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Transco, Shippers and other parties

Dear Colleague,

Network Code Modification Proposal 693: 'Revision of the NDM *'More Frequent Reading'* provisions'.

Having considered the issues raised by network code modification proposal 693, 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 reaching this decision.

Background to the Proposal

Transco has raised this modification proposal in response to an earlier modification proposal 683 *'Acceptance by the Gas Transporter of Reads obtained remotely as Valid Reads'*. Modification proposal 683 seeks to require Transco to accept Meter Readings obtained by remote reading equipment as being Valid Meter Readings as defined within its network code. Although Transco is supportive of 683, which is consistent with the development of innovative meter reading solutions within the gas market, it is concerned at the potential impact that implementation of the proposal could have upon its UK link systems should large numbers of meter reads be received and required to be processed.

Whilst Section M3.7 of its network code currently sets out certain rules around the provision of 'more frequent readings', Transco is concerned that they do not adequately establish the rights of either Transco or shippers. Specifically, the network code states that Transco "*will not be required to accept*" meter readings should they be received more frequently than the established read periods. Whilst at present Transco does not reject reads received more frequently than established periods, this discretion is available in large part due to the aggregate number of such reads consistently falling short of UK Link capacity. However, with the introduction of low cost, innovative meter reading methods there is the potential for read volumes to increase significantly, potentially beyond UK Link's existing capacity.

The Modification Proposal

This modification proposal seeks to amend Transco's network code to reflect that shippers are required to adhere to certain rules concerning the submission of meter reads over and above the levels ordinarily required by the network code. In particular:

- in the case of a Monthly Read Meter, no more than one meter reading may be submitted within a one calendar week period.
- in the case of an Annual Read Meter, no more than one meter reading may be submitted within a two calendar week period.
- in the case of an Annual Read Meter, contained within a Smaller Supply Point, no more than one meter reading may be submitted within a nine calendar week period.

In circumstances where the above provisions are breached (based on read date), Transco would be entitled to reject the latest Meter Reading.

It is also proposed that the UK link manual is amended to reflect a peak daily transaction rate for the receipt of meter reads of 400,000. The statement 'UK link has been developed to either process 44,000 meter reads or generate 66,000 opening read requests' will be removed.

Respondents' views

Transco received six representations with respect to this modification proposal, five of which were supportive. Respondents generally welcomed the increased allowance and the clarity on where a rejection may be triggered. One respondent, whilst supportive of the proposal, was concerned that the proposal does not identify what would happen in instances where the daily limit of 400,000 meter reads is reached.

One respondent opposed implementation of the proposal, and suggested that it would restrict its ability to resolve meter read errors by submitting and second read, and that it would be necessary to strength internal procedures in order that only one read is submitted within the time limits.

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.

Transco has confirmed in its Final Modification Report that should the proposal be implemented, it will develop a system solution which would incorporate appropriate validation and rejection routines. However, where reads are received that exceed the processing capacity on that particular day, they will not simply be rejected, but processed on the next day that capacity was available.

Transco also notes that modification proposal 662 *'Read replacement functionality for the last read received by the GT from the incumbent shipper'* would allow a shipper to replace a read and such replacement reads would be exempt from the 'more frequent reading' provisions.

Ofgem's view

Ofgem's decision letter on modification proposal 683 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.

Ofgem considers it likely that the introduction of low cost, innovative meter reading methods will increase the accuracy and volumes of meter read data available to the supplier, and thence to the gas transporter, potentially beyond the UK Links existing capacity. To the extent that the submission of reads is constrained by Transco's legacy systems, Ofgem considers that it is appropriate for the acceptance or otherwise of such reads to be subject to robust, equitable rules, rather than a matter of Transco's discretion or simply first come first served. Ofgem therefore welcomes the improved clarity and objectivity of the rules provided by this proposal.

Ofgem notes Transco's concern regarding the unpredictability of how many supply points may ultimately have 'remote read' equipment installed in the longer term. The low level of certainty makes appropriate decisions on investing in increased UK link system capacity more difficult. Ofgem welcomes Transco's commitment to monitor the levels of automated meter reading and report to the relevant operational fora. As noted by Transco, the levels of reads being submitted may necessitate a future review of the 'more frequent reading' provisions of the network code and/or the associated systems.

Ofgem's decision

Ofgem has decided to direct Transco to implement modification proposal 693, 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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Director of Consumer Markets

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