

Modification Report
Provision of a Supply Point Enquiry Service for Smaller Supply Points
Modification Reference Number 0092
Version 3.0

This Modification Report is made pursuant to Rule 10 of the Modification Rules and follows the format required under Rule 9.6.

Circumstances Making this Modification Proposal Urgent:

In accordance with Rule 10.1.2 Ofgem has agreed that this Modification Proposal should be treated as Urgent because if this proposal is implemented the additional information, which shippers have previously had access to, would allow for more accurate quotes for gas supply contracts, typically commencing with the start of the next Gas Year on 1 October 2006. The relative accuracy of these quotes may have a significant and ongoing commercial impact upon both shippers and affected consumers, and indeed could make the difference between winning a contract and not.

Procedures Followed:

The procedures agreed with Ofgem for this Proposal are:

Submit proposal to Ofgem for urgency	10/07/06
Ofgem grant urgent status	11/07/06
Proposal issued for consultation	12/07/06
Closeout for representations	19/07/06
Final Modification Report to the panel	26/07/06
Modification panel recommendation	03/08/06
Ofgem decision expected week commencing	07/08/06
Implementation date (subject to Ofgem's decision)	14/08/06

1. The Modification Proposal

The Proposal was as follows.

Corona Energy has raised this proposal following the sudden withdrawal of the ad hoc enquiry service provided by xoserve, on behalf of Transporters, in recent months. xoserve has stated that the service was withdrawn for reasons of compliance following a recent internal review. In September 2005 xoserve, on behalf of Transporters, agreed, on a voluntary basis, to provide Users with data relating to specific Smaller Supply Points at the request of the User, subject to daily caps. The data mirrored that provided under the electronic enquiry service for Larger Supply Points and New Smaller Supply Points as set out in the UNC.

The information sought by Corona Energy, as an I&C Supplier, applied only to multi-site I&C customers in the event that a number of those sites were classified as Smaller Supply Points. The data received by Corona Energy permitted it to quote, as accurately as possible, for the supply of

gas to the customer. This ensured that the quote was competitive and a contract would be entered into based on the best available information at that time. The removal of this service denies the Supplier access to important information which in turn, restricts its ability to offer terms which best reflect the expected consumption pattern of the customer's portfolio.

It is proposed that following the unilateral withdrawal of the service by xoserve, on behalf of the Transporters, that it is reinstated via the formal route of a UNC modification. In order to ensure that the enquiry service is not exploited by Users, for instance as a method for identifying particular classes of customer, it is proposed that it is required that the User obtains written authorisation from the customer, directly or via the relevant Supplier, before making such an enquiry. Such authorisations would not be required to be presented to xoserve at the time of initiating the enquiry, however, they must be retained and presented in the event that xoserve, acting on behalf of the transporters and at its own discretion, requires evidence that authorization was provided. This would create an environment of self-regulation, thereby reducing administration costs and maximizing the efficiency of the service.

Corona Energy proposes that that processes adopted by xoserve, on behalf of Transporters, would be re-instigated in the event that the Proposal is implemented. The processes were offline and could be introduced at very short notice and, we understand, at minimal cost.

In order to minimize costs, it is proposed, that the information provided through the formalized Enquiry Service reflects that which was provided by xoserve under the ad hoc arrangements. The information to be provided by xoserve following an enquiry, therefore, is as follows;

MPR, AQ, SOQ, EUC, Exit Zone and Supply Type.

In addition and consistent with the approach adopted by xoserve, on behalf of the Transporters, it is proposed that the standard Service Level Agreements applied during the application of the ad hoc service will apply following the formalisation of the process. For completeness the SLAs employed would be as follows;

For an enquiry requiring less than 50 MPR reports, delivery would be D+1

For between 51 to 100 MPR reports, delivery would be D+2

For between 101 and 1000 MPR reports, delivery would be D+5

For over 1000 MPR reports, delivery would be on a reasonable endeavours basis.

Non-implementation of this proposal would inhibit competition in a particular market sector and limit a Supplier's ability to accurately value and price a customer contract. This is likely result in the customer paying more for its gas supply than would have been the case if the consumption data has been made available to the User. In addition particular Users will be exposed to greater wholesale price risk for reasons stated previously.

2. Extent to which implementation of the proposed modification would better facilitate the relevant objectives

The Proposer stated:-

"The implementation of this modification would better facilitate the achievement of the Relevant Objectives by securing effective competition between relevant shippers and between relevant suppliers. The information provided through extending the enquiry service to Smaller Supply Points would better inform quotes provided by suppliers to customers and where applicable, enable shippers to better manage future volume risks. The self-regulating authorisation procedure set out in the proposal would provide the necessary protection to domestic customers and prohibit particular undesirable marketing strategies".

Corona Energy argued that *"non-implementation would be discriminatory against smaller Suppliers which face greater exposure to unpredicted variations in customer consumption patterns"* and added that-

"In addition there are likely to be implications for the relevant User as it endeavours to manage the volume and price risk associated with unpredictable consumer consumption patterns. The impacts of this are more likely to be experienced by smaller Users unable to absorb volume variation across more modest supply portfolios".

In its representation Corona reiterated its belief that *"the Modification Proposal will be of greatest assistance to smaller Users as relatively small volumes of gas can have significant impact on these businesses. The provision of the information outlined in the Modification Proposal will provide smaller Users with greater confidence in their pricing strategies and demand forecasts."*

TGP agreed with the Proposer stating, in respect of Gas Transporter Licence Standard Special Condition (SSC) A11.1 (d)...the securing of effective competition...., *"The modification allows Shippers to accurately price contracts for multi-site portfolios, thereby encouraging effective competition."*

NG UKD expressed qualified support for furtherence of SSC A11.1 (d) *"We are of the view that to declassify the Small Supply Point (SSP) AQ as Protected information would be in the interests of promoting competition"*, but NG UKD requested that *"the Authority seek further clarification from the proposer in terms of implementation."* In particular it believed *"further work is required to agree a service delivery method that could be implemented, to the specification and to the timescales stated in the proposal, as we are mindful of our Standard Special Condition A15.3(i) obligation that requires us to ensure that Agency services and systems are developed on an economic and efficient basis."*

RWE agreed with the Proposer argued that implementation would assist competition since Shipper/Suppliers would *"be more able to quote accurately and minimise ... exposure to volume risks and Customers will benefit from competitive prices."*

3. The implications of implementing the Modification Proposal on security of supply, operation of the Total System and industry fragmentation

No such implications have been identified

4. The implications for Transporters and each Transporter of implementing the Modification Proposal, including

a) implications for operation of the System:

No such implications have been identified

b) development and capital cost and operating cost implications:

The Proposer stated an expectation *"that the provision of this service would have minimal impact on systems, processes and procedures as until recently this service was provided by xoserve, on behalf of Transporters. It is the expectation of the Proposer that the processes implemented at this time would be re-introduced and replicated in the event that this Proposal is implemented."*

TGP observed, *"There will be a minor cost in increased workload for the Transporter's agent, but we anticipate this would be minimal."*

Similarly BGT expressed recognition that *"this Proposal would place an additional obligation upon the Transporters, which would be discharged through xoserve, their agents. We understand that the additional workload involved should be relatively small but we would suggest that this activity is specifically monitored."*

SGN however, whilst supportive of the principle had questions and concerns regarding the practicality and cost of providing it. *"We understand that during the period this service was provided previously by Xoserve it was done by telephone. The volume of enquiries was absorbed within their normal business, the costs were minimal, and that to reinstate this service would have little or no impact on existing systems and business processes. However, in the event of the Proposal being implemented it is difficult to ascertain whether the volumes of enquiries would be high enough to require additional manpower. We note the proposal refers to batch processing. This would be more complex and suggests a higher volume of enquiries is envisaged. If this were the case it would need to be reflected in the cost and / or timescales for providing this service. "*

The SME observes that the Proposal makes no direct reference to "batch processing", but this might be construed from the proposed SLA for higher volumes of enquiries.

SGN sought greater clarity and believed *"further information and analysis are required for a proper impact assessment to be carried out and business solutions put in place."*

In a similar but more detailed vein NG UKD sought clarity and expressed concerns - see **Service Delivery** below.

c) extent to which it is appropriate to recover the costs, and proposal for the most appropriate way to recover the costs:

TPG did not "*anticipate any increase in costs requiring recovery outside of allow revenue.*"

SGN further to its questions and concerns on practicality and possible system implications were "*unclear as to how any additional cost would be recovered.*"

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 of each Transporter under the Code as modified by the Modification Proposal

Corona believed that "*the authorisation procedure requires that the User gains permission from the relevant customer to gather information related to its Supply Points. This process will provide the Transporters with the necessary protection against relevant legislation regarding the provision of data to third Parties.*"

TGP similarly made the observation about the authorisation process, "*Any liability for improper use would be placed upon the Shippers so we do not anticipate any increase in contractual risk for the Transporters.*"

NG UKD set out the background to prevailing UNC provisions and their operation "*AQ information for SSPs is not freely available as part of the nomination process (because Small Supply Point Registration is a confirmation only process,) or indeed any other UNC process. Consequently, AQ information for SSPs is classified under the UNC as Protected Information and is not issued to any supply-side participant other than the registered user.*"

It added "*We understand that in recent months this SSP AQ information has been made available on request through the Supply Point Information Service to prospective shippers. However, as part of a review of xoserve procedures this practice has stopped because neither the UNC nor a transporter's licence provides the necessary consents to release SSP AQ information to non-incumbent shippers.*"

6. The high level indication of the areas of the UK Link System likely to be affected, together with the development implications and other implications for the UK Link Systems and related computer systems of each Transporter and Users

The Proposer stated an expectation "*that the provision of this service would have minimal impact on systems, processes and procedures as until recently this service was provided by*

xoserve, on behalf of Transporters.... the processes implemented at this time would be re-introduced and replicated in the event that this Proposal is implemented."

In its representation Corona expanded on this stating it believed that *"there will be no impact on UK Link Systems. Previously, the information requests and subsequent responses were carried out offline and we believe that this approach will continue following the implementation of the Modification Proposal. In any case, in the event that the volume of enquiries requires a potential Systems solution, then we would expect the associated costs to be minimal."*

TGP did not anticipate any changes to the UK Link system.

NG UKD suggested that *"The Supply Point Enquiry Service (UNC TPD G1.17), as specified in the proposal, would seem to be a suitable method of service delivery. Although AQ information is currently included in the information returned to the shipper for a LSP Enquiry, our provisional view is that UK-Link functionality would still need to be modified to allow SSP Enquiries to be processed. Due to timescales agreed for this consultation, it has not been possible to conduct a full impact analysis for this system modification"*

7. The implications of implementing the Modification Proposal for Users, including administrative and operational costs and level of contractual risk

Corona strongly believed that *"the implementation of this Modification Proposal would significantly reduce User contractual risks. It will permit more accurate pricing of contracts i.e. based on more robust demand forecast, and allow Users to employ a variety of hedging techniques to guard against wholesale price movements."*

Corona further observed, *"The Enquiry Service is an optional service to Users and as a result they are able to make individual determinations as to the value of the information compared with the administrative costs of gathering it."*

TGP stated, *"If Shippers choose to utilise this option then there will be a consequential minor increase in administrative and operational costs. As Shippers will be obliged to obtain written consumer approval prior to obtaining this information, we do not anticipate an increase in contractual risk."*

SP sympathised with the intention of the Modification Proposal and concurred *"that withdrawal of this information can have a direct impact on some suppliers/shippers ability to quote as accurately as possible for the coming Gas Year."*

RWE explained its support, commenting that it utilises the service *"when tendering for multi-site portfolios, such tender requests can contain multiple low AQ sites. In many cases the number of Smaller Supply Points forms a significant part of the overall consumption. Thus it is vital that we are able to obtain correct consumption data to allow an accurate and reflective price to be provided to the customer."*

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

Corona believes that *"implementation would benefit Suppliers and Customers. These benefits are realised by the fact that Suppliers would be more able to accurately quote for the Supply of gas and, therefore, minimise exposure to volume risks. Customers would benefit from increased competition in the Supply market which will ultimately lead to lower priced gas supply contracts."*

RWE noted *"Some customers request a breakdown of costs per site, with the removal of this service we are unable to fulfil this request."*

9. Consequences on the legislative and regulatory obligations and contractual relationships of each Transporter and each User and Non Code Party of implementing the Modification Proposal

TGP argued *"The modification proposes a self-regulatory regime for Shippers to demonstrate their compliance with obtaining consumer permission. There will be a modest obligation on the Transporters to confirm this compliance if there are reasonable grounds to do so. Any non-compliance would be investigated by the Authority in a manner similar to other licence breaches. There does not seem therefore to be a significant change to the contractual relationships within the Uniform Network Code as a result of this modification."* TGP also observed that xoserve would be obliged to request proof of consent if there is reasonable doubt.

RWE however commented that whilst the Proposers *"attempt to address possible abuse of this facility we do not feel that requesting customer's authorisation to obtain this information provides a practicable solution."*

NG UKD questioned *"Should SSP AQ information be declassified in the UNC as Protected Information? This we believe to be the pre-cursor to the implementation of a SSP information request / enquiry service. We believe this to be primarily a commercial issue between shippers and look to their lead in this respect."*

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

Corona identified the following advantages and believed there were no disadvantages.

- *"Significantly enhance a supplier's ability to more accurately quote for gas supplies for the coming Gas Year;*
- *Facilitate competition in the supply market. The release of relevant information will provide Suppliers with greater confidence in their pricing models and, therefore will be more pre-disposed to quote for the supply of gas.*
- *Overcome, to some degree the impact of the "portfolio effect" on the supply market. In particular it will assist smaller players, which face greater relative exposure to*

unpredictable future consumption, in implementing price and volume hedging techniques. Again this will facilitate competition in the supply market;

- *The limitations enshrined in the Modification Proposal requiring customer authorisation before a User can request the information will provide the necessary legal and commercial protections to all Parties. In particular, it will prohibit marketing strategies aimed at identifying specific customer types."*

TGP expressed some similar advantages as follows.

- *"Increase in information available to Shippers to enable them to manage their portfolio*
- *Facilitate competition by allowing more contracts to be more accurately priced."*

The proposer identified the potential disadvantage of the service being utilised as a method of identifying particular classes of customer, or customer cherry picking. To attempt to counter such, the proposal stipulates that the User is required to obtain written authorisation from the customer though RWE questioned whether this is a practicable solution.

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

Representations were received from the following [eight] parties:

British Gas Trading	BGT	Qualified support
Corona Energy	Corona	Support
National Grid UK Distribution	NGUKD	Qualified support
RWE npower	RWE	Support
Scotia Gas Networks	SGN	Not in support
Scottish & Southern Energy plc	SSE	Not in support
Scottish Power	SP	Support
Total Gas & Power Limited	TGP	Support

TGP expressed a view in respect of the driver for the proposal explaining that "Just prior to the DN Sale, Modification 717 placed a reference to the Supply Point Information Service within the UNC. It was recognized that while the current service was unlikely to be removed entirely, there was a need to ensure that the current levels of service were maintained in a changing market environment. In its decision letter to Modification 717 Ofgem highlighted its concern that Users would not have the ability to prevent changes being progressed by Transporters against their wishes. The unilateral removal of the ad hoc enquiry service process that is the subject of this modification validates this concern. It is evident that the protection given by Standard Licence Condition A31 does not prevent the removal of specific functions provided by the Transporters and that greater detail as to the nature of the service should be provided in subsidiary documents."

SSE suggested *"it would be sensible to ensure there are no data protection issues and also consider whether this is information that could be made available via the website instead."*

BGT agreed with the Proposer that *"this information is of commercial significance when preparing tenders where the selection of premises to be supplied includes smaller supply points. As it is critical to accurate pricing of business it does appear to be more realistic to formalise this service rather than to rely on ad-hoc arrangements, which we understand have been withdrawn. We also agree that this service should be restricted to those supply points which fall within the I&C or SME sector as it is recognised that the extension of this service to all supply points would place an unmanageable burden upon the Transporters agent."*

SP stated it had *"had the need to use the ad hoc enquiry service and therefore we see the benefits for such a service being re-established and formally introduced under provisions in the UNC."*

RWE was *"surprised by the sudden and unilateral decision to remove this service. As far as we're aware there were no industry discussions regarding this matter and the communication of the decision to remove the service was poor to say the least."*

Governance

Corona believed that *"This Modification Proposal will enshrine in the UNC the service to be provided and the limitations on its operation."*

TGP stated *"We are unsure however whether this requirement should be incorporated within the UNC in isolation, as the remainder of the Supply Point Information Service is detailed within the Supply Point Information Service Guidelines (which is referenced in the UNC) not the UNC itself. To reduce the fragmentation of the governance of the Supply Point Information Services, it would seem germane that the remainder of the Supply Point Information Service be subject to UNC governance processes"*.

RWE believed that *"the Proposed Standards of Service are reasonable and should be documented either directly into the UNC or included in an UNC Ancillary document. This will allow all Users the opportunity to make amendments via the modification process"*

SSE however explained it did not support this Modification Proposal because *"it contradicts Mod 087 which is proposing to remove similar obligations in the same area from the UNC because they will come under SPAA. We therefore consider it inappropriate to add further obligations to the UNC whilst others are being removed."* and, *"It might be that this request could be considered by SPAA."*

Service Delivery

SP commented *"The suggested Service Level Agreements (SLA) are reasonable and the requirement for the User to gain consent from the customer prior to raising any enquiries"*

should ensure the service is not abused. Additionally, this should ensure the volume of enquires received by xoserve are manageable within the SLAs proposed."

Similarly RWE believed the Proposed Standards for Service were reasonable.

BGT stated *"Based upon limited time for consideration, the Service levels proposed in this Modification appear reasonable and in line with the timescales applied in tendering for business. By simple re-instatement of the ad-hoc process it would appear that only minimal system costs are associated with the provision of this service."*

SGN had questions and concerns regarding the practicality and cost of service delivery.

NG UKD concluded *"While, we understand the specific urgency for the proposing shipper, we believe this proposal would have benefited from wider industry debate to understand industry views on the legal and practical issues originating from this detailed proposal. While the proposer suggests that initially it simply wants the previous service restoring, there are elements of the proposal that seek to develop the service and introduce additional rules over and above the suspended practice."*

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

Implementation is not 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 paragraph 5 of Condition A4 or the statement furnished by each Transporter under paragraph 1 of Condition 4 of the Transporter's Licence

Implementation is not required having regard to any proposed change in the methodology established under paragraph 5 of Condition A4 or the statement furnished by each Transporter under paragraph 1 of Condition 4 of the Transporter's Licence.

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

TGP stated, *"xoserve will be required to reinstate their previous service. We anticipate the program of work to achieve this will be minimal."*

NG UKD stated that the *"existing "phone-in" Information Service is a supply point-by-supply point interface and would be the easiest to implement. However, not being a batch process, it would not lend itself to the SLA rules set out in the proposal.*

It further commented that *"While we have a preference for an automated service, before developing a system solution we would need to carry out an assessment of predicted enquiry volumes as it could be that the existing phone-in service is the most efficient means of service delivery for limited volumes. Generally, we do not believe that individual SSP*

AQ is a significant issue for many shippers with diverse Supply Point portfolios and, hence, an assumption could be that volumes for this service would be manageable using the recently suspended phone-in service. However, this form of implementation would not fulfil all the requirements of the proposal.

SGN referred to the potential use of batch processing and that “*This would be more complex and suggests a higher volume of enquiries is envisaged. If this were the case it would need to be reflected in the cost and / or timescales for providing this service*”.

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

The Proposer advocated implementation on 14 August 2006 and TGP and RWE agreed with this based on the requirements for implementation being the resurrection of a service previously delivered by xoserve.

The two Transporters that submitted representations highlighted that should the potential volumes of enquiries warrant an automated/batch processing solution then this may require a lead time for implementation. Both believed that further work is required to identify the appropriate service delivery method.

16. Implications of implementing this Modification Proposal upon existing Code Standards of Service

No such implications have been identified.

17. Recommendation regarding implementation of this Modification Proposal and the number of votes of the Modification Panel

At the Modification Panel Meeting held on 3 August 2006, of the 9 Voting Members present, capable of casting 10 votes, 10 votes were cast in favour of implementing this Modification Proposal. Therefore the Panel recommend implementation of this Proposal.

18. Transporter's Proposal

This Modification Report contains the Transporter's proposal to modify the Code and the Transporter now seeks direction from the Gas & Electricity Markets Authority in accordance with this report.

19. Text

UNIFORM NETWORK CODE – TRANSPORTATION PRINCIPAL DOCUMENT

SECTION G – SUPPLY POINTS

Add new paragraphs 1.17.7 to 1.17.9 to read as follows:

1.17.7 For the purposes of assessing whether to submit a Supply Point Confirmation in respect of a Smaller Supply Point a User may submit an enquiry to the Transporters in respect of a Smaller Supply Point (a “Smaller Supply Point Enquiry”) requesting:

- (a) the Supply Meter Point Reference Number;
- (b) the Applicable End User Category in accordance with H1.7;
- (c) details of the Supply Point Capacity;
- (d) the Annual Quantity for each Supply Meter Point; and
- (e) the Exit Zone in which the Smaller Supply Point is located;

1.17.8 The Transporters will submit a response to such Smaller Supply Point Enquiry specifying the information requested in paragraph 1.17.8 and such response shall be made in respect of a Smaller Supply Point Enquiry requesting:

- (a) less than 50 Supply Meter Point Reference Number reports, within the one Business Day following the date of receipt of such Smaller Supply Point Enquiry;
- (b) between 50 and 100 Supply Meter Point Reference Number reports, within the two Business Days following the date of receipt of such Smaller Supply Point Enquiry;
- (c) between 101 and 1000 Supply Meter Point Reference Number reports, within the five Business Days following the date of receipt of such Smaller Supply Point Enquiry;
- (d) for more than 1000 Supply Meter Point Reference Number reports, on a reasonable endeavours basis.

1.17.9 A User submitting a Smaller Supply Point Enquiry shall:

- (a) ensure that prior to such submission it will obtain the written consent of the consumer of the Smaller Supply Point (whether directly or indirectly through the Supplier of the Smaller Supply Point);
- (b) retain evidence of such consent;
- (c) promptly provide such evidence to the Transporters following a request to do so which is made at any time after the Smaller Supply Point Enquiry.

Subject Matter Expert sign off:

I confirm that I have prepared this modification report in accordance with the Modification Rules.

Signature:

Date :

Signed for and on behalf of Relevant Gas Transporters:

Tim Davis
Chief Executive, Joint Office of Gas Transporters

Signature:

Date :