

**Draft Modification Report**  
**Shipper Responsibilities in the Event of the Appointment of a Supplier of Last Resort**  
**Modification Reference Number 0524**  
Version 2.0

This Draft Modification Report is made pursuant to Rule 7.3 of the Modification Rules and follows the format required under Rule 8.9.3.

## **1. The Modification Proposal**

Under Ofgem's arrangements to appoint a SOLR, only Suppliers with appropriate shipping arrangements are eligible for appointment. It is proposed that all responsibility for energy balancing and transportation will transfer to the User shipping for the appointed Supplier with effect from the date of their appointment as a SOLR. From this date the User will incur energy balancing and transportation charges in respect of the portfolio of the failed Supplier. However, in this situation the new User may not have access to the details of the portfolio until the transfer of all supply points is completed.

In order to manage this interim position, between the date of appointment as SOLR and the completion of the portfolio transfer, it is proposed that Transco will act as agent for the terminated portfolio on behalf of the new User, which will be responsible for securing gas to supply the portfolio by trading gas at the NBP with the terminated account. Quantities will be determined from estimates of DM load and the NDM allocation, as revised each day, and will be provided by Transco to the new User on a best endeavours basis whereby Transco will not be responsible for any difference between actual consumption and the estimate provided.

When the formal transfer of the portfolio has taken place, Transco will recover any imbalance costs incurred during the interim period from the new User. Any reconciliation amounts applying to the portfolio from the appointment date will accrue to the new User.

## **2. Transco's Opinion**

In respect of energy balancing, Transco recognises the benefits that this Modification Proposal would introduce in reducing the potential debt burden to Users through the energy balancing neutrality mechanism.

In respect of transportation costs, Transco welcomes the opportunity this Modification Proposal would introduce to more accurately apportion charges.

## **3. Extent to which the proposed modification would better facilitate the relevant objectives**

By reducing the risk of exposure to financial loss for all Users, and thereby reducing the potential debt burden via the balancing neutrality mechanism, this Modification Proposal could be viewed as facilitating the securing of effective competition between relevant

shippers and between relevant suppliers, since a potential debt burden may act as a barrier to entry.

**4. The implications for Transco of implementing the Modification Proposal , including  
a) implications for the operation of the System:**

Transco is not aware of any implications for the operation of the system that would result from implementation of this Modification Proposal.

**b) development and capital cost and operating cost implications:**

There would be a small increase in operating cost due to the use of off-line processes to appropriately manage the portfolio and recover relevant charges, during the interim period, which would result from the implementation of this Modification Proposal.

**c) extent to which it is appropriate for Transco to recover the costs, and proposal for the most appropriate way for Transco to recover the costs:**

Transco does not believe it appropriate to have any special cost recovery measures in place.

**d) analysis of the consequences (if any) this proposal would have on price regulation:**

Transco is not aware of any such consequences that would result from implementation of this Modification Proposal.

**5. The consequence of implementing the Modification Proposal on the level of contractual risk to Transco under the Network Code as modified by the Modification Proposal**

As implementation of this Modification Proposal would facilitate Transco's recovery of appropriate transportation charges from the date of appointment of a SOLR it is anticipated that the level of contractual risk could be expected to reduce.

**6. The development implications and other implications for computer systems of Transco and related computer systems of Users**

No system impact is anticipated as a result of implementation of this Modification Proposal for either Transco or Users.

**7. The implications of implementing the Modification Proposal for Users**

The implementation of this Modification Proposal is intended to reduce the credit risk on Users via the energy balancing neutrality smearing mechanism and is therefore of potential benefit to Users as a whole.

**8. The implications of implementing the Modification Proposal for Terminal Operators, Consumers, Connected System Operators, Suppliers, producers and, any Non-Network Code Party**

No direct impact as a result of the implementation of this Modification proposal is anticipated.

**9. Consequences on the legislative and regulatory obligations and contractual relationships of Transco and each User and Non-Network Code Party of implementing the Modification Proposal**

Transco is unaware of any change in legislative, regulatory obligations or contractual relationships of Transco, Users or any Non-Network Code Party as a consequence of the implementation of this Modification Proposal.

**10. Analysis of any advantages or disadvantages of implementation of the Modification Proposal**

Advantages of implementing this Modification Proposal:

Facilitates more effective management of energy balancing and transportation credit risk resulting in the reduction of both Transco's and all Users' potential exposure to financial loss.

Disadvantages of implementing this Modification Proposal:

Increased administrative workload for Transco due to off-line processes and procedures.

**11. Summary of the Representations (to the extent that the import of those representations are not reflected elsewhere in the Modification Report)**

Transco invites representations.

**12. The extent to which the implementation is required to enable Transco to facilitate compliance with safety or other legislation**

Transco is unaware of any such requirement.

**13. The extent to which the implementation is required having regard to any proposed change in the methodology established under Standard Condition 4(5) or the statement furnished by Transco under Standard Condition 4(1) of the Licence**

Transco is unaware of any such requirement.

#### 14. Programme of works required as a consequence of implementing the Modification Proposal

Transco is unaware of any works required to implement this Modification Proposal. Changes identified relate to operational controls within Transco's System Operation and Credit Risk Management functions. Transco can facilitate these changes with immediate effect.

#### 15. Proposed implementation timetable (including timetable for any necessary information systems changes)

If the decision was taken to implement this Modification Proposal, it could take effect immediately following direction from the Authority.

#### 16. Recommendation concerning the implementation of the Modification Proposal

Given the general level of support expressed by Energy Balancing Credit Committee members for this Modification Proposal resulting from its consistent objective of protecting Users as a whole from the risk of financial loss, Transco recommends implementation of this Modification Proposal.

#### 17. Text

#### SECTION G - RE-NUMBER PARAGRAPH 2.1.7 AS 2.1.9 AND INSERT NEW PARAGRAPHS G2.1.7 TO 2.1.8 AS FOLLOWS

"2.1.7 Where Transco has given a Termination Notice (under Section V4) to a User and the Director subsequently appoints a Supplier of Last Resort in respect of a Terminated Supply Meter Point, then notwithstanding any other provision of Code, the Last Resort User shall be deemed to be the Registered User of the Terminated Supply Meter Point, thereby accepting the benefit of the rights and the burden of obligations under Code, the Framework Agreement and any relevant Ancillary Agreement, in respect of the Terminated Supply Meter Point, with effect from and including the date of the appointment of the Supplier of Last Resort.

2.1.8 For the purposes of paragraph 2.1.7:

- (a) where a User has been given a Termination Notice by Transco (under Section V4), all Supply Meter Points in respect of which the Discontinuing User was the Registered User immediately prior to the User Discontinuance Date shall be known as "**the Terminated Supply Meter Points**";
- (b) a "**Supplier of Last Resort**" is a supplier whom by virtue of Standard Condition 29 of the Supplier's Licence has been appointed by the Director to supply gas in accordance with that condition in respect of any or all of the Terminated Supply Meter Points;
- (c) "**the Last Resort User**" is a User who is the first User, following the appointment of the Supplier of Last Resort, to [apply to] become the Registered User of a Terminated Supply Meter Point. "

***Representations are now sought in respect of this Draft Report and prior to Transco finalising the Report***

Signed for and on behalf of Transco.

Signature:

**Steve R Phillips**  
**Director of Shipper Services**

Date: