

Modification Report
Amendment to the required date range for opening meter reads
Modification Reference Number 0602
Version 4.0

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

The purpose of this Modification Proposal is to seek alignment of the opening meter reading date range within the gas and electricity markets to facilitate a reduction in the complexity of the change of supplier process. The proposer suggests that it would be beneficial for the opening read range of D-2/D+2 in the gas market to be aligned with that used within the electricity industry which is currently D-5/D+5 (where 'D' is the Supply Point Transfer Date).

2. Transco's Opinion

Whilst Transco appreciates the Proposer's view that implementation could improve Supply Point transfer from a customer perspective, Transco's position is aligned to that expressed by British Gas Trading, Scottish Power and Total Fina Elf in their representations, that implementation would represent a piecemeal change at a time when most of the industry has suggested that it wishes to avoid significant change. Transco believes, therefore, that there is value in examining the issues and solutions raised in this proposal in an appropriate forum, at which time a holistic view of the requirements of both the gas and electricity markets could be fully considered.

Transco is of the opinion, therefore, that this Modification Proposal should not be implemented and provides its rationale below:

- **Sustainability.**

The gas industry is at present addressing the future operation of the Supply Point transfer process from a perspective of alignment between the gas and electricity markets. The Supply Point & Billing Workstream has suggested previously that an industry review forum should be convened to address the transfer process from a wider viewpoint and to ensure industry benefits from change are sustainable and any investment will not be rendered redundant by further changes to the transfer process.

Transco believes that re-development of systems and processes at a time where the transfer process is under review and could be further influenced by changes to the electricity market, give rise to a serious risk of unnecessary or unfulfilled investment.

- **Allocation of commodity and energy charges at the point of transfer.**

Transco believes that extending the date range could exacerbate the difference between the allocation of commodity and energy charges, and the actual offtake by each User at the point of transfer.

At present this effect is limited, by the restricted read window. However, for the Larger Supply Point market in particular the impact of an extended read window could introduce additional risk for the incumbent User through inappropriate allocation of commodity and energy balancing charges.

- **Increase in industry administrative costs associated with 'agreed reads' process.**

Typically Users forecast the Opening Meter Read in advance of a transfer of ownership. Should the date range be extended, the likelihood of forecast deviation and therefore inaccuracy would be increased. This could increase the usage of the 'Agreed Reads' process which could result in excessive administrative costs for Transco and Users.

- **Supply Point & Billing Workstream discussion.**

The implications of implementing this Modification Proposal have been discussed by the Supply Point & Billing Workstream and a request has been made to reflect the range of views that were expressed.

Three Workstream attendees commented as follows. One User (the proposer) advocated an alignment to the current read window with the electricity market and also cited the benefit to members of a potential reduction in Meter Read Agency (MRA) costs due to the increased time period in which to procure a read. It further suggested the benefits of fewer estimated reads with the associated benefit of more accurate billing.

Two Workstream attendees noted their concerns with the proposal. One expressed an opinion that in relation to 'Industrial & Commercial' NDM Larger Supply Points the energy consumed between the transfer date and the Opening Meter Read date could be significant if the date range were increased. A further comment was made in respect of whether any consideration had been given to the benefits of aligning the electricity read window to the current terms for gas.

Another attendee highlighted the potential risk of increasing inter shipper disputes and thus usage of the 'Agreed Reads' process.

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

Transco does not believe that the Modification Proposal is consistent with its GT Licence Relevant Objective of facilitating the efficient and economic operation of its pipeline system. Transco's view is that the significant investment required to implement the proposed changes would be unsustainable and unwise whilst consideration is being given to possible far reaching changes to the Supply Point Transfer process in the gas and electricity markets.

Transco further believes that there is a potential for undue inaccuracy to be introduced to the transfer process which may adversely affect both parties with regard to allocation of commodity and energy charges.

Transco is also of the view that additional and unnecessary industry costs could be introduced as a consequence of a possible increase of the usage of the 'Agreed Reads' process.

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.

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:

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

Transco is not aware of any additional contractual risk which would be introduced if this Modification Proposal were implemented.

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 also believes that the proposal would have an impact on Users systems although none of the User representations made reference to the impact of implementation on their systems.

7. The implications of implementing the Modification Proposal for Users

It is likely that Users would need to alter relevant systems and processes to accommodate implementation of this Modification Proposal.

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

It is expected that suppliers would need to amend relevant systems and processes to accommodate implementation of this Modification Proposal. Customers may gain benefit from implementation due to the alignment in the Opening Read window across both the gas and electricity market and also in terms of a greater ability for the Proposing User to procure an actual meter reading.

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

The proposer claims that the following benefits would apply:

- The NDM customer transfer process would be made more efficient and effective, thereby improving customers' perception of the competitive supply market and as a result facilitating competition in shipping and supply. This would be consistent with one of Ofgem's stated aims in its consultation 'Review of Improving Customer Transfers'.

Transco comment: Transco has concerns that significant costs could be incurred by Transco and Users which may prove to be unsustainable in view of longer term industry aspirations for developing the supplier transfer regime.

- The number of actual reads provided to Transco would increase thus reducing the likelihood of Transco having to generate estimated meter readings. This would in turn reduce the number of inaccurate estimated bills and as a consequence would lead to fewer customer billing errors and complaints.

Transco comment: Although the number of actual reads could increase, Transco believes that a consequence would be a significant rise in reads being procured which do not reflect gas allocations for each User at the Supply Point Registration Date. The further the read is procured away from the transfer date, the less reflective the read would be of the true consumption at transfer and the more the likelihood that the read may be challenged.

- Widening the read window would also reduce the need for shipper agreed reads and the number of consequential disputes.

Transco comment: As described above, Transco believes that administrative costs could increase.

Disadvantages

- The sustainability of the proposal is unclear given that a fundamental review of Supply Point transfer activities from the perspective of the gas and electricity markets is likely.
- There could be an increase in the difference between the allocation of commodity and energy charges and the actual offtake at the point of transfer. At present the effect is minimal but it could be rendered significant if the date range were extended. While Transco is neutral to this issue, Users would face additional risk when transferring a Supply Point.
- Administration costs could increase due to the increase likelihood of User challenges to the transfer read.

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

Eight representations were received with respect to this Modification Proposal six of which were supportive of its implementation and two which while expressing sympathy with the rationale behind the Modification Proposal are opposed to implementation.

The six respondents which supported implementation of the Modification Proposal were Scottish & Southern Energy ("S&SE"), Powergen, Major Energy Users Council ("MEUC"), London Electricity ("LE"), Total Fina Elf ("TFE") and Innogy. The two respondents opposed to implementation were Scottish Power and British Gas Trading ("BGT"). A number of common themes have been identified which have been categorised under the following headings:

Actual reads/agreed reads process

SS&E comments that a widened read window would result in more actual reads leading to a reduction in the number of deemed (estimates), agreed reads and inter-shipper disputes. This view is also supported by TFE, Innogy and Powergen. TFE, however, comments that it accepts Transco's view that the nearer to the transfer date that the read is procured, the more reflective the transfer read is of the actual offtake. TFE highlights that the transfer read is best when it is an 'actual' and considers that this proposal is consistent with that ideal. TFE states "*...as such there will still be a desire to perform the transfer read as close to the transfer date as possible but the extended window allows a greater number of actual reads to be used than are allowed under the current rules. In return this should reduce the number of estimated reads and will thus, contrary to Transco's view, reduce the number of occasions on which either the 'agreed reads' or 'inter-shipper disputes processes will need to be invoked'.*"

S&SE highlights that within the electricity market an actual read, even obtained at D-5 is rarely disputed and is always preferable to an estimated reading. It highlights that there is no evidence to suggest that the extended electricity date range has any detrimental impact on either the end consumer or the Settlements process. Furthermore S&SE comments that *"it is not correct to assume that by extending the valid date range, all readings in future will be take on the earliest or latest possible date"*. S&SE suggests that as suppliers already have business processes and agent contracts in place to try and obtain readings within the reduced window, they are unlikely to fundamentally overhaul these. It summarises that the extended read window enables suppliers to *"....make more attempts to obtain readings from more sites"*.

Transco appreciates the views of the above respondents but does not agree that increasing the read window would necessarily increase the number of actual reads and thus benefit the supply point transfer process. Transco understands that there has not been any detailed analysis undertaken to evaluate both the electricity and gas transfer process and until such a review has taken place it would be imprudent to change the gas window to that of electricity. Transco is of the view that as such analysis is yet to be undertaken it could equally be proposed that it may be more beneficial to change the electricity date range to that of gas.

Allocation of commodity & energy charges at transfer

Innogy acknowledges that extending the opening read window may result in gas being less accurately allocated to each shipper on transfer (particularly for Larger Supply Meter Points) but comments that this is irrelevant as far as Transco is concerned. It further suggests, however, that the proposal (if implemented) would not obligate shippers to submit opening reads within this wider range date and if they are concerned about the impact this might have, they can opt to maintain the current window in their meter reading contracts.

Powergen comments that the proposed increase in agreed reads would outweigh the potential risk to the accuracy of meter point reconciliation in the Larger Supply Point market. It suggests that Transco's view of the impact that this change could have on the misallocation of energy between shippers at transfer seems overstated and to be less of an issue than the use of estimated transfer reads.

Innogy acknowledges that the agreed reads process may still need to be utilised if the Withdrawing User disagrees with the allocation that results from the Proposing User utilising the widened read window. It further comments, however, that as the majority of disputes arise from estimated reads (which it believes will reduce) then it concludes that *"....shippers have nothing to lose from its acceptance and potentially much to gain"*.

S&SE states that it does not accept the argument that it's proposal presents an increased risk to the allocation of commodity and energy charges. It comments that *"....on the contrary, the fact that it will enable suppliers to obtain increased numbers of actual readings means that the allocation of charges will be more*

accurate in future". It further states that "....suppliers will be less reliant on deemed and agreed reads means that the requirement for Transco to reconcile and amend charges will also be reduced". S&SE further notes that regarding the specific concern relating to 'I&C' sites it believes that the benefits of being able to obtain increased numbers of actual reads, instead of being forced to accept deemed reads, and dispute them, far outweigh any concern about the difference in energy consumed between the opening read date and the transfer date. S&SE comments that it is their usual practice for 'I&C' customers to always arrange for a Change of Supplier reading on the supply start date because of the volumes and money involved.

Scottish Power raises concern that the Modification Proposal does not differentiate between 'Domestic' and 'Industrial & Commercial' Supply Points and therefore it would be concerned over the energy consumed from the date of the meter reading to the registration date.

Transco's response is that it maintains its opinion that readings taken further away from the transfer date could result in significant misallocation of energy particularly at Larger Supply Meter Points. Transco also challenges Innogy's comment that the potential for misallocation is "*....irrelevant for Transco*". Although it has commented earlier within this report that it is neutral to the risk, Transco would draw attention to its Gas Transporter Licence Obligation to run an economic and efficient pipeline system and thus does not believe increasing the potential for misallocation at transfer is consistent with this. Transco would also challenge Innogy's comment regarding the ability for a User to maintain the current read window where it is concerned about the allocation impact. Transco highlights that it is the Proposing User that procures the Opening Meter Read and therefore determines the date within the read window that this is procured, the Withdrawing User does not have any influence on this date.

Submission of Opening Meter Readings

Innogy suggests that it would like the date by which the new shipper has to submit the opening read to Transco extended to the 12th Business Day after the Supply Point Registration Date. It comments that this would give shippers the same amount of time to forward the Opening Read to Transco as shippers have currently. Innogy highlights, however, that if this is not possible it would still like to see the proposal accepted and comments that if shippers are not able to adapt their systems and processes to cope with a shortened period for submitting opening reads to Transco they can reduce the opening read window they adopt accordingly.

MEUC challenges the need to supply a reading to Transco even within the proposed time limit as it believes that the key players in a transfer are the suppliers and the consumer and not Transco.

Transco's response is that the suggestion to extend the submission of Opening Meter Reads until 12 days following transfer is out of scope of this Modification Proposal. Transco believes that such a suggestion would require careful consideration to identify the likely ramifications, for example, the impacts on

(RGMA) and the estimated opening read process. Transco would also highlight that in previous Supply Point & Billing Workstreams it has suggested that the Network Code Opening Meter Reads requirements for Smaller Supply Meter Points could be removed. This was not, however, supported by the industry.

Systems

Powergen suggests that the required changes to systems to accommodate this would be relatively small as the proposed amendment is very focused and does not therefore have many follow on ramifications.

S&SE refers to Transco's comment that "*....it is possible that significant costs could be incurred by Transco and Users which may prove to be unsustainable in view of longer term aspiration*". S&SE challenges that "*....this has not been substantiated and quantified*".

Transco accepts the prevailing view that the scale of the anticipated system changes appear to be limited. Transco, however, feels its important that there is cognisance of the fact that the industry is currently involved in substantial system development as a consequence of metering separation/cutover. Transco is of the view that it would be imprudent to introduce a piecemeal change relating to the transfer process which may prove to be unsustainable in view of longer term industry aspirations for developing the supplier transfer regime.

Meter Reading Agency

S&SE and Powergen suggest that the proposed alignment of the gas and electricity read windows should help to reduce costs. S&SE comments that this reduction would then be passed on to customers.

Transco acknowledges the views of the above respondents.

Customer Satisfaction

SS&E suggests that implementation of this Modification Proposal would reduce the current complexity of the change of supplier process for a dual fuel customer. S&SE further comments that it believes that more actual reads would be obtained which means more accurate opening and closing bills and less customer dissatisfaction. This view is also supported by Innogy.

London Electricity comments that this Modification Proposal is in the best interests of the customer and by facilitating transfer activity it would minimise delays and lead to a more effective and efficient process. LE further suggests that it will also help increase competition in the shipping and supply of gas. It comments that dual fuel customers expect the processes and timings for change of supplier activities to be the same for both products. LE suggests that the fact that they are not causes considerable confusion and dissatisfaction.

Transco notes the views of the above respondents.

Piecemeal changes

Innogy comments that it would very much welcome an industry review of the gas and electricity transfer processes with a view to establishing alignment where appropriate. It suggests, however, that this is not a reason for delaying what in its opinion would be a beneficial change to the current gas transfer process. Innogy highlights that it is not clear when an industry review would be likely to take place or how long it is likely to take and therefore delaying any changes to the current processes for this reason would not be in the best interest of shippers, supplier or customers.

Transco's response is that Energywatch and Ofgem have announced plans for an industry summit to be held on 11 June 2003, to which all gas and electricity supply companies will be invited. This has been arranged in response to requests for a streamlined transfer system across the gas and electricity markets to simplify the process for consumers and for the industry. Transco is fully supportive of this seminar and believes that this is an excellent opportunity to commence evaluation of the transfer process and if necessary recommend co-ordinated changes across both industries instead of implementing possibly premature piecemeal changes.

BGT comments that it recognises the intent of the proposal and supports the trend to improve the transfer process but would re-iterate comments previously made in its response to 0603 'Reduction of Notice Period for Domestic Customer Supply Point Confirmation Process' that *"....this should be done in a measured and co-ordinated way"*. BGT further comments that under the banner of the Supply Point Agency Agreement (SPAA) process, a number of Users in the industry have devoted a great deal of time and effort towards an improved transfer process. BGT and Scottish Power raise concerns at introducing piecemeal changes. TFE highlights that *"....it has concerns that this is a piecemeal change to the gas supply point transfer process at a time when most of the industry has said that it wishes to avoid significant change whilst the processes are looked at in total across both the gas and electricity markets"*. TFE, however argues that *"in the absence of any detail to the contrary from Transco, this change would appear to be relatively straightforward and could provide considerable benefit"*.

BGT suggests that it is far more effective and efficient to avoid the unnecessary costs, which would be incurred by implementation of a series of very narrow changes to systems and processes. Scottish Power suggests that *"there is a danger that efforts to align these processes on a piecemeal fashion, without taking into account the full implications of their impact on other areas of registration process, will result in unjustified costs for system development to support the required changes"*.

Transco concurs with the views expressed by both BGT and Scottish Power.

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

None identified.

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 does not 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 revised Modification Report contains Transco's proposal not to modify the Network Code but has been prepared following direction from the Gas & Electricity Markets Authority.

19. Text

Section M

Amend paragraph M3.8.3 to read:-

“3.8.3 For the purposes of this paragraph 3.8 the required date range is the period of eleven (11) ~~5~~ Business Days commencing five (5) ~~2~~ Business Days before the Supply Point Registration Date.”

Signed for and on behalf of Transco.

Signature:

Sharon McLaughlin
Customer Service Manager

Support 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 **0602**, version **4.0** dated **15/07/2003**) 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 **4.0**.

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 appropriateprovided 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.