

Draft Modification Report
Modification Reference Number 0227

This draft Modification Report is made pursuant to Rule 8.12 (a) of the Modification Rules and follows the format required under Rule 8.12.4.

1. The Modification Proposal:

Modification Proposal 0150 'Objection to Domestic Confirmation by Confirming Shipper' was raised by Beacon Gas on 17 May 1997, proposing a facility whereby Suppliers could object to their own Supply Point confirmation provided agreement has been reached with the End Customer to do so.

The reason for the proposal was that experience within the domestic market had shown that a number of customers, for a variety of reasons, signed contracts with more than one Supplier or having signed one or more contracts, changed their mind and decided to stay with their original Supplier.

The July 1997 Modification Panel referred the proposal to Network Code Review Group 0155 'Review of SPA Timescales'.

The Review Group acknowledged that utilising the objection process to facilitate prevention of a Supply Point transfer in the above circumstances did not always prevent End Customers transferring Suppliers against their wishes.

Following a detailed analysis of the issues, Network Code Review Group 0155 'Review of SPA Timescales' supported the principals of Modification Proposal 0150, but recommended the raising of this Modification Proposal to introduce a cancel confirmation facility for any domestic confirmation up to the end of D-8, to the Network Code. This was considered to be a more effective way of meeting the original objectives. The provision of the facility will involve the development and implementation of new functionality to the UK-Link Supply Point Administration system (SPA).

In order to mitigate any threat of 'gaming' occurring, Review Group 0155 in addition determined that all cancelled confirmations should be periodically reported to all Shippers and to Ofgas. A report will be produced on a monthly basis detailing the identity of Shippers cancelling confirmations on a ranked basis. The report will be submitted to Ofgas and all Shippers.

A further security measure in the event of cancellation will be the notification to the incumbent shipper of retained responsibility. This will include a cancellation reason code and identification of the confirming/cancelling Shipper.

2. **Transco's opinion:**

Transco are supportive of the objectives of the modification subject to the facility being adequately policed against the possibility of abuse.

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

The proposed modification simplifies the process of correcting erroneous domestic confirmations made as part of the Supply Point transfer process to ensure that ultimately, the End Customers preferred Supplier/Shipper takes ownership of the Supply Point.

The modification facilitates the implementation of competition within the domestic market.

4. **The implications for Transco of implementing the Modification Proposal, including:**

a) **implications for the operation of the System and any BG Storage Facility:**

None identified.

b) **development and capital cost and operating cost implications:**

Transco will incur costs associated with enhancing the functionality of the 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:**

The costs to Transco will be treated as ordinary business costs, being dealt with via the Formula. An allowance has been made within Transco's cost base for developments associated with the implementation of domestic competition.

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

The possibility of charging for cancelled confirmations has been raised and will be considered by a future meeting of the SPA/Metering workstream.

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:**

As with all systems implementation initiatives, some risk will apply with regard to deliverability of the changes although these are mitigated by the application of an extensive development and testing programme by Transco.

6. **The development implications and other implications for computer systems of Transco and related computer systems of Relevant Shippers:**

The modification requires extensive changes to the functionality of Transco's UK-Link Supply Point Administration system. The revised file formats supporting this change were issued to Shippers on 26 March 1998. Shippers will need to modify their internal systems.

7. **The implications of implementing the Modification Proposal for Relevant Shippers:**

Relevant Shippers will need to implement internal procedures and processes to support the new facility.

8. **The implications of implementing the Modification Proposal for terminal operators, suppliers, producers and, any Non-Network Code Party:**

The Modification reduces the possibility of erroneous transfers occurring and enables the contracting Shipper/Supplier to establish ownership of the Supply Point more quickly where that Supply Point has been erroneously confirmed by another Shipper.

9. **Consequences on the legislative and regulatory obligations and contractual relationships of Transco and each Relevant Shipper and Non-Network Code Party of implementing the Modification Proposal:**

There may be circumstances where abuse of the facility ('gaming') has been identified, either by Relevant Shippers or by Ofgas (See below). A letter referring to the Ofgas's powers in respect of taking appropriate action is attached to this draft Modification Report.

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

Advantages

The Modification reduces the possibility of erroneous Supply Point transfers occurring by providing a solution by which a confirmation made in error can be terminated prior to the transfer taking place.

The process is additionally simplified by which an End Customers preferred Supplier, via their Shipper may confirm and take ownership of a Supply Point where that site has been previously confirmed in error by another Shipper.

Disadvantages

The incentive of making confirmations 'right first time' may be compromised on the basis that the transaction may be easily undone.

There is a risk that the cancel confirmation facility may be used for 'gaming', ie that an unscrupulous party may make multiple confirmations without a contract being in place thereby 'locking' out other Shippers from submitting bone fide confirmations. The abusing Shipper could then use the opportunity to target a particular area to secure their own contracts. Where they failed to achieve this, the relevant confirmations would be cancelled.

The Development Workgroup have identified the following measures to mitigate this risk:

Statistics of cancelled confirmations will be periodically reported to all Shippers and to Ofgas. A report will be produced on a monthly basis detailing the identity of Shippers cancelling confirmations on a ranked basis. The report will be submitted to Ofgas and all Shippers.

A further security measure in the event of cancellation will be the notification to the incumbent shipper of retained responsibility, ie; a file will be sent to the owning Shipper that a confirmation has been cancelled. This will include a cancellation reason code and identification of the confirming/cancelling shipper.

11. **Summary of the Representations (to the extent that the import of those representations are not reflected elsewhere in the Modification Report):**

Not applicable.

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

Not applicable.

13. **The extent to which the implementation is required having regard to any proposed change in the methodology established under Standard Condition 3(5) of the statement; furnished by Transco under Standard Condition 3(1) of the Licence:**

Not applicable.

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

The introduction of new systems functionality to Transco's UK-Link system.
(UK-Link Change Request 2626 - planned completion 19 July 1998).

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

This Modification should be implemented with effect from 19 July 1998 to coincide the delivery of the supporting UK-Link functionality.

16. Recommendation concerning the implementation of the Modification Proposal:

The Development Work Group convened under the auspices of the SPA/Metering Workstream recommend that Modification 0227 is implemented after the requisite enhancements to Transco's UK-Link system have been made.

17. Text provided pursuant to Rule 8.14:

Principal Document Section G - Paragraph 2.6 and 2.8

New 2.6.4 to read:

- "2.6.4 The Proposing User may in respect of a Smaller Supply Point cancel its Supply Point Confirmation in accordance with paragraph 2.8.1(c), where
- a) a Consumer has cancelled the contract, or contracts, for the Supply to the Consumer of the gas offtaken by such User from the System at the Proposed Supply Point, or where the Proposing User will not be the Supplier, the Supplier has informed the Proposing User that a cancellation of such contract or contracts has occurred, or
 - b) the Proposing User has submitted a Supply Point Confirmation which is made in error."

New 2.8.1 (c) to read

- "2.8.1 (c) the Proposing User may, subject to paragraph 2.8.9 (in the case of a Smaller Supply Point) up to but not after the 8th Business Day before the Proposed Supply Point Registration Date (the Objection Deadline) submit to Transco a cancellation ("**Supply Point Confirmation Cancellation**") in respect of Such Supply Point Confirmation."

New 2.8.9 to read

"2.8.9 the Supply Point Confirmation Cancellation may not be submitted nor (if purportedly submitted) shall be effective by a Proposing User after the Objection Deadline."

Amend to Paragraph 2.8.6 as follows

"2.8.6 Where a Supply Point Objection is made and is not withdrawn in accordance with paragraph 2.8.5, or where a Supply Point Confirmation Cancellation has been submitted in accordance with paragraph 2.8.1(c) the Supply Point Confirmation shall lapse and be of no effect, and Transco will so inform each Existing Registered User accordingly. Transco will provide to each Existing Registered User of each Existing Supply Point in respect of which the Supply Point Confirmation Cancellation has been submitted, the identity of the Proposing User who has submitted such Supply Point Confirmation Cancellation"

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

Signed for and on behalf of Transco.

Signature:


John Lockett
Manager, Network Code

Date: 20/5/98