Direct Dial: 020-7901-7174
31 October 2001

Transco, Shippers and Other Interested Parties

Our Ref: COM/MET/MTR/111

Dear Colleague,

Modification Proposal 0442: Amendment to the provisions governing Network Code Isolation.

Ofgem has considered the issues raised in 'Modification proposal 0442: Amendment to the provisions governing Network Code Isolation'. Ofgem has decided not to direct Transco to implement the modification, because we do not believe that the proposal will better facilitate the achievement of the relevant objectives of Transco's Network Code.

In this letter, we explain the background to the modification proposal and give our reasons for making our decision.

Background to the proposal

Where a consumer no longer requires a gas supply, shippers may avoid certain elements of Transco's transportation charge by asking Transco to set the status of the supply point to "isolated" (this is known as a "Network Code Isolation"). Before doing so, Transco needs to be assured that gas has ceased to flow. This requires that some physical work is carried out on site. If the shipper wishes to avoid all of the transportation charge, it can "isolate and withdraw" and thus relinquish all responsibility for that supply point.

At present the process for securing a Network Code Isolation is contained in the "Isolation Siteworks Agreement" (ISA). This document is separate to Network Code and originally contained details of the physical work required, in order to secure that gas cannot flow. To allow for the development of competition in the carrying out of these physical works prior to requesting a Network Code Isolation, details of such physical works have been removed from the ISA.

Transco considered that it would be appropriate to embody relevant sections of the ISA into the Network Code and amend existing sections of Code as appropriate.

The modification proposal

The Proposal has two elements. Firstly it removes or corrects certain elements of Network Code that have been made redundant by the ISA and the development of a competitive market in the physical works. Secondly, it restores the process of achieving a Network Code Isolation into Network Code, thereby enhancing the visibility and understanding of the distinction between a Network Code Isolation and physical works.

In summary, the purpose of the modification proposal is to return the transportation elements of isolations, i.e. the setting of the administrative status of supply points, to Network Code, while leaving the contestable element, i.e. the physical works, outside of Network Code.

Respondents' views

Transco received 10 responses to the Modification proposal. Four of these responses supported implementation, 4 supported the general principles, but not implementation and 2 opposed the modification. The responses presented a wide range of comments, the main themes of which are detailed below.

Comments in support of the modification proposal principles were that it is appropriate that non-GT activities should be removed from Network Code. It was also noted that it would be advantageous for the processes to be subject to a change procedure (outside of network Code governance) which is in common usage and consistent across industry. Some indicated a belief that this is especially important in relation to physical works.

Observations opposing implementation of this modification proposal repeatedly raised concern that the drafting fails to address the fundamental changes resulting from the introduction of competition for meter removal and disaggregation of metering services, for example the possibility of meter removal by third parties not acting as shipper agents. It was also commented that, given recent changes to facilitate competition in provision of meter asset services, Network Code should not include commitments about the handling of Transco's metering assets.

A number of respondents indicated that although bringing the ISA within Network Code is welcomed, they would wish to be satisfied that the ISA itself reflects the current practices and obligations of the competitive market. Conversely, some respondents queried whether it was appropriate to have raised this modification in view of ongoing industry discussions regarding meter asset unbundling and associated processes and suggested maintenance of existing arrangements until the impacts of unbundling are fully understood.

Ofgem's view

Ofgem would agree that transportation functions, such as the process of achieving a Network Code Isolation, should be contained within Code. Equally, Ofgem would agree that it is appropriate that Network Code should be amended to remove or correct outdated provisions, for example the removal of references to non-GT activities. However, although Ofgem supports the broad principles outlined above, Ofgem has concerns with regard to modification proposal 442, further details of which are provided below.

Transco's intention is that this modification would incorporate the terms of the ISA into Network Code, in order to provide greater clarity for the requirements of Isolation status. Although it may not be possible to predict all future implications of unbundling and competition on Network Code, Ofgem would expect such a proposal to at least reflect existing market arrangements. Ofgem is concerned that this proposal does not reflect the current market, and considers that it would be inappropriate to implement outdated provisions.

The proposed drafting of Discontinuance Procedures fails to reflect current market arrangements, in that it does not recognise the existing possibility of meter removal by third parties that are not acting as shipper agents. As drafted, this could subsequently prevent a shipper requesting a change in supply point status and have the effect of complicating the Isolation process, rather than providing greater clarity. Additionally, the proposed drafting (section 3.4.4) requires Transco meter assets to be returned or made available for collection

where discontinuance is carried out. This is inconsistent with the current accepted practice of meter clamping (not necessitating meter removal) on U6 meters.

As noted above, Ofgem supports the principle of removing of references to non-GT activities from Network Code. In view of this, Ofgem is concerned that this modification proposal would actually increase the number of such references in Code, for example commitments about the handling of Transco's metering assets. Ofgem would also expect that as a GT document, the Discontinuance Procedures defining the work Transco GT will accept as satisfactory would not differentiate between metering service providers or their assets.

Ofgem recognises the need to update Network Code, though it does not consider the current modification proposal is sufficient to achieve the stated aims. In view of this Ofgem would encourage Transco to present a further proposal which addresses the concerns raised above. If such a proposal were to be submitted it would be helpful to also attach the Discontinuance Procedure itself, in order that the proposal may be considered in the proper context.

Ofgem's decision

Ofgem does not propose that this modification should be implemented, as it does not believe that will better facilitate the relevant objectives of Transco's Network Code. In particular, Ofgem does not consider that the proposal would improve clarity for network Users and therefore would not facilitate securing of effective competition between relevant shippers and between relevant suppliers on Transco's network.

If you have any queries in relation to the issues raised in this letter, please feel free to contact me on the above number.

Yours sincerely,

Bryony Sheldon
Metering Policy Manager