

December 2002

**The provision of metering
information by Transco**

A Consultation Document

Summary

Since April 2002, Ofgem has investigated a number of formal complaints regarding Transco's level of performance in supplying information to enable the provision of metering services. This document seeks views and representations from third parties in order to establish whether these complaints are isolated or whether they indicate the existence of more general shortcomings.

The complaints broadly relate to the following issues:-

- ◆ Repeated and persistent failure, by Transco, to supply information to enable the provision of metering services in a timely manner, or at all;
- ◆ Requirement of third parties to follow procedures that are different and more onerous than those followed by Transco's own metering business.

Poor performance in relation to these issues could result in the following outcomes: -

- ◆ End-customers being over or under charged for work;
- ◆ Competition being restricted;
- ◆ Added cost and inconvenience for end-customers and Transco's competitors in the provision of metering services;
- ◆ Increased risk to customer safety.

Ofgem's findings from its investigation to date have highlight areas of concern as well as areas where further information is required to inform a final decision. The purpose of this consultation is to seek respondents' views on Transco's performance in the provision of metering information. In particular Ofgem is seeking evidence from shippers and other industry participants on the service levels and associated standards of performance that Transco have provided over the last year.

In the light of this evidence and the information already in its possession, Ofgem will decide whether any enforcement action should be taken and to establish if any changes to the regulatory regime would be appropriate.

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1. Rationale

- 1.1 During the period April–November 2002, Ofgem received formal complaints regarding Transco’s levels of performance in supplying information to enable the provision of metering services. These complaints related to one or more of the following issues:-
- ◆ Repeated and persistent failure, by Transco, to supply information to enable the provision of metering services in a timely manner, or at all;
 - ◆ Requirement of third parties to follow procedures that are different and more onerous than those followed by Transco’s own metering business.
- 1.2 During the investigation undertaken between April and November 2002, Ofgem found evidence which caused it to consider that Transco might not have in place appropriate systems to deliver a timely and accurate response to enquiries about metering information. Such enquiries may relate to, for example, the status of the gas service pipe, the loading of the pipe, the operating pressure range for such a pipe, the size and type of emergency control valve for such a pipe and the attribution of an associated Meter Point Reference Number (MPRN).
- 1.3 The specific licence obligations on Transco only relate to the provision of this information to shippers. However, Transco’s transportation licence includes broader obligations, such as Standard Condition 4D, not to discriminate in favour of its own businesses. Transco is also subject to the Competition Act 1998 (*“the Competition Act”*).
- 1.4 Ofgem does not consider that it has grounds for concluding that there has been a breach of any of these obligations, taking into account the broader backdrop of the development of metering competition. However, Ofgem is concerned that the current arrangements and standards of service provided by Transco raise questions as to whether they are adequate to enable effective competition in the provision of metering services.

Impact on third parties of poor Transco performance

- 1.5 Poor performance, by Transco, in supplying metering information to third parties could lead to added cost and inconvenience to third parties because of delays waiting for information and the time and effort required to remedy Transco's errors. It could also restrict competition because third parties, working on behalf of end-customers, could be perceived to be responsible for delays experienced by the end-customer and could lose contracts as a result. It could also constitute a barrier to entry for new entrants planning to take part in the emerging competitive gas metering market.
- 1.6 The purpose of this consultation is to seek further information from third parties on Transco's service levels and standard of performance in providing metering information. This will enable Ofgem to establish whether the complaints received are isolated or whether they indicate the existence of more general shortcomings. This will then inform Ofgem's decision as to the appropriate next steps.

Ofgem's Options

- 1.7 In the light of the data already provided to Ofgem and the responses to this consultation, Ofgem will consider whether there had been a breach of any of Transco's obligations and hence whether it is appropriate for Ofgem to take any form of enforcement action against Transco. If further investigations indicate that there are failings in Transco's systems which are not currently covered by any regulatory obligation, but which have an adverse effect on gas metering competition, Ofgem will also consider whether a modification of Transco's licence may be appropriate. Any such modification would be the subject of further consultation.

2. Background

- 2.1 This section provides the context against which the complaints made against Transco should be considered. It therefore refers to Ofgem's metering strategy, the associated industry programme and the statutory framework (including Transco's obligations under the Gas Act 1986 (*"The Gas Act"*), its licence, Network Code and associated operational practices.

Metering strategy

- 2.2 Ofgem has a principal statutory objective to protect the interests of gas and electricity consumers, wherever appropriate by promoting effective competition.
- 2.3 In March 2001, Ofgem published for consultation its strategy for metering¹. The strategy had the aim of promoting choice, innovation and new investment in the provision of metering and meter reading services. It was a mix of ongoing projects and proposed new initiatives with an overall timescale for implementation of two to three years.
- 2.4 The strategy has been updated in two further consultation papers published in October 2001 and May 2002 respectively^{2,3}. Copies of these documents are available on Ofgem's website at www.ofgem.gov.uk/metering.

The industry work programme

- 2.5 During the last three years Ofgem and the industry have undertaken a work programme to facilitate a competitive gas metering market. The key elements are as follows: -
- ◆ ***April 2000*** – with effect from this date Ofgem separated Transco's transportation and metering & meter reading price controls. Before this there was a combined revenue cap for metering and transportation services. The separation of the price control was a critical step in introducing competition as it prevented cross-subsidy between Transco's transportation and metering businesses.

¹ Ofgem's strategy for metering - A consultation paper, Ofgem, March 2001

² Ofgem's strategy for metering - Report on progress and next steps, Ofgem, October 2001

³ Ofgem's strategy for metering - Report on progress and next steps, Ofgem, May 2002

- ◆ **January 2001** – Meter Liberalisation Date designated by Ofgem. From this date domestic consumers were able to install and/or read meters in their premises. At this point gas suppliers could not refuse to accept suitable arrangements made by domestic consumers for metering, meter reading and meter inspection.
- ◆ **March 2001** – the publication of Ofgem’s metering strategy as discussed above.
- ◆ **April 2001** – Transco’s disaggregated industrial and commercial metering charges were introduced. These charges were based on the actual meter installed (i.e. they varied with meter mechanism and meter capacity) and gave greater clarity as to the costs involved in metering that could be avoided if Transco did not provide the metering services.
- ◆ **May 2001** – the publication of the Gas Metering Protocol. This document, drafted by a representative industry group, aimed to provide a reference for existing and future providers of metering services to give clarity about the operation of a competitive metering market.
- ◆ **October 2001** – British Gas initiated a competitive tender exercise to appoint alternative gas and electricity metering service providers.
- ◆ **December 2001** – Transco made available a non-shipper meter installation contract (below 7 Bar).
- ◆ **January 2002** – establishment of an Industry Metering Separation Implementation Forum (IMSIF) to oversee the implementation of the Review of Gas Metering Arrangements (RGMA) project. This project is tasked with putting in place agreed industry-wide business processes and data flows to support a competitive gas metering market at the same time as Transco separates its transportation and metering IT systems. At the time this was anticipated to be February 2003.
- ◆ **April 2002** – completion of the design phase of the RGMA project.
- ◆ **April 2002** – with effect from this date Transco had tariff caps on four metering services, and a non-discrimination licence condition covering

other metering services. The aim of the caps was to provide a more transparent and flexible regulatory regime for buyers of Transco's metering services as well as potential competitors.

- ◆ **April 2002** – establishment of an industry Metering Contract Group responsible for the drafting of contracts between Transco and gas suppliers to support a competitive gas metering market. These contracts will be based on the provisions that presently exist in Transco's Network Code. They will come into force at the same time as the RGMA project is implemented.
- ◆ **May 2002** – British Gas's appointment of United Utilities for the provision of gas and electricity metering services in North Wales and North West and North East England.
- ◆ **July 2002** – Transco plc begins to transfer its metering and meter reading services activities into a wholly owned subsidiary called Transco Metering Services Limited created to discharge Transco plc's metering obligations. Separation of the IT systems re-scheduled for April 2003 as linked to the RGMA timetable.
- ◆ **November 2002** – British Gas's contract with United Utilities goes live
- ◆ **November 2002** – Because of ongoing pressure on the implementation of the RGMA business processes, IMSIF agree to defer the RGMA implementation date from April to September 2003

2.6 The development of competition in gas metering services is a dynamic process that has been, and is likely to continue to be, characterised by changing structures, behaviour and performance. The effective development of a competitive gas metering market depends not only on Ofgem but also the combined actions of transporters, distributors, shippers, suppliers, metering companies and consumers, as well as the structural conditions in which they all operate.

Statutory framework

- 2.7 This section considers how the statutory framework impacts on the behaviour of various parties in the industry.

Ofgem

- 2.8 There is a need to ensure that a regulatory framework is in place, which allows for, and encourages, the development of competition in metering services. In the second strategy update published in May 2002 Ofgem took the view that the existing regulatory framework, provided for under the Gas Act and relevant statutory instruments and licences issued under that Act, as well as competition and consumer law more generally, was sufficiently robust to support the development of competition.
- 2.9 Within this framework Ofgem has a statutory duty to protect the interests of consumers, both present and future, in relation to gas conveyed through pipes, wherever appropriate by promoting effective competition, having regard to the need to ensure that all reasonable demands for gas are met and that licence holders are able to finance those activities which are subject to Gas Act obligations. Sections 5–8AA of the Gas Act set out the legal framework for the present gas licensing regime in Great Britain.
- 2.10 The Gas Act also sets out the duties of Ofgem and the factors Ofgem should consider when deciding whether to use its powers to address licence breaches. In particular, Ofgem may not take enforcement action under the Gas Act if it is satisfied that it would be more appropriate to address the issue under the Competition Act.
- 2.11 Ofgem has the power to obtain information in relation to potential breaches of the licence under section 38 of the Gas Act. In addition, Transco's licence includes conditions requiring it to provide information requested by Ofgem to fulfil certain duties under the Gas Act and to enforce the requirements of the licences.

Transco

The Gas Act

- 2.12 Transco plc, a subsidiary of National Grid Transco plc, owns and operates the integrated high pressure, medium and low-pressure gas transportation system that was part of the British Gas monopoly when the company was privatised. Ofgem regulates Transco's transportation business and associated revenues.
- 2.13 Transco is licensed as a gas transporter under Section 7 of the Gas Act. This licence sets out the duties and obligations on Transco and prohibits various types of anti-competitive behaviour that may have detrimental effects. It includes, for example, restrictions on the structure of certain charges and the prevention of undue discrimination. Transco's gas transportation licence requires it to develop, administer, maintain and operate a gas transportation system to enable the conveyance of gas for relevant gas shippers who must have a licence, sign-up to a Network Code and balance their supplies of gas to and from the pipeline system on a daily basis.
- 2.14 Section 8 of the Gas Act provides for licence conditions to be placed on all gas suppliers, shippers and transporters including Transco.
- 2.15 In addition, Section 9(1A) of the Gas Act places a specific duty on Transco to facilitate competition in gas supply. Section 9(2)(b) of the Gas Act also places a duty on Transco to avoid any undue discrimination in the terms on which the conveyance of gas is undertaken.

Transco's Gas Transporter's licence

- 2.16 Transco has a number of specific obligations placed upon it as a holder of a gas transportation licence. These are contained both in standard and special licence conditions. Those which relate to Transco's provision of gas metering services and of metering information are as follows: -
- ◆ Standard Condition 4(D) (Conduct of Transportation Business) - provides that Transco will conduct its transportation business in a manner that ensures that neither Transco, any related affiliate or undertaking, or any gas shipper or gas supplier, obtains any unfair commercial advantage.

This includes, in particular, any advantage obtained by Transco in connection with a business other than its transportation business.

- ◆ Standard Condition 31 (Supply Point Information Service) - provides that Transco must establish and operate a Supply Point Information Service for any relevant gas shipper (or their appointed agent) entitled to such data.

Transco are required to ensure that the Supply Point Information Service provides technical and other data to facilitate supply by any gas supplier to any premises connected to Transco's transportation network. Transco must meet the reasonable requirements of gas shippers in respect of such premises for the purposes of system balancing and the change of supplier process. The information provided should therefore include, where required, the identity of the gas shipper responsible for the specific supply point, the type of metering equipment installed (where Transco have been provided with the information) and a unique and accurate address as is reasonably practicable. It is also necessary for Transco to provide any additional information, reasonably required for the purpose of managing the supply of gas to the premises as well as assessing the accuracy of those charges relating to the conveyance of gas.

Transco are required to provide this Supply Point Information Service in a manner which does not restrict, distort or prevent competition in the provision of meter services or gas supply.

- ◆ Special Condition 23 (Provision of Metering and Meter Reading Services) - requires Transco to provide shippers with terms regarding the date by which required gas metering services shall be provided, the associated charges to be paid and other detailed terms as are, or may be, appropriate. The condition requires Transco to provide this information as soon as practicable. This should not be more than 28 days after receipt of the request from a shipper.

Transco are also required to provide statements, in a form approved by the Authority, setting out the basis upon which charges for the provision of metering and meter reading services are made as well as other

information relating to other terms that apply to the service provision. The form of the statement should provide sufficient detail to allow a shipper to make a reasonable estimate of the charges to which they would become liable. The statement should include a schedule of charges as well as an explanation of the methodology by which they are calculated.

- ◆ Special Condition 32 (Non-discrimination in the provision of metering activities) - requires Transco to avoid undue discrimination and undue preference in the provision of metering activities. Transco are also required to ensure that any differences in charges for the provision of metering services provided to individual gas shippers reasonably reflect the differences in associated costs.

Transco are also required not to set charges in respect of metering activities, which restrict, distort or prevent competition in the supply or conveyance of gas.

Network Code

- 2.17 In addition to licence conditions, Transco has a set of obligations placed upon it as part of the Network Code, which is a multi-party contract between Transco and shippers required under the terms of Transco's licence. For example, under the Network Code, Transco are required to provide a range of information to shippers to allow for the installation of meters onto the transportation network. The Network Code not only provides details of the range of services that should be provided, but also outlines the associated compensation payments in circumstances where Transco fails to meet the required service levels.

Operational practices

- 2.18 There are also operational practices between Transco and shippers which supplement the Network Code. These concern the provision of technical meter information such as the status of the gas service pipe and the size of emergency control valve.
- 2.19 If shippers do not have this technical data Transco can provide this information via its web-based query management process known as "Conquest". Ofgem

understands that the operational practices require Transco to complete 95% of queries within 20 business days and 80% of queries in 10 business days.

- 2.20 As set out above, the specific licence obligations on Transco relating to the provision of this information relate only to the provision of that information to shippers.

3. Next steps

3.1 Ofgem wants representations from Transco's customers in respect of the matters discussed in this document. In particular it would be helpful if respondents could comment, as appropriate, on the following areas:-

- ◆ Shippers - The service levels and associated performance for the provision of metering information by Transco under Network Code obligations and associated operational practices for the year 1 November 2001-31 October 2002. Information should also be provided on any associated compensation payments made by Transco.
- ◆ Other industry participants - The service levels, and associated performance, for the provision of metering information by Transco for the year 1 November 2001—31 October 2002. Information should also be provided on any associated compensation payments made by Transco.

3.2 Where possible respondents should provide evidence to support their views expressed in terms of particular metering jobs e.g. Transco job reference number, nature of problem, resolution of problem.

3.3 Responses should be addressed to:

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3.4 Ofgem prefers to receive responses in an electronic form

3.5 Any enquiries regarding this document should be addressed to either Mark Baldock (Tel. 020 7901 7221 / mark.baldock@ofgem.gov.uk) or Jenny Boothe (Tel.020 7901 7122 / jenny.booth@ofgem.gov.uk). The deadline for responses

is 31 January 2003. Ofgem intends to publish the results of this consultation in March 2003.

- 3.6 Responses will normally be published on the Ofgem website and held electronically in Ofgem's Research and Information Centre unless there are good reasons why they must remain confidential. Respondents should try to put any confidential material in appendices to their responses.