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Transco, Shippers and other parties.

Dear Colleague,

Network Code Modification Proposal 683; 'Acceptance by the gas transporter of reads obtained remotely as *valid reads*'

Having considered the issues raised by Network Code Modification Proposal 683, Ofgem 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 particular, the economic and efficient operation of its pipeline system. In this letter Ofgem provide some background to the modification proposal and explain the reasons for making this decision.

Background to the Proposal

Transco's network code generally distinguishes between those supply meter points at which the consumption warrants a daily meter ("DM") read (greater than 2,196 MWhs) and those which may be read less frequently, for instance monthly or annually. A shipper may also elect to classify a supply meter point as a DM supply meter, providing the Annual Quantity ("AQ") is greater than 73.2 MWhs.

In 2001, Transco separated its meter reading activities from its transportation activities to facilitate the development of competition in the provision of Non-Daily Meter (NDM) reading. Meter readings are obtained from Non-Daily Read Supply Meters by service providers and forwarded to Transco for the purposes of determining AQs and NDM reconciliation. The NDM reading market has proved very competitive with significant benefits being realised. However, given the importance to its system balancing activities and the relevantly few meters involved, Transco has remained responsible for obtaining reads from DM sites.

Where Transco obtain a Daily Read, it does so by the means of Daily Read Equipment which can transmit the meter readings via a telephone line or radio transmitter. Although similar technology is freely available to the NDM market, the network code as currently drafted does not include remote reads obtained from NDM sites within the definition of Valid Meter Reads.

The Modification Proposal

This modification proposal seeks to amend the Transco network code such that reads obtained via remote reading equipment are considered *Valid Meter Reads* as defined in that network code.

Respondents' views

Transco received eight representations with respect to this modification proposal, all of which were supportive. A common theme amongst respondents was the increased frequency and accuracy of automatically obtained meter reads.

One respondent, whilst supporting implementation of the proposal, was concerned at the potential impact that large volumes of remote reads could have upon other UK link batch processes. They went on to suggest that levels of remote reads should be monitored and an evaluation made of any requirement to enhance systems in order to accommodate increased volumes.

Transco's View

Transco supports the implementation of this modification proposal. It concurs with the view of respondents that this would support continuing innovation in the metering market.

However, this support carries a caveat, with Transco stating its belief that this modification proposal may only be implemented in tandem with modification proposal 693 *'Revision of the NDM 'More Frequent Reading' Provisions'*. Transco adds that it does intend to monitor the level of Automated Meter Readings received, and report to the relevant operational fora.

Ofgem's view

Ofgem considers that one of the benefits of competition in metering will be to stimulate the development of new services based on advanced metering technology. Such innovations have the potential to deliver both cost savings and improved standards of service to gas consumers, for instance in delivering more frequent, accurate meter readings. The ability to read the meter remotely will reduce the occurrence of estimated bills, which can be inaccurate and cause major dissatisfaction amongst consumers, often leading to an unnecessary build up of debt. Ofgem's recent survey of competition in the domestic market[1] showed that whilst only 9 per cent of gas customers are disappointed with billing generally, 27 per cent were disappointed with the frequency of meter reads.

It is recognized within the proposal that the requirement to inspect the meter is a separate obligation placed upon suppliers by virtue of standard condition 17 of their gas supply licence and will not be discharged via the remote reading of the meter. Ofgem would also note that the register of the meter is, and shall remain, prima facie evidence of the quantity of gas supplied[2].

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[1] Domestic Competitive Market Review. A review document and Appendices. Ofgem 78/04, April 2004.

[2] The Gas Act 1986, Schedule 2B, paragraph 4.

Ofgem has noted Transco's view that this modification should only be implemented in tandem with its own modification proposal 693. However, Ofgem's decision on this modification proposal 683 is without prejudice to its separate decision on modification proposal 693.

Ofgem's decision

Ofgem has decided to direct Transco to implement modification proposal 683, as it will better facilitate the relevant objectives of its Network Code, as set out in Standard Condition 9 of its Gas Transporters Licence, in particular the efficient and economic operation of its pipeline system.

If you would like to discuss any of the above, please contact Roger Morgan on 020 7901 7346 or Roger.Morgan@ofgem.gov.uk

Yours sincerely

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