

Mr John Bradley
Secretary, Modification Panel
Joint Office of Gas Transporters
51 Homer Road
Solihull
B91 3LT

6th August 2009

Dear John

RE: UNC Modification Proposal 0253 – “*Facilitating a Supply Point Enquiry Service for Large Supply Points*”

British Gas fully supports this modification proposal and believes that implementing it will lead to

- Significant improvements in competition,
- Improvements in the existing service offered by Xoserve,
- Reduced costs to customers,
- Reduced costs to suppliers, and
- Solutions to market deficiencies identified in the Ofgem Energy Supply Probe.

Our reasoning is set out below.

1. Significant improvements in competition.

The current industry arrangements mean that when a customer requests a quotation from a supplier, that supplier can only provide them with a price estimated from information the customer provides.

Currently the supplier will only be able to provide that accurate quotation two or three days after any request has been received, once a Supply point Enquiry has been made, and the Transporter has provided the supplier with the industry held Annual Quantity (AQ) data. Considering this data already exists in a useable format, this delay is wholly unnecessary and only serves to significantly increase the transaction costs, reduce transparency, liquidity and market efficiency, and therefore provide a barrier to competition.

This is particularly the case in highly competitive markets such as the utility industry where margins are low, and transaction costs therefore have a greater impact.

This point is illustrated by learnings from other industries. The insurance industry, for example, would find that competition would be significantly impacted if they only had access to the information needed for a real time accurate quotation two or three days after it was requested. Thus by removing these barriers to competition, our industry can realise significant benefits.

Furthermore, removing this barrier to competition will increase the propensity of large customers to search for better deals with significant competition benefits, improved levels of switching and creating downward pressure on prices.

Finally, as this proposal will enable all suppliers to have access to the same data regardless of who they are, equality of opportunity and thus competition can be ensured.

On the basis that all suppliers will have access to this same information, and on the basis that they will be able to provide real time accurate quotations to customers who can then decide which supplier to contract with based on price, we strongly believe this proposal will lead to more effective competition in the UK gas market.

2. Improving an existing service.

Suppliers already have access to this data and can obtain it easily by submitting a Supply Point Enquiry, regardless of whether they supply the End User or not. Data can be collected on multiple sites by submitting multiple enquiries, giving an End User exactly the same information as would be contained in this report.

This modification proposal will not therefore provide Suppliers with any new data nor create any new risks on the misuse of data. It will simply change the delivery method of that data, and by ensuring that this service is provided on a "User Pays" basis, improve transparency over who has requested what, and consequentially *improve* the control the industry currently has over this data.

3. Reduced cost through the removal of the inherent risk premiums of the current process.

The current market arrangements mean Suppliers must provide a quotation to customers on the basis of estimated information provided by the customer. Given this, the quotation itself will not be absolutely accurate, and the resulting price will have an inherent risk premium built within it.

This unnecessary cost is simply passed through to the customer, and would be entirely removed by this proposal, allowing suppliers to provide real time quotations based on accurate information.

4. Reduced acquisition processing costs.

Because suppliers need to understand the level of risk they have assumed with any gas supply contract, and because the current process renders them unable to calculate this until after the Supply Point Offer is received, they are obliged to perform this assessment some time after the contract has been agreed.

This “double-handling” of the contract presents an incremental and unnecessary cost which will inevitably be passed through to customers in the form of higher charges. This proposal removes this cost by enabling suppliers to make sure that the price agreed is accurate at point of sale, thus removing any secondary reconciliation and reducing the overall process costs borne by the end user.

As mentioned above, this benefit is particularly important given the low margins the utility industry, and the consequential importance of maintaining low transaction costs.

5. Providing solutions to other market deficiencies.

In their “*Energy Supply Probe – proposed retail market remedies*” document Ofgem identified “*issues around the quality of product and tariff information*”¹ in the small business market, and we believe this will clearly help resolve the matter.

By enabling real time access to centrally held AQ data, suppliers will be able to offer quality product and tariff information on request, for example, through an on line facility which customers can easily access.

¹ Ofgem Energy Supply Probe – proposed retail market remedies document 15th April 2009, page 34.

By enabling suppliers to provide real time accurate quotations to customers, we believe that customers will be better empowered to contract with the provider who is right for them. This is particularly important when you consider that LSP customers will be locking themselves in to a contract for a lengthy period of time.

In addition to the points made above, we believe this change proposal clearly facilitates the relevant objectives of the Uniform Network Code, specifically:

Standard Special Condition A11.1 (d): so far as is consistent with paragraphs (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 in to transportation arrangements with other relevant gas transporters) and relevant shippers.***

For the reasons given above, this modification proposal will improve competition in the gas market by

- Improving the accuracy and timeliness of quotations to customers, improving market liquidity and therefore competition.
- Reducing transaction costs which currently represent a significant barrier to competition in a low margin industry such as utilities.
- Increasing the propensity of customers to search for a better deal by improving their ability to do so.
- Ensuring equality of opportunity for all suppliers through the guarantee of equal access.
- Reducing the level of risk suppliers assume by taking on contracts based on information estimated by customer.

Naturally some consumer organisations may be concerned that the largest users may see fewer benefits in, for example, improving on-line quotation accuracy given that their take up of such services is very low. This in turn may lead them to focus on potentially negative aspects of the modification.

To this end, let us reiterate that this modification will not provide suppliers with any data that they cannot already get at the moment; it will simply allow them to receive existing data at the point at which it is needed.

Furthermore, this proposal will not provide suppliers with information regarding customer's existing contracts. Clearly without this key piece of information, suppliers will only be able to offer a proactive quotation service. We therefore see no increased risk for any consumer segment, and large benefits for, but not exclusively to, those at the smaller end of the LSP sector.

If you have any queries relating to this representation, please do not hesitate to telephone me on (07789) 570501.

Yours sincerely

David Watson
Regulatory Manager, British Gas