Direct Dial: 0171-932-1657

BG Transco, Shippers and Other Interested Parties

Our Ref : Net/Cod/Mod/426

19 September 2000

Dear Colleague,

Modification Proposal 0426: "Amendments to Network Code Validation Rules"

Ofgem has considered the request from Transco for modification proposal 0426, "Amendments to Network Code Validation Rules" to follow urgent procedures. We do not agree that this modification merits urgent status.

Transco argues that it is appropriate that this proposal be dealt with urgently in order to:

1. ensure that Transco acts in accordance with its contractual obligations;
2. avoid major disruption to the industry, i.e. significant volumes of valid reads could be contractually invalidated and replaced with estimates;
3. avoid accrual of liability payments resulting from the rejection of valid DM readings;
4. ensure continuance of the current economic and efficient operation of meter reading provision.

Transco has also pointed out that, as this proposal merely seeks to legitimise the validation rules it presently applies, there is no need to develop the proposal.

Taking each of Transco's arguments in seriatim:

1. To the extent that Transco is not acting in accordance with its commercial obligations, Ofgem believes that both parties to the contract should have sufficient opportunity to consider the implications. Urgent status compromises this opportunity.

2. Transco has not presented any evidence to suggest that there is presently "major disruption to the industry" which the granting of urgent status would, in itself, resolve. Although Transco has indicated that it could apply the existing Network Code Validation Rules, it has offered no substantive evidence as to the effect of such action, impact on system balancing, impact on Transco's resourcing etc.

3. Transco has not confirmed that it is presently accruing liability payments or the scale of such payments. Ofgem cannot therefore determine the extent of any commercial impact. Furthermore, any liabilities payments that Transco make are received by shippers. Therefore there is no net commercial impact.

4. There is no evidence to show that the current operation of the meter reading service is economic or efficient or that the granting of urgent status would, in itself, make it more so. In principle, the present Network Code Validation Rules were given due consideration before agreement on their applicability was reached. Until recently, shippers and

Transco have assumed that these were the rules that were being applied. The rules that Transco has been incorrectly applying were not given such consideration or agreement and there does not appear to have been sufficient opportunity to consider whether they are more effective or efficient.

In consideration of the final point above, Ofgem does not necessarily agree with Transco that the proposal to modify the Network Code Validation Rules does not require further development. Indeed, the original proposal to use the rules presently applied has been modified.

If you have any queries in relation to the issues raised in this letter, please feel free to contact Ayesha Uvais on 020 7932 5907.

Yours faithfully

Simon Doggett
Head of Metering Policy