

0396:

EU Third package: Three week switching



This proposal will outline a solution that will enable suppliers to be compliant with the EU three week switching directive.



The Workgroup recommends that this modification should now proceed to Consultation



High Impact:
Network Owners, Shippers and Suppliers



Medium Impact:
Insert name(s) of impact



Low Impact:
Insert name(s) of impact

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About this document:

The purpose of this report is make a recommendation to the Panel, to be held on XX XXXX 201X, on whether Modification 0396 is sufficiently developed to proceed to consultation and to submit any further recommendations in respect of the definition and assessment of this modification.



3 Any questions?

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Where can I find more information about how the supply point transfer process works

The rules which govern Transfer of ownership processes can be found in UNC section G, from Paragraph 2.5 to 2.11

1 Summary

Is this a Self-Governance Modification

The Modification Panel determined that this is not a self-governance modification.

Why Change?

Article 3(5a) of the Electricity Directive and Article 3(6a) of the Gas Directive requires Member States to ensure that where a customer, while respecting contractual conditions, wishes to change Supplier, the change is effected within three weeks. The detailed measures are described in the DECC Impact Assessment No.DECC0003 dated 14/01/2011¹.

Government has transposed the requirements into Draft Statutory Instrument The Electricity and Gas (Internal Markets) Regulations 2011 which are now laid before Parliament.²

Part 3 of these Regulations will amend the Standard Conditions of a Gas Supply Licence, specifically by adding Standard Condition 14A Customer Transfer; 'Obligation to complete a Supply Transfer within three weeks.' In order to comply a Supplier will need to make arrangements with their Shipper to transfer ownership of the relevant Supply Point within the prescribed timescales.

Existing UNC business rules and industry systems do not facilitate 3 week switching when the 3 week period includes bank holidays.

Solution

Transporter and Shipper systems/ processes need to be changed in order to achieve 3 week switching at any time in the year. The maximum constraint occurs over the Christmas /New Year period which includes four bank holidays (Christmas Day, Boxing Day, New Years Day and the additional January Scottish Bank Holiday) plus three weekends within a 21 calendar day period. This could be achieved by:

- Reducing the Objection Window to 3 business days
- Reducing the Confirmation Window to 5 business days

Relevant Objectives

The Workgroup considers this modification facilitates UNC Relevant Objectives (d)

d) Securing of effective competition:

(i) Between relevant shippers;

(ii) Between relevant suppliers; and/or

(iii) Between DN operators (who have entered into transportation arrangements with other relevant gas transporters) and relevant shippers.

Should Supplier Standard Licence Condition 14 be amended in accordance with the Draft Statutory Instrument, then the Supplier will require their Shipper to complete the transfer of Supply Point ownership within 21 calendar days. Changing Transporter systems and processes will facilitate this by providing a transfer timeline consistent with the proposed additional Supplier Standard License Condition 14a. This facilitates competition between relevant Shippers and Suppliers.

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¹ <https://www.decc.gov.uk/assets/decc/Consultations/eu-third-package/1156-ia-third->

² <http://www.legislation.gov.uk/ukdsi/2011/9780111513965>

Impacts & Costs

The below is based on suggestions put forward by Xoserve

Reduction of the Objection Window

- Impacts across SPA Processes, Metering Processes and Reporting Interfaces
- The Objection Window reduced to 3 business days
- Indicative costs are estimated to be £200k

Reduction of the Confirmation Window

- Possible impacts across SPA Processes, Metering Processes, Invoicing, RGMA Flows, AQ Review and Reporting Interfaces
- The Confirmation Window reduced to 5 business days Indicative costs are estimated to be £500k

Implementation

No specific implementation timescale is proposed, although Shippers wish to see timely implementation in order to deliver compliance with their wider obligations. A 12 month lead time has been suggested by Xoserve for delivery of Transporter system changes.

The case for change

The DECC Impact Assessment No.DECC0003 contains the following extracts that describe government's view of the benefits, which summarises the case for change.

"...There are two sources of benefit from these measures to improve switching. Firstly, there is a direct benefit to consumers who are switched faster than they would have been otherwise..."

"...The second source of benefits which may arise from a quicker switching process are the more intangible benefits associated with improved competition..."

"...Although the impact assessment focuses on the benefits to domestic consumers, we would expect the same benefits to apply to non-domestic consumers as well..."

Recommendations

The Workgroup considers that the modification is sufficiently developed and should now proceed to consultation.

2 Why Change?



Definition of a Larger Supply point

Q. How big is a Larger Supply Point?

A. Annual consumption greater than 73,200kWh (2,500 therms)

Transfer of ownership – existing UNC rules

UNC Section G2 describes the process by which transfer of ownership takes place. The process is known as a Supply Point Confirmation. The minimum time for this process to take effect is 15 business days. This comprises an 8 business day period during which the incumbent Shipper has the opportunity to object to the transfer, followed by a 7 business day Confirmation Window after which the transfer takes place. The 15 business day period translates into a three week, 21 calendar day period excepting where this three week period includes bank holidays. Therefore the existing business rules do not facilitate compliance with the Draft Regulations.

Options have been extensively discussed at UNC Distribution Workstream and Workgroup meetings for revising the UNC business rules together with associated system and process changes to affect 3 week switching. These discussions have been informed by input from Xoserve and the conclusion reached was that the 15 business day window will need to reduce to an 8 business day window to cater for the Christmas/New Year period. Xoserve described the rationale for this in a presentation at the Distribution Workgroup meeting on 24 March 2011³. This would involve a reduction to the Objection Window from 8 to 3 business days and a reduction to the Confirmation Window from 7 to 5 business days.

Larger Supply Points and New Smaller Supply Points

The Supply Point Confirmation process for Larger Supply Points, which may be domestic or non-domestic, and for certain* New Smaller Supply Points incorporates an additional business day at the start of the process to allow for a Supply Point Nomination. The additional business day means that the changed transfer timeline advocated within this Modification Proposal would not meet the three week time frame over the Christmas/New Year period.

**New Smaller Supply Points involving more than one Meter Point*

A Supply Point is described as new when siteworks or other work has been carried out either to establish a Supply Point initially or to change the number of meters comprised within the Supply Point. It is not envisaged that this activity would coincide with a change of ownership.

Larger Supply Points - Domestic

Analysis carried out by Xoserve to inform discussions at the Project Nexus Market Differentiation meeting on 4 August 2009,⁴ showed that, as of August 2009 domestic Larger Supply Points totalled 46,214. This compared to a known domestic Smaller Supply Point total of 13,812,298. The analysis showed that a total of 7,039,029 Supply Points had no code to indicate their market sector. On 27 July 2011 the Authority directed that UNC 0353 'Population of Market Sector Code within the Supply Point Register' be made. UNC 0353 concludes that the default market sector code for Smaller Supply Points should be domestic.

Therefore it could be assumed that the ratio of domestic Larger Supply Points to domestic Smaller Supply Points was 46,214:21,229,848 or 0.22%

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³ <http://www.gasgovernance.co.uk/dist/240311>

⁴ <http://www.gasgovernance.co.uk/nexus/040809>

If it is concluded that switching behaviour amongst domestic Larger Supply Point customers does not significantly differ from that amongst domestic Smaller Supply Point customers then the 8 business day switching timeline prescribed by this Modification Proposal should achieve a 99.78% success rate at the time of maximum constraint i.e. Christmas/New Year.

This does not mean that the Workgroup supports a delayed switch for domestic Smaller Supply Point customers but indicates that an exceptions process could be introduced by Suppliers that could incorporate the nomination process within the 14 day cooling off period for these relatively small numbers of customers. This could involve the use of the Supply Point Enquiry process to clarify the Supply Point type based on the customers declared annual consumption and could take place during the cooling off period.

Larger Supply Points – Non Domestic

The proposed additional supplier Standard License Condition 14a allows for the transfer to take place outside of the 3 week switching period. One such exclusion is where the customer requests that the transfer takes place at a later date. The Workgroup understanding of this clause is that a Supplier can enter into a contract with the customer whereby the customer agrees to a defined start date sometime in the future, or is happy to contract on the basis that a Supplier may require additional time to complete the necessary Supply Point Nomination process. This is the typical way in which industrial & commercial customers contract for their energy. We also believe that the purpose of the EU Directive is not to prohibit customers from the freedom to contract on a basis which suits them. Therefore we do not believe that an additional shrinkage to the suggested 8 business day timeframe is necessary to incorporate the nomination process.

Non-domestic Existing Smaller Supply Points will transfer within the prescribed 8 business day timeframe as they are not part of the Supply Point Nomination process.

Context

To facilitate a Suppliers ability to comply with proposed Supplier Standard License Condition 14a. Relevant Shippers will need to complete a transfer within three weeks.

The issue

Under the current switching framework Shippers will fail to complete 3 week switching when one or more bank holidays occur during the transfer period.

3 Solution

- Reduce the Objection Window to 3 business days
- Reduce the Confirmation Window to 5 business days

4 Relevant Objectives

Implementation is expected to better facilitate the achievement of **Relevant Objective d**

Proposer's view of the benefits against the Code Relevant Objectives

Description of Relevant Objective	Identified impact
a) Efficient and economic operation of the pipe-line system.	None
b) Coordinated, efficient and economic operation of (i) the combined pipe-line system, and/ or (ii) the pipe-line system of one or more other relevant gas transporters.	None
c) Efficient discharge of the licensee's obligations.	None
d) Securing of effective competition: (i) between relevant shippers; (ii) between relevant suppliers; and/or (iii) between DN operators (who have entered into transportation arrangements with other relevant gas transporters) and relevant shippers.	Yes, see below
e) Provision of reasonable economic incentives for relevant suppliers to secure that the domestic customer supply security standards... are satisfied as respects the availability of gas to their domestic customers.	None
f) Promotion of efficiency in the implementation and administration of the Code	None

The Workgroup consider this Proposal facilitates UNC Relevant Objective (d)(ii) Reason given below.

d) Securing of effective competition:

(i) Between relevant shippers;

(ii) Between relevant suppliers; and/or

(iii) Between DN operators (who have entered into transportation arrangements with other relevant gas transporters) and relevant shippers.

Should Supplier Standard Licence Condition 14a be amended in accordance with the Draft Statutory Instrument, then the Supplier will require their Shipper to complete the transfer of Supply Point ownership within 21 calendar days. Changing Transporter systems and processes will facilitate this by providing a transfer timeline consistent with the proposed amended Supplier Standard License Condition 14a

The DECC Impact Assessment No.DECC0003 contains the following extracts that describe government's view of the benefits, which summarises the case for change.

"...There are two sources of benefit from these measures to improve switching. Firstly, there is a direct benefit to consumers who are switched faster than they would have been otherwise..."

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"...The second source of benefits which may arise from a quicker switching process are the more intangible benefits associated with improved competition..."

"...Although the impact assessment focuses on the benefits to domestic consumers, we would expect the same benefits to apply to non-domestic consumers as well..."

Customer service issues may arise in light of the lack of time to deal with issues that may arise as a result of a proposed transfer. There may be objections that are properly raised which could be resolved under the existing timelines but not under those proposed. This would not be consistent with facilitating effective competition.

5 Impacts and Costs

Consideration of Wider Industry Impacts

This Proposal will impact both Shippers and Network Owners. Network owners will bear the cost of the change to the Xoserve systems that process the transfer. Shippers and Suppliers will incur costs associated with internal system and process changes

Costs

Indicative industry costs – User Pays	
Classification of the proposal as User Pays or not and justification for classification	
This has not been proposed as a User Pays Modification since no new User Pays service is envisaged, nor any change to an existing User Pays service.	
Identification of Users, proposed split of the recovery between Gas Transporters and Users for User Pays costs and justification	
Not applicable.	
Proposed charge(s) for application of Users Pays charges to Shippers	
Not applicable.	
Proposed charge for inclusion in ACS – to be completed upon receipt of cost estimate from Xoserve	
Not applicable.	

Impacts

Impact on Transporters' Systems and Process	
Transporters' System/Process	Potential impact
UK Link	• Significant
Operational Processes	• Significant
User Pays implications	• None

Impact on Users	
Area of Users' business	Potential impact
Administrative and operational	• Significant
Development, capital and operating costs	• Low
Contractual risks	• None

Impact on Users	
Legislative, regulatory and contractual obligations and relationships	<ul style="list-style-type: none"> • Significant

Impact on Transporters	
Area of Transporters' business	Potential impact
System operation	<ul style="list-style-type: none"> • None
Development, capital and operating costs	<ul style="list-style-type: none"> • Xoserve believe implementation costs would be of the order of £700k
Recovery of costs	<ul style="list-style-type: none"> • The Workgroup would support costs being recovered through a one-off pass through mechanism, reflecting the revised obligations
Price regulation	<ul style="list-style-type: none"> • None
Contractual risks	<ul style="list-style-type: none"> • Low
Legislative, regulatory and contractual obligations and relationships	<ul style="list-style-type: none"> • Significant
Standards of service	<ul style="list-style-type: none"> • Low

Impact on Code Administration	
Area of Code Administration	Potential impact
Modification Rules	<ul style="list-style-type: none"> • Not applicable
UNC Committees	<ul style="list-style-type: none"> • Not applicable
General administration	<ul style="list-style-type: none"> • Not applicable

Impact on Code	
Code section	Potential impact
See suggested legal text	<ul style="list-style-type: none"> • High

Impact on UNC Related Documents and Other Referenced Documents	
Related Document	Potential impact
Network Entry Agreement (TPD I1.3)	<ul style="list-style-type: none"> • None
Network Exit Agreement (Including Connected System Exit Points) (TPD J1.5.4)	<ul style="list-style-type: none"> • None

Impact on UNC Related Documents and Other Referenced Documents	
Storage Connection Agreement (TPD R1.3.1)	• None
UK Link Manual (TPD U1.4)	• None
Network Code Operations Reporting Manual (TPD V12)	• None
Network Code Validation Rules (TPD V12)	• None
ECQ Methodology (TPD V12)	• None
Measurement Error Notification Guidelines (TPD V12)	• None
Energy Balancing Credit Rules (TPD X2.1)	• None
Uniform Network Code Standards of Service (Various)	• None

Impact on Core Industry Documents and other documents	
Document	Potential impact
Safety Case or other document under Gas Safety (Management) Regulations	• None
Gas Transporter Licence	• None

Other Impacts	
Item impacted	Potential impact
Security of Supply	• None
Operation of the Total System	• None
Industry fragmentation	• None
Terminal operators, consumers, connected system operators, suppliers, producers and other non code parties	• None

6 Implementation

No specific implementation timescale is proposed, although Shippers wish to see timely implementation in order to deliver compliance with their wider obligations. A 12 month lead time has been suggested by Xoserve for delivery of Transporter system changes.

7 The Case for Change

In addition to that identified the above, the Workgroup has identified the following:

Advantages

On the assumption that customers switch to take advantage of a better product offering, this modification will deliver the benefits quicker than at present.

This is the case for domestic customers and non-domestic customers who have no existing contractual commitment in terms of start/end date, for example customers on deemed contracts.

For non-domestic customers on fixed term contracts the reduced transfer timeline will allow additional time for decision making which may prove particularly beneficial at times of market price volatility. This is more likely to be the case for large non-domestic customers for whom energy is a substantial part of their costs.

Disadvantages

A reduced Objection Window will reduce the opportunity for Suppliers to interact with customers and/or their representative in order to resolve possible contractual disputes. This is likely to be the case for large non-domestic customers with more complex supply contract terms.

There may be wide ranging system and process issues for Transporters, Shippers and Suppliers which have not been identified, for example the effect on RGMA flows created by a reduced Confirmation Window.

The investment in new systems may be short lived if overtaken by other developments.

Some parties have indicated that they believe that a reduced Objection Window may lead to an increase in erroneous transfers.

8 Legal Text

To be provided by National Grid Distribution.

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9 Recommendation

The Workgroup invites the Panel to:

- AGREE that Modification 0396 be submitted for consultation.