Modification Report
Extension to Invoice Communication Methods in the event of User Intention to undertake Voluntary Discontinuance
Modification Reference Number 0688

Version 1.0

This Modification Report is made pursuant to Rule 8.9 of the Modification Rules and follows the format required under Rule 8.9.3.

1. The Modification Proposal

To modify the Network Code to allow Transco to issue invoices by 'Conventional Notice' subject to the satisfaction of certain conditions relating to User Voluntary Discontinuance. Though recognising the benefits to a discontinuing User, Transco believes the use of 'Conventional Notice' for these purposes needs to be conditional on the following criteria (to be reflected within the UK Link Manual):

- A 'discontinuance notice' has been submitted in accordance with Section V4.2.1
- The User is not the Registered User in respect of any Supply Point and is not party to any Shared Supply Meter Notification in accordance with Section V4.2.2(b).
- The User has ceased trading on the OCM.
- A minimum period of 3 months has elapsed since the end of the month during which the latter of condition 2 and 3 is satisfied.
- The User has undertaken that it will not enter into any further Code Communications, other than those associated with the receipt and payment of Transco invoices.
- Transco anticipates issuing a minimal number of further invoices to the discontinuing User.
- The User has requested Transco collection of Information Exchange equipment issued to the User upon accession to Network Code.
- Conventional Notice to be utilised with the mutual agreement of both Transco and the User.

2. Transco's Opinion

It is Transco's opinion that this Modification Proposal should be implemented.

Principal Document Section S1.2.1 of Network Code identifies that for each Billing Period, separate Invoice Documents will be submitted to each User in respect of amounts payable. Subsequently, S1.3.4 requires that Invoice Documents are submitted to Users by UK Link Communication in the form and manner described in the UK Link Manual. Appendix 5 of the UK Link Overview Manual requires that Invoice Documents will be transmitted by UK Link Batch Transfer communication, the receipt of which requires the utilisation of Information Exchange (IX) equipment issued to Users upon accession to Network Code. The only exceptions to this requirement are the issue of supporting data in respect of an Ad-hoc invoice which may be submitted on paper, or in the event of a Code Contingency under Section U6 of Network Code. This applies where an event or circumstance impacts UK Link affecting

Transco or a User's ability to give or receive UK Link communications, or to generate information to be contained within a Code Communication.

It has been identified within the Supply Point and Billing Workstream that the above requirements may present certain difficulties for a User wishing to cease to be a User under the Voluntary Discontinuance provisions detailed within section V4.2 of Network Code. In order to meet payment obligations within this section, there is a consequential requirement to retain equipment necessary to receive UK Link Communications including the receipt of Invoice Documents. This may present specific difficulties in the latter stages of the 'event-driven' close out period where such UK Link communications are infrequent and a User's commercial activities have ceased.

This Proposal advocates modification of Network Code to permit Transco to issue Invoice Documents via 'Conventional Notice' subject to the satisfaction of certain conditions relating to User Voluntary Discontinuance. Conventional Notice, as defined in Section V, incorporates hand delivery of a letter, notice issued by post, or notice issued via facsimile transmission. Following Supply Point and Billing Workstream discussion of the conditions detailed within the original Modification Proposal, amendment to such was agreed. Accordingly, the amended conditions described within this Modification Proposal are those on the basis of which the Supply Point and Billing Workstream provided its support for this Proposal to 'proceed to consultation'.

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

The measure described in this Proposal is consistent with Transco's GT Licence "code relevant objective" of facilitating the efficient and economic operation by the licensee of its pipe-line system. The ability to cost effectively, i.e. efficiently, leave the market would also be recognised by potential new entrants and therefore promote competition within the gas market.

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

a) implications for the operation of the System:

No implications for the operation of the system have been identified.

b) development and capital cost and operating cost implications:

No further development costs would be required to amend Transco's UK-Link system. A small operating cost would be incurred by Transco associated with the issue of Invoice Documents by Conventional Notice where permissible.

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:

As stated above, costs associated with implementation are not significant. Consequently, Transco accepts that such costs would be part of its OPEX. As such, no special provision for cost recovery is required.

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

Implementation of this Modification Proposal would not effect significantly the level of contractual risk borne by Transco.

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

Implementation would not require the modification of either Transco's or Users' computer systems and consequently no development costs are anticipated.

7. The implications of implementing the Modification Proposal for Users

A User in the process of Voluntary Discontinuance (subject to the satisfaction of the criteria detailed within this Proposal) would be able to minimise its exposure to the costs of maintaining its access to UK-Link IX communication equipment. The costs of appointing a UK-Link User Agent if so required may also be avoided.

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

No such implications have been identified.

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:

- minimises a User's exposure to costs associated with maintaining access to IX equipment.

- minimises financial risk of all parties by facilitating a discontinuing User's 'orderly exit' from gas shipping.
- Transco would be able to recover IX equipment in a timely manner for use at an alternative location for a greater quantity of transactions (more efficient use of asset).

Disadvantages:

- a level of 'manual' management of the communications would be required for both the User concerned and Transco, though the volume and frequency of such communications is envisaged to be low.

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

Six representations were received with respect to this Modification Proposal, all of which were supportive of implementation.

npower expressed its support commenting that '*provided there is no financial risk to other users, then the use of "Conventional Notice" methods of communicating invoices rather than via the IX makes commercial sense.*' It further stated that the Proposal *'provides a less protracted route for Shippers when withdrawing from the market'* and that it *'reduces the risk of the equipment becoming "stranded assets"'.* npower questioned the validity of the title of the Proposal, stating *'we are confused by a difference between the title of the mod, which describes the "intention to undertake voluntary discontinuance" and the first condition of the proposal that a "discontinuance notice has been submitted". We wonder if the title of the mod needs reviewing.*' Transco's response is that it believes the Proposal title is accurate. The 'Discontinuance Notice' issued to Transco by a User is an application to cease to be a User (a 'statement of intent'), the actual discontinuance not becoming effective until the conditions contained within section V4.2.2 of Network Code are satisfied. Therefore, if implemented, the discontinuance conditions established by this proposal would provide additional structure to the discontinuance process subsequent to formal notice to Transco of the User's intention to cease to be a User.

EdF Energy commented that '*the current arrangements may present certain difficulties for a User wishing to cease to be a User'* and further reflected that '*this modification has been discussed in detail in the Supply Point and Billing workstream and the proposal was raised by Transco due to Shipper concerns*.'

Scottish and Southern Energy (SSE) viewed the Proposal as '*a pragmatic solution that would enable parties to exit the market in an efficient way*' further suggesting that *'existing code provisions are too onerous when a User has ceased commercial activities and intends to return its UK Link equipment'*.

British Gas Trading (BGT) stated that it is '*generally supportive of the implementation of this Modification Proposal*'. That said, BGT commented that '*the seventh bullet point reference to "minimal number of further invoices" is extremely subjective and open to interpretation'* and suggested *'omitting this clause and instead rely upon the other factors to set the limitation of*

this option.' In response, Transco is keen to implement the criteria of the Proposal developed and agreed within the Supply Point and Billing Workstream. Indeed, contained within its representation, SSE commented: '*We are supportive of the criteria that would have to be satisfied before Transco would use a Conventional Notice'.* Transco believes that although the issue of a 'minimal' number of invoices should be a natural consequence of a User meeting the remainder of the criteria within the Proposal, the criteria in question will refer to instances where this is not the case.

BGT suggested additional application of the Proposal commenting that *'We believe that there is also scope for this principle to apply to Terminated Users'.* Transco's response is that such application would be inappropriate given that a terminated User is no longer party to Network Code and as such would not have access to any Information Exchange Equipment. If communication with such a terminated User was required, conventional communication would be the only option in any case.

BGT sought clarification that *'The methods described under "Conventional Notice" will, of course, be governed by statutory and financial obligations determining acceptable formats for collection and related taxation. Any simplification must conform to these standards'.* Transco's response is that the Conventional Notice will be issued in compliance with appropriate standards and statute.

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

Implementation is not required to facilitate such compliance.

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 Proposal is not required to facilitate any such change.

14. Programme of works required as a consequence of implementing the ModificationProposal

Transco would be required to implement relevant Conventional Notice related processes to facilitate issue of Invoice Documents in the relevant circumstances.

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

This Modification Proposal may be implemented with immediate effect.

16. Recommendation concerning the implementation of the Modification Proposal

Transco recommends that this Modification Proposal be implemented.

17. Restrictive Trade Practices Act

If implemented this proposal will constitute an amendment to the Network Code. Accordingly the proposal is subject to the Suspense Clause set out in the attached Annex.

18. Transco's Proposal

This Modification Report contains Transco's proposal to modify the Network Code and Transco now seeks direction from the Gas & Electricity Markets Authority in accordance with this report.

19. Text

Amend Section S paragraph 1.3.4 to read as follows:

Subject to paragraph 1.3.6 and to Section U6, Invoice Documents will be submitted to Users either by UK Link Communication in the form and manner described in the UK Link Manual or by Conventional Notice in the specific circumstances set out in the UK Link Manual, and subject to paragraph 1.3.5…

APPENDIX 1

Modification Proposal 0688
Amendments Required to UK Link Manual
UK Link Overview Manual:
Appendix 5: Code Communications Summary Table

Amend table within row 'NC Ref: S1.2.1 – Submit Invoice Files' as follows:

Amend abbreviation in 'Means' column from "L" to "L/C"

Insert following text in 'Restrictions and Other Information' Column:

"Conventional Means to be utilised in the where the following criteria apply:

1. A Discontinuance Notice has been given by the User in accordance with Section V4.2.1

2. The User is not the Registered User in respect of any Supply Point or CSEP and is not party to any Shared Supply Meter Notification in accordance with Section V4.2.2(b).

3. The User has ceased trading on the OCM.

4. A minimum period of 3 months has elapsed since the end of the month during which the latter of condition 2 and 3 is satisfied.

5. The User has undertaken that it will not enter into any further Code Communications, other than those associated with the receipt and payment of Transco invoices.

6. Transco anticipates issuing a minimal number of further invoices to the discontinuing User.

7. The User has requested Transco collection of Information Exchange equipment issued to the User upon accession to Network Code.

8. Conventional Notice to be utilised with the mutual agreement of both Transco and the User."

Signed for and on behalf of Transco.

Signature:

Peter Rayson
Commercial Manager - Customer Support Services

Date:

Gas and Electricity Markets Authority Response:

In accordance with Condition 9 of the Standard Conditions of the Gas Transporters' Licences dated 21st February 1996 I hereby direct Transco that the above proposal (as contained in Modification Report Reference **0688**, version **1.0** dated **28/06/2004**) be made as a modification to the Network Code.

Signed for and on Behalf of the Gas and Electricity Markets Authority.

Signature:

The Network Code is hereby modified with effect from, in accordance with the proposal as set out in this Modification Report, version **1.0**.

Signature:

Process Manager - Network Code

Transco

Date:

Annex

1. Any provision contained in this Agreement or in any arrangement of which this Agreement forms part by virtue of which The Restrictive Trade Practices Act 1976 ("the RTPA"), had it not been repealed, would apply to this Agreement or such arrangement shall not come into effect:

   (i) if a copy of the Agreement is not provided to the Gas and Electricity Markets Authority ("the Authority") within 28 days of the date on which the Agreement is made; or

   (ii) if, within 28 days of the provision of the copy, the Authority gives notice in writing, to the party providing it, that he does not approve the Agreement because it does not satisfy the criterion specified in paragraphs 1(6) or 2(3) of the Schedule to The Restrictive Trade Practices (Gas Conveyance and Storage) Order 1996 ("the Order") as appropriate

   provided that if the Authority does not so approve the Agreement then Clause 3 shall apply.

2. If the Authority does so approve this Agreement in accordance with the terms of the Order (whether such approval is actual or deemed by effluxion of time) any provision contained in this Agreement or in any arrangement of which this Agreement forms part by virtue of which the RTPA, had it not been repealed, would apply this Agreement or such arrangement shall come into full force and effect on the date of such approval.

3. If the Authority does not approve this Agreement in accordance with the terms of the Order the parties agree to use their best endeavours to discuss with Ofgem any provision (or provisions) contained in this Agreement by virtue of which the RTPA, had it not been repealed, would apply to this Agreement or any arrangement of which this Agreement forms part with a view to modifying such provision (or provisions) as may be necessary to ensure that the Authority would not exercise his right to give notice pursuant to paragraph 1(5)(d)(ii) or 2(2)(b)(ii) of the Order in respect of the Agreement as amended. Such modification having been made, the parties shall provide a copy of the Agreement as modified to the Authority pursuant to Clause 1(i) above for approval in accordance with the terms of the Order.

4. For the purposes of this Clause, "Agreement" includes a variation of or an amendment to an agreement to which any provision of paragraphs 1(1) to (4) in the Schedule to the Order applies.