

To: Transco, Shippers & other interested parties

Direct Dial: 020 7901 7346
Our Ref: net/cod/mod_0468a

1 February 2002

RE: Modification Proposal 0468/0468a 'Removal of the Smaller Supply Point estimate Opening Reads charge for reasons of mergers and acquisition'

Ofgem has decided to reject modification proposals 468/468a. In this letter, we set out the reasons for making this decision.

Background

The above modification was raised by TXU. The modification proposes that Transco will not provide an estimated opening read in the event of mergers and acquisitions. The rationale for not providing reads is due to the introduction of Reconciliation of Difference (RbD) whereby opening reads in respect of smaller supply points are no longer needed by Transco for billing purposes. In circumstances where shippers involved in a portfolio transfer agree that an opening/closing read is not required there is little purpose in retaining the obligation on shippers to provide opening reads.

The purpose of TXU's modification is to better define the circumstances under which Transco should charge for estimated opening reads.

Modification 0468a Transco's alternative

Transco raised an alternative modification proposal number 0468a. Transco supports the intent of TXU's proposal, however, Transco expressed concerns about certain aspects of TXU's modification. For example, Transco suggests that all supply point transfers are acquisitions from an incoming shippers perspective and it would seem inequitable to waive charges under certain circumstances yet continue to provide opening reads. Transco's alternative suggests that shippers can avoid the obligation to provide opening reads provided that the following criteria are fulfilled:

- A minimum threshold of 50,000 smaller supply points are involved in a transfer
- Transco is given one months notice advising that parties involved in the transfer do not require opening reads
- In effect Transco is suspending section M3.8 of its network code which requires that when a shipper submits a supply point confirmation then that shipper must provide a valid meter read for that meter point within seven days of the supply point registration date.

Views of Respondents

4 Shippers responded to Transco's consultation and provided the following views, these are set out, with a discussion and a conclusion below.

1. Scope of proposals

The majority of shippers who responded to Transco's consultation support both modification proposals. However, 0468a appears favourable to shippers on the grounds that it removes the requirement to provide any readings in specific circumstances i.e for reasons of mergers and acquisitions, whereas modification 0468 proposes to suppress the charge for generation of an estimate read, however, the estimate would still be provided.

Both modifications refer to removing the need for Transco to provide estimated opening reads when shippers amalgamate or transfer portfolios for reasons of mergers or acquisitions. We asked Transco whether its alternative modification supports competition amongst shippers. That is, shipper to shipper portfolio transfers due to a supplier deciding to undertake the shipping role or a supplier deciding to transfer the shipping duties to another shipper.

Transco's suggests its modification is not limited as regards the circumstances under which shippers may apply for relief from the requirement to provide opening reads. Shippers concerned are required to warrant to Transco that no party involved in the transfer requires opening reads.

2. Estimate Charges

One shipper supports Transco's alternative proposal because the modification enables shippers to merge customer portfolio's without incurring unnecessary opening read charges. One respondent notes the minimum qualifying criteria of 50,000 supply points.

The final modification report sets out Transco's criteria for ascertaining whether estimated reads are required. The final modification report sets out two qualifying criteria. First, shippers are required to inform Transco (in writing) that in the event of a merger or acquisition opening reads are not required. Second, a minimum threshold of 50,000 smaller supply points are involved in the transfer. In the event that a shipper wishes to transfer less than 50,000 supply points due to an acquisition or merger provided that Transco receives written notification then Transco may at its discretion facilitate the shipper request. We asked Transco why it included a minimum threshold criteria i.e 50,000 sites.

Following consultation Transco amended its criteria terms contained previously within its draft modification report and reduced this minimum threshold value to

10,000 smaller supply points. Transco suggests in its final report that it does not propose to allow discretion to accept lower numbers.

Transco explains that the 10,000 limit was proposed since it would capture the transfers seen to date arising from mergers and acquisitions and would be expected to capture the majority of potential transfers in the future.

The imposition of a 10,000 site tolerance may force shippers involved in portfolio transfers involving less than 10,000 sites to incur estimate charges. However, shippers involved in portfolio transfers involving more than 10,000 sites will not incur estimate charges. Introducing a lower threshold value i.e 1,000 sites does not remove the possibility of discrimination amongst shippers.

Transco is obliged by Standard Condition 9 (c) of its licence to secure effective competition between relevant shippers and relevant suppliers the imposition of a 10,000 minimum criteria which is not subject to further Transco discretion conflicts with Transco's obligations in this respect. That is, Transco should not seek to introduce into its network code arrangements that may raise a barrier to competition amongst relevant shippers and suppliers.

Ofgem's Decision

Taking into account the issues discussed above, Ofgem has decided to reject modifications 0468/0468a.

The preferred solution is for Transco not to impose restrictions on the number of sites eligible for relief from opening reads where both shippers have requested that estimates should not be calculated.

If you wish to discuss any of the issues set out in this letter please do not hesitate to contact Roger Morgan on the above number.

Yours sincerely

Roger Morgan
Manager, Gas Infrastructure