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Dear Nigel

## Customer Transfer Process

I write with respect to Ofgem's discussion document on the customer transfer process. Shell Gas Direct (SGD) is supportive of the need to ensure that customers' experiences of the competitive market are positive. However, there are some issues regarding this document and the associated work by a group of domestic suppliers upon which we provide comments as below. Key issues are:

- the requirement to clearly define the different supply markets: domestic and industrial & commercial (I&C);
- clarity is needed on what problems are being encountered in the electricity industry, which are occurring in the gas industry and which affect both;
- Ofgem and/or energywatch need to much more clear about what problems they believe consumers are encountering in the *I&C gas market* (as opposed to I&C electricity or domestic electricity and gas markets).

## Defining terms

Ofgem's document is unclear as to what market sector it is referring to: the words 'consumer' and 'supplier' are used without differentiating between domestic and industrial and commercial markets. In many areas, it appears that Ofgem is discussing concerns which can only apply to the domestic market but this is not made clear. However, many of the proposals could result in costs to the I&C market. We recommend that future discussions in this area makes clear which market sector is under discussion.

## Industry "agreement" on taking work forward

While we welcome the work that is being undertaken by domestic energy suppliers (perhaps by the Energy Retailers Association), we consider it to be very important to start by *defining* the issues in the industrial and commercial (I&C) market as distinct from that in the domestic market and to *clearly identifying* what the problems are, and in which regime (ie gas and/or electricity) they arise. We support the view expressed by Scottish and Southern Energy (SSE) that this process must be completed first. To this extent, we are surprised that Ofgem is asserting that the industry agreed to improve customer transfer processes by the end of June 2004. We cannot recall that this was the outcome of the summit on 11 June 2003 which instead agreed that a

selected group of domestic suppliers and others would carry out work to define the problems. Only once problems are clearly identified should any work, if required at all, be commenced to start to solve these. And, it is only at this stage should any targets for implementation dates be set. There is little value in proclaiming dates to achieve something when we are not clear what is to be achieved, nor even whether it is necessary.

### ***I&C problems in gas and electricity markets***

We recognise that I&C consumers do have concerns regarding the transfer process. From our discussions with these consumers, problems appear to be arise most frequently in the electricity market. It was unfortunate that no gas-focussed I&C consumer representatives were invited to the summit. In fact, it appears that they were unaware of the event until I mentioned it at an earlier Transco customer forum. We have been unable to find any statistics regarding complaints in the I&C market on energywatch's website and therefore cannot make any judgement about the extent of concerns in respect to the I&C markets. However, we do note that in the domestic market, 78% of gas switchers found the process easy while only 57% of electricity switchers did. We assume that the proportions would be similar for I&C consumers. We also note that work in this area to date as set out in the background chapter has almost wholly focussed on the electricity market.

### ***Work carried out to improve the transfers in the gas I&C market***

When the gas market first opened to competition for I&C consumers, and following the introduction of the Network Code, considerable difficulties were encountered. The development of the Industrial and Commercial Code of Practice (ICOP) and the work of the Gas Forum group in this area has led to a significant reduction in the number of inter-shipper disputes (ISDs) and resources committed to this area by I&C suppliers. This increased efficiency benefits consumers. Furthermore, a guide for I&C consumers was produced to help them understand the process of changing supplier. This guide is now out of date but the Gas Forum hopes to be able to produce an updated version in the near future.

The customer transfer process for gas I&C consumers should also have been helped with the introduction of Transco's customer information website initiative. This allowed customers to check the details which Transco held about their sites. Incorrect data could often slow down transfers and this ability to check that it is right should have assisted consumers in overcoming problems in this area.

We would welcome further clarification from Ofgem and/or energywatch as to what problems they have identified in the gas I&C market.

### ***Impact of domestic market changes on the I&C market***

We are concerned that changes could be which amend the I&C gas transfer process but are only for the purpose of improving domestic processes. This can add costs and complexity without any commensurate benefits for the I&C market. Ofgem must take a role in ensuring that any decisions taken by it or by industry participants do not benefit one part of the market at the expense of another. We know that I&C consumer representatives have expressed disappointment with Ofgem's decision on Modification 0487 which allows the incoming shipper to know the identity of the outgoing shipper. While this may have been a practical change for the domestic market, Ofgem's decision failed to address the different concerns of I&C consumers and suppliers. However, we must emphasise that these remarks should not be read to imply that SGD does not support changes which would improve the operation of the competitive supply

market overall and/or can benefit the domestic supply market with minimal effects on the I&C gas market.

An example where conflicts between the domestic and I&C markets could arise is in attempting to ensure that domestic gas and electricity switching timescales are brought together to cater for domestic dual fuel consumers. The different arrangements in the gas and electricity I&C markets makes dual fuel offers less attractive to consumers and are, therefore, less usual. Almost all contracts for gas and electricity for the I&C market are for fixed terms (usually one year) and I&C customers prefer to negotiate terms for electricity and gas separately. Gas contracts often start in October with the Gas Year and electricity contracts in April. There is not a great deal of value in bringing these systems together for the I&C market. However, gas I&C consumers are likely to welcome any changes which speeds the process of changing supplier. It must be noted that it is not only data availability which will be affected by switching timescales but there will also be impact on transportation charging as the gas industry is driven by demand quantities, not settlement.

### ***Ofgem's role***

In our view Ofgem has a more direct role in transfer process developments than it suggests. Ofgem's initiatives can have a significant impact on the ability of suppliers and shippers to invest in systems to improve the transfer process. For example, considerable investment was made in systems to implement NETA which made it difficult to invest in systems to improve in the electricity transfer process at the same time. The introduction of competition in metering services and the accompanying proposed changes to the gas industry governance system holds the potential to make the problems with transfers and billing worse, not better. We note that this document concentrates on problems in electricity and are therefore concerned that the introduction of the "supplier hub" approach for gas could be replicating the problems found in electricity. We are also concerned that Transco's proposed sell-off of one of its LDZs could also introduce further complication and introduce new problems in the gas market. We have welcomed Ofgem's commitment to do regulatory impact assessments (RIAs) and assume that when considering proposals aimed at improving the transfer process or which could impact it, full RIAs will be carried out.

We agree with Ofgem's view that it would be inappropriate for it to take on the role of project manager for any initiatives to improve the customer transfer process. However, we do not consider that it is essential that Ofgem is able and willing to participate in discussions on developments. While Ofgem must be aware of the requirement to not fetter its discretion to make final decisions, we do not consider that this necessarily means that no views can be expressed in the development of proposals.

If you have any queries regarding the above, please feel free to contact me on the above telephone number.

Yours sincerely

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**Regulatory Affairs Manager**

cc: Mrs Anne Robinson, energywatch