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Dear Tim,

Regarding UNC Modification Proposals: 0255, 'Publication of Objection Rates for LSP Supply Points'

Thank you for the opportunity to comment on the above proposals which seek to prescribe the publication of the Objection Rates for Larger Supply Points of all UNC users. For the avoidance of doubt Corona Energy (CE) supports the implementation of this modification.

Background

CE notes that Ofgem has made a number of changes to the objections regime (the most recent change was an SLC change in November 2007) in an attempt to ensure the regime is working effectively. This was partly due to concerns expressed at the time that a small number of suppliers were using loopholes in the process to gain a commercial advantage.

Ofgem stated at the time of the 2007 consultation process that, 'The concern is that the current arrangements allow suppliers to obtain new contractual rights to use the switching process to prevent a proposed transfer to a new supplier. The rules were not intended to be used in this way.' Ofgem stated that the changes they proposed were designed to, 'promote an orderly and predictable switching process for the benefit of customers and suppliers.'

Since the Supplier Licence Condition (SLC) changes that Ofgem Director Philip Davies introduced in 2007, the switching is generally handled in an orderly and predictable manner when interfacing with most suppliers. Unfortunately the process has become predictably disorderly when dealing with a small number of suppliers.

The Proposal

Following the changes made by Ofgem in 2007, all suppliers have a licence condition (SLC 14) that only allows the objection process to be submitted to block a potential



customer transfer if the customer's contract allows an objection to be raised, or if the Supplier who started the process has indicated that it was raised in error.

Though it is to be expected that on occasions objections will be submitted in error, it seems reasonable to assume that a supplier acting in accordance with its licence, would make a relatively low number of errors. The percentage of accidental submissions should therefore be relatively low. This belief seems to be shared by Ofgem's wish to see an 'orderly and predictable' switching process.

CE has some sympathy with suppliers who, due to IT system error have accidentally sent a large number of objections in the mistaken belief that they have the right to object. In this case the use of the term 'error' does seem to fit providing the supplier does all they can to address the issue with reasonable haste.

In other cases however it appears that a small number of suppliers may be objecting to all or a large number of transfers prior to checking whether or not they have any such right. CE would argue that such submissions would not be in 'error' as the supplier would have taken a decision to submit the objection notices in the knowledge that a number would be invalid.

As the submission of invalid objections creates unnecessary administrative expenditure on the incoming supplier, the use of the objections process in this way could provide an unfair competitive advantage as it would raise the costs to the incoming supplier. It could also result in customer transfers being delayed, impairing the customer experience and impacting of the incoming suppliers' reputation.

Whilst we challenge such activity on a supply point by supply point basis and with the Supply Point Administration (SPA) departments of these suppliers, it is not always clear whether this is a widespread problem or just due to the particular market sector that CE operates in.

CE supports this modification as it believes it will:

1. Allow us to benchmark our individual performance.
2. Correctly identify suppliers that have problems with systems and processes
3. Track the improvement of systems and processes when 'errors' occur

It has been suggested that an alternative to this modification could be an incentive scheme based on the number of withdrawn objections. CE believes that the public nature of this report should provide a sufficient incentive on suppliers to ensure they are acting appropriately. Presumably where the report demonstrated that a supplier was consistently using the objections process without cause, Ofgem would take necessary action.



Funding

CE note that Transporters have commented that the cost of this report should be recovered from Shippers via a user pays charge. CE questions that these costs should be recovered in such a way. It could be argued if Ofgem agree that there is a requirement for this report then this would reflect the failing of the Gas Transporters objections process to operate in a way that 'secures' effective competition. It would seem rather unusual that Shippers should pay for the fulfilment of a Transporter objection to ensure the process they operate does not impact on competition between relevant suppliers (SLC 9.1d).

CE would like to again take this opportunity to stress its concern that the 'User Pays' principle appears to have been distorted from the sensible concept that the UNC arrangements should have a degree of optionality and differentiation in service levels that they could pay for. It now appears that contrary to Ofgem's early assurances that only optional 'non-core' services would be subject to this principle, every UNC change appears to be designated as 'User Pays'.

It is easy to envisage that if the status quo is allowed to continue unabated that in a small number of years the industry will be awash with a multitude of User Pays charges, each with its own invoice. CE hopes that common sense will prevail and modifications like these that clearly have benefits for the whole industry will be designated as 'core' and costs will be recovered through existing Transportation charges.

I trust these comments are helpful. If you have any queries regarding this response please contact Richard Street on 0208 632 8169.

Regards,

Richard Street
Regulatory Affairs Manager – Corona Energy