

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

2<sup>nd</sup> March 2012

Dear Bob,

**RE: UNC Modification 0396 “EU Third Package: Three Week Switching”  
& UNC Modification 0403 “EU Third Package – 21 day switching with  
flexible objection period”**

British Gas supports the implementation of Modification Proposal 0403, but does not support the implementation of Modification Proposal 0396.

We note that whilst Mod0403 will provide a compliant solution for all supply points<sup>1</sup>, Mod0396 will however not deliver a 100% compliant solution (as detailed within section 2 of the Modification Report).

The change of supplier process is at the heart of both the industry and Shippers systems and is the key enabler to the provision of an effective competitive environment. Therefore any change to the process and associated systems has significant impacts to all UNC parties and to xoserve and should be fully understood before implementation.

It is therefore our view that the solution which is ultimately developed should be as simple and as devoid of risk as possible.

Whilst an indicative impact analysis has been undertaken by xoserve during the development stage, it has been acknowledged that the work undertaken to date is by no means comprehensive and it has further been acknowledged that further impacts and issues may be identified once a full analysis has been completed, particularly in relation to potential changes to the confirmation window proposed by Mod0396.

### **Modification Proposal 0396**

We do not support the implementation of this proposal.

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<sup>1</sup> Exception of LSPs where nomination is required and a cooling-off period is not offered

The solution proposed within this modification seeks to amend both the objection window and the confirmation window which we believe provides for a more complicated, intrusive and risky solution.

Further, the solution does not fully address the issue of supply point transfers which are also subject to the nomination process. We recognise that where a cooling-off period is offered, the nomination process can be undertaken during this period, however where a cooling-off period is not offered, then it will still not be possible to deliver a three week switch in accordance with obligations within the Supply Licence.

### Solution

This proposal has two distinct and different changes that have to be made to systems and processes and whilst the changes required to effect change to the objection window are well understood, the changes required to deliver a reduced confirmation window are not.

Xoserve and other industry parties, including ourselves, have already raised concern over the potential for knock-on impacts to other critical industry systems such as Gemini, should the confirmation window be reduced. As these potential implications cannot be identified during initial impact analysis, there is a risk that serious and potentially costly changes will only be identified once a full analysis has taken place, which would only take place following modification approval.

We are therefore of the opinion that the solution and its impacts have not been fully developed, with the full extent of changes, costs and risks not being sufficiently understood to enable the proposal to be approved at this time.

Further, we are concerned that this proposal provides a solution which could be seen as overkill, as it seeks to make significant changes for all supply point transfers, rather than addressing the specific issue that the industry is facing i.e. periods which include bank holiday periods.

### Implementation

The work of the development group has suggested that a 12 month implementation lead time will be required to deliver this proposal. However, it should be noted that this is only indicative and that this may take considerably longer should, for example, changes to the Gemini system be required.

We have concerns that due to potential for currently unknown issues to be identified, the actual implementation has the potential to take far in excess of 12 months to deliver.

In addition to the changes that xoserve will need to make, the changes required to Shipper systems and processes, particularly associated with any changes to the confirmation window, should not be underestimated and at

this time it is not possible to accurately determine the length of time it would take a Shipper to implement this proposal.

### Impacts & Costs

The Modification Report estimates that the costs associated with the delivery of this proposal by xoserve would be in the region of £700k (£200k for changes to the objection window and £500k for changes to the confirmation window).

It should be noted that any subsequent changes required to Gemini would potentially increase this estimate significantly and without such understanding of the extent of these additional costs, we cannot support this proposal, as we would in effect be providing xoserve with a blank cheque for delivery.

The costs incurred by xoserve are only a small proportion of the overall costs to the industry for delivery and it is important to consider the wider spectrum of costs that will be incurred by all Shippers in the delivery of changes to their systems and processes, which will undoubtedly run in multi £m's across the industry.

As this proposal impacts two separate elements of the change of supplier process, this increases the complexity and cost of the changes to Shipper systems. The lack of confidence on the analysis undertaken to date, specifically in relation to further potential impacts to the confirmation window, introduces the unacceptable potential for additional complexity, cost and risk.

### Provision of Opening Meter Readings

The UNC currently provides the incoming Shipper with the opportunity to provide an opening meter reading within D+/- 5 days of the Supply Start Date (SSD).

The current confirmation window is fixed at D-7 days from SSD. This currently enables the incoming Shipper a small window of opportunity to trigger processes associated with the capture of an opening meter reading, before the UNC opening read window opens.

We are concerned that the reduction of the confirmation window from D-7 to D-5 as proposed, 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 an actual opening/closing read is critical to ensuring that the customers opening & closing bill is accurate, and it could be argued that this is more important to customers than how long a customer transfer takes to occur. 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, potentially damaging competition, rather than securing it.

These impacts have not been fully explored or developed during the modification development process and should not be underestimated or ignored.

Our assessment of how Modification Proposal 0396 meets or does not meet the Relevant Objectives of Code are set out 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.***

We do not believe that, as currently drafted and developed, that the proposal meets the Relevant Objectives of Code above.

The proposal acknowledges that not all supply point transfers will be able to be achieved within the requirements set out within the Supply Licence.

The full extent of the changes and costs required to deliver the proposed solution have not been fully explored and are therefore not fully understood, therefore creating a degree of risk which is not acceptable to the industry or to individual UNC parties.

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.

### **Modification Proposal 0403**

We support the implementation of this proposal.

The solution proposed within this modification provides a sensible solution which delivers a minimum confirmation lead time of 21 calendar days, provides for a flexible objection window and does not seek to amend the confirmation window. Overall we believe that the proposal delivers a prudent, less complex and less risky solution.

We would however note that the solution also does not address the aforementioned issue of supply point transfers which are also subject to the nomination process where a cooling-off period is not offered.

Solution

This proposal has the benefit of delivering a more simplistic solution than that proposed by Modification Proposal 0396. By amending the minimum confirmation lead time to 21 calendar days and introducing a flexible objection window, it ensures that periods of the year that are impacted by bank holidays are able to deliver compliance against Supply Licence requirements.

The absence of any changes to the confirmation window significantly reduces the extent and the complexity of the system and process changes required by both xoserve and Shippers and it eliminates any risk associated with the potential for currently unknown knock-on impacts to other systems such as Gemini.

### Implementation

The work of the development group has suggested that due to the reduced complexity of the proposal, when compared to Mod0396, first indications are that timescales for delivery are expected to be less than 12 months.

We concur that the delivery of this solution by Shippers will be less complex and therefore the ability for industry parties to align their implementation dates with xoserve will be improved.

We are mindful that the EU Third Package ultimately delivered new licence conditions on Suppliers in November 2011 and that it is essential that a compliance enabling gas industry solution is implemented as soon as practicable.

We believe that this proposal provides the best opportunity for the implementation of a more timely and less risky solution.

### Impacts & Costs

Whilst the Modification Report does not provide any detail of the estimated costs associated with the delivery of this proposal by xoserve, it has been made clear during development that the costs to xoserve will be considerably less than those associated with the delivery of Mod0396, predominantly due to the lack of requirement to make any changes to the confirmation window.

The costs incurred by xoserve are only a small proportion of the overall costs of industry delivery and it is important to consider the wider spectrum of costs that will be incurred by all Shippers in the delivery of changes to their systems and processes, which will undoubtedly run in multi £m's across the industry.

However, as there will be no requirement for Shippers to amend processes and systems linked to the confirmation window, the level of costs associated with these changes will be considerably less than Mod0396.

Further, the level of risk to Shippers, associated with the potential for xoserve to find more complex issues once more detailed analysis has been completed, is significantly less for this proposal.

#### Provision of Opening Meter Readings

This proposal does not impact the existing UNC obligations and rules associated with the provision of opening meter reading.

Therefore this proposal has a significant advantage over Mod0396 as the risks and issues identified under our response to Mod0396 are not applicable for this proposal.

Our assessment of how Modification Proposal 0403 meets or does not meet the Relevant Objectives of Code are set out 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.***

We believe that, as currently drafted and developed, the proposal meets the Relevant Objectives of Code above.

Notwithstanding the aforementioned issue with regard to supply point transfers that require nomination but do not have a cooling-off period, the proposal will deliver compliance with the Supply Licence obligation to effect a three week switch within the 'relevant date'.

The extent of the changes will seek to ensure and provide a consistent change of supplier timeframe and experience for all customers, which we believe will assist in securing effective competition.

#### User Pays Classification

Whilst we support the solution proposed by Mod0403, we do not support the view that the proposal should be classed as User Pays and that 100% of the implementation costs should be passed to Users.

Rather, we believe that as proposed under Mod0396, Network owners should bear the cost of the change to xoserve systems that process the transfer, with Shippers and Suppliers incurring the costs associated with their individual internal system and process changes.

The requirement to deliver a 3 week switch has been imposed on the UK by EU legislation, under the EU Third Energy Package. Whilst Suppliers have

been provided with a Supply Licence obligation to facilitate a 3 week switch, Gas Transporters also have relevant Licence obligations to *'establish transportation arrangements'* to *'facilitate the achievement of the following objectives'* which include:

*'so far as is consistent with sub-paragraphs (a) to (c) the securing of effective competition between relevant shippers and between relevant suppliers;'*

*'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,'*

We therefore do not believe that all costs, both those associated with changes to industry systems and those associated with individual Shipper changes, should be levied to Users.

If you have any queries relating to this representation, please do not hesitate to telephone me on (07979) 567686.

Yours sincerely,

Graham Wood  
Regulatory Manager