

20/06/2000

BG Transco, Shippers and Other Interested Parties

Your Ref:
Our Ref: Net/Cod/Mod/404

Dear Colleague,

Modification Proposal 0404: “Waiver of two month notice period for Pricing Consultation PC57 Metering Charges”

Ofgem has considered the issues raised in modification proposal 0404: ‘Waiver of two month notice period for Pricing Consultation PC57 Metering Charges’. Ofgem has decided to direct BG Transco to implement the modification, because we believe that the proposal will better facilitate the relevant objectives of Transco’s Network Code. The modification will be implemented on 21 June 2000.

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

Background to the proposal

On 25 May 2000, Ofgem published its proposals to secure competition in metering and meter reading services¹. These proposals included a licence modification to split Transco’s existing price control into three separate components: transportation, metering and meter reading, with effect from 1 April 2000.

On the same day, Transco published proposals to rebalance its metering and transportation charges into line with the new price controls². Transco is proposing that these charges take effect from 1 July 2000. Implementation on 1 July 2000 is important if Transco is to avoid under-recovery against metering allowed revenues and over-recovery against transportation allowed revenues.

The modification proposal

The proposal would enable any outcome of PC57 to be implemented on 1 July 2000, by shortening the required notice period for these particular charges from two months to 7 working days³. In practice this means that notice should be given on the day Transco receives approval for PC57.

Respondents’ views

None of the respondents to this paper supported the modification. Concern was expressed that allowing the shorter notice period for something considered inessential would set a dangerous precedent.

Ofgem’s view

Ofgem has considered respondents concerns, but remains of the opinion that modification 0404 better facilitates the relevant objectives set out in condition 7 of BG Transco Plc’s Public Gas Transporter Licence. In particular relevant condition (b), which requires that the Network code, facilitates the efficient discharge of BG Transco’s obligations under other parts of their licence.

¹ “Securing Effective Competition in Gas Metering and Meter Reading - The Director General’s final proposals”, Ofgem, May 2000. (The May 2000 metering document)

² Transco Pricing Consultation Paper PC57

³ The wording in the modification refers to giving notice as far in advance “as is reasonably practicable”. The timetable Ofgem agreed with Transco that 7 working days shall be considered reasonable.

Licence condition 11(1) requires that Transco conduct its business in such a way that neither the licensee, any gas shipper nor any supplier gains unfair commercial advantage. In Ofgem's view, modification 0404, by facilitating the earlier introduction of more cost-reflective metering charges, better achieves this objective.

Also, condition 4 of Transco's licence requires that Transco's charging methodology takes account of developments in the transportation business⁴. The split price control proposed by Ofgem is a 'future development in the transportation business' and this network code modification allows changes that are necessary for it to be implemented in the desired time frame.

However, Ofgem recognises that there is industry concern about the timing of the proposals. The proposed changes are necessary in the light of the proposed split price control. A later implementation date, in line with normal notification periods, would increase the likely magnitude of metering price changes this year – and generate price instability between this year and next year.

It is Ofgem's view, that a shorter notification period in these particular and exceptional circumstances is preferable to built-in future price instability. Ofgem would like to stress that this decision should not be seen as setting any form of precedent, in general, in respect of shorter notice periods.

Ofgem's decision

Ofgem has decided that it accepts the proposal set out in Network Code modification proposal 0404.

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,

David Howdon
Connections and Metering Analyst
Ofgem

⁴ Network Code Condition 4(1) and Condition 4(5)(b)