

OFGEM DECISION LETTER No. 0675

"Isolations - Changes required in accordance with the Review of Gas Metering Arrangements
(RGMA)"
Version 1.0

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Transco, Shippers and other parties

Dear Colleague,

Network Code Modification Proposal 675: 'Isolations – changes required in accordance with the Review of Gas Metering Arrangements (RGMA)'

Having considered the issues raised by Network Code Modification Proposal 675, Ofgem has decided to direct Transco to implement the proposal as Ofgem believes that it better facilitates the relevant objectives of the Network Code as set out in Transco's Gas Transporters Licence. In this letter Ofgem provides some background to the modification proposal and explains the reasons for reaching this 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'. Before amending the supply point status, Transco needs assurance that gas has ceased to flow through that meter. This requires some physical work to be carried out on site, which has traditionally been carried out by Transco itself. With the advent of metering competition, and in particular the separation of Transco's gas transporter and metering businesses, it will no longer be appropriate for the Network Code to refer to Transco carrying out these physical works.

If a shipper wishes to avoid all of the transportation charge, it must complete an 'effective withdrawal', at which point they will cease to be the registered user for that supply point and the registration and charges will be cancelled.

Review of Gas Metering Arrangements

In August 2000 Ofgem initiated the Review of Gas Metering Arrangements (RGMA) in order to address the remaining non-price barriers that were considered to be inhibiting the development of competition in gas metering services. Key amongst these was the integrated nature of Transco's monopoly transportation and metering businesses. The RGMA developed business processes and data flows (as specified in the RGMA Baseline) which will underpin competition in metering and the separation of Transco's transportation and metering businesses. The development of industry standards for business processes and data flows will allow market participants to communicate effectively in the evolving metering market. It is anticipated that the RGMA regime will come into effect on 12 July 2004.

Metering Contracts

Transco has recognised the need for its Network Code to evolve in accordance with market developments and has initiated a suite of modification proposals to that end. In particular, modification proposal 672 (in conjunction with 673, 674, 675, 676 and 678) sought to remove various metering provisions from the Network Code, which are instead being set out in specific metering contracts between Transco Metering Services Ltd and suppliers. The industry-wide Metering Contract Group (MCG) has been responsible for the drafting of those metering contracts, which will come into effect with the implementation of RGMA.

The Modification Proposal

This modification has been proposed in order to facilitate the implementation of the business rules drafted and agreed by the meter asset unbundling sub-group of the Supply Point and Billing workstream¹ ("SP&B").

Currently, the Transco Network Code uses the term 'isolation' for the physical works carried out by Transco itself, to ensure that gas cannot be off-taken. However, under the Network Code the term 'isolation' also refers to an event that has contractual effect such that the shipper ceases to be responsible for the gas off-taken at a site. Also, current drafting fails to recognise the changes to the metering market such that any competent party in addition to Transco may carry out physical works to the meter.

Modification proposal 675 will amend the definition of isolation to ensure that it relates to the contractual status of a Supply Meter Point ("SMP"), rather than physical works. References to Transco carrying out those physical works will also be removed from the Network Code, and replaced with a notification from the Shippers that they have undertaken such works. Upon receipt of such notification Transco will set the status of the SMP to 'isolated' and relevant charges will cease to be applied. Transco will retain certain obligations to carry out physical works where these are necessary for the purpose of ensuring safety. In order that this physical work can be distinguished from contractual 'isolations', it will be classified as a 'cessation of flow of gas' as distinct from an 'isolation' under the Network Code.

It has been considered necessary to create new provisions within the Network Code to clarify the process for revoking the isolated status of a SMP, indicating that gas is now capable of flowing. This process will be defined as 're-establishment'.

Traditionally, the meter would have been disconnected and removed as part of a supply point isolation and withdrawal. Once a meter has been disconnected from a gas supply and not replaced within 12 months, there is a requirement under Section 16(3) of the Gas Safety (Installation and Use) regulations to carry out certain works. Where there is no service valve², this includes the disconnection of the service pipe as far as reasonably practicable to the mains. These measures are intended to minimise the risk associated with having gas filled redundant service pipes left within the property.

Under these new proposals a meter does not have to be physically disconnected in order to effect an 'isolation and withdrawal', and so concerns were raised in the SPA/Metering Workstream Isolations sub group that meters may be left at shipper-less sites for an indeterminate period of time without triggering the safeguards mentioned above. It is therefore proposed to amend the Network Code so that shippers will retain responsibility for disconnecting the meter within a maximum period of 12 months following a withdrawal. Should they fail to do so, Transco will itself disable the supply, at cost to the shipper.

Respondents' views

Transco received four representations with respect to this modification proposal, all of which were supportive and no substantive comments were provided.

Transco's view

Transco considers that the implementation of this modification proposal will ensure that the Network Code Isolations regime is consistent with liberalisation of the metering market and its separation of GT and metering activities, as facilitated by the RGMA project. Transco considers that this in turn will facilitate the furtherance of the relevant objectives contained within its licence.

Ofgem's view

Whilst only four representations were received in response to this modification proposal, Ofgem is aware that changes to the isolations regime have been the subject of extensive discussion in a specially convened sub-group of the SP&B.

Given its acceptance of Modification proposal 672 Ofgem supports the principle of removing references to the non Gas Transporter activities from the Network Code. It is therefore appropriate that Transco cease to prescribe the nature of meter works that a shipper may choose to undertake in order to facilitate a supply point installation.

Whilst it appears entirely pragmatic for meters to remain in place, where gas is no longer required for a short time, Ofgem is keen to ensure that meters do not remain connected and left in

premises inappropriately, or for a long period of time, simply to avoid the costs of disconnection and removal. This could have implications for the transportation of gas and safety more generally.

Ofgem welcomes the assurance that Transco will conduct a site visit to ensure that safety aspects are maintained though it is likely that this work will focus upon the service pipe and not recovery of the meter. However Ofgem considers it likely that efficient competitive meter providers will have terms and conditions within their contracts to ensure that the supplier is charged for the meter, regardless of whether gas is actually flowing. This places an economic incentive on suppliers to have the meter removed when they are no longer in use as this would relieve them of the meter provision charges.

This is compounded by Transco's "cut off" charges as these could exceed the charge for disconnection and removal of the meter depending on the size of the meter. Ofgem will review this area as the competitive market develops, and to the extent required, may consider alternative remedies.

Ofgem's decision

Having taken all of the above into consideration, Ofgem has decided to direct Transco to implement modification proposal 675 as Ofgem believes that it will better facilitate competition within certain works associated with the isolation and withdrawal regime. In particular, the removal of unnecessarily prescriptive provisions and consistency with the RGMA Baseline can be expected to further effective competition between gas suppliers, and contribute to furthering its own efficiency.

Yours sincerely

Iain Osborne
Director of Consumer Markets

¹Previously called the SPA-Metering workstream.

²A valve (other than an emergency control) for controlling a supply of gas, which is; incorporated in the service pipe; intended for use by the transporter; and not situated inside the building.