

Draft Modification Report
Removal of the Smaller Supply Point estimate Opening Reads charge for reasons of
mergers and acquisition
Modification Reference Number 0468/0468a
Version 1.0

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

Original Modification Proposal (0468):

Where Users need to amalgamate supply point portfolios due to mergers and acquisitions or if a User transfers Supply Points due to another Users default there is no need for Transco to provide an estimate Opening Meter Read as it would not be used by the User or Transco. It would therefore seem unnecessary for Transco to charge for the provision of an estimate Opening Read that is only required by obligations under the Network Code. By specifying under what circumstances the charge should be applied unnecessary charges can be avoided.

Transco Alternative Proposal (0468a);

It is proposed to modify the Network Code to include a provision whereby the obligation for the incoming User at a Smaller Supply Point to provide an Opening Meter Read will be removed where:

- a) the User submits notification to Transco one month in advance confirming that meter readings are not required by any party involved in the transfer, and,
- b) the User wishes to submit Supply Point Confirmations in respect of a minimum of 50,000 Smaller Supply Points at the same time.

It is also proposed that where a User wishes to transfer less than 50,000 Smaller Supply Points by virtue of it acquiring a smaller portfolio but that the conditions in a) are fulfilled then this may be permitted at Transcos discretion.

2. Transco's Opinion

At present the Network Code (Section M3.8) requires that when a User submits a Supply Point Confirmation which becomes effective for a Supply Point with a Non-Daily Read (NDM) Supply Meter Point then that User must provide a Valid Meter Read for that NDM Supply Meter Point within seven days of the Supply Point Registration Date. Should the User fail in this obligation then Transco will provide an estimated read to both incoming and outgoing shippers within fifteen days of transfer. Where this Transco estimate for a Smaller Supply Point is not replaced by an Agreed Opening Meter Read and the registering Users Opening Read performance is less than 90% in any month then Transco will apply a charge of £7.62 per estimate.

TXU submitted Modification Proposal 0468 expressly to remove the charge for the provision of Smaller Supply Point estimates where the proposed transfer is due to "mergers, acquisitions and User defaults". In Transco's opinion there are a number of difficulties with

this proposal, for example all Supply Point transfers are "acquisitions" from the incoming Users perspective and it would seem to be inequitable to waive charges under certain circumstances yet continue to provide the estimated meter reads. Also, the proposal would leave the registering User in breach of its Network Code obligation to provide an Opening Meter Read. Transco is however, supportive of what it believes is the underlying intent of the TXU proposal.

Since the introduction of Reconciliation by Difference (RbD) on 1 February 1998 Opening Meter Reads in respect of Smaller Supply Points are no longer needed by Transco for billing purposes. They may however be important to Users and/or Suppliers in opening or finalising accounts. In circumstances where this is not the case, Transco agrees that there would seem little purpose in retaining an obligation upon Users to provide them.

Transco has therefore formulated an alternative proposal (0468a) which seeks to introduce a new provision for Smaller Supply Points whereby a User can avoid the obligation to submit an Opening Meter Read to Transco in respect of a discreet "batch" of Supply Points where certain minimum criteria are fulfilled. These criteria are;

- a minimum threshold of 50,000 Smaller Supply Points transferring at one time, and,
- a minimum of one months notice to Transco in advance of the transfer.

By removing the application of M3.8 this alternative proposal would ensure that the User will not be in breach of the Code by failing to provide an Opening Meter Read. Furthermore there would be no requirement for Transco to supply an estimated read, or for an Agreed Read, and, the "batch" of Supply Points would not count in terms of the calculation of the 90% performance level.

This alternative proposal was discussed, together with the TXU original, in the June 2001 meeting of the SPA/Metering Workstream at which it was generally supported. At that meeting Transco stated its intention to seek industry views on the need for the applicant User to provide a statement to the effect that the Opening Meter Reads are not required by any other party in the transfer. Also, shippers asked Transco to consider a facility whereby it could, exceptionally, agree to a transfer of less than 50,000 Smaller Supply Points under this facility where a User had acquired an entire smaller portfolio. Accordingly these points are drawn to the industry's attention and views are requested.

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

The objective of both Modification Proposals is to remove an unnecessary cost from the Supply Point transfer process where an Opening Meter Reading is not required for shipper, supplier or customer billing purposes. In the case of the original this cost is limited to the Transco charge for provision of estimated meter reads whereas in the case of the alternative all costs associated with Opening Meter Reads would be avoided.

In reducing the cost of transfer each proposal should remove a potential barrier to mergers and portfolio acquisitions. This could be argued to better facilitate competition between

shippers and between suppliers. In Transco's opinion the alternative Modification Proposal would provide a more efficient and economic result when compared to the original.

**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:

Each proposal would introduce minor operating costs as either would require Transco to operate additional manual procedures when appropriate, however, Transco believes that its alternative would prove simpler and more economic in operation compared to the original.

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 propose any additional cost recovery.

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

Transco has not identified any such consequences.

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

No such impacts have been identified.

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

As Transco would initiate a manual workaround to implement either proposal there would be no systems implications. This may not be the case for User's systems.

7. The implications of implementing the Modification Proposal for Users

Implementation of either the original or the alternative proposal would benefit Users through the removal of an unnecessary cost of Supply Point transfer where an Opening Meter Read is not required for shipper, supplier or customer billing.

However the original proposal would leave Users in breach of their Network Code obligation to provide an Opening Meter Read and the transfer itself would be included in the population for the calculation of the 90% threshold for the purposes of charging (M3.8.10).

The alternative proposal would on the other hand, remove the Opening Read obligation in its entirety where the minimum criteria are fulfilled.

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

Transco understands that there would be no such implications as Users would not apply to it if the Opening Meter Read served any useful purpose in respect of the transfer.

As stated elsewhere Transco is interested in receiving industry views on the need for the applicant User to specifically confirm this when making application.

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

Original Proposal (0468)

Advantages

Removes the charge for provision of an estimated reading

Disadvantages

Leaves all other provisions of M3.8 in place.

Requires circumstances for application to be set out in Network Code defined terms which could be complex and yet may not cover all eventualities.

Alternative Proposal (0468a)

Advantages

Removes all obligations under M3.8 when appropriate.

By requiring User application the alternative permits greater flexibility.

Disadvantages

Transco is not aware of any disadvantages compared to the original proposal.

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

Representations are now invited.

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

Neither the original or alternative proposal is required to facilitate such compliance.

- 13. The extent to which the implementation is required having regard to any proposed change in the methodology established under Standard Condition 3(5) or the statement furnished by Transco under Standard Condition 3(1) of the Licence**

Not applicable.

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

Transco is not aware of any works which would be required as a consequence of implementation of either the original or alternative proposal.

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

Either the original or the alternative could be implemented very quickly following direction by the Authority.

- 16. Recommendation concerning the implementation of the Modification Proposal**

Assuming Users are generally supportive of the principles involved Transco is minded to recommend rejection of the original proposal (0468) and implementation of its alternative (0468a).

- 17. Text**

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:

Tim Davis
Manager, Network Code

Date: