

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 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 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 Network 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 were drawn to the industry's attention and views were sought in the Draft Modification Report.

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:**

No such implications have been 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

Initially 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.

Transco may seek to support this process with system changes in the longer term.

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 specifically sought industry views on the need for the applicant User to specifically confirm this when making application. No views supporting such a requirement were forthcoming from respondents.

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)

Four representations have been received in respect of this Modification Proposal all of which are supportive of the objectives of both Modification Proposals but recommend implementation of the alternative.

Two respondents (Scottish & Southern and Powergen) comment that they support implementation of the alternative Modification Proposal but would like to understand the finer points of the proposed process.

Transco's response is that following views from receipt of representations it has lowered the proposed threshold under which these circumstances apply from 50,000 to 10,000 Smaller Supply Points as an absolute number and therefore does not propose to allow

discretion to accept lower numbers. Transco has also concluded that a User should not need to submit separate written verification to Transco that the Meter Read will not be required by any party as it will be warranting this through the request to Transco to suspend M3.8.2, which is required 30 Business Days prior to the Supply Point transfer. The process will also require that the User agrees a plan and schedule with Transco in respect of the transfer of those Smaller Supply Points.

For the avoidance of doubt if a Meter Read is received from the confirming User under these circumstances it will be treated as if it were a cyclic read by Transco. However, there will be no further notification of transfer Meter Readings to either User post transfer, which is traditionally conveyed via U03, U04 or MRBILLREADS file.

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

Transco recommends rejection of the original proposal (0468) and implementation of its alternative (0468a).

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 recommendation to implement the alternative proposal to amend the Network Code and accordingly Transco now seeks agreement from the Gas & Electricity Markets Authority in accordance with this report.

19. Text

Section M – Paragraph 3.8

Paragraph 3.8.2. Amend to read:

"3.8.2 Subject to paragraph 3.8.11, the Proposing User shall secure . . . referred to in paragraph 3.8.2."

Paragraph 3.8.5. Amend to read:

"Without prejudice to paragraph 3.8.10 and except where the User has not provided an Opening Meter Reading due to the application of paragraph 3.8.11, where an Opening Meter Reading is not provided to Transco by the date required under paragraph 3.8.2 (ii):

- (a) a notional Meter Reading will be used, including its use where appropriate for the purposes of Individual NDM Reconciliation in accordance with Section E6.1.6 (and for the purposes . . . Supply Point Registration Date);
- (b) and Transco . . . estimated Meter Reading ."

Add New Paragraph 3.8.11 to read:

"3.8.11 Where the Proposing User:

- (a) submits a written request to Transco for Supply Point Confirmations in respect of no less than 10,000 Smaller Supply Points with the same Proposed Supply Point Registration Date and such written request is made at least 30 Business Days prior to the proposed submission date for such Supply Point Confirmations; and
- (b) has agreed with Transco within such 30 Business Days a plan and schedule for the timing of such Proposed Supply Point Registrations in respect of such Smaller Supply Points; then

the Proposing User shall not be obliged to submit an Opening Meter Reading in accordance with paragraph 3.8.2 in respect of each Non Daily Read Meter installed at such Smaller Supply Meter Point and accordingly where the User has not submitted an Opening Meter Reading due to the application of this paragraph 3.8.11, the associated obligations in paragraph 3.8 shall not apply.

Add new paragraph 3.8.13 to read:

"3.8.13 The Proposing User warrants that neither Transco nor any other User shall be materially disadvantaged by the non provision of Opening Meter Readings due to the application of paragraph 3.8.1

Signed for and on behalf of Transco.

Signature:

Tim Davis
Manager, Network Code

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 **0468/0468a**, version **1.0** dated **17/09/2001**) 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.

