

Modification Report
Modification Reference Number 0249

Mandatory Provision of Reasons for Supply Point Objection

This Modification Report is made pursuant to Rule 8.12 of the Modification Rules and follows the format required under Rule 8.12.4.

1. The Modification Proposal:

The Standard Conditions of Gas Suppliers' Licence establishes that a Supplier may not seek their Shipper to prevent transfer of Supply Point ownership unless an outstanding debt is due to them from their customer or that a valid contract between themselves and their customer will exist on the proposed Supply Point transfer date.

The Network Code does not currently require an incumbent Shipper to provide a reason for objection when submitting a Supply Point objection to Transco.

The SPA/Metering Workstream have identified that the objection facility in its current form has the potential to be abused. There is evidence that Shippers have submitted objections for reasons other than those specifically referred to in the Suppliers licence. The group further identified that as the provision of such data is not mandatory, it is not possible for confirming Shippers to adequately monitor for whether abuse of the facility has occurred.

The proposal is that the Network Code is modified such that an incumbent Shipper intending, on behalf of their Supplier, to prevent a Supply Point transfer of ownership will be obliged to identify their Suppliers reason for requesting this action. Where a valid reason for objection is not provided, Transco may reject the Supply Point objection and the transfer of ownership will proceed. The SPA/Metering Workstream have in addition agreed that Transco should report proportions of objections to withdrawal notices issued, specific to the reason code provided. This will enable confirming Shippers to undertake appropriate monitoring, as required. Transco will also provide the objection reason to the confirming Shipper.

Transco plan to develop changes to the UK-Link system to enable objections files which are submitted without a valid reason for objection to be rejected and to generate appropriate monitoring reports.

2. Transco's opinion:

The utilisation of the objection facility has been extensively discussed within the SPA/Metering workstream. Transco believes that this modification and the supporting systems changes provide an improved method by which objections may be validated and monitored for any likelihood of abuse of the Supplier Licence Condition 7(4) occurring.

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

The proposed modification to the Network Code facilitates competition in the gas market in two ways:

By establishing a requirement for the objecting Shipper to declare a reason for their objection.

By enabling prospective Shippers to validate the reasons for objection. Where it is suspected that an abuse of the objection facility has occurred, the confirming Shipper will be able to make due representation to the industry regulator.

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

a) **implications for the operation of the System and any BG Storage Facility:**

None identified.

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

Transco will incur costs associated with enhancing the functionality of the UK-Link system.

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:**

The costs to Transco will be treated as regulated operating costs.

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

None 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:**

As with all systems implementation initiatives, some risk will apply with regard to deliverability of the changes although these are mitigated by the application of an extensive development and testing programme by Transco. It should be noted, however, that the proposed modification to the Network Code is applicable prior to delivery of the supporting systems.

6. **The development implications and other implications for computer systems of Transco and related computer systems of Relevant Shippers:**

The modification requires changes to the functionality of Transco's UK-Link Supply Point Administration system. It is anticipated that Shippers will also need to modify their internal systems.

7. **The implications of implementing the Modification Proposal for Relevant Shippers:**

Relevant Shippers will need to implement internal procedures and processes to support the new facility.

8. **The implications of implementing the Modification Proposal for terminal operators, suppliers, producers and, any Non-Network Code Party:**

Suppliers will be need to ensure that where they intend to object to a supply point confirmation, they provide a valid reason for objection to their Shipper.

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

Where abuse of the objection facility by an objecting Shipper has been identified or is suspected by a confirming Shipper, it may be necessary for that Shipper to make due representation to Ofgas.

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

Advantages.

The utilisation of the objection facility will be substantially tightened in four ways. These are as follows:

- The provision of a valid rejection reason by the objecting Shipper will be a Network Code obligation on that Shipper.
- Upon delivery of the requisite systems functionality, Transco will reject any file where a valid objection reason is not provided.
- Upon delivery of the requisite systems functionality, Transco will pass the objection reason code provided by the objecting shipper to the confirming shipper. This may be used to validate (by contacting the end customer if required) for any possible abuse of the facility.
- Upon delivery of the requisite systems functionality, Transco will provide appropriate monitoring reports to all Shippers to enable any patterns of potential abuse to be identified and if necessary, due representation to be made to Ofgas.

Disadvantages.

This proposal does not prevent Shippers from using valid reason codes inappropriately. Provided the objection passes the system validation, the objection will take effect.

The risk of this occurring may be reduced since the confirming shipper will be in receipt of the objection reason and could validate this with their prospective customer.

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

9 representations were received in respect of this Modification Proposal. All were supportive.

Four respondents note that there are risks associated with disclosing the objection reason to the confirming Shipper and request that measures are taken to ensure that a barrier to competition is not introduced, customer confidentiality is not compromised or that data protection legislation is not breached. One reply, however, considers that disclosure of this information should curb misbehaviour if the objecting Shipper knows that the customer may get to hear of the reason given for the objection. Transco acknowledge these concerns and would comment that the reports to be produced as part of UK-L 4144 will facilitate any monitoring process which may be implemented to meet these.

One respondent requests that the regulator should lay out the penalties which would be applied if Shippers were found to be in breach of their licence conditions.

Two respondents, while supportive of the modification, stress that it does not meet their wishes on the basis that they believe that it is uncompetitive for Suppliers to be allowed to object to any transfer of supply and that any breaches of contract should be recovered through the courts and not via the Network Code.

One Shipper response records that they believe that the objection facility under the Supplier licence is an essential requirement within the gas market but acknowledge that the facility requires careful monitoring for instances of abuse. The respondent notes that they believe that it is necessary to distinguish reasons for objection as 'debt' and 'contract'. Transco would confirm that the supporting systems will include these as valid reasons. Further respondents suggest subdividing the reasons for objection on the basis of contract or by 'Shipper request'. Transco would, however, comment that the option of subdividing was discussed within the SPA/Metering workstream but there have been no firm proposals.

One response makes a number of recommendations to facilitate the procedures associated with utilisation of the objection facility. Transco suggest that these be discussed in a future SPA/Metering workstream meeting with an objective of

identifying whether these are appropriate for future inclusion in an appropriate 'Codes of Practice' document.

Following circulation of the Modification Proposal, further requirements were identified and discussed by the SPA/Metering workstream. A feature of the supporting systems development will be that Transco will pass on the identity of the incumbent Shipper to the confirming Shipper. In order to facilitate direct contact between Suppliers the group further proposed that the Supplier identity should also be notified to the confirming Shipper. This proposed additional feature is supported by two respondents.

One respondent, however, comments that there is the possibility that the confirming Shipper will be able to determine the incumbent Shipper/Supplier relationship which those parties may wish to be confidential.

Transco would register concern that this feature, although discussed within the workstream, has not been consulted on widely and should not, therefore, be part of this Modification Proposal. Transco, however propose to invite further views from the industry prior to requesting inclusion of the facility in the proposed systems changes.

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

Not applicable.

13. The extent to which the implementation is required having regard to any proposed change in the methodology established under Standard Condition 3(5) of 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:

The introduction of new systems functionality to Transco's UK-Link system. (UK-Link Change Request 4144).

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

This Modification should be implemented with effect from 21 September 1998 and the supporting UK-Link changes (CR4144) implemented in January 1999.

16. Recommendation concerning the implementation of the Modification Proposal:

That this modification is implemented in accordance with the timescale in (15) and that requisite enhancements are made to Transco's UK-Link system.

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 to modify the Network Code and Transco now seeks direction from the Director General in accordance with this report.

19. Text provided pursuant to Rule 8.14:

Principal Document Section G.

Paragraph 2.8.3 add the following text:

"(d) the objecting User will declare in the objection the reason for its objection and if the objecting User fails to do so Transco may reject such Supply Point Objection which accordingly will not be effective for the purposes of paragraph 2.8.6"

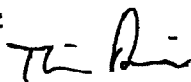
(e) Transco may provide to the Proposing User the reason for the objection."

Paragraph 2.8.7 amend to read:

"Where no Supply Point Objection is made, or all (if any) Supply Point Objections made are withdrawn, or where the Supply Point Objection has been rejected by Transco in accordance with paragraph 2.8.3(d): .."

Signed for and on behalf of Transco.

Signature:



Tim Davis
Manager, Network Code

Date: 14.10.98

Director General of Gas Supply Response:

In accordance with Condition 7 (10) (b) of the Standard Conditions of Public Gas Transporters' Licences dated 21st February 1996 I hereby direct Transco that the above proposal (as contained in Modification Report Reference 0249, version 2.0 dated 14/10/98) be made as a modification to the Network Code.

Signed for and on behalf of the Director General of Gas Supply.

Signature:



Sean Aldridge
HEAD OF NETWORK OPERATIONS

Date: 28 OCTOBER 1998

The Network Code is hereby modified, with effect from _____, in accordance with the proposal as set out in this Modification Report, Version 2.0.

Signature:

Process Manager - Network Code
BG Transco

Date: