

Modification Report
Removal of the obligation of Transco to provide Estimated Opening Reads
Modification Reference Number 0515

Version 1.0

This 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

That Transco no longer have any obligation to generate an estimate opening meter reading(s) following a supply point transfer. This responsibility will clearly remain with the confirming shipper. The confirming shipper will either obtain an actual meter reading or will agree with the incumbent shipper a reading to be adopted for the transfer which may be an actual or estimated reading.

Transco will retain the obligation to receive and hold these readings from either the confirming or the incumbent shipper. Transco will also be obliged to release this reading to either the incumbent or the confirming shipper.

2. Transco's Opinion

This Modification Proposal contemplates removal of the necessity for Transco to provide an estimated meter reading for both Smaller and Larger Supply Meters. The effect of the Proposal is that incoming Users will either need to procure an actual meter reading or agree with the incumbent User a reading to be provided to Transco. The proposer suggests that this measure 'will both reinforce the obligation upon the incoming shipper, and the respective supplier, to obtain a meter reading and facilitate the acquisition of a reading'.

It is Transco's view that there is merit in eliminating the notional element of the transfer read process from the Network Code and supports the argument that this would further encourage the incoming User to obtain an actual read. Transco is concerned, however, that absent any alternative arrangements for the generation of estimated reads with respect to Larger Supply Points, it may not receive an actual or agreed transfer read which would then compromise its ability to discharge its obligations under the Individual NDM Reconciliation process specified in the Network Code.

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

Neither the proposer, Transco or any respondent have identified the extent to which this Modification Proposal might better facilitate the 'Relevant Objectives'.

4. The implications for Transco of implementing the Modification Proposal , including

a) implications for the operation of the System:

None identified.

b) development and capital cost and operating cost implications:

Transco would incur costs in amending its UK Link systems. The extent of these costs has not been identified as Transco is not recommending implementation.

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:

Not applicable.

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

No such consequences have been identified.

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

If this Modification Proposal were implemented and Users did not comply with their obligations for providing opening meter reads, Transco would be unable to meet its Network Code obligations for Individual NDM Reconciliation as referenced within Section E6.1.6 of the Network Code Principal Document.

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

Changes to Transco's UK-Link system would be required. Transco is not aware of any impacts on Users' systems.

7. The implications of implementing the Modification Proposal for Users

A number of issues were raised by respondents to Transco's consultation on the Draft Modification Proposal. These are addressed in section eleven.

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

A number of issues were raised by respondents to Transco's consultation on the Draft Modification Proposal. These are addressed in section eleven.

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

No such consequences have been identified.

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

Advantages:

It is possible that elimination of the generation of an estimated meter reading would move focus to the incoming and outgoing Users to procure or agree a more accurate meter reading than may currently be the case.

Disadvantages:

If this Modification Proposal were implemented the opening reads process would be rendered 'incomplete'. In the event that Transco did not receive an opening meter read and no subsequent 'agreed read' was forthcoming Transco would not have in its possession an opening and closing read to use for the purposes of Larger Supply Point Individual NDM Reconciliation. Transco would in addition be unable to notify any party of a transfer reading.

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

Nine representations were received with respect to this Modification Proposal. Two of these were supportive of its objectives and seven were opposed. A number of common themes were identified by respondents which are summarised as follows:

Accuracy of opening read estimates.

Six respondents make reference to the accuracy of Transco's opening read estimates. BGT claims that the estimated read is often inaccurate given that the Annual Quantity (AQ) may not have been revised due to the absence of meter read history. Scottish Power and Seeboard challenge this view. Scottish Power suggests that Transco is in a better position to determine a site specific estimate. Seeboard states that with last years AQ review, Transco is better placed to provide more accurate estimated reads. Powergen expresses a view that when Transco generates an estimate, there is at least some assurance that the figure approximates to the right figure. Two respondents, Innogy and TXU Energy comment that recent work at the SPA/Metering Workstream has established the accuracy of opening read estimates.

Transco concurs with the view of those respondents who believe that the quality of its estimated data is satisfactory.

'Box' Proposal.

Two respondents refer to the 'Box' process for dealing with opening and closing reads on change of supplier.

Powergen comments that removal of Transco from the estimated read process would lead to reintroduction of the 'Box' process. It notes that the originator of the Modification Proposal has already incurred costs in development and is consequently keen to see the 'Box' introduced. Transco has no comment on this view.

TXU Energy expresses a belief that the failure of the 'Box' project last year clearly indicates that the industry is not ready for Transco's obligation of being Opening Meter Reading (OMR) provider of last resort to be removed. Transco acknowledges this view but believes there is merit in the industry seeking solutions which ultimately do not require the Gas Transporter to generate/provide meter reads. TXU states that if there were sufficient commercial drivers for an alternative source of OMRs of last resort, the 'Box' proposal would not have failed. TXU further suggests that the evolution of solutions similar to the 'Box' will happen as new governance and metering arrangements are established.

Estimated read provision charge.

Three respondents make reference to Transco's estimated read charges and associated pricing consultation.

BGT notes that while the economies of the Modification Proposal are impacted by Transco's proposed revised charges for the provision of estimated meter reads, the transfer process would still be aided in the interests of suppliers and consumers. Transco concurs with the view of the respondent that the GT should ultimately be relieved of the obligation to provide estimated meter reads. Transco is, however, concerned that there must be robust alternative measures in place to maintain the integrity of the transfer process and to ensure Transco is provided with sufficient data to ensure it is able to meet its Network Code obligations.

Powergen comments that the Proposal is tied up with the 'Box' process which was driven by the fact that Transco charged shippers for the provision of an estimated read. Powergen further notes that the 'Box' process has stalled because of Transco removing or reducing the current £7.62 charge. Transco's response is that the estimated read charge described by Powergen has recently been consulted on (PC69) and implemented. Transco has no view with regard to the reasons why the 'Box' proposal stalled.

Scottish Power believes that with the implementation of PC69, Transco's estimation process will be the most cost effective method of providing estimates to facilitate Supply Point transfer. Transco's response is that it is concerned that with the reduction of the estimated read charge to £1.13, there may be less incentive for shippers to provide actual opening reads. Transco believes that the opening read process as defined under the Network Code, while robust, should

be reviewed with a view to reducing the role of the GT in the light of metering liberalisation.

Agreed Reads.

Five respondents refer to the Agreed Opening Meter Reading process as defined within the Network Code.

Powergen comments that if this Modification Proposal were implemented, all 'change of supplier' reads would have to be agreed reads in those instances where an actual or consumer read is not procured. Transco acknowledges this view.

Innogy states that removing the obligation on Transco to generate an estimated opening read will place an increasing reliance on the shipper agreed read process which is manual, inefficient and expensive. The respondent highlights the role of the 'old supplier' in agreeing an estimated read in the absence of an actual read and the material effect of such actions on the 'new supplier' in billing the end consumer. Innogy further states that such a situation should not arise given the overwhelming dominance of one supplier. Transco has no view on this opinion.

Innogy comments that the agreed read process falls within the scope of the Domestic Codes of Practice, a voluntary code which not all suppliers have signed up to. Innogy expresses concern that there is therefore a compliance issue with associated systems used to transfer agreed read data not being universally employed. Transco comments that Users obligations relating to agreed reads are established within the Network Code and has no view on the mechanisms suppliers use to agree reads in the absence of actual read data being procured.

BGT notes that the Modification Proposal would reinforce the obligations under the Supplier licence with respect to suppliers generating and agreeing a reading in the absence of an actual reading. The respondent further comments that the process of agreeing reads to be used on transfer would be improved by the implementation of Modification Proposal 0487 'Release of the identity of the incoming Supplier to the incumbent upon Supply Point Transfer'. Transco's response is that it has existing measures in place which facilitate inter shipper communication for the purposes of the agreed read process.

Seaboard Energy comments that there would be an issue that where a shipper does not receive a final read it would then have to provide and agree a read with the confirming shipper to close down its account. Seaboard Energy claims that this should be the responsibility of the confirming shipper. Transco has no opinion on the respondents comments other than that the Network Code establishes that in the event of the agreed read process being invoked by the Withdrawing User, the Proposing User is responsible for notification to Transco of a revised Opening Meter Reading.

Seaboard Energy further notes that the Modification Proposal does not show what processes would need to be established to contact other shippers to agree Opening Meter Readings or what changes would be made to the current agreed reads process to accommodate the increased volume. This view is acknowledged by Transco.

Total Fina Elf states that the existing shipper agreed read process is satisfactory and is the fairest, practical approach. Transco acknowledges the view of the respondent.

Individual Meter Point Reconciliation.

One respondent, TXU concurs with Transco's view expressed within the Draft Modification Report with regard to its ability to meet its obligations with respect to Individual NDM Reconciliation.

Competitive advantage/gaming.

Total Fina Elf expresses concern that implementation of this Modification Proposal would confer benefits to a dominant market player with access to full meter reading history and would present too much opportunity for gaming between shippers. Transco acknowledges the view of the respondent but believes that the prevailing view that only Transco is able to act as the 'impartial database administrator' and should not impede the development of market based solutions which render the Opening Meter Reading process more economic and efficient.

Consumer impacts.

Two respondents refer to the impact the Modification Proposal may have on end consumers

TXU states that implementation of this Modification Proposal would force shippers to acquire Opening Meter Readings for 90% of Supply Meter Points gained which could lead to increased costs in meter reading. TXU suggests that these costs would in turn be passed on to consumers as shippers would be forced to take uneconomic action in order to comply with their Network Code obligations.

Transco's response is that the Network Code requires Users to procure meter readings for all Supply Meter Points involving a change to one or more of the User identity, supplier identity or configuration of the Supply Meter Point. Transco is concerned that the respondent appears to suggest that non-compliance with its Network Code obligations maybe more economic than compliance.

Scottish Power comments that if approved, this Modification Proposal would increase billing problems for transferring consumers. Innogy claims that the Modification Proposal is to the detriment of the customer. Transco acknowledges the views of the above respondents

Impact on Shippers.

Seeboard Energy states that the impact on shippers would be that their systems would need to be updated to generate final estimated reads for sites where the confirming shipper has not successfully obtained an Opening Meter Reading. It claims that if the process were not fully automated there would be a large increase in the volume of work required for sites being lost. Transco acknowledges the view of the respondent.

Total Fina Elf comments that implementation of this Modification Proposal would impose significant resource requirements on shippers with no reduction in charges from Transco. Transco's response is that it is not aware of specific resource implications for shippers.

General.

BGT comments that it understands that there is concern about the ability of some shippers and suppliers to generate estimated meter readings. It notes that the information provided by Transco on Annual Load Profiles of NDM supplies would enable many Users to model the consumption over a period and produce estimated readings. BGT also comments that without the obligation to provide estimates, Transco or some other agency could offer this service at a competitive rate. Transco supports these views.

Seeboard Energy comments that there would be an increased risk that Opening Meter Readings would not be obtained if this Modification Proposal were implemented. It states that the Proposal would increase the liability to both the supplier and Transco to ensure all OMR's are provided. Transco's response is that it is not clear how its liability is increased other than for the reasons associated with Individual NDM Reconciliation as described elsewhere.

Powergen establishes that Transco (GT) is the only participant which could estimate an opening read as no-one else is party to the data. Scottish Power comments that Transco is best placed to provide opening read estimates given that as a 'default' provider it gives comfort of an equitable basis of all industry estimates. Transco acknowledges the respondents views but believes that there is merit in the industry seeking to introduce measures which reduce and ultimately eliminate the role of the GT in all competitive meter reading activities.

BGT notes that Modification 468/468a 'Removal of the Smaller Supply Point estimated opening reads charge for reasons of mergers and acquisitions' was rejected principally on the basis that no lower threshold could be agreed. The respondent claims that implementation of this Modification Proposal would address this issue. Transco is unclear how this would be the case given that 0468a proposed that in the event of a 'bulk' transfer, the confirming User would not be required to provide an Opening Meter Reading to Transco.

Seaboard Energy believes that for the Proposal to succeed, it would need to be reviewed by the Business Process Review Group (BPRG) which would have already agreed the baseline for the Change of Supplier process which would in turn need to be changed. Transco does not concur with the views of the respondent and believes that Network Code Modification activity should be independent of any process related discussion which may take place in the industry.

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

Implementation of this Modification Proposal is not required to enable Transco to facilitate compliance with safety or other legislation.

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

Implementation of this Modification Proposal is not required to facilitate any such change.

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

Works would be required to implement this Modification Proposal.

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

In view of Transco's recommendation, no implementation timetable is proposed. However, this Modification Proposal could only be implemented following changes to Transco's UK-Link system if direction was received.

16. Recommendation concerning the implementation of the Modification Proposal

Transco supports the objective of the Modification Proposal, that it should cease to provide estimated opening reads. However, as there is no clear alternative for Larger Supply Points, in cases where shippers fail in their obligations Transco believes that the Proposal has significant flaws. Transco therefore cannot recommend implementation of this Modification Proposal.

17. Restrictive Trade Practices Act

If implemented this proposal will constitute an amendment to the Network Code. Accordingly the proposal is subject to the Suspense Clause set out in the attached Annex.

18. Transco's Proposal

This Modification Report contains Transco's proposal not to modify the Network Code and Transco now seeks agreement from the Gas & Electricity Markets Authority in accordance with this report.

19. Text

Transco does not recommend implementation of this Modification Proposal and therefore no legal text is provided.

Signed for and on behalf of Transco.

Signature:

Steve R Phillips
Director of Shipper Services

Date:

Gas and Electricity Markets Authority Response:

In accordance with Condition 9 of the Standard Conditions of the Gas Transporters' Licences dated 21st February 1996 I hereby direct Transco that the above proposal (as contained in Modification Report Reference **0515**, version **1.0** dated **26/02/2002**) be made as a modification to the Network Code.

Signed for and on Behalf of the Gas and Electricity Markets Authority.

Signature:

The Network Code is hereby modified with effect from, in accordance with the proposal as set out in this Modification Report, version **1.0**.

Signature:

Process Manager - Network Code
Transco

Date:

Annex

1. Any provision contained in this Agreement or in any arrangement of which this Agreement forms part by virtue of which The Restrictive Trade Practices Act 1976 ("the RTPA"), had it not been repealed, would apply to this Agreement or such arrangement shall not come into effect:
 - (i) if a copy of the Agreement is not provided to the Gas and Electricity Markets Authority ("the Authority") within 28 days of the date on which the Agreement is made; or
 - (ii) if, within 28 days of the provision of the copy, the Authority gives notice in writing, to the party providing it, that he does not approve the Agreement because it does not satisfy the criterion specified in paragraphs 1(6) or 2(3) of the Schedule to The Restrictive Trade Practices (Gas Conveyance and Storage) Order 1996 ("the Order") as appropriate

provided that if the Authority does not so approve the Agreement then Clause 3 shall apply.
2. If the Authority does so approve this Agreement in accordance with the terms of the Order (whether such approval is actual or deemed by effluxion of time) any provision contained in this Agreement or in any arrangement of which this Agreement forms part by virtue of which the RTPA, had it not been repealed, would apply this Agreement or such arrangement shall come into full force and effect on the date of such approval.
3. If the Authority does not approve this Agreement in accordance with the terms of the Order the parties agree to use their best endeavours to discuss with Ofgem any provision (or provisions) contained in this Agreement by virtue of which the RTPA, had it not been repealed, would apply to this Agreement or any arrangement of which this Agreement forms part with a view to modifying such provision (or provisions) as may be necessary to ensure that the Authority would not exercise his right to give notice pursuant to paragraph 1(5)(d)(ii) or 2(2)(b)(ii) of the Order in respect of the Agreement as amended. Such modification having been made, the parties shall provide a copy of the Agreement as modified to the Authority pursuant to Clause 1(i) above for approval in accordance with the terms of the Order.
4. For the purposes of this Clause, "Agreement" includes a variation of or an amendment to an agreement to which any provision of paragraphs 1(1) to (4) in the Schedule to the Order applies.