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Transco, Shippers and other parties

Dear Colleague,

Network Code Modification Proposal 676: Non-Daily Metered Demand Estimation Sampling – Access to the Supply Meter Installation

Having considered the issues raised by Modification Proposal 676, 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. This letter provides some background information to the Modification Proposal and explains the reasons behind the decision to direct implementation of the proposal.

Background to the Proposal

Metering Competition

Under the existing regulatory framework, suppliers and consumers can choose their meter service provider. Suppliers are obliged under their licence to arrange for the provision of a gas meter to any of its domestic customers. Historically, this obligation has been discharged by requesting the transporter (via the shipper), in accordance with the Gas Transporters Licence, to provide meters to domestic customers. In recent years the gas metering market has become increasingly more competitive as demonstrated by suppliers such as British Gas engaging a range of competitive meter providers. In July 2002 Transco established Transco Metering Services (TMS), a wholly owned subsidiary for the provision of gas metering services. Transco have partially separated its transportation and metering businesses.

Ofgem has welcomed these market developments as it is hoped that competition in the gas metering market will deliver significant benefits to consumers through lower prices and improved standards of service.

Review of Gas Metering Arrangements

In August 2000 Ofgem initiated the Review of Gas Metering Arrangements (RGMA) in response to the gas metering market developments. The RGMA developed business processes and dataflows (as specified in the RGMA Baseline) which will underpin competition in metering and the separation of Transco's transportation and metering business arms. The development of industry standards for business processes and dataflows will allow market participants to communicate effectively in the evolving metering market. The RGMA regime will come into effect on 12 July 2004.

Governance Framework

The Supply Point Administration Agreement (SPAA) is to provide the governance framework for standard industry procedures including the RGMA Baseline. How the SPAA interactions with the existing governance regimes, namely the Network Code and licences is critical to effective governance of the gas supply and retail market. Ofgem is currently consulting on amendments to existing licence conditions for gas transporters, shippers and suppliers to reflect the RGMA regime and the organisational separation of Transco's transportation and metering businesses.

Transco has recognised the need for the Network Code to evolve in accordance with market developments and initiated a suite of metering modification proposals. A number of sub-groups of the Supply Point and Billing workstream developed Network Code business rules which formed the basis of these modification proposals. Modification proposal 676 in conjunction with 672, 673, 674, 675, and 678 seeks to remove metering supply provisions from the Network Code (which forms the basis of the metering contracts between suppliers and Transco) and include new provisions to ensure that Transco fulfil their Network Code obligations under the new arrangements.

Metering Contracts

Metering contracts between Transco and suppliers specify the commercial arrangements of metering provision. The industry-wide Metering Contract Group (MCG) was responsible for drafting the metering contracts that replicate, what will become under the RGMA regime, redundant metering supply provisions in the Network Code. There are five contracts canvassing the provision and maintenance of metering equipment, transactional meter works, adversarial meter works and the rainbow system user agreement which will come into effect with the implementation of RGMA.

The Modification Proposal

This modification proposal is primarily concerned with the implications of RGMA on Transco's effective operation of its pipeline system. This modification proposal has been initiated by Transco to establish that the Registered User will co-operate with Transco in ensuring that the sample of NDM Supply Meter Points is "fit for purpose".

Transco currently has no powers under the Network Code or the Gas Act 1986 to access and install a data recorder or daily read equipment for the purposes of NDM demand estimation irrespective of the asset owner. The data obtained from the data recorder or daily read

equipment allows Transco to develop End User Categories and Demand models, thereby supporting Transco's energy balancing role.

Without the proposed provisions, Transco's NDM sampling processes could be compromised and potentially result in the discontinuation of the existing the NDM sample. The discontinuity of a representative and statistically significant NDM sample is likely to result in less robust demand models which in turn will make Transco's energy balancing role more difficult.

Respondents' views

Four representations were received in response to Modification Proposal 676. Three respondents support the implementation of the modification proposal while one does not offer a view.

British Gas highlighted the importance of this modification as representative, statistically significant NDM data samples allow for robust NDM deeming algorithm models.

One respondent provided comments on the legal text which has been incorporated by Transco where appropriate.

Transco's View

It is Transco's view that this modification proposal should be implemented. Without relevant provisions to assist Transco to access the site to install and maintain and gather data from equipment for NDM Demand Estimation data acquisition purposes, it may not be possible to continue to operate the existing NDM sample and continue to provide the necessary continuity of NDM profile generation each year.

Ofgem's View

It is Ofgem's view that Modification Proposal 676 will facilitate the achievement of the Network Code objective of maintaining an efficient and economic operation by the licensee of its pipeline system. Ofgem agrees that the inclusion of provisions to ensure that users co-operate with Transco with regards to access and end-consumer consent will provide for a sample of NDM Supply Meter Points which is "fit for purpose". Ofgem believes that accurate End User categories and demand models will assist Transco's energy balancing role, thereby promoting the efficient and economic operation of the pipeline system.

Ofgem's decision

Having taken all of the above into consideration it is Ofgem's decision to direct Transco to implement Modification Proposal 676 as Ofgem believes that it will better facilitate the relevant objectives of Network Code, as set out in Standard Condition 9 of Transco's Gas Transporters Licence.

Yours sincerely

Iain Osborne

Director of Consumer Markets

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