

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

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

Transco is of the opinion that this Modification Proposal should not be implemented for the reasons described 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 provide sufficient return on investment.

Transco believes that re-development of systems and processes whilst the broader objectives, including the requirements of the electricity market, are unclear, 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.

Transco's view is that it is beneficial for Users to obtain an actual Opening Meter Read as close to the transfer date as possible so that gas consumed is accurately allocated to each User at the point of transfer. If the read window were widened there is an increased risk that the commodity and energy charge allocations for each User at the point of transfer may be inaccurate. Transco's view is that the nearer to the transfer date that the read is procured, the more reflective the transfer read is of the actual offtake at the Supply Point for the respective Users.

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.**

Users typically forecast the Opening Meter Read in advance of a transfer of ownership. If the date range were 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 sub-group 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 high if the date range were increased. A further comment was made with respect to 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 in implementing the changes identified within this Modification Proposal 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

Significant changes to Transco's UK-Link system would be required. Transco believes that the proposal could 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.

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 significant concern with regard to the sustainability of the proposed measures. It is possible 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)

Representations are now sought with respect to 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

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. Text

No legal text has been provided as Transco does not support implementation of this Modification Proposal.

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:

Terry Grove
Service Delivery Manager

Support Services

Date: