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**23 June 2004**

Transco, Shippers and other parties.

Dear Colleague,

**Network Code Modification Proposal 672: Amendments to Facilitate the Unbundling of Supply Meter Ownership and Associated Works in accordance with the Review of Gas Metering Arrangements (RGMA)**

Having considered the issues raised by Network Code Modification Proposal 672, Ofgem<sup>1</sup> has decided to direct Transco to implement the proposal as Ofgem believe that it better facilitates the relevant objectives of Transco's Gas Transporters Licence. In this letter Ofgem provide some background to the modification proposal and explain the reasons for reaching this decision.

**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 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.

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.

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<sup>1</sup> Ofgem is the office of the Gas and Electricity Markets Authority ("the Authority"). The terms "Ofgem" and "the Authority" are used interchangeably in this letter.

## *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.

### *Governance Framework*

The Supply Point Administration Agreement (SPAA) provides the governance framework for standard industry procedures including the RGMA Baseline. How the SPAA interacts with the existing governance regimes, namely the Network Code and licences will be critical to effective governance of the gas retail market. Ofgem has recently issued a decision document<sup>2</sup> on licence amendments for gas transporters, shippers and suppliers to reflect the RGMA regime and the organisational separation of Transco's transportation and metering businesses. Subject to the acceptance of its proposals, Ofgem anticipates that modifications to the licence conditions will come into effect with the implementation of RGMA on 12 July 2004.

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 672 (in conjunction with 673, 674, 675, 676 and 678) seeks to remove metering supply provisions from the Network Code which forms the basis of the metering contracts between suppliers and Transco.

### *Metering Contracts*

Metering contracts between TMS and suppliers specify the commercial arrangements of metering provision. The industry-wide Metering Contract Group (MCG) was responsible for drafting the metering contracts that largely replicate redundant metering supply provisions in Network Code. There are five contracts canvassing the provision and maintenance of metering equipment, meter works not exceeding 7 bar, meter works above 7 bar, 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 has been raised to support competition in supply metering by formalising in Network Code roles, responsibilities and relationships given the new metering contractual regime between TMS and suppliers. Specifically, the Modification Proposal seeks to

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<sup>2</sup> Competition in the Provision of Gas Metering Services: Licence Amendments – Decision Document & Section 23 Notices – June 2004 – 130/04

include amendments to the definition of a Supply Meter Installation, removing the terms 'Daily Read Equipment' and 'Meter Housings'.

Whilst Transco currently has obligations to provide, install, repair and maintain meters on behalf of Shippers, it is proposed that these provisions be removed, given the intention that Transco's commercial arrangements associated with meters will be discharged through separate metering contracts. Miscellaneous changes are also required to ensure consistency with this approach.

The modification proposal involves the amendment of the meter by-pass provisions to place the decision on whether a meter by-pass is fitted with the Shipper and to remove references to Transco's meter by-pass policy. The Modification Proposal also includes new provisions to allow Shippers to permit alternative short term means of by-passing the meter and changes to the notification procedures and calculation methodology to determine the amount of gas off-taken while a by-pass or alternative arrangement is in operation.

The Siteworks definition will be amended to exclude works on the Supply Meter Installation as these will no longer be undertaken by Transco in its capacity of Gas Transporter.

The modification proposal also seeks to update references to relevant legislation and miscellaneous other references.

### **Respondents' views**

Four representations were received regarding modification proposal 672, all of which were supportive, though no substantive comments were provided. One respondent suggested minor alterations to the accompanying legal text, which Transco has incorporated where considered appropriate.

### **Transco's View**

Transco, having raised the modification proposal 672, is of the view that it should be implemented.

To ensure consistency with one of the original objectives of the Review of Gas Metering Arrangements (RGMA) project to facilitate competition in metering, Transco intends to separate its metering activity from its transportation activity and develop new systems and contracts in support of this. The scope and timing of these changes has been the subject of consultation by Ofgem and discussion at various industry groups within the remit of the RGMA programme.

Whilst Transco's Gas Transporters' licence will continue to contain conditions relating to metering services, these will be provided via separate contracts, systems and processes. Transco considers that changes to the Network Code, which at present contains provisions relating to the provision, installation and maintenance of supply meters by Transco, are therefore necessary to facilitate this requirement. The changes have been identified by the Meter Asset/Work Unbundling sub-group of the Supply Point & Billing Workstream.

## Ofgem's view

It is Ofgem's view that modification proposal 672 will facilitate the achievement of securing effective competition between relevant shippers and between relevant suppliers. Ofgem agrees that the implementation of this modification proposal will further the separation of Transco's metering and transportation activities. The ring-fencing of Transco's supply metering activities will provide a level playing field in the gas metering market thereby furthering competition.

Ofgem considers that the establishment of the metering contracts was essential prior to the implementation of this modification in order to prevent the creation of any gaps in the governance of existing metering arrangements. Ofgem understands that many suppliers have now signed, or are in the process of signing the contracts. The implementation of modification proposal 672 will ensure that the Network Code accurately reflects the new relationships, roles and responsibilities within gas metering. Ofgem is cognisant of the interactions between the Network Code on other governance regimes and believes that this modification proposal will promote more effective governance of the gas retail market.

Ofgem understands that it was originally intended that references to the meter by-pass policy would be removed, being replaced by provisions governing by-pass installation and use within a proposed Meter Asset Manager Code of Practice. However, given that such Code of Practice was at the time of the proposal being raised only available in draft form, the legal text that was consulted upon as part of the draft modification report refers to document T/PR/GT3<sup>1</sup> published by Transco. Ofgem considers this to be a pragmatic way forward, and will not preclude reference to T/PR/GT3 being replaced by some other document should it be considered appropriate at a future date.

Section 5A(3)(a) of the Utilities Act 2000 requires Ofgem to carry out and publish an assessment of the likely impact of implementing a proposal to which the section applies. Alternatively, where the section applies, under Section 5A(3)(b) Ofgem must publish a statement setting out its reasons for thinking that it is unnecessary for it to carry out an assessment. This letter constitutes such a statement.

Whilst this is clearly an important proposal, with significant impacts upon Transco and suppliers, Ofgem has not considered it necessary or appropriate to conduct a separate impact assessment before deciding upon this modification. This is on the basis that this modification is not in itself a new proposal, but represents the culmination of several years' work, which has been fully consulted upon throughout. In particular the separated systems have now been built and tested. It is expected that these systems will be implemented on 12 July 2004. Ofgem also considers it pertinent that this modification proposal received only four representations, none of which raised any concerns.

A bibliography of the key consultation documents issued by Ofgem and its predecessor is provided as appendix 1 to this letter. Further information on the RGMA project is available on the Ofgem website.

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<sup>1</sup> Full title: Procedure for Meter By-pass Provision, Use and Approval relating to the installation and utilisation of meter by-passes.

## **Ofgem's decision**

Having taken all of the above into consideration it is Ofgem's decision to direct Transco to implement modification proposal 672 as we believe that it will better facilitate the relevant objectives of its Network Code, as set out in Standard Condition 9 of its Gas Transporters Licence, most notably by facilitating competition between relevant shippers and relevant suppliers. In particular, the proposed modification will facilitate the implementation of the RGMA business processes and dataflows as well as the separation of Transco's transportation and metering businesses. These will underpin the emergence of a competitive gas metering services, allowing suppliers to exercise choice of service provider and seek to gain competitive advantages from reduced costs and/or improved service levels. This will further secure effective competition between suppliers.

The modification would also support the parallel work being undertaken to amend a small number of Transco licence conditions to reflect the implementation of RGMA, thereby facilitating the efficient discharge of Transco's obligations under its licence.

If you would like to discuss any of the above, please contact Jenny Boothe on 020 7901 7122.

**Yours sincerely**

A handwritten signature in black ink, appearing to read 'Iain Osborne', written over a horizontal line.

**Iain Osborne**  
**Director of Consumer Markets**

Key metering consultation documents

- *Securing effective competition in gas metering and meter reading services: The Director General's initial Proposals*, Ofgas, October 1998;
- *Securing effective competition in gas metering and meter reading services: A report on progress and the way forward*, Ofgem, July 1999;
- *Securing effective competition in gas metering and meter reading services: The Director General's Final Proposals*, Ofgem, May 2000;
- *Review of Gas Metering Arrangements: Project proposal*, Ofgem, August 2000;
- *Competition in gas metering services: proposed Licence Amendments*, Ofgem, December 2003;
- *Competition in gas metering services: proposed Licence Amendments: Final Proposals*, Ofgem, April 2004; and
- *Competition in the provision of gas metering services: Licence Amendments: Decision Document & Section 23 Notices*, Ofgem, June 2004.