

## Stage 01: Proposal

# 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.

What stage is this document in the process?

01

Proposal

02

Workgroup Report

03

Draft Modification Report

04

Final Modification Report



The Proposer recommends Modification is sent to the distribution workgroup for continued development



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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08 August 2011

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## About this document:

This document is a modification proposal, which will be presented by the Proposer to the Panel on 18 August 2011. The Panel will consider the Proposer's recommendation, and agree whether this proposal should proceed to consultation or be referred to a Workgroup for development.



### 3 Any questions?

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# 1 Summary



**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

## Is this a Self-Governance Modification

We believe this is not a self-governance Modification as the Proposal seeks to make a change to the current supply Point Confirmation process which will require significant transporter and shipper system and process changes.

## 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 14/01/2011<sup>1</sup>. Government has transposed the requirements into Draft Statutory Instrument The Electricity and Gas (Internal Markets) Regulations 2011 which are now laid before Parliament.<sup>2</sup> 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. This could be achieved by :

- Reducing the Objection Window from 7 business days in duration to 3 days.
- Reducing the Confirmation Window from 7 business days to 5 business days in.

## Relevant Objectives

We consider this Proposal facilitates UNC Relevant Objectives (d)(ii)

**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

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

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

transfer of supply point ownership within 21 days. Changing transporter systems and processes will facilitate this by providing a transfer timeline consistent with the proposed additional supplier Standard License Condition 14a. We believe that this facilitates competition between relevant shippers and suppliers.

## 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 from 7 business days in duration to 3 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 from 7 business days to 5 business days in duration
- Indicative costs are estimated to be £500k

## Implementation

We are raising this Modification Proposal on the understanding that supply license standard conditions will be amended to mandate 3 week switching, therefore we believe that the foundation of the Proposal is that the amendments will be in place. The Regulations have yet to be made and therefore we cannot prescribe implementation timescales other than to say that the following lead times have been suggested by Xoserve for delivery of transporter system changes.

### Reduction of the Objection Window

- Indicative timescales are estimated to be 9 months delivery

### Reduction of the Confirmation Window

- Indicative timescales are estimated to be 9 months delivery

## The case for change

The above mentioned DECC Impact Assessment No.DECC0003 contains the following extracts that describe governments view of the benefits and which we believe 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..."*

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*"...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**

We recommend that this Proposal be sent to a Workgroup for assessment.

## 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 day period during which the incumbent shipper has the opportunity to object to the transfer. The 15 business day period translates into a three week, 21 calendar day period excepting where this three week period includes bank holidays. Therefore when taking into account bank holidays 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 three 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 day window. Xoserve described the rationale for this in a presentation at the Distribution Workgroup meeting on 24 March 2011. This would involve a reduction to the objection window from 8 to 3 days and a reduction to the confirmation window from 7 to 5 days.<sup>3</sup>

### Larger Supply Points and New Smaller Supply Points

An additional *nomination* process is required for Larger Supply Points which may be domestic or non-domestic and for New Smaller Supply Points.

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.

The nomination process takes an additional business day and would therefore mean that the changed transfer timeline advocated within this Modification Proposal would not meet the 21 day time frame.

### Larger Supply Points - Domestic

Analysis carried out by Xoserve to inform discussions at the Project Nexus Market Differentiation meeting on 4 August 2009,<sup>4</sup> 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 353 'Population of Market Sector Code within the Supply Point Register' be made. UNC 353 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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<sup>3</sup> <http://www.gasgovernance.co.uk/dist/240311>

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

If we conclude that switching behaviour amongst domestic Larger Supply Point customers does not significantly differ from that amongst domestic Smaller Supply Point customers then the 8 day switching timeline prescribed by this Modification Proposal should achieve a **99.78%** success rate.

This does not mean that we support 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 period. One such exclusion is where the customer requests that the transfer takes place at a later date. Our 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 days to complete the necessary '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 smaller supply points will of course transfer within the prescribed 8 day timeframe as they are not part of the nomination process.

### **Context**

To facilitate a suppliers ability to comply with proposed supplier Standard License Condition 14a. Relevant Shippers will need to complete a Supplier 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 from 7 business days in duration to 3 day.
- Reduce the Confirmation Window from 7 business days to 5 business days in.

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## 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

We 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 days. Changing transporter systems and processes will facilitate this by providing a transfer timeline consistent with the proposed amended supplier Standard License Condition 14a

## 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. Shipper and suppliers will incur costs associated with internal system changes

### Costs

Indicative industry costs – User Pays
Classification of the proposal as User Pays or not and justification for classification
We have considered that this Modification Proposal is not User Pays as satisfies UNC section V 6.5.3 (f) to support the implementation of Sections B, C, D, E, F, G, H, M, S, U and X We would be interested to know if there are alternative views.
Identification of Users, proposed split of the recovery between Gas Transporters and Users for User Pays costs and justification
Proposed charge(s) for application of Users Pays charges to Shippers
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"><li>Significant</li></ul>
Operational Processes	<ul style="list-style-type: none"><li>Significant</li></ul>
User Pays implications	<ul style="list-style-type: none"><li>None</li></ul>

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

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

Impact on Transporters	
Area of Transporters' business	Potential impact
System operation	<ul style="list-style-type: none"> <li>Significant</li> </ul>
Development, capital and operating costs	<ul style="list-style-type: none"> <li>Significant</li> </ul>
Recovery of costs	<ul style="list-style-type: none"> <li>To be identified</li> </ul>
Price regulation	<ul style="list-style-type: none"> <li>None</li> </ul>
Contractual risks	<ul style="list-style-type: none"> <li>Low</li> </ul>
Legislative, regulatory and contractual obligations and relationships	<ul style="list-style-type: none"> <li>Significant</li> </ul>
Standards of service	<ul style="list-style-type: none"> <li>Low</li> </ul>

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

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

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"> <li>None</li> </ul>
Network Exit Agreement (Including Connected System Exit Points) (TPD J1.5.4)	<ul style="list-style-type: none"> <li>None</li> </ul>
Storage Connection Agreement (TPD R1.3.1)	<ul style="list-style-type: none"> <li>None</li> </ul>
UK Link Manual (TPD U1.4)	<ul style="list-style-type: none"> <li>None</li> </ul>

Impact on UNC Related Documents and Other Referenced Documents	
Network Code Operations Reporting Manual (TPD V12)	<ul style="list-style-type: none"> <li>None</li> </ul>
Network Code Validation Rules (TPD V12)	<ul style="list-style-type: none"> <li>None</li> </ul>
ECQ Methodology (TPD V12)	<ul style="list-style-type: none"> <li>None</li> </ul>
Measurement Error Notification Guidelines (TPD V12)	<ul style="list-style-type: none"> <li>None</li> </ul>
Energy Balancing Credit Rules (TPD X2.1)	<ul style="list-style-type: none"> <li>None</li> </ul>
Uniform Network Code Standards of Service (Various)	<ul style="list-style-type: none"> <li>None</li> </ul>

Impact on Core Industry Documents and other documents	
Document	Potential impact
Safety Case or other document under Gas Safety (Management) Regulations	<ul style="list-style-type: none"> <li>None</li> </ul>
Gas Transporter Licence	<ul style="list-style-type: none"> <li>None</li> </ul>

Other Impacts	
Item impacted	Potential impact
Security of Supply	<ul style="list-style-type: none"> <li>None</li> </ul>
Operation of the Total System	<ul style="list-style-type: none"> <li>None</li> </ul>
Industry fragmentation	<ul style="list-style-type: none"> <li>None</li> </ul>
Terminal operators, consumers, connected system operators, suppliers, producers and other non code parties	<ul style="list-style-type: none"> <li>None</li> </ul>

## 6 Implementation

We are raising this Modification Proposal on the understanding that supply license standard conditions will be amended to mandate 3 week switching, therefore we believe that the foundation of the Proposal is that the amendments will be in place. The Regulations have yet to be made and therefore we cannot prescribe implementation timescales other than to say that the following lead times have been suggested by Xoserve for delivery of transporter system changes.

### **Reduction of the Objection Window**

- Indicative timescales are estimated to be 9 months delivery

### **Reduction of the Confirmation Window**

- Indicative timescales are estimated to be 9 months delivery

## 7 The Case for Change

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

### Advantages

On the assumption that customers switch to take advantage of a better product offering, this Modification Proposal 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 shipper suppliers which have yet to be fully analysed, for example the effect on RGMA flows created by a reduced confirmation window.

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

## 8 Legal Text

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## 9 Recommendation

The Proposer invites the Panel to:

- DETERMINE that Modification 039 progresses to a Workgroup for assessment