

Modification proposal:	<b>Uniform Network Code (UNC) 353: Population and Maintenance of the Market Sector Code within the Supply Point Register (UNC353)</b>		
Decision:	The Authority <sup>1</sup> directs that this proposal be made <sup>2</sup>		
Target audience:	The Joint Office, Parties to the UNC and other interested parties		
Date of publication:	27 July 2011	Implementation Date:	To be confirmed by the Joint Office

## Background to the modification proposal

The Market Sector Code (MSC) is a data item in the Supply Point Register<sup>3</sup> which indicates whether a site is domestic or non-domestic<sup>4</sup>.

Since 2001, gas suppliers have had a licence requirement (SLC17) to inform the relevant gas shipper on change of supplier whether the premises is a domestic or non-domestic premise, or where subsequently the premises changes from domestic to non-domestic or vice versa. Where the supplier for the premises is also the shipper<sup>5</sup> it must inform the relevant gas transporter of this information. It is the shipper's responsibility to provide information on the MSC to the transporter when it submits a confirmation<sup>6</sup>.

As SLC17 is prospective, even where the supplier and the shipper are part of the same organisation, there are no requirement to pass on this information for sites which have not switched suppliers since 2001.

Shippers may also populate the MSC outside the confirmation process, by making a MSC change request. However this is optional and as of September 2010 the MSC had not been populated for approximately 30% of all supply points, which represents 6.2m MSC blank entries.

## The modification proposal

UNC353 was raised by Wales & West Utilities (the proposer) to introduce an obligation within the Uniform Network Code (UNC) for shippers to populate and maintain all MSC values. It considers that blank and potentially inaccurate MSC values prevent the use of this data for determining domestic and non-domestic customer status for sites. The accurate population and ongoing maintenance of the MSC for a supply point could also allow a greater level of market differentiation in the application of UNC processes<sup>7</sup>.

The proposer also identifies potential wider impacts of implementing UNC353. Strengthening the reliability of the MSC may facilitate industry change and the development of work in other areas such as data protection or the Smart Metering

<sup>1</sup> The terms 'the Authority', 'Ofgem' and 'we' are used interchangeably in this document. Ofgem is the Office of the Gas and Electricity Markets Authority.

<sup>2</sup> This document is notice of the reasons for this decision as required by section 38A of the Gas Act 1986.

<sup>3</sup> The Supply Point Register is a database maintained by xoserve, the Gas Transporters agent, containing information in relation to all the meter points in the GB market.

<sup>4</sup> The UNC currently does not hold a definition for the terms domestic or non-domestic. This definition appears elsewhere, for example in the Gas Transporter, Shipper, and Supplier licences. A site is typically deemed to be domestic when gas is used mainly or wholly for domestic purposes and non-domestic otherwise.

<sup>5</sup> Though shippers and suppliers are separate licensees, they are often two parts of the same organisation.

<sup>6</sup> In advance of supplying a premise with gas, a supplier has to become registered to that meter point. This process is facilitated by a shipper submitting a confirmation notice to xoserve.

<sup>7</sup> For example, applying a combination of AQ thresholds and non-domestic flagged sites could determine 'small' or 'large' business customers.

Implementation Programme, which may seek to make distinctions between domestic and non-domestic customers.

UNC353 proposes to introduce an obligation on shippers to ensure that the MSC field within the Supply Point Register, for all Supply Points where they are the Registered User, is populated, accurate and maintained (i.e. updated as and when necessary and as soon as reasonably practicable).

To facilitate this, the proposer also aims to introduce the following definition of domestic and non-domestic premises within the UNC<sup>8</sup>:

- "Domestic Premises" means Supply Point Premises where the gas is offtaken wholly or mainly for domestic purposes.
- "Non-domestic Premises" means Supply Point Premises which are not Domestic Premises.

It also proposes to introduce a six month transition period during which the obligation on shippers to populate and maintain the MSC would not become effective. This would allow shippers the opportunity to populate any blank MSC values within their portfolio and to correct any MSC values that are currently populated but are incorrect.

In addition, UNC353 proposes a new user pays service to facilitate the population, by the gas transporter, of any blank MSC values that exist at the end of the transition period. This service will be triggered only for the cases where shippers have asked the gas transporter to populate the blank MSC values on their behalf, rather than using the UK Link file for updating the records themselves.

Gas transporters will be required, under UNC353, to provide reports to relevant shippers during the transition period identifying the supply points that have a blank MSC value. This will assist shippers during the process and facilitate the population of the blank MSC values during the transition period.

### **UNC Panel<sup>9</sup> recommendation**

At the Modification Panel meeting held on 17 March 2011, the eleven Panel members, capable of casting eleven votes, voted unanimously for implementation of the proposal. Therefore the UNC Panel recommended the modification proposal for implementation.

### **The Authority's decision**

The Authority has considered the issues raised by the modification proposal and the Final Modification Report (FMR) dated 05 July 2011. The Authority has considered and taken into account the responses to the UNC's consultation on the modification proposal<sup>10</sup>. In addition, we have also considered the responses to a supplemental consultation issued by the Panel<sup>11</sup>. The Authority has concluded that:

1. implementation of the modification proposal will better facilitate the achievement of the relevant objectives of the UNC<sup>12</sup>; and

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<sup>8</sup> The intention is for these definitions to be consistent with the usage based definitions that appear in the Supplier, Shipper and Transporter licences (i.e. wholly or mainly used for domestic / non-domestic purposes). The proposed definitions however do not mirror the licences definitions, in particular they do not mirror the supplier Licence definition.

<sup>9</sup> The UNC Panel is established and constituted from time to time pursuant to and in accordance with the UNC Modification Rules.

<sup>10</sup> UNC modification proposals, modification reports and representations can be viewed on the Joint Office of Gas Transporters website at [www.gasgovernance.com](http://www.gasgovernance.com)

<sup>11</sup> This supplemental consultation is discussed further below.

<sup>12</sup> As set out in Standard Special Condition A11(1) of the Gas Transporters Licence, see: <http://epr.ofgem.gov.uk/index.php?pk=folder590301>

2. directing that the modification be made is consistent with the Authority's principal objective and statutory duties<sup>13</sup>.

### **Reasons for Authority decision**

We have assessed the proposed modification against the UNC Relevant Objectives. We consider this proposal will further objectives (c) and (f). The proposer considered that that UNC353 would also better facilitate relevant objectives (a) and (d). In relation to relevant objective (a) it was suggested that greater certainty on the usage types of supply points may allow transporters to optimise planning processes, profiles and therefore diurnal storage. In relation to relevant objective (d) it was argued that populated and accurate MSC values will allow for new processes to be developed that utilise this market differentiation, which in turn would facilitate greater competition. This argument is also supported by one respondent to the UNC353 consultation.

Whilst we consider that this modification may enable the future use of the MSC for market differentiation and potentially could lead to better planning that is largely speculative at this stage. As no detrimental impacts to any of the other relevant objectives were identified, we consider it appropriate to focus on the more tangible arguments in relation to relevant objectives (c) and (f).

### ***Standard Special Condition A11.1 (c): the efficient discharge of the licensee's obligations under this licence***

The proposer notes that the gas transporter licence contains references to domestic and non-domestic premises and customers. Where the MSC is unreliable or nonexistent, gas transporters may need to make additional contacts (phone calls, letters, and physical visits) with the relevant customer, or the relevant shipper, to determine whether the premises are domestic or non-domestic. We agree that improving the reliability of the MSC data would reduce the need for these additional contacts and allow for the gas transporters to discharge their licence obligations in a more efficient way.

One respondent was concerned that introducing a requirement into the UNC to notify gas transporters of a change of usage at the supply point would create dual governance, given that this requirement already exists in the supplier licence. This confusion could either lead to a duplication of effort or inadvertent noncompliance. In the case of the gas supplier, this could conflict with the efficient discharge of their licence obligations.

We recognise that where a party is both the supplier and shipper to a supply point, they will be under two separate obligations to notify the gas transporter of any change in the type of usage of gas. We consider that, in this situation, a supplier may choose to discharge its licence obligation to inform the transporter through its shipper arrangements and that one communication may suffice. Whilst we note the potential for these measures to become misaligned over time, we do not consider this to be a material risk.

We also note the concerns on the time that shippers would require to populate and update the MSC values. Two shippers supported a shorter transition period of three months, but one acknowledge that a time limited transition period may create a perverse incentive on shippers to make an arbitrary decision about a supply point's MSC. This could compromise the accuracy of the MSC data and the efficient discharge of the gas transporters obligations.

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<sup>13</sup> The Authority's statutory duties are wider than matters which the Panel must take into consideration and are detailed mainly in the Gas Act 1986.

We agree with the proposer that this modification will facilitate populating and maintaining accurate MSC values, improving the efficient discharge of the gas transporters licence obligations. We therefore consider that this proposal will further relevant objective (c).

***Standard Special Condition A11.1 (f): promotion of efficiency in the implementation and administration of the Code***

The proposer considers that UNC353, by contributing to the population and maintenance of accurate MSC values, will allow for all UNC processes that utilise the differentiation between domestic and non-domestic supply points to be carried out more efficiently and accurately<sup>14</sup>. Whilst the numbers of UNC processes that utilise domestic and non-domestic differentiation are not significant at the moment, this modification will allow any future, or existing, proposals that seek to differentiate between domestic and non-domestic premises to be implemented in an efficient manner<sup>15</sup>.

We agree with the proposer that this effect may impact the efficiency in implementing and administering the code. We consider therefore that the ability to differentiate between domestic and non-domestic supply points, based on the populated and accurate MSC values, will better facilitate the achievement of this relevant objective.

***Supplemental consultation***

Upon receiving the initial version of the FMR, we raised two issues for consideration. The first related to drafting of the definition of domestic premises, where we suggested a minor alteration to assist clarity. The second related to the definition of domestic and non-domestic premises in the gas supplier licence not being exactly mirrored under UNC353. The UNC353 definition is based on use at the premises whereas the gas supply licence definition is influenced by the contractual arrangements<sup>16</sup>. We were concerned that this could lead suppliers being required to hold two status flags for a customer, the impacts of which had not been considered as part of UNC353.

The UNC Panel decided to run a short supplemental consultation on these issues. Respondents were unanimous in supporting a minor change to the definition to increase clarity. In relation to the second issue, views were mixed. One respondent indicated that holding two status flags was not appropriate and could create additional cost, complexity and confusion. One respondent considered that if MSC value is not reflective of the actual circumstance of the consumer on that meter point, then the use of the field in deciding how to treat a meter point or its data could lead to errors. Another respondent noted that the intention of the proposal was to facilitate populating the MSC values and the clarification of the definition of terms should be addressed by a separate modification. Three shippers considered the overall impact of this issue was very small, particularly as shippers are already exposed to the differing definitions of various industry documents.

We welcome this further consideration of the issue. We note that this is an issue that shippers and suppliers may already have to deal with, that the likely number of

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<sup>14</sup> As one respondent notes, some of these cases, if not all, are linked to the supply point registration and confirmation process (for example UNC Section G2.8), which means the MSC would be updated even without implementation of UNC353.

<sup>15</sup> UNC Modification Proposal 0253 ("Facilitating a Supply Point Enquiry Service for Large Supply Points") is given as an example. One of the concerns with this modification was that gas transporters would not be able to identify domestic larger supply points and therefore would be unable to manage restrictions placed upon them through the Data Protection Act.

<sup>16</sup> For example, where a customer changes use from non-domestic to domestic the licence allows for this customer to continue to be treated as a non-domestic customer until the end of their contract. Under the UNC the shipper would be required to update the status to domestic.

customers impacted would be small and that there are benefits to the market of having a central register of the status of premises based on use.

### **Further issues**

We note that some shippers expressed concern on the accuracy of the MSC values if gas transporters were to auto-populate the blank MSC at the end of the transition period. We note that under UNC353 the gas transporters' agent will only populate the blank MSC entries in the instances where shippers have confirmed to the transporter that this action should be undertaken on their behalf. We are therefore satisfied that gas transporters will not be exercising discretion in populating the MSC that could lead to additional inaccuracy.

We also note that some shippers were concerned with the accuracy and validation of the MSC values. If it is felt that the level of assurance provided by the shippers' obligations is insufficient, we would urge the industry to review its arrangements in order to ensure that proper controls are in place.

### **Decision notice**

The Authority directs that modification proposal 'UNC353: Population and Maintenance of the Market Sector Code within the Supply Point Register' be made.

### **ACS decision**

We have considered the changes to the Agency Charging Statement (ACS) which have been proposed to facilitate the implementation of UNC353. We note that the proposed changes do not provide an estimated demand or an indicative charge for the services. Shippers are however at liberty to make use of the service and will only be charged if they choose not to update the MSC values themselves. We note also that the cost of the system solution ranges between £81,000 and £150,000 and its impact is therefore not likely to be material. We therefore consider the proposed cost allocation method to be reasonable and consistent with the relevant objectives of the ACS<sup>[1]</sup>.

We note that if residual volumes of unpopulated MSC values are low, xoserve may opt to utilise a manual workaround rather than develop a systemised solution. Whilst no estimate of cost for such a manual workaround has been provided, in order for that to be considered an appropriate and efficient option we would expect any charge to be within the indicative range provided by xoserve and therefore no greater than £1 per supply point. On this basis we have therefore decided not to veto this modification to the Agency Charging Statement.

**Colin Sausman**  
**Partner, Smarter Markets**

Signed on behalf of the Authority and authorised for that purpose.

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<sup>[1]</sup> The relevant objectives of agency charging statement, as contained in paragraph 11 of standard special licence condition A15 of the licence are that:

The charges for user pays services should, as far as reasonably practicable, reflect the costs of providing the service. In setting the charges for the user pays services the licensee, together with the other relevant gas transporters, shall not unduly discriminate between or unduly prefer any person or class or classes of persons.