

CODE MODIFICATION PROPOSAL No 0255
Publication of Objection Rates for LSP Supply Points
Version 2.0

Date: 18/09/2009

Proposed Implementation Date:

Urgency: Non Urgent

1 The Modification Proposal

a) Nature and Purpose of this Proposal

Summary

The objection process is a mechanism that is detailed within the UNC to allow Shippers to prevent an LSP customer from switching supplier as a result of an erroneous transfer, or in breach of their contract. This process saves Shippers from having to re-nominate a site to return it to the correct portfolio. Ofgem has expressed concern that the objections process is used by some Shippers to retain customers, as opposed to correcting incorrect transfers, and in part this is owing to the lack of visibility surrounding objections. We propose to publish objection rates to encourage appropriate practice.

Licence Conditions

SLC 14.2 of the Supplier's licence allows Suppliers to object to any transfer of a non-domestic customer from its portfolio to that of a competitor only if:

- the contract with that customer allows for the current Supplier to prevent the Proposed Supplier Transfer. Supplier contracts generally prevent transfer if the Customer has not paid any outstanding invoice or a fixed term contract has not yet expired ; or
- the Supplier that initiated the Proposed Supplier Transfer has agreed with the current Supplier that the transfer was initiated in error.

Section 14.3 of the Supplier's licence gives a requirement to inform the customer that their transfer has been blocked, why this has been done and possible remedies.

UNC provisions

The Supply Point Transfer process is currently operated by xoserve, under the auspices of the UNC, and so this is where the objection process operates in practice. The relevant section that deals with such a process is Section G of the UNC, specifically Section G2.8.1(b), which allows an Existing Supplier to lodge a Supply Point Objection within seven business

days after the new Supplier has submitted a Supply Point Confirmation.

If an Objection is lodged, then the Transporter will not be active in determining the merits of the objection, but it will be up to the Suppliers to resolve the issue.

Concerns with current process

This regime was clearly intended to help prevent incorrect transfers occurring, so avoiding the need for Suppliers to re-nominate a site to correct the error. At present the current regime is open to abuse. There is currently no requirement in either the licence or the UNC for a Supplier to justify why an objection has been raised to either the Transporter or the new prospective Supplier, even if the objection is clearly spurious. There is therefore no constraint placed upon this process to prevent abuse by Suppliers, and there is a considerable body of anecdotal evidence that certain Suppliers object to a Supply Point Transfer to gain time to renegotiate a lower contract with the customer prevent their transfer and possibly lock them into a further fixed term contract. At the very least raising spurious objections create additional work for Suppliers in ensuring their customer transfers on time.

In addition to this lack of oversight, there is no public reporting on the number or frequency of objections that are raised by a Supplier. In the unlikely event of a Supplier being challenged on excessive use of the process for anti-competitive practices, there is no framework in penalising the Supplier, outside of general competition law or licence enforcement. Both of these remedies are complex and expensive, and seem to be a disproportionate response for breaching a UNC provision.

It is the regulator's belief that the practice of objecting to most transfers is detrimental to the customer as it is helping to restrict the ability of that customer to switch to a lower price contract and that the objections process is used (in conjunction with automatic contract rollover) as a customer retention tool. At the very least it creates administrative inconvenience to the customer, and delays them moving to their preferred Supplier.

Proposed Solution

To address Ofgem's concerns it is proposed that greater visibility is given to the current objections regime.

To this end, xoserve will publish a quarterly report on the joint office website detailing by Shipper licence the % of LSP Supply Point Transfer Objections which are successful (i:e not withdrawn) compared to the total number of Supply Point Transfer Objections raised by that Shipper. To ensure maximum visibility this list would not be anonymous. A threshold of 10 objections would trigger inclusion on the list to ensure that low numbers of objections by Small Shippers do not result in a potentially high % result, distorting the publication of the

information. It is our understanding that xoserve is currently looking at the reports it can provide as part of its Information Provision project, and that if this report is included, the additional costs would be small.

Benefits of process

A key requirement of a fully functioning market is information transparency. This modification will provide that transparency to the industry on how frequently that the objections process is used. We would expect that all Shippers would use this error correction tool to object to some transfers on a regular basis but not to object to all, or the vast majority, of transfers. This report will highlight any such abuse of the process, and so will help deter such anti-competitive activity.

b) Justification for Urgency and recommendation on the procedure and timetable to be followed (if applicable)

Urgency is not requested.

c) Recommendation on whether this Proposal should proceed to the review procedures, the Development Phase, the Consultation Phase or be referred to a Workstream for discussion.

This modification is sufficiently developed to go straight to consultation.

2 User Pays

a) Classification of the Proposal as User Pays or not and justification for classification

As alluded to above, it is our understanding that the costs involved are minimal if this change is incorporated into the xoserve Information Provision project, so we do not believe that it is cost effective to recover costs under the User Pays mechanism.

b) Identification of Users, proposed split of the recovery between Gas Transporters and Users for User Pays costs and justification

We do not feel that this modification requires a User Pays charge.

c) Proposed charge(s) for application of Users Pays charges to Shippers

We do not feel that this modification requires a User Pays charge.

d) Proposed charge for inclusion in ACS – to be completed upon receipt of cost estimate from xoserve

We do not feel that this modification requires a User Pays charge.

3 Extent to which implementation of this Modification Proposal would better facilitate the achievement (for the purposes of each Transporter's Licence) of the Relevant Objectives

Standard Special Condition A11.1 (a): the efficient and economic operation of the pipe-line system to which this licence relates;

We do not believe this modification will facilitate this objective.

Standard Special Condition A11.1 (b): so far as is consistent with subparagraph (a), the 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;

We do not believe this modification will facilitate this objective.

Standard Special Condition A11.1 (c): so far as is consistent with subparagraphs (a) and (b), the efficient discharge of the licensee's obligations under this licence;

We do not believe this modification will facilitate this objective.

Standard Special Condition A11.1 (d): so far as is consistent with subparagraphs (a) to (c) the 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;

Publication of this information will help encourage use of the objections process only as a mechanism to correct erroneous transfers or when the contract with the customer provides for it, and not as a customer retention tool. This will encourage appropriate behaviour, so improving competition by reducing the current level of unnecessary administration experienced by Shippers in handling spurious objections.

Standard Special Condition A11.1 (e): so far as is consistent with subparagraphs (a) to (d), the 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;

We do not believe this modification will facilitate this objective.

Standard Special Condition A11.1 (f): so far as is consistent with subparagraphs (a) to (e), the promotion of efficiency in the implementation and administration of the network code and/or the uniform network code;

This modification will encourage adherence to the provisions of the UNC and reduce the administrative burden on Shippers, so furthering this objective.

4 The implications of implementing this Modification Proposal on security of supply, operation of the Total System and industry fragmentation

No implications identified.

5 The implications for Transporters and each Transporter of implementing this Modification Proposal, including:

a) The implications for operation of the System:

No implications identified

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

No implications identified

c) Whether it is appropriate to recover all or any of the costs and, if so, a proposal for the most appropriate way for these costs to be recovered:

As the costs incurred in this process are minimal, we do not feel that it is economic to recover the costs that are incurred by the transporter.

d) The consequence (if any) on the level of contractual risk of each Transporter under the Uniform Network Code of the Individual Network Codes proposed to be modified by this Modification Proposal

No implications identified

6 The extent to which the implementation is required to enable each Transporter to facilitate compliance with a safety notice from the Health and Safety Executive pursuant to Standard Condition A11 (14) (Transporters Only)

Implementation not required for this purpose.

7 The development implications and other implications for the UK Link System of the Transporter, related computer systems of each Transporter and related computer systems of Users

No implications identified.

8 The implications for Users of implementing the Modification Proposal, including:

a) The administrative and operational implications (including impact upon manual processes and procedures)

This proposal is likely to reduce the number of spurious objections that are raised by Shippers, reducing the administration undertaken overall by Shippers in handling customer transfers.

b) The development and capital cost and operating cost implications

There is likely to be a reduction in operating costs for Shippers as fewer spurious objections are raised.

c) **The consequence (if any) on the level of contractual risk of Users under the Uniform Network Code of the Individual Network Codes proposed to be modified by this Modification Proposal**

No change in contractual risk from this modification.

9 The implications of the implementation for other relevant persons (including, but without limitation, Users, Connected System Operators, Consumers, Terminal Operators, Storage Operators, Suppliers and producers and, to the extent not so otherwise addressed, any Non-Code Party)

The primary purpose of this modification proposal is to benefit Customers. Publishing the rate of objections that are raised by each Shipper, will discourage unfounded objections. This will reduce the instance of consumers having their transfer delayed or blocked unnecessarily, so reducing the level of customer dissatisfaction generally and ultimately improving perception and operation of the gas market.

10 Consequences on the legislative and regulatory obligations and contractual relationships of the Transporters

No implications identified.

11 Analysis of any advantages or disadvantages of implementation of the Modification Proposal not otherwise identified in paragraphs 2 to 10 above

Advantages

- Provides transparency around the objections process
- Will provide an incentive to use objections process in line with licence requirements.

Disadvantages

None identified.

12 Summary of representations received as a result of consultation by the Proposer (to the extent that the import of those representations are not reflected elsewhere in this Proposal)

13 Detail of all other representations received and considered by the Proposer

14 Any other matter the Proposer considers needs to be addressed

15 Recommendations on the time scale for the implementation of the whole or any part of this Modification Proposal

[It is our understanding that this process will require a minimum change to current processes and so the modification can be implemented upon receipt of the Authority's decision.]

16 Comments on Suggested Text

17 Suggested Text

Code Concerned, sections and paragraphs

Uniform Network Code

Transportation Principal Document

Section(s)

Proposer's Representative

Gareth Evans (Waters Wye Associates)

Proposer

Glenn Nixon (Gazprom Marketing and Trading-Retail)