

## ISSUES PAPER – CONTROL SHEET

Title of Paper	<b>Need for customer differentiation in the CRS</b>		
Issue Ref		Date:	8 August 2016
Issue Owner (Accountable)	Jenny Boothe		
Author of Paper (Responsible)	Harshini Samarakoon		
Status of Paper	1 – Initial development and review 2 – Draft for workstream leads review 3 – Draft for User Group review 4 – Draft for EDAG review 5 –Final recommendation to DA		
Timing	Interdependency with BPD i03 Objections		
Dependencies	No dependencies external to the programme		

Circulation	Workstream leads/ Design Team/ DIAT/ User Group/ EDAG/ DA Huddle/ Website
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Issue	Does the CRS need to contain functionality and/or indicators that allow it to distinguish domestic from non-domestic customers		
Impacts Domestic?	Yes	Impacts Non-Dom?	Yes
Policy Objective (and reference to ToM v2)	TOM v2 (para 8.3): We want all domestic and non-domestic consumers to be offered next-day switching. Where this is not possible, any differences should be minimised and justified. During the Blueprint stage we will consider whether it is necessary to build in any different arrangements to manage any specific consumer requirements.		
Previous Positions on this/related Issues	None  Related issues: BPD i25 Advance Registrations BPD i28 Agent Appointments BPD i23 Standstill BPD i03 Objections CRS Management of a Supplier of Last Resort Event Policy Paper		
Summary of Recommendations	Our recommendation is to not have a customer type indicator in the CRS as it is neither necessary from a switching perspective, nor is it necessary to effect a switch. This can only be a tentative recommendation as if it is decided, following the RFI, to have a different approach for domestic and non-domestic customers for objections, the switching system will be designed and built to have functionality to handle the different processes based on customer		

	type. This would also require a customer type indicator in the CRS to identify which process to apply to each customer. Three objections scenarios are being modelled for the RFI, the outcome of which will be revisited in making a final decision on the need for customer differentiation in the CRS.
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Internal and External Engagement and Record of Decisions	
Business Process Design	Author
Regulatory Design	Policy Paper circulated to Switching Programme on 3 August 2016 for comment
Delivery Strategy	
Commercial Strategy	
DIAT	Reviewed by Barry Coughlan and Tom Fish on 4 August 2015
Legal	
Other Ofgem Teams	
Meetings at which this paper has been discussed	
Workstream Leads Meeting	Slides discussed at 29 June 2016 Workstream Leads meeting
User Group	Discussed at UG meeting on 15 August 2016
EDAG	
Other External	Received comments from BPD Design Team in August 2016
DA	

## ISSUES PAPER – CONTENT

### Issue

1. The issue addressed by this paper is whether the switching system needs to contain either functionality and/or indicators that allow it to distinguish domestic from non-domestic customers.
2. The term Central Registration System (CRS) is used to indicate both the 'switching system' and the Market Intelligence Service (MIS) as a whole.
3. The switching system will provide a range of functional services. The TOM v2 defines a functional service as 'an activity, or set of activities that the switching system will be required to perform'. It is expected that if the CRS needed to perform a functional service based on customer type, it would be performed by the switching system.
4. The MIS will be a database and/or service holding data elements required by all participants to successfully deliver the switch. An indicator in this context could be a static flag which would identify a meter supply point as a domestic or non-domestic customer at the point of registration or a new switch. It is envisaged that this flag would be contained in the MIS, as opposed to the switching system, as it would be a source of data rather than perform an active function.
5. How this issue is resolved will depend greatly on the final policy decisions in relation to objections following the RFI, and whether it is decided that a different approach will need to be taken based on customer type.

### Essential Background

#### *Current arrangements for distinguishing domestic and non-domestic customers*

6. 'Domestic customer' and 'Non-domestic customer' are defined in the standard conditions of electricity and gas supply licences (see Appendix 1). There are different licence conditions associated with each customer type, such as greater protections, more regulation and information provision needs for domestic customers.
7. As the licence conditions differ based on customer type, suppliers have a legal obligation to know whether they are entering into a contract with a domestic or non-domestic customer. Appendix 1 provides a non-exhaustive list of other distinguishing features of domestic and non-domestic customers.
8. Electricity and gas suppliers currently have different ways of distinguishing domestic and non-domestic customers from data held in industry systems. Electricity suppliers infer

customer type from profile class (see Appendix 1). With the introduction of half-hourly settlement in the future, it is unlikely suppliers will be able to continue to do this. However, for half-hourly settled customers, domestic customers can still be identified by the measurement class. The exception will be domestic customers with current transformer metering, though this is rare. Some electricity suppliers also operate a different Market Participant ID for non-domestic customers.

9. Gas suppliers distinguish customer type by way of domestic and non-domestic flags on gas meter points, which is discussed in greater detail below.

#### *Current registration systems*

10. The TOM v2 states that the CRS will replace agreed functionality provided by the current MPAS and gas registration systems and will hold relevant details for each registered gas and electricity supply point on Gas Transporters (GTs) and Distribution Network Operators (DNOs) networks. The CRS will be the master source of a defined set of industry data needed to support the switching process.
11. In the electricity market, DNOs are required to operate Meter Point Administration Services (MPAS) that facilitate the change of supplier process. They are also required to provide enquiry services which support the switching process and make data available to relevant parties, for example electricity suppliers.
12. Each MPAS holds a record of all the supply points on the relevant DNO or iDNO network. This record includes the profile class of each meter point as per the settlement rules, rather than customer type. Generally, profile class can be used to infer a domestic or non-domestic customer. The identification of customer class is needed to correctly apply consumer regulations and manage obligations around vulnerable customers, but does not serve an identifiable purpose from a switching perspective.
13. In the gas market, GTs are required to operate registration services that facilitate the change of supplier process. They are also required to provide enquiry services which support the switching process and make data available to relevant parties, for example gas shippers and suppliers.
14. The gas registration service holds a record of all of the supply points on the network. This record includes the Market Sector Code which identifies a customer as D for 'domestic' or I for 'industrial and commercial' to show the purpose for which the gas is used. This information is updated at every new switch.
15. It is understood that the customer type information records which are held on the current registration systems cannot, at any given point in time, be relied on to be 100 per cent accurate. This is true, even in the case of the gas registration system where the

Market Sector Code is a mandatory field in the system that must be filled in at every new switch.

16. A study of the current gas and electricity registration systems show that the customer type information that they currently hold does not serve a purpose from a switching perspective. That is, this information is not necessary to enable a switch to take place and has no functionality differentials within the switching arrangements.

#### *Current uses of customer differentiation in gas and electricity markets*

17. The Smart Energy Code (SEC) sets out the Data Communications Company's (DCC's) charging objectives and calculations. The methodology provides for different means of calculating fixed charges, depending on whether a smart metering system is for domestic or non-domestic premises.<sup>1</sup>
18. The SEC states that for electricity, the DCC will estimate the number of domestic and non-domestic premises based on registration data using profile class in the case of MPAN associated smart metering systems.
19. The SEC states that for gas, the DCC will estimate the number of domestic and non-domestic premises based on registration data using market sector code in the case of MPRN associated smart metering systems.
20. For both electricity and gas, the SEC states that DCC will use some other sensible proxy where the registration data does not readily identify whether a premises is domestic or non-domestic.
21. It is planned that with the rollout of smart meters, DCC charging will move from a market share basis to an enrolled smart meter basis,<sup>2</sup> which will do away with the need to divide the market up by customer type for these purposes. However, there will be a need to maintain profile class and market sector code in the current systems until such time as charging on an enrolled smart meter basis is achieved in full.
22. The SEC currently states that fixed charges for smart metering systems for domestic premises will not differ by region but that they do vary by region for non-domestic premises.<sup>3</sup> This differentiation may necessitate a need for a customer type indicator in the CRS. However, the (former) Department of Energy & Climate Change recently consulted on extending uniform pricing to the non-domestic sector, and as a consequence, aligning the non-domestic DCC charging regime with the domestic by

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<sup>1</sup> Section K3.4; SEC4.15

<sup>2</sup> Section K3.2; SEC4.15

<sup>3</sup> Section K3.6, K3.8; SEC4.15

making charges uniform across regions.<sup>4</sup> The outcomes of this consultation are not yet known but once public, will feed into the ultimate decision making on this issue.

23. In gas, shippers have an obligation in the UNC to populate and maintain the Market Sector Code for supply points where they are the relevant shipper. This has been mandatory since 2011. It is unclear whether this information has any value for the parties that use it, outside of aiding the general governance and functioning of the gas market.

[EDAG views on this are invited]

24. Standard conditions 17.9-17.11 of the gas supply licence places an obligation on gas suppliers to inform the relevant shipper whether a premises is domestic or non-domestic within 3 days of becoming the supplier of that premises. This has been mandatory since 2001. As a substantial proportion of suppliers have in-house shippers, it would be a relatively small number of suppliers that would need to do this.

25. It is also possible to submit the Market Sector Code outside the registration process via another file flow, UK Link file format T73 File (Market Sector Code Change Request) which has a corresponding response file known as T74 File. While this may not be as rigorous or efficient as the registration process, it may provide a suitable alternative in the interim period to future DCC charging obligations and provide a suitable means for shippers and suppliers to meet their obligations.

26. We understand that there is no reporting based on reporting requirements from UKLink or MPAS which distinguish between domestic and non-domestic customers.

[EDAG is invited to identify any circumstances where there are reporting requirements based on customer type]

## Analysis

### *Functionality versus indicators*

27. It is important to note at this point the distinction between functionality and indicators. The policy issues that have considered a different approach based on customer type have done so in the context of functionality. That is, whether the switching system would need to perform different functions on the same policy issue based on customer type.

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<sup>4</sup> 'Further consultation on non-domestic smart metering: the DCC opt-out'; DECC Smart Metering Implementation Programme, 21 April 2016

28. In contrast, indicators for domestic and non-domestic customers could be used as a marker by suppliers to indicate the customer type associated with each meter supply point, as at the previous switch. This information would most likely be contained in the CRS for information purposes only.
29. The understanding is that it is not common for customer type to change when customers change supplier as it would have to be a change of use at a premises. Therefore it is not expected that this indicator would frequently change.
30. Whether there is a need for differential functionality based on customer type will depend on whether the final position taken on various policy issues states that a different approach is needed for domestic and non-domestic customers. The policy issues which have considered this are discussed below.

#### *Advance Registrations*

31. The Advance Registrations Policy Paper made no specific recommendation on whether domestic customers should be distinguished from non-domestic customers, it only stated that to do so would add complexity to the design of the CRS.
32. Some members of EDAG and the User Group felt that different time periods should be applied to the two to reflect the longer lead time of contracting arrangements for non-domestic customers. A longer period would also provide suppliers with the comfort that their switch is locked in as no other registration requests could be accepted for that meter point.
33. An advance registration period of 28 days was chosen as it allowed for a harmonised parameter, which also took into account the longer lead time that is sometimes necessary for non-domestic customers.
34. The Design Authority agreed to a 28 day advance registration period with no distinguishing requirement and for functionality to be built in the new switching arrangements to amend this period in the light of operational experience.

#### *Agent Appointments*

35. The issue of differentiation by customer type was not discussed in the Agent Appointments Policy Paper. However, non-domestic customers who have registered in advance of the switch date may have industrial sites that require agents to carry out certain functions at the time of registration confirmation, prior to switch execution when notice is ordinarily given to agents. This may be for practical purposes, such as accessing relevant equipment.

36. EDAG suggested the CRS send out separate notices to be issued at (a) confirmation of a registration and (b) execution of the switch has been accepted. This would apply to all switches so will not require any differentiation to be made. This issue is still pending final approval from the Design Authority.

### *Standstill*

37. The recommendation made in the Standstill Policy Paper is to apply the same standstill period for all customers. This particular recommendation was not commented on by User Group or EDAG members.

38. The Design Authority agreed that the design should allow for different standstill periods for smart and traditional meters and that it would be 5 days for everyone for the RFI. Thus the capacity for differentiation has been applied to meter type rather than customer type.

### *Objections*

39. The recommendation in the Objections Policy Paper is for domestic and non-domestic customers to both be subject to the same instant objections process, which allows the start of next day timetable to be achieved by all customers. This was put forward as the preferred option on the grounds of customer experience and speed, but is subject to a costs analysis to be conducted at the Request for Information (RFI) stage.

40. A few suppliers proposed that while the 'instant' approach is appropriate for domestic customers, a period allowing for manual review should be allowed for non-domestic customers. This is because non-domestic switches are generally submitted in advance of the switch date so the timing constraints of next-day switching do not apply. This option will be considered in greater detail when the costs of the different approaches are better understood. It should be noted that this approach would require suppliers to keep an up to date record of the customer class for each meter point i.e. domestic or non-domestic.

41. The Design Authority agreed to include the following three options in the RFI:

- Instant objections, using a new database of pre-loaded objections
- Instant objections, where suppliers are required to provide an instant response to a request for information from the CRS
- "Compressed window" objections, where a supplier has [five] hours to respond to a loss notification from the CRS

42. If it is decided, following the RFI, to have a dual approach to objections based on customer type, then the switching system would need to be designed and built to account for the different processes for handling objections for domestic and non-



domestic customers. The CRS would also need to include an indicator as an identifier of customer type for the purpose of applying the correct objections process. This indicator, which would be updated at each customer switch, would be used for the purpose of applying the correct objections process.

43. Conversely, if a consistent approach to objections is adopted for domestic and non-domestic customers, neither functionality nor an indicator would need to be built into the switching system.
44. Which option is chosen will depend on the outcome of the RFI, which will provide a better understanding of the costs associated with the different options for objections.
45. Therefore the only policy issue which may require differential functionality based on customer type to be built into the switching system is objections.

#### *Microbusinesses*

46. Ofgem has defined a non-domestic customer as a microbusiness if they meet certain criteria relating to consumption, number of employees or annual turnover. The reason for defining microbusinesses is to provide them with greater protections than other non-domestic customers.
47. A minority of User Group members supported the proposition that microbusinesses could be a third category of customers. However, none of the policy issues have found a need for the CRS to differentiate based on whether a customer is non-domestic or a microbusiness. Furthermore, microbusinesses are not a feature of the current gas and electricity registration systems. Therefore, we do not propose to pursue this any further.

#### *Supplier of Last Resort event*

48. Some members of the User Group commented that the portfolio report that is produced by the CRS to support the appointment of a supplier of last resort (SoLR) may need to distinguish customer type.
49. Consistent with the CRS Management of a Supplier of Last Resort Event Policy Paper, the breakdown of the failed supplier's portfolio by customer type will be obtained from the failed supplier, rather than the CRS. The CRS will not be relied upon for customer type information.

## Options

50. For the purpose of this paper, the working assumption is that Ofgem's preferred position to take an instant objections approach to both domestic and non-domestic customers<sup>5</sup> will stand.
51. The discussion on the options is predicated on there being no need to build differential functionality based on customer type into the switching system, as domestic and non-domestic customers will be treated the same from a systems perspective.
52. Two options have been considered on the issue of whether the CRS needs to contain functionality and/or indicators that allow it to distinguish domestic from non-domestic customers.
53. Both options propose that the same rules would apply to electricity and gas registrations, in the interest of harmonisation and consistent with the ambition of TOM v2.
54. The proposed options are:
- a. Option 1 – No indicator or functionality in the CRS to distinguish domestic from non-domestic customers
  - b. Option 2 – Include a customer type indicator in the CRS
55. Option 1: The CRS would not contain any indicators or functional services relating to customer type. That is, there would be nothing in the switching system or CRS to distinguish domestic from non-domestic customers.
56. Option 2: The CRS would hold an indicator that will identify a meter point as domestic or non-domestic. This indicator would be a mandatory field which the gaining supplier would have to provide on every registration request.

## Options assessment

57. Option 2 may lead to a duplication of supplier systems. It is understood that for the reasons listed in Appendix 1, supplier systems already contain data on customer type, for example, for the purpose of applying the correct VAT rate. As this information is already captured in their systems, it would be an unnecessary cost and complexity to add a customer type indicator to the CRS. Existing supplier systems could also be used to collate information for reporting or statistical purposes, as is currently done.

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<sup>5</sup> As stated in the Objections DA Discussion Paper; at <https://authors.ofgem.gov.uk/system/files/docs/2016/07/objections.pdf>

58. Option 1 meets the design principle of simplicity as it is one less data point to include in the CRS, which makes the whole switching system simpler to design. Less data elements in the CRS will also make the switching system easier to administer and maintain.
59. In contrast, option 2 requires ongoing maintenance to ensure that an indicator relating to customer type in the CRS is kept up to date at all times. The onus would be on the gaining supplier to update the customer type indicator at the point of every new registration or switch. From a data integrity point of view, making the customer type indicator a mandatory field in the registration request would ensure that it was always filled in and kept up to date but as the current registration systems show, even that would not guarantee total reliability. For example, where the same supplier is retained by a series of different customers at a premises.
60. Multi-site contracts create a further complication to distinguishing by customer type. Condition 6.6 of the standard conditions of both the gas and electricity supply licence states that a domestic premises supplied by the licensee under a multi-site contract will be treated as a non-domestic premises until that contract ends.
61. One benefit of having the CRS contain a customer type indicator is that this information could be stored in one location, rather than having to source it from various supplier systems. The CRS would provide a one-stop-shop which could be used by CRS users who may have some use for this information but would otherwise be unable to access it.
62. Potential users of the CRS, such as third party intermediaries, may have some value for this information, such as validation of customer type or for marketing purposes. It is hard to say whether customers would experience a more reliable or targeted service if TPIs had access to this information.
63. The availability of a customer type indicator may also be useful for other industry operations, such as validating whether a non-domestic supplier is trying to acquire a domestic premises. However this becomes complex in the event of multi-site situations.
64. The current gas and electricity registration systems contain records on customer type, either by way of a proxy or market sector code. However, this information does not serve a purpose from a switching perspective and therefore is not essential information for the CRS to hold.
65. It is important for the purpose of keeping within the scope of the switching programme that the CRS only contain information that is necessary to effect a switch.

## **Recommendations**

66. The User Group is invited to comment on the team's conclusions as follows:

- a. Our preference is option 1.
- b. This can only be a provisional recommendation at this point as we have agreed to model different objections scenarios.
- c. If, following the RFI it is decided non-domestic and domestic objections should be treated differently, then this automatically means we need a way of differentiating between customer types.
- d. For now, we are not considering this issue further but our stance will be validated post RFI, if necessary.

67. **Our preference for Option 1** is subject to the analysis of costs to be collected through the RFI later in the Blueprint phase on objections. Option 1 is preferred on the grounds that it is the easiest to implement and maintain, but also that it is most in keeping with the scope of the switching programme.

## Justification

### *Business Process Design User Group*

68. A few User Group members challenged the recommendation, suggesting that (a) there may be future requirements for a domestic / non-domestic indicator and (b) that experience of DCC indicates that it could be cheaper to include this functionality now rather than introduce it as a modification.

69. While it is accepted that retrofitting functionality into the CRS may be a costly exercise, it is not possible to design and build functionality for a functional operation that does not yet exist.

70. Other comments from User Group members have fed into the further development of the paper.

*Summarise the rationale that Ofgem can use in the Blueprint consultation or elsewhere to justify the recommendations that DA is being invited to agree.*

*Generally this will be completed following engagement with the User Group and/or EDAG / DA review of this issue.*

## Appendix 1 – Distinguishing characteristics of domestic and non-domestic customers

Category	Domestic	Non-domestic
Settlement	Profiled (Ofgem is currently considering whether domestic and small non-domestic customers should also move to half-hourly settlement with the introduction of smart meters)	Half-hourly
Load profiles (electricity only)	Profile classes 1 and 2	Profile classes 3 to 8
Market Sector Code (gas only)	D for 'domestic supply point'	I for 'industrial/ commercial supply point'
MPAN	The first two digits of all electricity customers' full (21-digit) MPAN indicate the Profile Class they belong to	
Standard conditions of electricity and gas supply licences	<p>Domestic customer - means a Customer supplied or requiring to be supplied with electricity/gas at Domestic Premises but excludes such Customer insofar as he is supplied or requires to be supplied at premises other than Domestic Premises</p> <p>Domestic premises - Unless the context otherwise requires, a Domestic Premises is a premises at which a supply of electricity/gas is taken wholly or mainly for a domestic purpose except where that premises is a Non-Domestic Premises</p>	<p>Non-domestic customer - means a Customer who is not a Domestic Customer</p> <p>Non-Domestic Premises - Unless the context otherwise requires, a Non-Domestic Premises is a premises, that is not a Domestic Premises, at which a supply of electricity/gas is taken and includes:</p> <p>(a) a premises where:</p> <p>(i) the person who has entered into a Contract with the licensee for the supply of electricity/gas to the premises is a person who has entered or will enter into an agreement with any other person for the provision of a residential or any other accommodation service at the premises; and</p> <p>(ii) the terms of the agreement referred to in sub-paragraph 6.2(a)(i) are commercial in nature and include a charge for the supply of electricity/gas to the premises (whether such charge is express or implied); and</p> <p>(b) any other premises that is to be treated as a Non-</p>

		<p>Domestic Premises under paragraph 6.4 ()or 6.6</p> <p>From 31 March 2014, a non-domestic consumer is defined as a micro business if they meet one of the following criteria:  Employs fewer than 10 employees (or their full time equivalent) and has an annual turnover or balance sheet no greater than €2 million, or  Consumes not more than 100,000 kWh of electricity per year, or  Consumes not more than 293,000 kWh of gas per year.</p>
VAT	5%	20%
Climate Change Levy (CCL)	Not charged CCL	Charged CCL
Cooling off	Statutory requirement of 14 days under Consumer Contracts (Information, Cancellation and Additional Charges) Regulations 2013	No legal requirement, but may be negotiated with supplier

## Appendix 2 – Options evaluation

Design Principle	Option 1: No indicator or functionality in the CRS	Option 2: Include a customer type indicator in the CRS
Impacts on customers		
1 Reliability for customers	Unlikely to affect reliability	Unlikely to affect reliability
2 Speed for customers	Unlikely to affect speed	Unlikely to affect speed
3 Customer coverage	All customers covered	All customers covered
4 Customer switching experience	Unlikely to directly affect switching experience	Unlikely to directly affect switching experience
Impacts on industry		
5 Competition	Should be little to no impact	Some CRS users may be able to provide more targeted, customer specific solutions if they know customer type
6 Design – simplicity	Suppliers will have one less field to fill/maintain at the point of a new switch	Suppliers will have one more field to fill/maintain at the point of a new switch
7 Design – robustness	No obvious impact	No obvious impact
8 Design – flexibility	The CRS will have to be updated for any future arrangements which require customer differentiation	A customer type field may be of use where future arrangements require it
Impact on delivery, costs and risks		
9 Solution cost/benefit	These design principles will be assessed when responses to the RFI have been analysed	
10 Implementation		