

Modification Report
Removal of nomination process for NDM supply points with an AQ of 732,000
kWh or less
Modification Reference Number 0538
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

This proposal is intended to remove the requirement of shippers to nominate NDM sites with an AQ of 732,000 kWh or less.

Data quality will be maintained through the confirmation process and by the relationship between shippers their suppliers and their Meter asset managers.

2. Transco's Opinion

The Network Code currently specifies that in the event of a Supply Point transfer of responsibility a User must undertake the established Supply Point Administration process of Nomination and Confirmation with respect to an existing NDM Supply Meter Point (>73,200 kWh).

TXU raised Modification Proposal 0493 during September 2001 seeking the removal of the Nomination process for all existing NDM Supply Points, which it subsequently withdrew following discussions at the SPA/Metering Workstream in November 2001. It is now proposed that a volume related threshold at 732,000 kWh be established under which Users would not be required to undertake a Supply Point Nomination. TXU claims this would notionally capture all domestic designated Supply Meter Points. The effect of this Modification Proposal would be to create a Confirmation only process for all Supply Points <732,000 kWh. TXU believes that this would facilitate a more efficient transfer process.

The Modification Proposal does not state whether the Nomination provisions should be retained for re-configuration of Supply Points and upon first registration of Supply Meter Points between 73,200 kWh and 732,000 kWh. Transco assumes that the proposer intends that such a requirement would remain.

The Supply Point Offer, issued by Transco following a Supply Point Nomination, contains the Transportation Charges which would be applied were the Supply Point to be registered. In the absence of a 'quotation' for relevant Transportation Charges as provided in an Offer, Users may need to calculate their own Transportation Charges for relevant Supply Points. Transco is concerned that this may adversely impact smaller organisations for which the construction of supporting functionality and/or processes may be uneconomic. Transco also believes that acceptance of the Offer by the User, through the process of Supply Point Confirmation, removes the potential for uncertainty and subsequent disputes relating to charge rates, and/or the data upon which they are based following registration. Additionally, the Offer contains relevant

Supply Meter Point data which Transco believes is a valuable part of the process of verification of information maintained on the Supply Point Register.

In Transco's view a Confirmation only process which is based on acceptance of a 'deemed' (implied) Offer also introduces some legal concerns. The Offer for Supply Points above 73,200 kWh is more complex in nature and acceptance of an implied Offer, through the 'Confirmation only' process, represents an increased risk for both parties to the contract. There is also a possibility that Users could confirm Supply Points erroneously if the opportunity for additional checks, which the offer process provides, is removed.

The Proposal states that it "will make the transfer process for all sites within the threshold easier". Transco believes that the likelihood of Users undertaking a Nomination enquiry to establish basic Supply Meter Point data, as a prerequisite for Confirmation, renders any perceived savings in timescales illusory. The incidence of re-configuration of Supply Points (which requires the Nomination process) increases in the market sector above 73,200 kWh.

It is worthy of note that implementation of this Modification Proposal may impact on the Change of Supplier Process currently being developed by the Business Process Review Group (BPRG), which advocates the use of Nomination functionality for provision of meter asset information.

In Transco's opinion this Modification Proposal represents an unwelcome change to the Supply Meter Point Registration process as the Nomination/Offer forms an important part of the total registration process for Larger Supply Meter Points.

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

The Proposer has suggested and Transco remains unconvinced that implementation of this Modification Proposal would better facilitate its' GT Licence 'Relevant Objective' of furthering competition between Suppliers.

In Transco's view it may even be possible that implementation of this Proposal would create a 'barrier to entry' to relevant sectors of the gas market and possibly impede competition. The pricing structure, which applies to Supply Points >73,200 kWh, is essentially more complex and may make it prohibitively expensive for some Users to calculate their own transportation charges for such Supply Points.

Transco also believes that the need to retain Supply Point Nomination processes and functionality for Supply Point re-configuration and New Supply Meter Points (>73,200 kWh) registration and the industry costs of implementation outweigh any potential efficiency benefits.

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:

Transco would incur costs in amending its UK- Link system. The extent of these costs has not been identified.

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 recommend implementation of this Modification Proposal. If this Proposal were implemented however, Transco would consider further the extent to which the costs may be recovered from Users.

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

Implementation of the Modification Proposal may introduce additional contractual risk. Supply Point Registration based on a 'Confirmation only' process, which works through acceptance of a 'deemed' (implied) offer, gives rise to some legal concerns. The Offer for Supply Points is more complex in nature above 73,200 kWh. Accepting an implied offer through a 'Confirmation only' process, represents an increased risk of dispute for all parties to the Network Code contract.

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 the level of impact on Users' systems.

7. The implications of implementing the Modification Proposal for Users

It is likely that Users would need to alter their systems and processes to accommodate implementation of this Modification Proposal. Measures may also be required for Users to calculate transportation charges for relevant Supply Points.

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

Consumers may benefit from a maximum two day reduction in the overall Supply Point transfer timescales.

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:

- Under certain conditions the overall User transfer timescales for relevant Supply Points may be reduced.

Disadvantages:

- Potentially significant development costs associated with necessary changes to Transco and User systems, which would include retaining Nomination provisions for Supply Meter Point aggregations and de-aggregations and upon first registration of relevant Supply Meter Points.
- Implementation of this Modification Proposal could result in a perceived 'barrier to entry' to the gas market and may impede competition as it may be prohibitively expensive for some Users to calculate their own transportation charges for such Supply Points.
- Data quality on Transco's Supply Point Register may deteriorate.
- Potential adverse impact on the Change of Supplier Process currently being developed by the BPRG, which advocates the use of the Nomination functionality for provision of meter asset information. Transco's ability to comply with timescales for implementation proposed by the BPRG and thus facilitate the industry's requirements, may also be impacted by this Proposal.

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

Six representations were received with respect to this Modification Proposal. One respondent supports the Proposal and five respondents do not support the Proposal in its current format. One of the above respondents wishes to remain anonymous and has asked for its representation not to be circulated.

Four respondents have commented that there are minimal benefits associated with implementation of this Modification and two respondents have highlighted that the IT investment costs outweigh the benefits. Transco concurs with these views.

Innogy (In), while not supportive of this Modification Proposal, commented that it would be supportive of a proposal for an optional regime (if it were easy for Transco to facilitate) allowing Users to choose whether to nominate Supply Meter Points between 73,200 kWh and 732,000 kWh. Whilst outside the scope of this Modification Proposal, Transco does not believe that an optional regime would be beneficial as it will cause uncertainty in the transfer timescales. Such a regime would also require significant system changes.

Scottish and Southern Energy (SSE) and British Gas Trading (BGT) note that it is not clear whether the proposal applies to transfers only, or re-configuration and first registration. SSE also states that "if it only applies to transfers then there will be different processes depending on whether it is a Supply Point transfer or first registration". The confidential respondent believes that it is vital that the Nomination process be retained for re-configuration of Supply Points but that there is no reason to limit its implementation to existing Supply Points. Transco reiterates its view, as expressed elsewhere within this Modification Report that for a number of reasons the Nomination process forms an important part of the registration process for all Larger Supply Meter Points irrespective of whether these are new, existing or require re-configuration.

BP Gas Marketing Limited (BP) supports the principle of the Modification Proposal but believes the proposed threshold is too high and recommends that a threshold of 292,960 kWh be adopted. While it is not clear why a lower threshold is suggested, Transco believes that the view of the respondent is that such a level would incorporate all domestic designated Supply Points. Transco believes that the matter of domestic designation is not material to its view that Nomination is an important prerequisite for the registration of all Larger Supply Meter Points.

Powergen UK plc (P) and BGT re-iterate Transco's concern expressed within this Modification Report regarding the potential lack of transparency/clarity on charges, should this Modification Proposal be implemented.

The confidential respondent expresses the view that it does not believe that the removal of the Nomination process places the transportation contract at risk as Transco's transportation charges are widely published and the charges can be easily calculated by Users. It also does not believe that implementation would create a barrier to entry in the supply market. Transco's response is that it remains concerned that this may adversely impact smaller organisations for which the construction of supporting functionality and/or processes may be uneconomic.

The confidential respondent challenges Transco's assertion that the Modification Proposal would impact upon the RGMA proposals for Change of Supplier (COS). Transco believes that the current RGMA baseline documentation

identifies use of Nomination functionality and should this Modification Proposal be implemented the RGMA documentation may need to be amended under change control. Transco acknowledges however, that the SPA/Metering Workstream has indicated its view that use of Nomination Enquiry functionality may be preferred for COS activity which would not be impacted by this Modification Proposal.

BGT and In express the view that implementation of this Proposal may have an impact on data quality as the current process allows validation and correction of data at an early stage. BGT believes that validation and correction could be done via the Nomination Enquiry route but would mean significant system changes for most Users and Transco for little benefit. The confidential respondent however, does not accept the view that implementation of this Proposal could lead to a degradation of the data on Transco's Supply Point Register. Transco concurs with the views of In and BGT.

BGT believes that Modification Proposal 0531 "Revision of Existing AQ Appeals Window", which it states is being considered at the same time as this Proposal, adds a further complication to a Confirmation only process for Supply Points where the AQ and load factor are of material significance. BGT states these would be unknown at the time of Confirmation. Transco concurs with this view as AQ information would not be provided until D-7 under a Confirmation only process.

BGT believes that there may only be a small reduction in the transfer process and that the issue needs to be addressed in a wider review rather than be subjected to such piecemeal remedy. Transco concurs with this view.

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 enable Transco to facilitate compliance with safety or other legislation.

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

Significant systems development work would be required to enable implementation of 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.

16. Recommendation concerning the implementation of the Modification Proposal

Transco recommends rejection of this Modification Proposal as, in its view it does not deliver any advantages to Users and it does not better facilitate its GT Licence Relevant Objectives.

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 **0538**, version **1.0** dated **29/04/2002**) 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.