was drafted with the Transco view that the liabilities attached to the Contract at that time were excessive and an impediment to competition. However, subsequent negotiations under Review Group 0072 have agreed a substantial reduction in meter reading liabilities within the Code. This proposal (MOD 204) is currently with Ofgas, and if signed, would remove the issue of liabilities hindering the development of competition.

C. Transco's IBC

Following the meter reading forum of 3 December 1997 and the publication of PC20 on 23 December 1997 (the pricing consultation paper for IBC), there has been great concern expressed by Shippers as to the nature of the pricing structure.

Following the Meter Read Forum of January 1997 a Contract Development Work Group was formed by Transco in May 1997. Shipper representation on this Work Group was limited to invitation by Transco and only 5 shippers were able to actively participate. All other shipper offers to participation were declined by Transco. Shipper identified issues were raised, and minuted, at the first meeting on 16 May 1997. A number of these issues have been consistently raised by Shippers since this first meeting and have been continually discounted by Transco in the development and drafting of the IBC and PC20. Full details are attached in Appendix 2 which details communications passed between Transco and Shippers.

Significant issues still remaining as unresolved and the main issues are listed in brief below:

- 1) lack of a liability mechanism to ensure a minimum level of performance
- 2) the Transco statement regarding revenue neutrality is still not transparent when compared to Transco's bronze book charges
- 3) must read obligations under Code and shippers licences are still unsatisfied
- 4) persistent Access-Denied sites and the conditions applied to access-denied
- 5) "B" (the population for determining read performance) - the need for this to be a constant rather than dynamic number

- 6) publication by Transco of target read dates
- 7) right of joint audit
- 8) performance targets are based on historical, not current performance levels specifically in relation to Non-Monthly Read meter performance
- 9) lack of indemnity provisions
- 10) data quality

This list of issues (in no specific order of importance) is not meant to be comprehensive but these are considered to be the fundamental issues of overriding concern to a large representative group of Domestic and I&C shippers who have met regularly since December 97 to discuss the IBC contract.

To date no full legal drafting session has been held and Transco in its most recent correspondence (dated 19 February 1998) have indicated that they have no intention of offering such a session.

In light of the significance of these issues it does not appear possible for an agreement on the IBC contract to be reached in time for a transfer prior to 1 April 1998.

JUSTIFICATION:

The issues outlined above represent serious concerns to Shippers. Should these issues not be adequately addressed Shippers will be forced into a contract which, in a fully competitive environment, they would be unlikely to accept.

CONSEQUENCE OF NOT MAKING THIS CHANGE:

Shippers will be limited to two choices if this Modification is not approved. These are:

- Sign the current IBC and accept the PC20 pricing mechanism
- Boycott signing of the contract but breach the conditions of the Supplier Licences and Network Code obligations.

In a truly competitive environment there would be no need for Shippers to be placed in such a position.

AREA OF NETWORK CODE CONCERNED

None at present. Meter reading was formally part of the Transition Document.

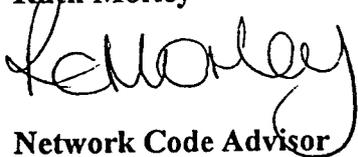
NATURE OF PROPOSAL

To reintroduce meter reading contract arrangements (with standards of service and liabilities as proposed by MOD Group 0072) into the Network Code and extend them for a period of 6 months or until such time as a mutually agreed alternative contract is in place. This will encourage all parties to agree acceptable incentive based meter reading arrangements in a timely manner.

Shippers are willing to actively participate in a Work Group, which adequately represents all views, and to work with Transco towards the development of an incentive based meter reading contract which will enable both Shippers and Transco to meet their respective obligations and encourage competition. Shippers would appreciate Ofgas' involvement in this Work Group as facilitator.

PURPOSE OF PROPOSAL

To allow the development of a competitive meter reading environment free from impediments in a manner which does not jeopardise existing levels of meter reading performance or data quality whilst considering the harmonisation of meter reading competition across the industry.

Proposer Ruth Morley
Signature 
Position Network Code Advisor
Company Mobil Gas Marketing (U.K.) Ltd

This Modification is supported, in principle, by the following companies:

Texaco Natural Gas
British Gas Trading Limited
Total Gas Marketing Limited
Alliance
Eastern Natural Gas
Beacon Gas Limited
Sterling Gas
BP Gas
Shell Gas Direct Limited
Amerada Hess
Calortex
Scottish Power

MODIFICATION PANEL SECRETARY'S USE ONLY

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APPENDICES - CONTENTS

APPENDIX 1

Letter dated 23 February 1998 entitled "Impediments to Competitive Meter Reading" from group of 14 Shippers to Ofgas, copy to Transco.

APPENDIX 2

1. Issues relating to Transco's IBC

Diary of events leading up to the submission of this modification, prepared by Mobil Gas Marketing and circulated to all involved Shippers

Transco prepared minutes of 16 May 1997 meeting entitled "October 97 Meter Reading Contract Development Group"

Transco prepared minutes of 13 June 1997 meeting entitled "October Meter Reading Contract Development Workgroup"

Transco fax dated 8 August 1997 containing copy of draft version of IBC and invitation to meeting to review this document, giving only 2 business hours to review the contract prior to the meeting.

Transco prepared minutes of 11 August 1997 meeting to discuss the content of the draft IBC submitted. Please note that this was NOT a legal drafting session as indicated on the minutes, as Mobil clearly stated at the beginning of this meeting that insufficient time had been allowed for full legal review of the draft document. The meeting was simply a review of the contents.

Transco invitation dated 14 November 1997 to attend Meter Reading Forum on 3 December 1997 to discuss newly published IBC contract.

Fax of 18 December 1997 from Mobil Gas to Texaco (and copy to all involved Shippers) advising that we had requested a contract drafting forum and Transco had agreed to this, date agreed was 22 January 1998.

Total Gas Marketing prepared joint letter from 8 Shippers dated 15 January 1998 containing details of outstanding issues related to the IBC contract.

Transco response to Total GM letter, dated 16 January 1998.

Texaco prepared joint letter from involved Shippers, dated 16 January 1998 detailing critical issues which remain unaddressed.

Transco letter dated 27 January 1998 entitled "Actions from Incentive Based Contract Drafting Session".

Transco letter dated 6 February 1998 with revised draft of IBC.

British Gas Trading fax to 13 involved Shippers dated 17 February 1998 detailing contents of BGT's conversation with Transco on subject of outstanding issues related to IBC.

Eastern Natural Gas prepared joint letter from 14 Shippers dated 24 February 1998 detailing critical issues which had still not been addressed within the IBC.

2. Issues relating to Transco's PC20

Mobil Gas Marketing's letter dated 29 January 1998 detailing issues outstanding in relation to PC20 issued on 23 December 1997.

Texaco's letter dated 29 January 1998 detailing issues outstanding in relation to PC20 document dated 23 December 1997.