

Draft 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 Draft 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 ownership 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 proposer may claim that the measures identified within this Modification Proposal provide potential benefits in terms of a more efficient transfer process and consequent reduction in Supply Point transfer timescales. 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 superfluous. 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 would 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 conclusion Transco is not minded to support this Modification Proposal in its current form. Transco intends however, to discuss the principles behind this Proposal as a topic at the SPA/Metering Workstream, with a view to better understanding the industry's requirements in this area.

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

The Proposer has not suggested (and Transco is unclear) how implementation of this Modification Proposal would better facilitate its' GT Licence 'Relevant Objectives'.

In Transco's view it may even be possible that implementation of this Proposal would create a 'barrier to entry' to 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 Points re-configuration and New Supply Meter Points registration and the industry costs of implementation outweigh the 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 at this stage.

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 is not presently recommending implementation of this Modification Proposal. If this Proposal were implemented however, Transco would wish to 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 both 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)

Representations are now sought.

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 is not minded to recommend implementation of this Modification Proposal at this stage and remains to be convinced that the Proposal facilitates its Relevant Objectives and represents significant benefit to the industry as a whole.

17. Text

Transco does not recommend implementation of this Modification Proposal and therefore no legal text is provided.

Representations are now sought in respect of this Draft Report and prior to Transco finalising the Report

Signed for and on behalf of Transco.

Signature:

Steve R Phillips
Director of Shipper Services

Date: