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Dear Lisa

**Transco response to the Ofgem document:-
Gas supply market: governance arrangements
Summary of Responses and Way Forward**

Transco welcomes the opportunity to respond to the above document. The response is split into two parts, the first dealing with the issues surrounding governance in support of the liberalising metering market, and the second with some of the longer term issues.

Governance in support of the competitive metering market

Transco fully supports the development of arrangements to govern the supplier to supplier relationship with respect to transferring metering arrangements. Transco sees this as a central requirement to facilitate the development of consistent behaviour across suppliers in establishing meter arrangements for their customers.

Transco believes that the support of the SPAA through supplier licence obligations is a fundamental requirement of the proposed governance arrangements but notes Ofgem's comments on the establishment of a Statutory Instrument for the collective modification of licences. Transco however, remains of the opinion that early consultation on the content of proposed licence changes should be regarded as a priority and suggests that this could take place in advance of establishing the implementation mechanism. Such an approach would mitigate the risk of further costly delay to the Review of Gas Metering Arrangements (RGMA) project implementation timetable. The RGMA has also identified the need to clarify supplier licence obligations, in respect of metering arrangements on supply point transfer, as this would prove particularly helpful in ensuring that a customer's ability to change supplier is not adversely impacted by competitive metering arrangements. Transco therefore suggests that early consultation on licence conditions, to support the SPAA, could also prove useful in clarifying suppliers' metering obligations on supply point transfer. In particular Transco believes that Ofgem could use this opportunity to help ensure that the supply point transfer process remains effective by setting out its expectations with respect to supplier behaviour regarding metering arrangements.

With regard to the scope of the SPAA agreement supporting metering competition, Ofgem makes reference to the inclusion of requirements governing data transfer mechanisms. Comments made by the industry have heightened Transco's awareness that data transfer mechanisms are an important aspect of the developing metering services market. Transco supports the clarification of functional requirements for metering data transfer mechanisms but agrees with the principle adopted in progressing the RGMA project that it would be inappropriate to prescribe the use of any particular mechanism(s). This principle applies equally to the proposed governance arrangements where specification of a transfer mechanism would be difficult to enforce in a way that could not be perceived as running counter to the development of competition.

Transco believes that licence obligations, requiring suppliers to comply with the SPAA, should apply to both domestic and I&C suppliers although the exact SPAA conditions will inevitably be slightly different for each market sector. Allowing I&C suppliers to opt out of the SPAA could have an adverse impact on the ability of I&C consumers with competitive metering arrangements to switch supplier. Such an

approach may also increase the level of risk for competitive meter operators associated with the potential for the stranding of their assets. Transco advocates further detailed consideration of the SPAA conditions specifically applicable to the I&C sector.

In its response to Ofgem's July document, Transco stated its belief that metering agents should not be parties to the SPAA, on the basis that binding in service providers to industry agreements may stifle the scope for service and price differentiation. Transco's view remains unchanged in this respect. Transco has however already demonstrated its willingness to participate in the development process. Transco believes that existing and potential metering agents have a valuable contribution to make given the impact that the SPAA will have on service requirements and business processes.

Governance in support of wider supplier related services

Transco fundamentally supports the introduction of the supplier hub concept. This will ensure industry efforts are focused to support end consumers needs, however Transco supports the view that each expansion of the proposed new governance arrangements, beyond the immediate needs of metering market liberalisation, needs to be cost effective.

The consultation document makes reference to a number of retail processes and services currently falling under the governance of GT network code arrangements. Transco believes this is an over simplification as its Network Code governs an extensive series of services covering, what are now being termed, retail or wholesale processes, and in many cases in an integrated manner. As an example Transco's SPA suite is referred to as a retail process. This is not a strictly accurate representation as SPA is closely integrated with Transco's portfolio aggregation processes which are central to a number of wholesale processes including energy balancing. Accordingly the transfer of governance arrangements of retail processes out of Network Code and the determination of appropriately positioned obligations and responsibilities will require detailed analysis and consideration. Despite the complexity, Transco remains of the opinion that such a review will be beneficial and can be made to work. Transco believes that as the impact of such change will be wide ranging, it will require full industry consultation.

There are also a number of references within the document to potential benefits of harmonisation with analogous governance arrangements within the electricity market. Again, Transco supports this principle, although, as the underlying processes that are governed often have industry specific characteristics that compromise this objective (particularly with respect to the I&C markets), this is likely to be a difficult, although worthwhile goal. Similarly, the document refers to aspirations for convergence of governance arrangements across all GTs. These, too, are likely to be complicated by some of the unique attributes of operations of Transco's transportation responsibilities, both in terms of scope and scale.

Transco considers the establishment of new governance arrangements as an effective vehicle to manage future industry change, with the commitment of pertinent market participants. Transco is not convinced it would be appropriate or necessary to incorporate any of the new governance arrangements into the standard licence conditions for GTs, particularly if this undermines the clarity of jurisdiction between the new SPAA and Transco's Network Code. Transco also considers that the inclusion of GT licence provisions requiring participation in the governance arrangements would be counter-productive and potentially stifle or restrict future progress and development of the governance arrangements.

As a point of detail, Transco would challenge the assertion in paragraph 1.11 that there are "problems with the quality of Transco generated estimates". Transco has reviewed the details of its estimation process within the SPA/Metering Workstream, and no evidence has been found of quality problems with the process. Transco has also identified that quality of its estimates is closely linked to the quality of reads it receives from Shippers.

Yours sincerely

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