

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

Version 2.0

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

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 with the electricity market 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 a very significant and constitute an 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 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)

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 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. Text

Transco does not recommend implementation of this Modification Proposal. Legal text has therefore not been 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: