

Draft Modification Report
Responsibilities following the Appointment of a Supplier of Last Resort
Modification Reference Number 0580

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

Under Ofgem's arrangements to appoint a Supplier of Last Resort ("SoLR"), only suppliers with appropriate shipping arrangements are eligible for appointment. It is proposed that all responsibility for energy balancing and transportation would transfer to the shipper contracted to the appointed Supplier with effect from the Date of Appointment as a SoLR. From this date the shipper would be responsible for the Network Code obligations relating to energy balancing and transportation charges in respect of the portfolio of the failed shipper.

In order to allow the shipper of the SoLR ("the new shipper") to operate its newly acquired portfolio using UK-Link / AT-Link systems, the failed shipper's account would be made available to the new shipper. This would require a number of data transfer processes and the issue of new system security IDs to permit the new shipper to access information relating to the failed shipper's portfolio. Transco would endeavour to effect the data transfer and issue the IDs to the new shipper during the Day following the Day on which it was notified of the new shipper's appointment and they would be useable from 06:00 on the Day following issue. It is anticipated that this would coincide with the Date of Appointment.

Where Transco is notified of the identity of the new shipper early on the Day prior to the Date of Appointment, Transco would, at its discretion, endeavour to effect the data transfer and issue the IDs for the commencement of the following Day.

This solution would permit one shipper, shipping for one or more suppliers, to manage the portfolio of the failed shipper, although as soon as the new portfolio becomes the responsibility of the new shipper, the affected supply points could transfer between shippers using the supply point transfer process.

Accordingly, Transco would undertake a review of the Energy and Transportation credit arrangements of the new shipper in light of its new portfolio and advise it of any new credit arrangement that need to be put in place within 14 days of Transco becoming aware of the appointment.

2. Transco's Opinion

Transco is of the opinion that this proposal represents a significant improvement to the process currently in place for dealing with the transfer of Network Code obligations and responsibilities relating to affected supply points in the event of a shipper failure. Implementation of the proposal would ensure that as soon as a SoLR has been appointed,

and Transco informed of the identity of new shipper, each of the affected supply points can be made the responsibility of the new shipper promptly, reducing the disruption caused by the failure.

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

Implementation of the proposal would ensure that gas offtaken by consumers forming the portfolio of the failed shipper is correctly allocated and that financial responsibility for energy balancing and transportation services are attributed to the new shipper from the date of appointment of a SoLR with the minimum amount disruption and off-line processing. The rapid and complete transfer of Network Code obligations in a one-off transaction should increase confidence that process is effective and should reduce risk for remaining shippers and Transco alike and, therefore, could be expected to facilitate a more competitive environment for shippers to operate.

**4. The implications for Transco of implementing the Modification Proposal , including
a) implications for the operation of the System:**

There would be no implication for the operation of the system.

b) development and capital cost and operating cost implications:

It is expected that development costs would be incurred but they would be minimal.

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:

No special cost recovery arrangements are envisaged.

d) analysis of the consequences (if any) this proposal would have on price regulation:

Transco does not believe that this proposal would have any effect on price regulation.

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 this proposal would reduce Transco's contractual risk since the proposed solution establishes contractual responsibility for transportation charges promptly on advice of the identity of the new shipper. Under the existing provisions, the transfer of affected supply points by the existing supply point transfer rules to the new shipper could take some time. Although the new shipper would be responsible for all the supply points from the date of appointment, the derivation of invoices would be complex and time consuming, since the process would require two portfolios, (that is, failed Shipper (supply points not transferred) and new shipper (supply points successfully transferred)) to be reconciled with a risk that not all charges would be correctly allocated.

6. The development implications and other implications for computer systems of Transco and related computer systems of Users

The solution described in the proposal requires that information relating to the failed shipper's portfolio is copied to into a new secure partition of the new shipper's UK-Link server. This information would then be accessed by the new shipper using a new ID and password. The new shipper would, in system terms, effectively take on the identity of the failed shipper. Transco's capability to carry out this activity already exists and it is not intended to develop any additional functionality. It is not anticipated that this solution would require shippers to modify their systems.

7. The implications of implementing the Modification Proposal for Users

The ability to promptly attribute Network Code obligations relating to energy balancing to the new shipper should reduce the risk of charges being smeared across the remainder of the community. For remaining shippers, implementation would ensure that there would be minimal financial impact by the failure of another shipper, when compared to the situation that could arise if this proposal was not implemented.

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

Implementation of the proposal would ensure that the appointment of a supplier as the SoLR would be recorded by all parties in the contractual chain as quickly as practicable. This should ensure that invoices for services supplied by the new shipper to the SoLR are correctly targeted and forwarded with minimum disruption.

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

Transco is aware that implementation of the proposal could required it to release information classed as confidential by the Network Code. Consequently, as part of the proposal, Transco requires the failed shipper to be deemed to have consented to this information being passed to another party in order to comply with the requirements of the Utilities Act 2000. Similarly, implementation will require to release personal information relating to some consumers and, to remain compliant with the Data Protection Act 1998, the proposal also contains a provision for deemed consent by the failed shipper to release this information.

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

Advantages

Provisions would be included in the Network Code establishing the process for ensuring the supply points of a failed shipper are quickly transferred to the new shipper, thereby establishing responsibility for Network Code obligations and accountability. Consents incorporated in the proposal permit the forwarding of supply point and portfolio information to the new shipper to minimise risk associated with taking on supply points in bulk.

Disadvantage

The technical solution proposed to support implementation only permits one new shipper (although this shipper could be shipping on behalf of more than one SoLR). However, while this would be the position on the first day following appointment, there would be nothing to prevent affected supply points subsequently transferring between shippers in accordance with normal supply point transfer rules.

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 invited.

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

This modification is not required 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

This modification is not proposed as a result of changes to the methodology established under Standard Condition 4(5).

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

The functionality to implement the technical solution already exists and could be utilised at short notice.

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

This proposal could be implemented very soon after direction by modifying existing procedures. The main UK-Link system does not require modification and, consequently, no implementation delays for Transco IS reasons are anticipated.

16. Recommendation concerning the implementation of the Modification Proposal

Transco recommends that Ofgem direct implementation.

Implementation of this proposal would constitute an amendment to the Network Code.
Accordingly the proposal is subject to the Suspense Clause set out in the attached Annex.

17. Text

SECTION G - RE-NUMBER PARAGRAPH 2.1.7 AS 2.1.14 AND INSERT NEW PARAGRAPHS G2.1.7 TO 2.1.13 AS FOLLOWS

2.1.7 For the purposes of paragraphs 2.1.8, 2.1.9, 2.1.10, 2.1.11, 2.1.12 and 2.1.13:

- (a) where a User has been given a Termination Notice by Transco (under Section V4), all Supply Meter Points in respect of which the Discontinuing User was the Registered User immediately prior to the User Discontinuance Date shall be known as "the Terminated Supply Meter Points";
- (b) a "Supplier of Last Resort" is a supplier whom by virtue of Standard Condition 29 of the Supplier's Licence has been appointed by the Authority to supply gas in accordance with that condition in respect of any or all of the Terminated Supply Meter Points;
- (c) "the Last Resort User" is a User who is the first User, following the appointment of the Supplier(s) of Last Resort, to become the Registered User of all of the Terminated Supply Meter Points;
- (d) "day of issue" is the Day following the day of notification;
- (e) "day of notification" is the Day on which Transco receives written notice from the Authority of the appointment and identity of the Last Resort User;
- (f) "TSMP Information" is relevant information (including, but not limited to, Protected Information) relating to the Terminated Supply Meter Points to which the Discontinuing User would have had access through UK Link, immediately prior to the User Discontinuance Date.

2.1.8 Where Transco has given a Termination Notice (under Section V4) to a User and the Authority subsequently appoints a Supplier of Last Resort in respect of a Terminated Supply Meter Point, then notwithstanding any other provision of Code, the Last Resort User shall become the Registered User of the Terminated Supply Meter Points, thereby accepting the benefit of the rights and the burden of obligations under Code, the Framework Agreement and any relevant Ancillary Agreement, in respect of the Terminated Supply Meter Points (including without limitation the payment of Transportation Charges and Energy Balancing Charges in respect thereof) with effect from and including the date of the appointment of the Supplier of Last Resort.

2.1.9 To assist the Last Resort User in exercising its rights and discharging its obligations in respect of the Terminated Supply Meter Points Transco shall use reasonable endeavours, subject to paragraphs 2.1.11, 2.1.12 and 2.1.13, to provide to the Last Resort User on the day of issue a copy of the TSMP Information which can be accessed by the Last Resort User through UK Link.

- 2.1.10 (a) Transco shall undertake a review of the Last Resort User's Code Credit Limit and Secured Credit Limit as soon as reasonably practicable following the day of notification, and shall advise the Last Resort User, as soon as reasonably practicable thereafter but in any event not later than 3 Days after the day of notification, of any further security that will be required to be provided by the Last Resort User in accordance with paragraph 2.1.10(b);
- (b) in the event that following the review referred to in paragraph 2.1.10(a) Transco notifies the Last Resort User that additional security is required, then the Last Resort User shall be obliged to provide the requisite security in accordance with the Code Credit Rules or Energy Balancing Credit Rules (as appropriate) in favour of Transco within 14 Days of the day of notification and upon receipt of that security Transco shall revise the Last Resort

User's Code Credit Limit and/or Secured Credit Limit (as appropriate) with effect from 14 Days after the day of notification;

- (c) in the event that security is required to be provided by the Last Resort User pursuant to paragraph 2.1.10(a) but the Last Resort User fails to provide the security in accordance with paragraph 2.1.10(b), then the Code Credit Limit and/or Secured Credit Limit (as appropriate) shall not be revised pursuant to this paragraph 2.1.10 and Transco shall be entitled to exercise those rights and remedies available to it pursuant to V3.3 or the Supplement, as appropriate.

2.1.11 By virtue of this paragraph 2.1.11 the Discontinuing User hereby is deemed to have given its written consent for the purposes of both paragraph V5.5.2(a) and Section 105 of the Utilities Act 2000 (as amended from time to time) to Transco to disclose to the Last Resort User the TSMP Information pursuant to paragraph 2.1.9 above.

2.1.12 It is acknowledged that the TSMP Information contains information which has been provided to Transco by the Discontinuing User and accordingly the Last Resort User hereby acknowledges and agrees that:

- (a) the TSMP Information disclosed to it pursuant to paragraph 2.1.9 above shall not have been independently verified;
- (b) it shall be solely responsible for making its own judgement and decision on the TSMP Information disclosed to it;
- (c) neither Transco, nor any of its employees, agents, consultants, advisers or directors, accept responsibility for, or make any representation or warranty (express or implied) regarding, the accuracy or completeness of the content of the TSMP Information; and
- (d) Transco shall have no liability to the Last Resort User, in respect of any of the contents of the TSMP Information.

2.1.13 For the purposes only of enabling Transco to comply with the provisions of paragraph 2.1.9, the Last Resort User shall execute all such documents, deeds and assignments and perform such acts as Transco may reasonably require, including, without limitation, executing any relevant documents, deeds and assignments, or perform such acts, necessary to ensure compliance with the provisions of the Data Protection Act 1998 (as may be amended from time to time).

SECTION V - AMEND PARAGRAPH 3.2.4 AND INSERT NEW PARAGRAPH 3.2.4(c) AS FOLLOWS:

- 3.2.4 (a) A User's Code Credit Limit may from time to time be reviewed and revised, in accordance with the Code Credit Rules, save where either paragraph 3.2.4(b) or 3.2.4(c) applies, on notice of not less than 30 Days (or any lesser period agreed by the User) to the User:
- (i) at intervals of approximately 12 months;
 - (ii) at the User's request (but subject to paragraph 3.2.7);
 - (iii) where any published credit rating of the User or any person providing surety for the User is revised downwards;
 - (iv) where (but without prejudice to any requirement of the Code Credit Rules) any instrument of surety or security expires or is determined;

- (v) at Transco's request where at any time Transco has reasonable grounds to believe that the effect of the review will be to reduce the User's Code Credit Limit.
- (b) Where any published credit rating of the User or any person providing surety for the User is revised downwards to the extent that the said credit rating following such revision is less than the minimum prescribed credit rating as set out in the Code Credit Rules, a User's Code Credit Limit may be immediately reviewed and revised by Transco in accordance with the Code Credit Rules, on notice to the User.
- (c) Where a Supplier of Last Resort (as defined in paragraph G2.1.7(b)) has been appointed and paragraph G2.1.8 applies, a Last Resort User's Code Credit Limit may be reviewed and revised by Transco in accordance with paragraph G2.1.10.

THE SUPPLEMENT - AMEND PARAGRAPH 2.2.6 AND INSERT NEW PARAGRAPH 2.2.6(c) AS FOLLOWS:

- 2.2.6 (a) A User's Secured Credit Limit may also be revised, in accordance with the Energy Balancing Credit Rules, save where either paragraph 2.2.6(b) or 2.2.6(c) applies, on notice of not less than 30 Days (or any lesser period agreed by the User) to the User:
- (i) at intervals of approximately 12 months;
 - (ii) where any published credit rating of the User or any guarantor is revised downwards;
 - (iii) where (but without prejudice to any requirement of the Energy Balancing Credit Rules) any Guarantee or instrument of Security expires or is determined;
 - (iv) where at any time Transco has reasonable grounds to believe that the effect of the review will be to reduce the User's Secured Credit Limit.

provided that nothing in this Supplement shall require Transco to undertake a review under paragraph 2.2.6(ii) or 2.2.6(iii).

- (b) Where any published credit rating of the User or any guarantor providing security for the User is revised downwards to the extent that the said credit rating following such revision is less than the minimum prescribed credit rating as set out in the Energy Balancing Credit Rules, a User's Secured Credit Limit may be immediately reviewed and revised by Transco in accordance with the Energy Balancing Credit Rules, on notice to the User.
- (c) Where a Supplier of Last Resort (as defined in paragraph G2.1.7(b)) has been appointed and paragraph G2.1.8 applies, a Last Resort User's Secured Credit Limit may be reviewed and revised by Transco in accordance with paragraph G2.1.10.

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: