Direct Dial: 020 7901 7057

18 December 2000

UK Transco, Shippers and Other Interested Parties

Our Ref : Net/Cod/Mod/439

Dear Colleague,

Modification Proposal 0439: New Network Code Validation Rules

Ofgem has considered the issues raised in modification proposal 0439: 'New Network Code Validation Rules'. Ofgem has decided to direct Transco to implement the modification, because we believe that the proposal will better facilitate the relevant objectives of Transco's Network Code. The modification will be implemented as soon as possible.

In this letter, we explain the background to the modification proposal and give our reasons for making our decision.

Background to the proposal

Most meters required by Network Code to be read daily are presently fitted with a volume converter. In order to check that the converter is operating correctly, the meter readings obtained from these meters are subjected to a tolerance check. The tolerances which should be applied are set out in the Network Code Validation Rules (NCVR) version 1.0. However, Transco has, to date, applied tolerances which are approximately ten times greater.

The proposed modification is to replace the current NCVR version 1.0 with version 3.0 with immediate effect. Ordinarily, such a modification would require three months notice under the provisions of Network Code section M1.5.3. The effect of this modification is to suspend that notice period until 30th June 2001. This will allow this and subsequent modifications to the NCVR to be made using the Network Code change process.

The proposed version 3.0 of the NCVR has been developed by the Network Code Validation sub-committee and is considered by the sub-committee to be appropriate in the short term. The sub-committee has concluded that a fuller review of the use of converters on Daily Metered sites is appropriate in the context of the introduction of competition in the provision of Daily Meter (DM) readings. The sub-committee also believes that it is appropriate to consider wider issues such as the action to be taken if readings fail validation, standards for the accuracy of converters and the use of converters generally.

The modification proposal

The modification proposal is in two parts. The first part is to suspend the requirement in Network Code section M1.5.3 to give three months notice of a change to the NCVR. It is proposed that this suspension lasts until 30th June 2001.

The second part of the proposal is to replace the existing tolerance in NCVR version 1.0 with version 3.0 which contains a two-tier tolerance check. This tolerance check is applied to DM readings to check that the converter is operating within expected parameters.

Respondents' views

Eight respondents expressed a view on this modification proposal. All gave broad support to the proposal. Many noted the interim nature of the proposed validation rules and gave support on the basis that the proposed rules were not felt to be a permanent solution. Some respondents expressed concern that the proposed change to the validation rules should not be retrospective and therefore used to justify the use of tolerances that were different to the NCVR version 1.0.

One respondent noted a potential link between the validation rules and potential changes required by the proposed EU Measuring Instruments Directive (MID). This respondent questioned whether or not a second systems change would need to be made to accommodate the proposed MID. This respondent also noted that the impact of invalid readings on consumers had not been fully addressed.

One respondent expressed concern over Transco's failure to resolve the retrospective liability issue.

Ofgem's view

Ofgem notes the high level of support for this modification and acknowledges the opportunity for shippers to understand and debate the issues raised by the failure to apply the validation rules presently required by Network Code.

Ofgem has played an active part in the work of the Network Code Validation Rules sub-committee. We are satisfied that, on the basis of the available evidence, this committee has agreed that the proposed tolerances represent the optimum means of validating the operation of converters at this time.

Ofgem considers that the present method of checking the operation of converters, i.e. validating the meter readings against predetermined tolerances, should be reviewed in the context of a competitive Daily Meter reading market. It also appears to us that it is more efficient for the industry to concentrate its resources on the work required to secure competition in the provision of DM readings than to further refine the present arrangements. For this reason we support the time limited nature of the proposal.

Ofgem is of the opinion that the proposal does not endorse the use of tolerances that have been incorrectly applied to date. Furthermore, we do not feel that, on the basis of the evidence presented, the tolerances presently in use are appropriate.

We note the concerns expressed regarding the introduction of the proposed EU Measuring Instruments Directive (MID) and in particular the desire to maximise the efficiency of systems changes. However, we understand that the systems changes required by this modification are not major and need only be undertaken by Transco. More significant systems changes are likely to be required as a consequence of the introduction of competition in the provision of DM readings. Ofgem will seek to ensure that potential changes required by the proposed MID are taken into account as part of this work.

We agree that the potential impact of the application of the present tolerances on consumers may not have been fully considered. We do not agree with Transco's view that the test rather than the readings are necessarily at fault. For example, meter readings, which have passed Transco's tolerances to date, could in fact fail the proposed two tier tolerance.

We note the concern regarding Transco's failure to resolve the liability issue, however, we do not feel that this is material to a decision on the acceptance of the proposed modification. We also understand that Transco is to write to shippers in the near future in order to resolve this issue.

On the basis of the evidence presented, Ofgem considers that the proposed NCVR version 3.0 provides a more appropriate check of the operation of converters used on DM sites and the proposal therefore better facilitates the relevant objectives as set out in Standard Condition 7 of the Public Gas Transporter's licence.

Ofgem's decision

In consideration of the views set out above, Ofgem has decided to direct Transco to implement the modification.

If you have any queries in relation to the issues raised in this letter, please feel free to contact me on the above number.

Yours sincerely,

Simon Doggett
Head of Metering Policy