

To: Gas Suppliers  
Electricity Suppliers  
I & C Consumer Groups  
Energywatch

Your Ref:  
Our Ref: SUPPLY/01/03  
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30 October 2001

Dear Sir/Madam,

## **Permitting electricity suppliers to object to Industrial & Commercial customer transfers**

I am writing to invite your views on a proposed modification to the Master Registration Agreement (MRA) which would permit electricity suppliers to prevent Industrial & Commercial customer transfers where a valid contract that has not been terminated.

Ofgem must approve this modification to the MRA if it is to come into effect. Before making a decision we are seeking the views of customers and suppliers.

### **Background**

The industry systems that support the change of supplier process have the functionality to allow the customer's current supplier (Supplier A) to prevent the proposed transfer of the customer to

the potential new supplier (Supplier B). This is referred to in the industry as the objection process, with Supplier A raising an objection to supplier B's registration request.

In electricity, the circumstances in which Supplier A can raise an objection are defined in the MRA. For all customers, Supplier A can object to a transfer at the request of Supplier B for example when they have made an error, or where a related Metering Point has not been registered for simultaneous transfer.

Supplier A may also object to the transfer of a supply point at domestic premises<sup>1</sup> where;

- there is an outstanding debt or;
- the customer's contract will neither expire or be terminated by the proposed start date.

Parties to the MRA have voted to accept a proposed modification to enable Supplier A to object to the transfer of *any* premises where their contract with the customer will neither expire or be terminated by the proposed start date. This would have the effect of extending Supplier A's right to object to Industrial and Commercial customers.

## **Modifications to the Master Registration Agreement**

Electricity suppliers and distribution companies are obliged by their licence to sign the MRA and comply with its obligations. Parties to the MRA may propose changes to any of its requirements or related documents which together define the processes and data which support the retail market for electricity and in particular, the change of supplier process.

The MRA also defines a change management process that sets out the procedures by which modifications are considered. For certain defined clauses, Ofgem must approve a modification before it can be implemented. One of these is Clause 16, which sets out the procedure and circumstance for the use of objections.

Changes to the rules that govern the use of the objection facility have a direct impact on customers, who are not represented during the MRA change management process. This is why Ofgem is consulting customers and consumer groups on the proposed change.

## **Objections for insufficient contract termination**

### *The gas market*

In the retail gas market, there is a similar functionality in industry systems that permits Supplier A to raise an objection to prevent a proposed customer transfer. The circumstances in which a supplier may raise an objection are governed by their standard licence conditions (Condition 30) and are similar to those defined in the MRA. Supplier A may object to the transfer of any customer where;

- there is debt (charges demanded in writing that have been unpaid for 28 days) or;
- the contract will neither expire or be terminated by the proposed start date.

Annex 1 sets out the background to last years consultation on objections in the gas supply market.

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<sup>1</sup> Means premises at which a supply is taken wholly or mainly for domestic purposes.

## *The electricity market*

As stated above, the MRA defines the circumstances in which an electricity supplier may prevent a transfer taking place. OFFER (The Office of Electricity Regulation) clearly stated when the MRA was being prepared that disputes between Industrial and Commercial customers and suppliers over their contracts should not prevent the customer from transferring supplier.

Industry parties signed the MRA in June 1998. Since then there have been a number of cases where suppliers have objected to Industrial and Commercial customers in breach of the MRA. Some suppliers have argued that blocking a proposed transfer would allow them to provide good customer service – for example in the management of multi-site contracts. This led to disputes between suppliers over the interpretation and operation of the MRA.

The proposal to modify the MRA (MRA change proposal 87), sets out three reasons why the change is desirable:

*1. It will reduce the risk of suppliers being exposed to an energy imbalance risk. The recent introduction of NETA increases the need for suppliers to have surety with regard to their portfolio. The current absence of this increases the risk that there will be a need for SoLR<sup>2</sup> to be used. If this change were accepted it would reduce that risk.*

*2. It will allow Supplier A to object where one premise in a group contract inadvertently goes through a change of supply which has not been sanctioned by the customer's HQ. This is a source of annoyance to customers when they are currently told the old supplier cannot stop the registration. There have also been occasions where single site customers have complained that Suppliers have not objected to a change of supply, where the customer has found that an agent/third party has triggered a change of supply erroneously.*

*3. It will align electricity to the gas objection process, where old suppliers can object to the loss of Industrial & Commercial customers on the grounds of contract.*

## **Conclusion**

The operation of the current arrangements in gas has led in some cases to customers complaining that they have been locked into being supplied by their existing supplier and that the termination restrictions in contracts gave the supplier an unfair advantage. It is for consideration whether approving the proposed modification to the MRA would similarly disadvantage electricity customers?

Ofgem request views on the proposal to permit electricity suppliers to prevent non-domestic customer transfers where there is a valid contract that has not been terminated. In particular:

- Should the rules permitting objections be harmonised for gas and electricity?
- Is it appropriate for a supplier to prevent the transfer of Industrial & Commercial customer?

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<sup>2</sup> SoLR – Supplier of Last Resort. It suggests that suppliers would be better able to manage energy balancing for their portfolio if they had the increased certainty about the size of their portfolio through the use of objections. This would reduce financial risk and therefore the likelihood of a financial failure of a supplier and consequent need for Ofgem to appoint a SoLR.

If you wish to comment, it would be helpful if responses could be submitted to Catherine Monaghan (Catherine.Monaghan@ofgem.gov.uk) by Friday the 7 December 2001. It is open to respondents to mark all or part of their responses as confidential. However, Ofgem would prefer as far as possible that responses are provided in a form that can be placed in Ofgem's library and published on our web site.

Yours sincerely,

Nigel Nash  
Head of Market Infrastructure