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Transco, Shippers and other parties

Dear Colleague,

Network Code Modification Proposal 678: 'Primary and Sub-deduct meters and 'unique' sites –transitional metering arrangements post-RGMA'

Having considered the issues raised by Modification Proposal 678, Ofgem has decided to direct Transco to implement the proposal as Ofgem believes that it better facilitates the relevant objectives of Transco's Gas Transporters Licence. In this letter Ofgem provides some background to the modification proposal and explains the reasons for making this decision.

Background to the Proposal

Primary and Sub-deduct meters and 'unique' sites

Prior to the advent of supply competition, certain supply points were created with a both a primary meter and one or more sub-deduct meters as part of the same configuration. Such configurations often arose as a cost-effective means of accommodating situations where the use of the site changed, or parts of the site were sold-off or otherwise redeveloped. It is therefore possible that each meter in a primary and sub-deduct ("P&S") configuration is registering the consumption of separate consumers, who may each have a different supplier. Statistically, P&S configurations are quite rare, with only around 2,500 such sites as against a total meter population in excess of 20 million.

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 business arms. 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.

Since the consultation and subsequent publication of the RGMA Baseline in April 2002, the project management of its implementation and incremental change control have been conducted under the auspices of the Industry Metering Separation Implementation Forum ("IMSIF"), further details of which are available on the Ofgem website at www.ofgem.gov.uk.

At a meeting of the IMSIF held 30 September 2002 it was decided that the contractual arrangements for Transco owned supply meters installed within a P&S network were out of scope for the purposes of RGMA cutover. In addition to P&S configurations, those sites which have characteristics causing them to be treated as 'unique' are also excluded from the scope of the standard procedures documented in the RGMA Baseline.

Metering Contracts

Transco has recognised the need for its Network Code to evolve in accordance with market developments and has initiated a suite of modifications 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

Transco's contractual obligations to provide, install and maintain supply meters are currently contained within Section M of its Network Code. With suppliers recently signing separate metering contracts, commensurate with the introduction of RGMA procedures, many of the metering provisions are being removed from Network Code, as approved by Ofgem under modification proposal 672. This modification is considered necessary in order to ensure that metering services may continue to be provided to sites with a P&S configuration or considered to be unique, and therefore out of scope of the RGMA procedures, at least for an interim period. This will allow further work to resolve any outstanding issues particular to these sites, prior to them being afforded the same opportunities to acquire competitive metering services as the rest of the market.

Respondents' views

Seven representations were received to modification proposal 678. Of those, six offered support, or qualified support for the proposal, though all raised a degree of concern with the transitional nature of the proposal and in particular the suggested eight month duration. Five respondents suggested that the transitional period should be 24 months, with one adding that there would be opportunity to reduce this if it was not needed. Another respondent suggested that a period of 12-18 months would be required.

One respondent stated that irrespective of the date included in the proposal, it creates a risk that the existing provisions will expire without resolution of the risks and issues that have been

identified. They go on to suggest that rather than specifying a date on which the interim provisions would cease, objective criteria should be developed which could trigger the removal of the transitional arrangements.

Transco's view

As this proposer of this modification, Transco recommends its implementation. Transco remains of the view that the measures required to facilitate unbundling of P&S metering arrangements are not unduly onerous and may be readily implemented. However, in recognition of the views of respondents it has amended the final legal text in order to reflect a 12 month transitional timescale. Transco has also reiterated its intention to facilitate relevant industry discussions and to request an extension of the transitional provisions should this prove necessary.

Ofgem's view

Whilst the decision not to include P&S metering arrangements within the initial scope of RGMA was entirely reasonable, given the desire not to hold up implementation of the RGMA processes and the facilitation of competition, it will not be appropriate for Transco as a transporter to retain responsible for such sites in the longer term. Ofgem therefore consider the transitional arrangements set out in this proposal to be a pragmatic way forward.

Ofgem shares the concerns of those respondents who felt that adequate time must be given in order to allow for the resolution of any remaining issues and therefore welcomes Transco's decision to amend the legal text accompanying the proposal, in order to provide an additional four months. Whilst this still falls short of the 24 months requested by five respondents, both dates appear to be largely arbitrary, with little evidence provided to support either. Transco has stated its intention to convene a sub-group of the Supply Point and Billing workstream specifically tasked with the resolution of these issues. If little progress is being made and/or July 2005 approaches, Transco has also indicated it would be willing to seek an extension of these transitional arrangements. Indeed any Network Code party is free to propose a modification to this effect.

One respondent highlighted the additional interdependencies that now exist, with metering being contractually discharged through separate metering contracts and the standard procedures of the RGMA Baseline being governed under the Supply Point Administration Agreement. Ofgem considered that the establishment of the metering contracts was essential, prior to the implementation of this modification and those others specifically related to the RGMA, in order to prevent there being any gaps in the governance framework, albeit for a transitional period. Ofgem is also keen to ensure that the various governance mechanisms necessitated by an unbundled regime remain appropriately aligned and consistent, effective governance maintained. Ofgem would therefore expect recognition of such interdependencies and the possible need for changes to non-Network Code agreements or contracts to be factored into any plan produced by the sub-group mentioned above.

Ofgem's decision

Having taken all of the above into consideration it is Ofgem's decision to direct Transco to implement modification proposal 678 as Ofgem believes that it will better facilitate the relevant objectives of the Network Code, as set out in Standard Condition 9 of Transco's Gas

Transporters Licence. In particular, the proposal will ensure the continued efficient discharge of Transco's obligations under that licence.

Yours sincerely

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