

Modification Report
Reduction of Notice Period for Domestic Customer Supply Point Confirmation Process
Modification Reference Number 0603

Version 3.0

This Modification Report is made pursuant to Rule 8.9 of the Modification Rules and follows the format required under Rule 8.9.3.

1. The Modification Proposal

To reduce the number of Business Days' notice required within the NDM Supply Point Confirmation process for domestic customers in order to shorten the minimum period within which the Supply Point Registration Date can be effected. The notice period would be two Business Days, so as to align the period more closely with electricity.

2. Transco's Opinion

Transco is of the opinion that this Modification Proposal, while achieving a reduction in the overall Supply Point transfer timescale, would result in a number of significant consequences for it and the shipping community including potential conflicts with the Licencing regime and therefore could not be implemented as currently drafted.

Transco's view is that the Proposal could substantially and adversely affect the existing commercial regime, supporting systems and associated processes. In Transco's view the Proposal does not adequately address such topics as the supplier 'right to object', transfer meter reads, 'cancel confirmations', erroneous transfers and NDM energy balancing. An example of this is that to ensure consistency with the relevant Licences the Network Code permits a period of seven Business Days for the Existing Registered User to register an objection to a proposed Supply Point transfer of ownership. The Modification Proposal as drafted does not provide sufficient time for this activity to occur. Transco also believes that the impact of the Proposal upon some of above processes is unknown and is therefore of the view that a detailed examination of the relevant Network Code provisions and associated processes/systems would be a minimum pre-requisite to reducing transfer timescales.

The principle of a substantial reduction in the Supply Point transfer timescale for 'domestic' Non-Daily Read (NDM) Supply Points was discussed at the September, October and November 2002 meetings of the Supply Point & Billing Workstream. Members identified a range of concerns which relate to the objectives of Modification Proposal 0603. This opinion has been formed over a period of time and in consultation with shipper representatives at the Workstream.

- Sustainability.

There are a number of initiatives underway which could have the effect of restructuring the supplier transfer process under a Supply Point Administration Agreement (SPAA). Within the governance of the Gas Industry Governance Group (GIGG), it was understood that a future regime may emerge on the 'Supplier hub' principle. An outcome of this could be removal of some or all of the supplier transfer associated provisions from the Network Code. Workstream members commented that as the cost of

developing and implementing the Proposal would be considerable, any changes should provide benefits that would be sustainable and long lasting.

- Convergence with electricity.

A view that any proposal affecting the overall supplier transfer timescales should be developed from a perspective of both the gas and electricity markets was expressed. This would ensure identification of an optimal solution (incorporating relevant ‘best practices’) and avoid any possible duplication of effort. Workstream members identified that an industry review forum could address the objectives on an informed and impartial basis.

The potential benefits of the Proposal were challenged in the Supply Point & Billing Workstream. Workstream members sympathised with the logic of aligning transfer timescales with the electricity industry and acknowledged that a rapid transfer of ownership was possible in that market. It was, however, noted that few supplier transfers were required or actually achieved within one or two days and typically the overall timescales were similar to those seen within the gas market.

Workstream members determined that the impact of the Proposal was of sufficient significance and magnitude that an industry workgroup should be convened outside of Network Code governance. This would permit the requirements of the gas and electricity markets to be fully identified and considered thereby optimising the ultimate solution.

Transco supports the view of the majority of Supply Point & Billing Workstream members that there should be an industry review of the supplier transfer process focusing on associated timescales involving relevant parties. In Transco's opinion, such a review should consider the principle of alignment between the gas and electricity markets and importantly seek to ensure that any changes, if merited, were sustainable.

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

The proposer states that this Modification Proposal would better facilitate the relevant objective of facilitating competition in gas shipping and supply and claims:

- It would speed up the domestic customer transfer process particularly where it was associated with a change of tenancy and would have the added benefit of resolving erroneous customer transfers more quickly.

Transco comment: The consequences of a shorter transfer timescale may be that erroneous transfers may increase as there is less opportunity for these to be detected and cancelled prior to Transfer of Ownership. Transco believes it is preferable to avoid such transfers if possible rather than facilitate resolution of these.

- It would reduce the administrative burden on all parties, including Transco, making the change of supplier process more efficient and effective, thereby improving domestic customers' perception of the competitive supply market.

Transco comment: The Proposer does not explain how the administrative burden is reduced.

Based on the information detailed within this Modification Report, Transco does not believe that this Modification Proposal reflects a fully economic and efficient solution for the improved management of customer transfer. Transco's view is further that there is insufficient evidence that the measures proposed would better facilitate competition between relevant shippers and between relevant suppliers.

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. It should be noted, however, that given the proposed significant reduction in the timescale permitted to effect a transfer of User registration, any impacts on the NDM demand attribution/allocation process (if any) would need to be considered.

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 in detail although a preliminary study indicates that such costs would be very significant and constitute a lengthy project.

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:

Additional cost recovery may be necessary as a consequence of implementing this Modification Proposal.

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 that any additional contractual risk 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

Significant changes to Transco's UK-Link system would be required. Transco believes that the proposal would have an impact on Users systems but is not presently aware of the level of that impact.

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.

The proposer states that consumers would benefit as they would be able to transfer between suppliers at shorter notice than is currently the case. Transco believes that as referred to in the section 'Advantages or Disadvantages' below, the Network Code Supply Point transfer process is not an absolute barrier to the transfer of customers between suppliers. Transco is not aware of any specific demand from 'domestic' consumers for reduced Supply Point transfers of ownership.

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 states that the proposal features the following benefits:

- Implementation would speed up the domestic customer transfer process particularly where it is associated with a change of tenancy.

Transco comment: The proposer refers to Modification Proposal 0591 which proposes a 'change of tenancy' marker which, if set, would remove the need for a seven day objection window in the event of a change of tenancy. Transco would point out that Proposal 0591 does not eliminate the 'right to object' irrespective of whether the marker is set and consequently Transco would not reject an objection if received. The implications for this Modification Proposal are that the opportunity to 'object' to a prospective Supply Point transfer (currently seven days) remains.

Transco has previously expressed an opinion in the Supply Point & Billing Workstream that there is no reason why Supply Point Registration necessarily needs to be aligned with actual change of supplier. Transco believes that agreement could in principle be secured between suppliers for a transfer to be effected ahead of the actual registration date. Transco, however, acknowledges that there would be issues to be addressed if such a measure were adopted.

- Would have the benefit of resolving erroneous transfers more quickly.

Transco comment: Transco acknowledges that such transfers could be reversed more rapidly but would note that the risk of erroneous transfers could conversely increase because there is potentially less opportunity to employ the existing 'cancel confirmation' facility as a measure to prevent an erroneous transfer occurring.

- Would reduce the administrative burden on all parties, including Transco, making the change of supplier process more efficient and effective, thereby improving domestic customers perception of the competitive supply market.

Transco comment: It is not clear to Transco how the Proposal removes the administrative burden on itself or shippers.

Disadvantages:

- Proposal does not satisfactorily address the consequential impacts on other key Network Code processes, including:

Supplier 'right to object': Currently seven Business Days are allowed for Users to register/resolve a Supply Point Objection.

Transfer' Meter Reads. A 'read date range' of five Business Days around the Supply Point Registration Date is required to enable Users to procure 'opening' and 'closing' reads. These provisions are subject to a separate Modification Proposal (No 0602) seeking a widening of this 'window' to eleven Business Days for all NDM Supply Points.

Cancel confirmations. A Proposing User currently has an opportunity (seven Business Days) to cancel a prospective Smaller Supply Point confirmation in the event that it wishes not to proceed with a Supply Point transfer of ownership.

NDM energy balancing. Transco's systems and processes currently require seven Business Days to permit transfer of energy data from its UK-Link to AT-Link systems.

- Sustainability of Proposal unclear given lack of clarity regarding requirements of electricity industry and possible developments within the remit of the Gas Industry Governance Group (GIGG).

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. Two of these were supportive, three were not supportive and one respondent felt there was insufficient information contained within the Modification Proposal to express a firm view.

A number of common themes were raised within the representations which are addressed as follows:

Alignment of gas and electricity markets

British Gas (BGT) comments that it is not content that the adoption of the timescale as currently operated in the electricity market is appropriate. BGT notes that the proposal is laudable in its intent but believes that it is too narrow in its application. British Gas states that given that the customer transfer process has been the subject of a great deal of work across the industry, it would much prefer to see the adoption of an integrated process, potentially for gas and electricity customers which addresses all of the issues. BGT believes this would also have the advantage for all parties of a controlled implementation.

Innogy expresses its belief that the proposal is well intentioned and hopes it will stimulate further debate on the issues surrounding how further alignment of the gas and electricity registration processes can best be achieved. Innogy comments that discussion is best taken forward as a separate project outside of the existing Network Code workgroups and notes its expectation that Transco should take an active part in those discussions in its capacity as a GT and Meter Asset Manager (MAM). Innogy states that whilst the topic presents a significant challenge to both suppliers and Transco, at a point in time when suppliers collectively believe it is right to embark on such a project, constructive engagement from Transco must be forthcoming.

Total Fina Elf Gas and Power express opposition to piecemeal changes to the transfer process that was designed to meet a number of objectives. It comments that if there are to be significant benefits gained from aligning gas and electricity customer transfer processes then the majority of this benefit will come from operating similar business processes in conjunction with harmonised IT systems. Total Fina Elf states that to achieve this will need significant effort to review the systems in both markets in order to create an optimal solution encompassing best practice from both. It further notes that "unless we follow this approach the incremental system change costs will be far greater than needed with little or no improvement in the overall process for the end consumer".

Scottish & Southern Energy comments that the purpose of its Modification Proposal is not to achieve convergence with electricity, the alignment being coincidental. It states its primary objective was to reduce the minimum period within which a customer can change gas supplier, in response to the needs of customers. Scottish & Southern Energy believes that initiating a wholesale review of the gas and electricity transfer process as a precursor to any Network Code amendment is filibustering change.

Transco agrees with the points expressed by British Gas, Innogy and Total Fina Elf which it believes reflects comments voiced by various attendees at recent meetings of the Supply Point and Billing Workstream. Transco does not accept the view that the creation of a joint electricity/gas review of the transfer process represents a delaying tactic. Transco believes that given the significant investment which would be required by Transco and Users to develop the Supply Point transfer process to meet the objectives of this Modification Proposal, it is essential that such changes meet the aspirations of both markets, cognisant of the needs of 'dual fuel' energy customers. This pre-requisite was strongly supported by the majority of shipper attendees at the November 2002 meeting of the Supply Point and Billing Workstream. Transco would expect to

be fully and actively involved with the review and development of such an enhanced regime.

Right to object

Two respondents raise issues with respect to the 'right to object' condition set out in the Suppliers Licence.

Innogy comments that it would support the Modification Proposal if Transco were able to retrospectively reverse transfers back to the Supply Point Registration Date automatically should the old supplier exercise its right to object. Innogy, however, notes that in the electricity market, reversing the transfer in such circumstances is far from straightforward and requires input from both the old and new supplier. Innogy comments that this may be one reason why the one day registration process is rarely used by the new supplier, except in cases where there is a large degree of certainty that an objection would not be made, as may be the case with a change of tenancy.

Transco believes that an aspiration to retrospectively reverse transfers in the event of an objection being registered would raise significant legal, systems and process issues which would require careful consideration should such a measure be pursued.

British Gas comments that as there is insufficient time to raise objections, this would further impact project BLAST, an Ofgem initiative to allow pre-payment customers wishing to change supplier to assign their debt to the incumbent supplier. Transco acknowledges this view.

Scottish & Southern Energy (SSE) challenges Transco's belief that if implemented a reduction in transfer timescales would conflict with the supplier 'right to object'. SSE advises of its experience in the electricity market, that suppliers who seek to register a normal change of supplier (COS) within the shorter timescale would face the risk that the incumbent could object and the registration would have to be undone. SSE comments therefore that in practice COS registrations would still take account of the objection window.

SSE further comments that in a change of tenancy situation it is hoped that the incumbent would be aware of the customers wishes and would not therefore object to the customer transfer (which would be facilitated by Modification Proposal 0591 if implemented). SSE notes that Transco would not reject an objection given its role as a 'conduit' for such information.

Transco's response is that as described elsewhere in this Modification Report, regardless of the reason for a transfer of registration, there must always be an opportunity for the incumbent shipper to object. It may be, for example, that the change of tenancy indicator as envisaged by Modification Proposal 0591 has been set in error by the Proposing User. Modification Proposal 0603 proposes a minimum two day transfer timescale for all 'domestic' Supply Points. Transco would point out that no provision has been made for a 'normal change of supplier (COS)' scenario as identified by SSE above. In the event of this scenario occurring, the incumbent User would

have no opportunity to object in the event of a two day prospective transfer of ownership. Presumably Supply Point ownership would transfer to the Proposing User (in effect an 'erroneous transfer') which would then have to be reversed by a reconfirmation (assuming that all parties agree to such a 'reversal' of the registration).

Transfer reads

British Gas anticipates a further increase in the use of the disputed read process as a consequence of this Proposal being implemented. It cites this being due to difficulty in obtaining an actual opening read in the reduced timescale and additional withdrawals impacted by the absence of an objection facility. British Gas comments that Modification Proposal 0602 is proposing to increase the read window which to some extent means the two proposals conflict. It further notes that if the transfer window is reduced but the read acceptance window is increased, there would be an increased incidence of actual reads being adjusted in order to be relevant to the transfer date. Transco concurs with the views of this respondent.

Erroneous transfers

Three respondents comment on the impact of the Modification Proposal on erroneous transfers. Total Fina Elf challenges the benefit of "implementing a solution which allows erroneous transfers to be resolved more quickly when the solution itself increases the number of erroneous transfers". It further expresses a belief that end consumers are far more supportive of processes that result in a smooth and accurate transfer rather than one that is achieved in the shortest period of time regardless of the related accuracy. Total Fina Elf concludes by stating that "if we can achieve improvements in accuracy at the same time as shortening the transfer period then this will be beneficial". It does not, however, believe that this Modification Proposal achieves this aim. Transco concurs with the views of this respondent.

Innogy shares Transco's doubts as to whether the Proposal will help resolve erroneous transfers quicker. Innogy claims that such transfers would increase unless an automated retrospective reversal process is put in place or unless the change of occupier marker proposed in Modification Proposal 0591 automatically prevents the old supplier raising an objection when included in the confirmation. Transco's response is that it could not prevent a shipper registering an objection as this would place the Network Code in conflict with the Supplier Licence.

British Gas comments that implementation of the modification would increase the number of erroneous transfers. It advises that a proportion are avoided by means of a co-operative objection during the confirmation window. British Gas state that the reduction of the window would eliminate this facility and increase the occurrence of erroneous transfers, thus removing the benefits of the erroneous transfer charter. Transco concurs with the view of this respondent.

Reducing the administrative burden

Scottish & Southern Energy clarifies its view that the administrative burden associated with the Supply Point transfer process would be reduced in the following ways:

- There would be additional time involved in customer service staff explaining to customers that it takes longer to transfer their gas supply, when they wish to remain with the supplier of their choice.
Transco acknowledges the view of the respondent.
- The disparity between gas and electricity transfer times clearly does not meet customer expectations and adds complexity to their understanding of the transfer process.
Transco acknowledges the view of the respondent.
- The reduced timescale in conjunction with the COT marker will reduce the number of objections raised in error. This places an administrative burden on suppliers resolving the objections in terms of making additional phone-calls, contacting the customer and so on.
Transco acknowledges the view of the respondent.
- Establishing a clear process within the gas industry will address the problems currently experienced by customers with regard to change of tenancy and erroneous transfers.
Transco acknowledges the view of the respondent.

Innogy, however, challenges the view that the administrative burden is reduced and states that a consequence could be an increase in erroneous transfers and billing queries leading to an increase in the shipper administrative burden. British Gas states that a two day window does not provide enough time in the process to validate the individual customer accounts. Transco concurs with the views of these respondents.

SPAA

Scottish & Southern Energy acknowledges the desire amongst some Workstream participants to delay a change to the supplier transfer provisions pending the outcome of industry discussions with regard to the Supply Point Administration Agreement (SPAA).

Scottish & Southern Energy (SSE) draws attention to there being no implementation date for SPAA and that given its belief that implementation of Modification Proposal 0603 would be a significant improvement to the existing processes, it sees no reason why a delay should be incurred pending the outcome of these discussions. SSE advises that the initial phases of SPAA (which may not be introduced until 2004) would be unlikely to include any aspects of customer registration.

Transco's response is that given the complexity of the changes which would be required to support implementation of this Modification Proposal, it is likely that a project involving Transco and the shipping community would be required to review all aspects of its development. This would involve addressing contractual, process and systems implications and requirements. Given this essential pre-requisite and the presence of other industry initiatives, it is possible that the required systems development work may not achieve sufficient industry priority such that it commences in

the short/medium term. It is therefore likely that initiatives and events under the SPAA banner, within the remit of the Gas Industry Governance Group would become increasingly significant.

Systems

Three respondents draw attention to issues associated with system and process changes for Transco and Users.

British Gas comments that there are likely to be significant costs associated with system and process changes for Transco and Users. It notes the significance of the Proposal in including the adoption of the 'domestic' designation from the Utilities Act as the identifier of the customers to be subject to the process. Transco concurs with the concerns expressed by this respondent.

Powergen comments on there being insufficient information within the Modification Proposal to enable it to fully assess the systems impacts.

Scottish & Southern Energy (SSE) challenges Transco's comments that there would be a significant, protracted and lengthy project required to change UK-Link. It bases this view on there being no changes to the format of any UK-Link flow or any changes to the data flows. SSE establishes that the proposal is confined to the timing of the flows. It claims that changing a date parameter is a minor piece of work. Transco understands the logic of the assumptions made by the User but has undertaken some investigation and analysis of the potential systems impacts. Central to the integrity of Transco's systems are links between its UK-Link (Supply Point) and AT-Link (Energy Balancing) systems. Specific timescales (currently seven days) are required for the accurate transfer of relevant data. To amend this process as part of a reduction in transfer timescales would involve a fundamental review and redesign of the relevant interfaces. Less clear are the impacts on Transco's and Users systems to take account of the opening (transfer) meter reading issues.

Miscellaneous issues

Powergen comments that it requires more detailed information as to how the proposal will work including any interactions with the work on metering competition. Transco generally concurs with this view

The Major Energy Users Council expresses an opinion that the shorter timescale should be extended to all industrial and commercial sites including those which are Daily Metered (DM). Transco's response is that it is not able to support a reduction in transfer timescales for the reasons described within this Modification Report and would have particular concern with respect to Daily Read (DM) Supply Points. Transco bases this concern on the criticality of ensuring the integrity of Capacity and Energy related data which requires additional activities on the part of Transco and Users during the Supply Point transfer process.

Scottish & Southern Energy comments that it does not believe that Transco has adequately explained how there would be an impact on the NDM demand attribution and allocation process. Innogy comments, however, that it does not believe that the proposal adequately addresses such topics as NDM energy balancing.

Transco's response is that while there are no apparent issues concerning the passing of data for the NDM demand related processes (as opposed to those pertinent to DM Supply Points), it cannot be certain that such process are not affected without the detailed systems and process analysis which would be required as a pre-requisite for implementing this Modification Proposal.

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

A significant and protracted systems development project would be required to enable implementation of this Modification Proposal. A consequence of this is that a short/medium term implementation timescale would not be possible.

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. Transco, however, acknowledges that a review of the customer transfer process, focussing on transfer timescales is desirable particularly from a perspective of possible convergence with the electricity market. Transco would therefore support convening an industry review, preferably chaired by Ofgem, with terms of reference which could include consideration of whether convergence with the electricity market and/or a reduction in supplier transfer timescales is practicable.

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. Legal text has therefore not been provided.

Signed for and on behalf of Transco.

Signature:

Shipper Services

Date: