

Stage 04: Final Modification Report

0396:

EU Third package: Three week switching

What stage is this document in the process?

- 01 Proposal
- 02 Workgroup Report
- 03 Draft Modification Report
- 04 Final Modification Report

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



Panel recommended implementation



High Impact:
Network Owners, Shippers and Suppliers



Medium Impact:



Low Impact:

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About this document:

This document is a Final Modification Report, presented to the Panel on 15 March 2012. The Authority will consider the Panel's Recommendation and decide whether or not this change should be made.



3 Any questions?

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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 Statutory Instrument The Electricity and Gas (Internal Markets) Regulations 2011.²

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

Some parties consider this modification facilitates UNC Relevant Objective (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.

The Supplier Standard Licence Condition 14A means 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 Supplier Standard Licence Condition 14A. This facilitates competition between relevant Shippers and Suppliers.

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

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



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

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..."

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 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

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

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

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%

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's understanding of this clause was 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. The Workgroup also believed that the purpose of the EU Directive is not to prohibit customers from the freedom to contract on a basis which suits them. Therefore it did 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 Supplier's ability to comply with Supplier Standard License Condition 14A, 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.

The Workgroup noted that current UNC provisions do not allow Shippers to complete transfers within 21 days if the day of submission is included in the calendar day count.

3 Solution

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

4 Relevant Objectives

Implementation will better facilitate the achievement of **Relevant Objective d and g.**

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
g) compliance with the Regulation and any relevant legally binding decisions of the European Commission and/or the Agency for the Co-operation of Energy Regulators	Yes

This Proposal facilitates UNC Relevant Objective (d)(ii) for the 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.

Supplier Standard Licence Condition 14A means 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 Supplier Standard Licence 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.

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"...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..."

Some Workgroup members considered that 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.

British Gas considers the potential for reduced volumes of actual opening meter readings, resulting in increased volumes of estimates, increased shipper agreed reads and customer complaints has not been fully explored and will have a detrimental impact on effective competition rather than securing it.

g) compliance with the Regulation and any relevant legally binding decisions of the European Commission and/or the Agency for the Co-operation of Energy Regulators

This modification was raised to facilitate compliance with the Regulation.

5 Impacts and Costs

Consideration of Wider Industry Impacts

This Modification 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	
<p>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.</p> <p>Ofgem have indicated that User Pays is the appropriate route for funding, and the Transporters have put forward a revised ACS that would implement this (see www.gasgovernance.co.uk/proposedACS).</p>	
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	<ul style="list-style-type: none"> Significant
Operational Processes	<ul style="list-style-type: none"> Significant
User Pays implications	<ul style="list-style-type: none"> None

Impact on Users	
Area of Users' business	Potential impact
Administrative and operational	<ul style="list-style-type: none"> Significant
Development, capital and operating costs	<ul style="list-style-type: none"> Low

Where can I find details of the UNC Standards of Service?

In the Revised FMR for Transco's Network Code Modification

0565 Transco Proposal for Revision of Network Code Standards of Service at the following location:

<http://www.gasgovernance.co.uk/sites/default/files/0565.zip>

Impact on Users	
Contractual risks	<ul style="list-style-type: none"> None
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 advised that implementation costs would be of the order of £700k
Recovery of costs	<ul style="list-style-type: none"> The Workgroup supported 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

British Gas noted that subsequent changes required to Gemini could potentially increase the cost estimate significantly and without an understanding on the extent of the additional costs British Gas cannot support this modification.

Wales & West Utilities and Northern Gas Networks believe that the Modification should be User Pays as a direct result of supplier licence obligations. However Scottish Power do not support the inclusion of this Modification within the User Pays framework.

Scotia Gas Networks opposes the view that the development costs should be borne by Network owners - costs associated with this change should be borne by shippers as they are the party who can benefit from the change. They also agree with Ofgem's view that this cannot be seen as a transportation related cost and so does not warrant a change to transportation charges.

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 above, the Workgroup 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.

This modification will provide a consistent year round solution that will not only meet the 3 week switching requirement for any time of the year but will also deliver a switching timescale of ten days for most of the year. This will align with electricity industry switching. Suppliers will be able to align systems and processes, reducing complexity and cost, and therefore improve the switching experience for dual fuel customers.

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.

This solution is reliant on the Transporter providing same day or day after response to Supply Point Confirmation file transactions. Transporters have indicated that in practice they do in fact meet these deadlines but cannot give an absolute guarantee and therefore would wish to commit to achieving this performance level on a 'reasonably practicable' basis. Given that the period of maximum constraint occurs only during the Christmas/New Year period, this risk is minimal.

Some Workgroup members considered there was an increased risk that Shippers may not be able to obtain their initial meter reading in time for submission to Xoserve and therefore it will lead to more Shipper agreed reads. Other Workgroup members disagreed this was in addition to the existing risk.

8 Legal Text

Text

National Grid Distribution provided the following Text.

Amend paragraph 2.5.8 to read as follows:

2.5.8 The Proposed Supply Point Registration Date shall be:

- (a) not more than 30 Business Days after the Supply Point Confirmation is submitted; and
- (b) not less than ~~915~~ Business Days after the Supply Point Confirmation is submitted unless:
 - (i) at the time that the Supply Point Confirmation is submitted a Supply Point Withdrawal has been submitted by the Existing Registered User in respect of each Existing Supply Point in which case the Proposed Supply Point Registration Date shall not be less than ~~68~~ Business Days;
 - (ii) there is no change in the identity of the Registered User in respect of the Supply Point, in which case the Proposed Supply Point Registration Date shall not be less than ~~68~~ Business Days; or
 - (iii) where the Supply Point Confirmation is resulting from a Supply Point Commodity Rate Renomination (a "**Supply Point Commodity Rate Confirmation**") in which case the Proposed Supply Point Registration Date shall not be less than 4 Business Days; and
- (c) not earlier than 2 months (or such lesser period as the Transporter may specify) after the Supply Point Confirmation is submitted, where such Supply Point ceases to be, or becomes, a category of Special Metering Supply Point described in paragraph 7.1.1(d)(ii)(2), 7.1.1(d)(ii)(3), or 7.1.1(d)(iv).

Amend paragraph 2.5.11 to read as follows:

2.5.11 Where the Transporter does not reject the Supply Point Confirmation it will as soon as reasonably practicable and in any event within 2 Business Days after the Supply Point Confirmation was communicated, give notice to the Proposing User acknowledging the Supply Point Confirmation.

Amend paragraph 2.8.1 to read as follows:

2.8.1 Where, at the time a User submits a Supply Point Confirmation which is not rejected by the Transporter, there is any Existing Supply Point in respect of which a Supply Point Withdrawal has not been submitted:

- (a) the Transporter will, as soon as reasonably practicable and in any event within 2 Business Days after the Supply Point Confirmation was submitted, notify the Existing Registered User of the submission of the Supply Point Confirmation and the Proposed Supply Point Registration Date, but not the identity of the Proposing User;

- (b) the Existing Registered User may, up to but not after the ~~3rd~~^{7th} Business Day after the date of notification to the Existing Registered User of the submission of the Supply Point Confirmation ("**Objection Deadline**"), submit to the Transporter an objection ("**Supply Point Objection**") in respect of such Existing Supply Point provided that the Existing Registered User shall not submit such Supply Point Objection where a domestic consumer supplied with gas at the Existing Supply Point has ceased or is to cease to own or occupy the relevant premises; and
- (c) the Proposing User may, subject to paragraph 2.8.8 (in the case of a Smaller Point) up to but not after the ~~6th~~^{8th} Business Day before the Proposed Supply Point Registration Date (the Objection Deadline) submit to the Transporter a cancellation ("**Supply Point Confirmation Cancellation**") in respect of such Supply Point Confirmation.

Amend paragraph 2.8.3 to read as follows:

2.8.3 Where a User submits a Supply Point Objection to the Transporter:

- (a) the objecting User is required to declare its identity in the objection;
- (b) the Transporter will, as soon as reasonably practicable and in any event within 2 Business Days after the Supply Point Objection was submitted, notify such objection, including (where declared in the objection) the identity of the objecting User, to the Proposing User;
- (c) where the objecting User did not comply with the requirement in paragraph (a):
 - (i) the Transporter will not reject the Supply Point Objection (which will accordingly be effective for the purposes of paragraph 2.8.6);
 - (ii) the Transporter will, if requested by the Proposing User, provide to the Proposing User the identity of the objecting User as soon as is reasonably practicable but (as is acknowledged by each User) does not undertake to do so before the Objection Deadline; and
- (d) the objecting User will declare in the objection the reason for its objection and if the objecting User fails to do so the Transporter may reject such Supply Point Objection which accordingly will not be effective for the purposes of paragraph 2.8.6;
- (e) and that Supply Point Objection was raised at the request (whether directly or indirectly) of the Consumer in respect of the affected Existing Supply Point, the Transporter will, where the reasons for the objection have been provided to the Transporter by the objecting User, as soon as reasonably practicable and in any event within 2 Business Days after the Supply Point Objection was submitted, notify such reasons to the Proposing User.

Amend paragraph 2.8.5 to read as follows:

2.8.5 A User may withdraw a Supply Point Objection up to but not after:

- (a) the ~~3rd~~^{7th} Business Day after the Supply Point Objection was made;
or
- (b) if earlier, the Objection Deadline.

Amend paragraph 2.8.6 to read as follows:

2.8.6 Where a Supply Point Objection is made and is not withdrawn in accordance with paragraph 2.8.5, the Supply Point Confirmation shall lapse and be of no effect, and the Transporter will so inform each Existing Registered User as soon as reasonably practicable and in any event not later than the fifth Day before the Proposed Supply Point Registration Date.

Amend paragraph 2.8.8 to read as follows:

2.8.8 In the case of a Supply Point Confirmation within paragraph 2.8.1, as soon as reasonably practicable after the Objection Deadline and in any event not later than the fifth Day before the Proposed Supply Point Registration Date:

- (a) the Transporter will notify the Proposing User whether the Supply Point Confirmation has become effective, setting out (where it has become effective, and without prejudice to paragraph 2.7.5) the details of the Supply Point to be recorded in the Supply Point Register;
- (b) (where the Supply Point Confirmation has become effective) the Transporter will notify the User (which was the Existing Registered User immediately preceding the effective date of the Supply Point Confirmation) of the identity of the Proposing User (that has become the Registered User) and the identity of the supplier (that has become the supplier) in respect of the Supply Point recorded in the Supply Point Register and which is the subject of such Supply Point Confirmation.

9 Consultation Responses

Representations were received from the following parties:

Respondent	
Company/Organisation Name	Support Implementation or not?
British Gas	Not in Support
Consumer Focus	Support
EDF Energy	Support
E.ON UK	Support
Gazprom	Support
National Grid Distribution	Support
National Grid NTS	Support
Northern Gas Networks	Support
RWE npower	Support
Scotia Gas Networks	Qualified Support
Scottish Power	Qualified Support
SSE	Not in Support
Wales & West Utilities	Support

Of the thirteen representations received, nine supported implementation, two offered qualified support, and two were not in support.

Summary Comments

British Gas believes the full extent of the changes and costs required to deliver the proposed solution have not been fully explored and are not fully understood, therefore creating a degree of risk which is not acceptable to the industry or to individual UNC parties. British Gas is concerned that the reduction of the confirmation window from D-7 to D-5 will significantly impact the timeframe and opportunity to obtain opening readings, which will lead to the generation of more estimated opening reads by Xoserve. The provision of additional volumes of estimated reads will not be conducive to improving the number of transfers undertaken to actual reads and will ultimately lead to an increased volume of shipper agreed reads, increased customer complaints and a less than positive experience for customers during the switching process.

Consumer Focus believes, from a competition perspective, increasing the ease with which consumers can reward/punish suppliers by voting with their feet (switching) should increase competitive pressure on suppliers to keep costs down and standards up. They acknowledge industry concerns that many objections to erroneous transfer take place in the last couple of days of the existing five day objections window but do not consider that, in itself, this is a compelling argument against 0396. Better communications with consumers and work to tackle the problems that cause erroneous transfers in the first place (such as poor sales behaviours and unnecessarily confusing products) could allow a three day objections window to work without consumer detriment.

E.ON address an area of concern that has been raised relating to the ability to appoint agents and obtain an opening meter read within the revised timeline. Whilst the confirmation period is reduced by two business days, the ten business day opening read window remains. The countdown to Supply Start Date and the opening of the read window would happen simultaneously, with the read window still ending at Supply Start Date + five business days and, therefore, E.ON does not see this as an issue.

E.ON highlight that the revised timeline is consistent with typical transfer timelines in electricity. This provides an opportunity for efficient, aligned dual fuel switching. E.ON believes the modification will deliver an enduring fixed solution as opposed to a flexible approach triggered infrequently and, in turn, this will remove the need for interventions by shippers/suppliers to their processes throughout the year and therefore reduce the risk of increased erroneous transfers.

EDF Energy recognises that this modification will minimise the system impacts on Shippers as this is a relatively simple change; although they do expect to incur system costs to support the change. They note that implementation could have a detrimental impact on the customer experience during a supply point transfer caused by the fact that Shippers will only have three business days to raise and resolve objections, increasing the risk that erroneous transfers are not prevented, and increasing the risks that objections are not cleared and resolved compared to the current arrangements. However, given that most transfers are raised without any objection EDF Energy believes that implementation will have a positive impact on customer experience. EDF Energy suggest it would be beneficial if Xoserve could identify the percentage of SSP transfers that occur with an objection so that the industry and Ofgem could attempt to quantify the impact. They also wished to seek clarity as to how the Scottish bank holiday will be treated under this modification, or whether the industry would be reliant on the Gas Transporters classifying this as a non-business day to ensure compliance.

Scottish Power believes the changes to the objection window could have a detrimental impact on customers, both on individual transfers and on the cost to serve. They feel the risk of increased erroneous transfers due to a shorter objection window will directly impact customers, especially as customer requested objections are usually raised towards the end of the current window - Scottish Power raise several hundred objections at the customer's request each month. If these cannot be raised the customer has two options – stay with a supplier they do not want to be with or go through the sometimes lengthy erroneous transfer process.

SSE highlights that this modification does not ensure licence compliance for suppliers in 100% of cases, and provides reduced windows for objections and obtaining meter readings constantly rather than only when required for bank holidays. They believe this will result in more transfer reads being estimated and greater numbers of erroneous transfers. SSE also notes that there could be further costs revealed during implementation, as Xoserve have not done a full impact assessment on reducing the confirmation window.

10 Panel Discussions

The Panel Chair summarised that Supplier Licences have been amended to reflect EU requirements that customers should be able to switch supplier within 3 weeks. The UNC provides 8 business days for the incumbent Shipper to object to a transfer, followed by a 7 business day confirmation window. This exceeds three weeks when bank holidays are allowed for. To address this, Modification 0396 proposes a 3 day objection and 5 day confirmation window, which would apply at all times. The related Modification 0403 proposes a flexible approach - when a bank holiday occurs, the windows would be reduced as appropriate, but at other times the existing arrangements would continue.

Panel Members agreed that implementation of Modification 0396 would support compliance with regulatory requirements as a result of the Third Package, and would facilitate achievement of the Relevant Objective "compliance with the Regulation and any relevant legally binding decisions of the European Commission and/or the Agency for the Co-operation of Energy Regulators" – although one Member noted that some theoretical scenarios could be identified where full compliance may not be achieved. Members also noted that reduced times to switch Supplier would be expected to benefit those consumers who benefit from switching – through the earlier delivery of benefits – and hence facilitate the securing of effective competition. However, there would also be an increased risk of erroneous transfers as a result of reduced timescales in which to identify and correct errors, which could counteract the benefit of faster switching for the securing of effective competition.

One Member was concerned that the costs of implementing the modification are expected to be high and that it had not been sufficiently demonstrated that the benefits would exceed the costs. Given this, it was felt hard to conclude that implementation would necessarily support the securing of effective competition – with the introduction of unjustified costs into the market being inconsistent with the securing of effective competition. However, Members considered that the key issue was compliance and that it is therefore not a priority to look for a cost benefit justification.

Members then voted and, with nine votes in favour of implementation and one vote against, the Panel determined to recommend that that Modification 0396 be implemented.

11 Recommendations

Panel Recommendation

Having considered the 0396 Modification Report, the Panel recommends:

- that proposed Modification 0396 should be made.