July 2001

Gas supply market : Change of Supplier process and governance arrangements

A consultation document

Summary

When gas suppliers acquire new customers, they have, to date, assumed that the meter in place has been provided by the transporter. For this reason, when a consumer changes supplier, the new supplier has not needed to take any positive action in regard to meter provision.

A consequence of increasing the level of competition in the provision of gas meters is that the number of meters owned by the transporter will decrease over time. Accordingly a modification to Transco's UK Link system is about to be made which will inform the new supplier whether or not Transco has provided the meter in place. If not, the supplier will need to contact the old supplier with a view to making arrangements for the continued provision of the meter.

Ofgem is seeking views on two options for further amendments which are intended to help smooth the transfer process.

The process that allows consumers to change supplier will require communication between suppliers in order to make arrangements for meter provision. Although the existing gas suppliers' licence sets out a framework for such communication, Ofgem considers that new governance arrangements may be required. The absence of such arrangements creates the potential for distortion to the metering or supply market, or both.

At present the governance arrangements relating to both retail and wholesale, i.e. supply and shipping/transportation, activities are set out in the relevant gas transporter's Network Code. Suppliers have raised a number of concerns with Ofgem regarding the suitability of Network Code as a governance vehicle for retail market processes.

Ofgem has considered the governance of the change of supplier process in the context of these concerns over governance more broadly. We have set out three options for addressing these concerns and we look to the industry for views as to which would be most appropriate.

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1. Introduction

Background

1.1 A consequence of increasing the level of competition in the provision of gas meters is a need to amend the existing gas industry process which allows consumers to transfer between suppliers (referred to in this document as the Change of Supplier (CoS) process). This amendment is necessary to facilitate suppliers making commercial arrangements, of the type envisaged in their licence, for the provision of meters to their customers where that customer changes supplier. Such a process already exists in the electricity market and this document is therefore solely concerned with the gas market.

1.2 Two options for proposed amendments to the existing CoS process are described in this document and both require consideration of the governance of the CoS process. In addition, concern has been expressed to Ofgem over the governance of the provision of various data management services in the gas supply market. These expressions of concern have come through Ofgem's work on metering competition, our Improving Customer Transfers project and in respect of Transco's Network Code governance arrangements.

1.3 With this in mind, this document is presented in two parts. Part I discusses the CoS process and possible amendments. Part II discusses supply market processes and their governance arrangements and suggests that it may be appropriate to consider changing these. Although at this stage Ofgem is not making a formal proposal for change to the existing governance arrangements, we have set out three potential options as a means of stimulating debate on the issue.

Rationale

1.4 Ofgem recently consulted on a strategy for metering[1]. The objective of this strategy is to secure choice and value for consumers by increasing the level of competition in the provision of metering services. In the gas market, the

[1] Ofgem's strategy for metering, a consultation paper, March 2001.

principal vehicle for taking this strategy forward is the Review of Gas Metering Arrangements (RGMA) project. In order to facilitate parties other than Transco providing meters, this project has identified a need to amend the existing CoS process to take account of meters not owned by Transco. Failure to amend the CoS process could lead to distortion of the metering market or the gas supply market, or both. Ofgem therefore considers it essential to consult on potential amendments.

1.5 Any consideration of amendments to gas supply market processes should include consideration of the governance of those processes and the amended CoS process is no exception. Ofgem is mindful of concerns held by the industry over the governance of existing gas supply market processes. For this reason, we considered that it would be appropriate to consider governance of the CoS process in the context of other process.

Structure of the document

1.6 This document is divided into two parts. Part I considers possible amendments to the existing CoS process required to facilitate competition in meter provision. Part II summarises concerns over existing governance arrangements in the gas supply market and suggests some options for change.

1.7 In Part I, Chapter 2 describes the present CoS process and sets out why it needs to be amended to support metering competition. Chapter 3 describes the options for such an amendment. In Part II, Chapter 4 describes the governance of the present supply market processes. Chapter 5 sets out the concerns over these governance arrangements and Chapter 6 presents an analysis of options for future governance.

Views invited

1.8 Ofgem would welcome views on the issues raised in this document. If you wish to comment in writing then please write to:

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1.9 If you wish to comment, it would be helpful if responses could be submitted to Ofgem by Friday, 31st August 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.

Seminar

1.10 In addition to written responses, Ofgem will be hosting an open seminar to seek views and stimulate debate on the issues raised in this document and in particular, the governance of retail market processes. The seminar will be held in London on the afternoon of Wednesday 25th July 2001.

1.11 If you wish to attend this seminar, then please contact Ndidi Njoku (020 7901 7137, ndidi.njoku@ofgem.gov.uk) by Friday 20th July 2001.

1.12 In addition to this seminar, it is intended that there will be an opportunity to discuss the proposed amendments to the CoS process at a planned meeting of the Metering Competition Focus Group (which is an open meeting) on 17th July. The meeting will be held at Ofgem, 9 Millbank, London.

Ofgem contacts

1.13 If you have any questions about the issues raised in this document, then Simon Doggett (020 7901 7057, simon.doggett@ofgem.gov.uk) Nigel Nash (020 7901 7065, nigel.nash@ofgem.gov.uk) or Lisa Hughes (020 7901 7433, lisa.hughes@ofgem.gov.uk) would be happy to discuss.

Part I - The Change of Supplier Process

2. Present position and the need for change

Introduction

2.1 This chapter describes the present industry process and legislation that seeks to ensure that gas consumers are provided with a meter. It concludes by setting out why the present process needs to be amended.

2.2 It should be noted that Part I of this document is concerned with the continued provision of meters to consumers where they change supplier. It refers to suppliers providing meters to consumers. For the purposes of this document, it is assumed that suppliers provide meters to consumers by either not changing the existing arrangement with the relevant transporter, or by contracting with a 'meter provider'. However, this should not be taken to exclude the possibility of suppliers purchasing meters.

Present position

2.3 All gas consumers are required by law to take their supply through a meter[2] and can purchase or rent their meter. If a domestic consumer chooses not to own or rent their meter (and to date, very few consumers have) their supplier is required to provide them with a meter. Suppliers generally also provide meters to non-domestic consumers, although they are not obliged to do so.

2.4 Historically, all gas meters were provided by British Gas as an integrated gas supply, transportation and storage business. Following privatisation, when British Gas separated into supply and transportation/storage businesses, the existing meters were vested in the transportation business, now Transco.

2.5 It is important to note that, in common with other gas transporters, Transco's meters are provided to consumers on behalf of gas suppliers. Transco does not have a statutory monopoly in meter provision and suppliers are free to choose alternative meter providers.

[2] The Gas Act (1986), Schedule 2B, paragraph 2.

2.6 Where a consumer changes supplier, the incoming supplier[3] takes on the obligation to provide a meter. However, in nearly every customer transfer, there is a meter in place. On Transco's network virtually all of these meters are provided by Transco.

2.7 The outcome of this position is that when a consumer changes supplier, the incoming supplier can assume that the meter in place is provided by Transco. As Transco has a licence obligation to provide and install a meter on request, that supplier can also assume that Transco is willing to leave its meter in place and levy its charges accordingly.

2.8 The process that was developed in 1996 through the introduction of Transco's Network Code to allow all consumers to change supplier effectively supports this assumption, in as much as it does not recognise other meter providers and does not support suppliers making alternative arrangements.

Regulatory background

2.9 The existing licence provisions provide a framework for the CoS process in respect of meter provision. They also embody some important regulatory principles and it is therefore important to understand the provisions.

2.10 In respect of meter provision in the CoS process, Standard Condition 22 of the gas suppliers' licence contains the legal framework. This licence condition requires suppliers to provide a meter to a customer who requests one and describes four ways in which this can be achieved.

- First, where Transco owns the meter in place, the supplier can arrange for this to be left in place. This is what happens in virtually every case at present. By not choosing an alternative to Transco, the supplier is deemed (via their shipper) to have made such an arrangement.

- Second, if the meter in place has been provided by the outgoing supplier directly, i.e. not through the transporter, the incoming supplier can come

[3] In this document, 'change of supplier' (and related terms) refers to consumers transferring between competing suppliers. The consumer's existing supplier is referred to as the 'outgoing supplier' and the new supplier is referred to as the 'incoming supplier'

to a commercial arrangement with the outgoing supplier to acquire the meter by purchase or lease.

- Third, where there is no meter in place, or if it is not appropriate (for example, a credit meter is fitted where a prepayment meter is required) or if the supplier cannot come to a commercial agreement with the existing meter provider, then the supplier may arrange for the installation of a meter.

- Fourth, the supplier can make some other arrangement for the provision of a meter in agreement with the customer. This allows suppliers some flexibility in making metering arrangements. For example, it allows suppliers to offer to sell a meter to a customer as part of an energy management or remote meter reading system.

2.11 In addition to setting out how suppliers can provide meters, this licence condition sets out the action to be taken where the consumer changes supplier and the outgoing supplier has provided a meter by purchase or lease.

2.12 Where the consumer changes to another supplier, the outgoing supplier is required not to recover its meter if the incoming supplier undertakes, before the transfer date of the customer, to make an arrangement on terms which reflect the value of the meter. Effectively the licence envisages the incoming supplier coming to a commercial agreement with the outgoing supplier. This is the second of the four options set out above.

2.13 It should be noted that, taken as a whole, Standard Condition 22 effectively requires an incoming supplier to seek to make a commercial arrangement with an outgoing supplier if that supplier has provided the meter in place other than by through the transporter. This is by virtue of paragraph 1(c) of that condition which states that the supplier should arrange for the installation of a meter "where there is no meter in place, or the meter in place is inappropriate or cannot be purchased or acquired on reasonable terms." It appears to Ofgem that this decision cannot be made until the incoming supplier is aware of the terms being offered for the provision of the meter in place. This is consistent with the economic incentive on the suppliers to seek the most favourable price for the provision of meters.

2.14 The purpose of Standard Condition 22 is to ensure, as far as possible, that meters remain in place where consumers change supplier, although it does not prevent a meter exchange where necessary. Ofgem considers this to be central to the CoS process. Unless the customer perceives a benefit in having a meter exchanged (for example, to install new metering technology) an exchange at the time of transfer may inconvenience consumers and thus act as a barrier to switching supplier. In addition, it is unlikely that such exchanges would be economically efficient.

The need for change

2.15 Ofgem has a principal statutory duty to protect the interests of gas and electricity consumers, wherever appropriate through the promotion of effective competition. The RGMA project is consistent with that duty in that its purpose is to remove barriers to competition in the provision of gas metering services. To the extent that the project is successful, Ofgem expects to see suppliers begin to exercise choice in their metering arrangements.

2.16 Although we recognise that, for various reasons, suppliers may not wish to exercise choice in the short term, at least one supplier, British Gas Trading, has indicated that it will, starting this year. Ofgem is aware that other suppliers are considering alternative meter providers.

2.17 British Gas Trading has indicated that it proposes to start unbundling meter provision later this year and has recently invited tenders for the provision of metering services including meter provision. Subject to Ofgem's duties to protect the interests of consumers and to enforce the Competition Act 1998, we see no reason why British Gas Trading, or any other supplier, should not seek competitive offers for meter provision in this timeframe.

2.18 On this basis, the RGMA Steering Group[4] has developed a model to estimate the proportion of customers that might transfer from British Gas Trading to other suppliers with meters not owned by Transco. The model was presented[5] to the Metering Competition Focus Group (MCFG) and the Suppliers Metering Forum (SMF) earlier this year. It contains a number of simplifying assumptions and

[4] A representative group tasked by the industry with facilitating the completition of the RGMA project.
[5] See minutes of MCFG meeting 14 held on 22 May 2001 on www.ofgem.gov.uk/metering/mcfg_info.htm

should not be seen as a prediction. However, it indicates that, after six months of British Gas Trading starting to use alternative meter providers, up to around 3%, i.e. 1,500 per week, of customer transfers would involve a meter not owned by Transco.

2.19 Whilst this appears to be a small proportion of transfers, actual numbers may be very different and will almost certainly increase over time. It follows that the present assumption that the meter in place is owned by the transporter will become increasingly unsafe. In this case, in order to comply with Standard Condition 22, suppliers will need to be able to seek to make commercial arrangements with outgoing suppliers who have provided meters other than through the transporter.

2.20 Two aspects of the present CoS process are not consistent with Standard Condition 22 in respect of meter provision. First, the process does not inform the incoming supplier of the identity of the outgoing supplier and whether or not that supplier had provided the meter. Second, it does not facilitate an exchange of information between the two suppliers (or their agents) which would be necessary to seek to make commercial arrangements.

2.21 In order to address the first concern set out above, a modification to Transco's UK Link system was proposed last year and will be implemented on 23rd July 2001. From that date, suppliers acquiring customers on Transco's network will be informed of the identity of the outgoing supplier and whether or not Transco has provided the meter.

2.22 This modification will allow the incoming supplier, where appropriate, to seek to come to a commercial arrangement with the outgoing supplier over the provision of the meter in place.

2.23 In principle, suppliers should be informed whether Transco, the outgoing supplier or the consumer has provided the meter and Ofgem would like this to be the subject of a future modification. However, if Transco has not provided the meter in place, the incoming supplier can contact the outgoing supplier to ascertain whether the supplier or the consumer has provided the meter.

2.24 Because this amendment to the CoS process allows suppliers to comply with their licence obligations, it could be argued that it is sufficient. However, the RGMA Steering Group (and its sub-groups) consider that the making of such arrangements could be made more efficient if a further amendment were made to the CoS process. For this reason, the RGMA Steering Group has identified two options for a further amendment and these are presented in the following chapter.

2.25 In addition it does not address the second concern over the existing CoS process, i.e. that it does not facilitate an exchange of information between suppliers. For this reason, the options described are accompanied by a suggested process for exchanging this information.

3. Proposed changes to the CoS process

Introduction

3.1 From 23rd July, suppliers will have sufficient information when consumers change supplier to comply with their licence requirements in respect of meter provision. However, the RGMA Steering Group, and its sub-groups, believe that the efficiency of the CoS process could be improved if more information was made available. To this end, two options are presented in this chapter together with a discussion on the effectiveness of the CoS process.

3.2 The options described have been proposed through the RGMA Steering Group. They have been developed by the RGMA Business Process Review Group and the data management solutions applied by the RGMA IT Sub-Group. In developing these options, the sub-groups have been mindful of the equivalent process in the electricity market.

The proposed options

3.3 This section contains a high-level description of the options. Expanded process diagrams for each of the options are set out in Appendix 1, together with details on the data that would be passed within each data flow between various parties.

Option 1

3.4 From 23rd July, the incoming supplier will be able to make contact with the outgoing supplier with a view to making commercial arrangements regarding the continued provision of the meter in place. This process might be expedited if, rather than wait for this contact to be made, the outgoing supplier contacted the incoming supplier. This would be effected by informing the outgoing supplier of the identity of the incoming supplier by including the supplier identity in the 'Ceased Responsibility Notice' (S88 file) as part of the Supply Point Administration (SPA) process.

3.5 This option would allow the outgoing supplier to transmit details of the meter in place, including, for example, an offer of sale and a price, to the incoming supplier at an early stage in the CoS process. However, it should be noted that this option is not entirely consistent with the process envisaged in Standard

Condition 22. In the absence of effective governance, there would be no obligation on the outgoing supplier to make contact with the incoming supplier. As the incoming supplier is required to provide a meter to the customer, this could result in confusion over responsibilities.

Option 2

3.6 Although Standard Condition 22 envisages suppliers making the necessary commercial arrangements, in practice it might be preferable for suppliers' meter providers to do this directly. Meter providers could then make arrangements on the suppliers behalf. This is more consistent with the equivalent process in the electricity market.

3.7 To effect this option, an additional field containing the identity of the meter provider for a site being held as part of the data used in the SPA process would be required. This will then be given to the incoming supplier when they acquire the site, either as part of the 'transfer of ownership record' (S15 file) or 'meter point details record' (S75 file). This has the advantage of preserving the anonymity of the incoming supplier. It has the disadvantage that the transporter would need to be told of the identity of the meter provider. At present, there is no obligation on suppliers to pass this information to transporters and some governance arrangements would therefore be required. In addition, the incoming supplier has no obligation to contact the meter provider and governance would be required if this option were to be effective.

3.8 It should be noted that both options merely seek to give more information to suppliers to facilitate the making of commercial arrangements. There are a number of ways in which these could be made and Ofgem considers it important not to fetter the discretion of suppliers in making such arrangements. However, regardless of the detail of these arrangements, it is difficult to see how they could be made without some communication between suppliers. Although this could take place in an *ad hoc* manner it is for consideration whether some consistency of approach would be preferable. With this is mind, the RGMA Steering Group (and its sub-groups) have developed such an approach and this is set out in Appendix 1.

Ofgem's initial views

3.9 It presently appears to Ofgem that both options for amending the CoS process are practicable and Ofgem would welcome respondents' views on the relative merits of the options. To help inform respondents' views we have assessed both options in the context of the principles[6] we established as part of our Improving Customer Transfers (ICT) project. These are:

- **Control** - a consumer's chosen supplier should have control over managing the transfer process.
- **Timing** - a new supplier should be able to take over responsibility for supplying a site with minimal notice, potentially immediately.
- **Development** - suppliers should be able to adopt new processes at their own pace. Industry wide changes should be kept to a minimum. Suppliers should, as far as practicable, be allowed to develop their systems and processes without being constrained by other industry parties, except where required to achieve interoperability.
- **Customers** - the transfer process should be invisible to customers.
- **New entrants** - the transfer process should be as simple and accessible as possible to enable new entrants to the market to operate.
- **Regulation** - the transfer process should require a minimum level of regulation.

3.10 Our assessment of the options against these principles is set out below.

Control

3.11 For Option 1 to be effective, the outgoing supplier must provide information regarding the meter in place to the incoming supplier in a timely manner. The incoming supplier is therefore dependent on the outgoing supplier to provide accurate information in a timely manner. Failure to do so may delay the incoming supplier making arrangements for meter provision. This gives control

[6] Improving customer transfers, The way forward, Ofgem, June 2001.

of the CoS process to the outgoing supplier and would require some new governance arrangements.

3.12 Option 2 would enable the incoming supplier to receive appropriate information on the identity of the meter provider at an early stage in the transfer process. The incoming supplier is then the driver of subsequent transactions. Whilst anonymity may not be considered important to all suppliers, Option 1 would remove this. Option 2 could preserve anonymity.

Timing

3.13 Both options are intended to facilitate the incoming supplier making metering arrangements as envisaged in Standard Condition 22 of the suppliers' licence in an efficient manner. In particular, Option 1 allows the outgoing supplier to make the initial contact and this could shorten the process. However, it relies on timely action be the outgoing supplier. Option 2 also seeks to accelerate the process by allowing the incoming supplier, or their agent, to deal directly with the meter provider from the outset.

Development

3.14 It would appear that either option could be facilitated by a relatively simple change to the existing SPA files, namely an additional field giving the identity of either the incoming supplier or the meter provider. To achieve the necessary level of interoperability between suppliers, Option 1 requires an agreed communication method and time-scale between suppliers. Option 2 would require suppliers to be able to communicate with any number of meter providers. Option 2 also reflects the arrangements in electricity, where the Meter Point Administration Service (MPAS) operator provides the identity of service agents to the incoming supplier and therefore offers dual fuel suppliers the opportunity to align their business processes.

Customers

3.15 To the extent that both options facilitate the continued provision of a meter to consumers, they are invisible to consumers.

New entrants

3.16 New entrants to the supply market will need to make metering arrangements for their customers. Both options allow them to do this and do not seem to raise particular barriers to entry. Entrants to the metering market should have some reasonable expectation that they can continue to earn a revenue from meters they have installed (or at least the return of the asset) when consumers change supplier. Both options facilitate suppliers making arrangements which should afford meter providers some protection against loss of income or asset. However, it could be argued that Option 2 better facilitates meter providers being involved at an earlier stage in the CoS process. However, new entrants would need to be confident that governance arrangements were in place to ensure compliance with the agreed processes.

Regulation

3.17 Both options are an extension of the current SPA process and would therefore come under existing Network Code governance. There is therefore little additional regulatory intervention arising from the information transfers. However, both options require agreement between requires agreement between suppliers as to how, to what standard and against what timescales information will be exchanged. Such an agreement would not be within the scope of Network Codes and would require separate governance arrangements.

3.18 If the CoS process is not effective, considerable regulatory intervention may be required to protect the interests of consumers. This is discussed in more detail in the following section.

Effectiveness of the process

3.19 With the modification to the existing SPA files due to be made on 23rd July, the CoS process might be effective in respect of continued meter provision when consumers change supplier. However, if the CoS process is not effective it is possible that the development of competition in the provision of meters would be restricted. Potential meter providers may be unwilling to enter the market unless they perceive a reasonable level of risk in respect of securing a revenue

stream from a new supplier (or the return of their asset) where the consumer changes supplier.

3.20 It is also possible that the lack of an effective CoS process could distort the supply market. Suppliers inability, or unwillingness, to make arrangements which would leave meters in place where consumers change supplier might act as a barrier to consumers changing supplier.

3.21 There are three reasons why an amended CoS process might not be effective. These are:

- it is not well designed;
- the process is not properly implemented; and
- the governance of the process is not effective.

3.22 These reasons are discussed below.

Design

3.23 The proposed options for an amended CoS process were initially conceived by the RGMA Steering Group and extensively developed and tested by industry experts in the Business Process Review Group and IT Sub-Group of the RGMA project. It has also been subject to comment by the Metering Competition Focus Group and the Suppliers Metering Forum. After taking responses to this document into account, it is likely that the design of the adopted process will be robust. Nevertheless, experience of implementing and operating the process may reveal a need for modifications. This will require consideration of governance of the process.

Implementation

3.24 Given the volume of customer transfers and the potential number of meters provided by third parties, it is likely that the process will need to be incorporated into industry IT systems in order to be effective for high volumes. Clearly it will take time to make the necessary systems changes.

3.25 In the interim, it is possible that, given that the number of customer transfers involving a non-Transco meter would probably remain relatively low for a period of time, manual implementation of the amended CoS process could be effective. Nevertheless, from 23rd July, suppliers will need to identify whether or not Transco has provided the meter in place and hence whether contact needs to be made with the outgoing supplier.

3.26 Even so, Ofgem would be concerned if poor implementation of the amended CoS process led to distortion of either the metering or supply markets (or both). In this case, it is for consideration whether some interim arrangements should be put in place.

3.27 Ofgem would welcome views on how such interim arrangements could operate. However, any proposal should be consistent with the relevant legislation and not create any other distortions in either market.

Governance

3.28 As mentioned above, a CoS process which is consistent with Standard Condition 22 of the suppliers' licence may not be effective if suppliers cannot, or will not, co-operate in a reasonable manner. The following scenario illustrates the potential problems if this co-operation was not present.

3.29 If a consumer chose to switch from a supplier who had provided a meter by buying or leasing from a meter provider, prior to the customer transfer date, the incoming supplier could undertake to come to an arrangement for the purchase of that meter. Under the terms of Standard Condition 22, the outgoing supplier would accordingly not have any rights to recover the meter. The incoming and outgoing suppliers, in an attempt to comply with Standard Condition 22, may undertake to agree details of terms of provision and, if appropriate, value of the meter after the transfer date. Should subsequent negotiations break down, the outgoing supplier may find it difficult to recover the meter.

3.30 Difficulties such as those created in this example may be resolved by application of Ofgem's enforcement powers. However, this is not ideal and is likely to lead to some unnecessary disruption and lack of confidence in the operation of the market.

3.31 Essentially, the provision of a meter under the arrangements envisaged by Standard Condition 22 requires a degree of co-operation between competing suppliers. Because suppliers may not voluntarily agree to co-operate under all circumstances that may arise, some form of governance is required to ensure that co-operation is effective.

3.32 Although co-operation between competitors is not unique to the gas supply market, it does raise particular issues of governance. This is discussed in more detail in Part II of this document.

3.33 Ofgem would welcome views on the options for amending the CoS process set out in this chapter and in particular:

- **the need for a further amendment to the UK Link modification coming into effect on 23rd July 2001;**
- **the relative advantages and disadvantages of the two options;**
- **whether there are other options, or variations to these options, that should be considered;**
- **the need for a consistent approach to communication between suppliers in respect of making arrangements for the continued provision of the meter in place; and**
- **the need for additional governance of the CoS process in respect of metering.**

Part II – Gas supply market governance

4. Existing data management processes and their governance arrangements

Introduction

4.1 The amended CoS process described in the previous chapter is one of a number of processes in the gas supply market which require co-operation between competing suppliers. These other processes, and their governance arrangements, are discussed in this chapter.

Retail market processes

4.2 The effective and efficient operation of the gas supply market relies on the operation of a set of processes or procedures which allow necessary data to be transferred between parties; this in turn allows commercial arrangements to be made. For the purposes of this document, these are referred to as 'retail processes' as distinct from 'wholesale processes' which are concerned with the shipping and transportation of gas.

4.3 These retail processes may be internal to supply businesses or external, involving third parties, i.e. either customers or service providers. In the gas supply market these service providers are, in some cases, competing gas suppliers and gas transporters. This document is concerned only with external processes involving transactions between competing suppliers and gas transporters.

4.4 As mentioned in the previous chapter, the gas supply market is unusual in so far as it relies on a degree of co-operation between competing suppliers when consumers change suppliers. This is because of five key elements of data management in the gas supply market that, when taken together, distinguish its operation from other retail markets. These are:

- the existence of 'standing data' relating to each customer;
- the need for a meter reading when consumers change supplier;
- the requirement for a central registration system;
- exchange of information between suppliers when consumers change supplier; and
- the requirement to provide a meter.

4.5 These elements are described in more detail below.

Standing data

4.6 Suppliers need certain information about potential customers in a timely manner in order to bill the customer correctly. This includes information about the supply point, details of the meter including whether it is credit or prepayment and the status of the supply. To avoid the need for suppliers to collect this information from the customer before supplying gas, it is maintained by suppliers/shippers and stored centrally by the transporter who in this instance is acting as a data manager.

4.7 It is worth noting that, although efficient customer transfer relies on the existence of this data, there is no fundamental reason why it should be held centrally or by the transporter. In principle it could be stored by the relevant supplier and transferred between suppliers as required. This would require standardisation of data and transmission methods and governance arrangements to ensure compliance with these standards.

Meter reading

4.8 Where a consumer changes supplier, it is axiomatic that the outgoing supplier is paid for the amount of gas consumed and the new supplier commences measuring the amount of gas at the appropriate point. This requires the meter to be read at the time of transfer. To allow both suppliers to obtain the same meter reading without each having separately to obtain a reading, the outgoing supplier obtains a meter reading and submits it to the transporter acting as a data manager who in turn sends it to the incoming supplier. This prevents the

customer being 'double billed'. If a reading is not obtained, some transporters, acting as a data manager, estimate the reading (using meter readings previously provided by suppliers) and send this to both suppliers.

Central registration

4.9 Under present arrangements, a consumer can only have one supplier at any one time. To ensure that this is the case, a central registration system records the identity of the supplier at a particular supply point. At present this registration system is operated by the transporter acting as a registration agent.

4.10 It is important to note that, although transporters also register the identity of the shipper at each supply point and use the same physical system to do so, there is no fundamental reason why there cannot be separate registration systems; one identifying the shipper and one identifying the supplier. If this were the case, the registers would need to be synchronised in some way.

Communication

4.11 Where a consumer changes supplier, a number of communications take place. The transporter, acting as a data manager, notifies both suppliers of the change in registration, receives a meter reading (or generates an estimate) sends the meter reading to both suppliers and transmits the standing data to the incoming supplier.

4.12 The transporter, acting as a data manager, provides, in principle, a communication channel between suppliers and acts as an intermediary. In practice, for suppliers on Transco's network, the communication link is Transco's UK Link system which is available only to shippers. Suppliers communicate through their respective shippers.

4.13 In principle this arrangement removes the need for direct communication between suppliers and thus preserves their anonymity in the transfer process. However, there are a number of circumstances where direct communication presently takes place, for example, where the meter reading is disputed by either supplier or the consumer or if the consumer did not intend to transfer. It is for

situations such as these that the Biscuit[7] project created a means of suppliers directly communicating with each other electronically.

Meter provision

4.14 The discussion in Chapter 3 illustrated the need for suppliers to co-operate in making commercial arrangements for continued provision of a meter. This is likely to involve direct communication between suppliers or their agents and be facilitated by transfer of amended standing data.

The role of the transporter

4.15 The five key elements of the gas supply market described above are dominated by the presence of the transporter acting as a data manager providing a registration system, data store, reading estimation service and communications channel. Thus relevant retail market data is held centrally and routine communications between suppliers generally take place using the transporter as an intermediary.

4.16 The majority of data management and communication services are contained in the transporter's Supply Point Administration (SPA) system. This comprises a set of processes and supporting IT systems which facilitate the transfer of supply points between shippers and consequently suppliers. It is important to note that there is a lack of distinction between transfer between shippers and transfer between suppliers. These may be thought of as wholesale and retail transfers respectively.

4.17 Communication between suppliers is necessary to allow the market to operate and this is likely to require a data manager. However, it is not necessary for the transporter to provide a data management function directly. The present arrangements have arisen as a consequence of the structure of the gas industry prior to establishing a competitive supply market and were designed as one way of ensuring interoperability between suppliers. However, there is no fundamental reason why the industry should not find other ways to manage the storage and transfer of data whilst maintaining this interoperability.

[7] The Basic Inter Supplier Communication Using Internet Technology (BISCUIT) project facilitates communication between domestic gas suppliers in a standard way for processes such as Returners and Agreed Reads where suppliers need to communicate and agree data between themselves.

4.18 Because the transporter is a monopoly, its provision of services is subject to regulation. This has a number of consequences, the most significant of which is that the provision of services is not on normal commercial terms. Instead the terms and conditions of the provision of services are generally contained in the transporter's Network Code.

4.19 Although Network Codes are generally referred to as a contract between transporters and shippers, they are not bilateral contracts which can be modified with the consent of its signatories. Further, transporters are required by Standard Condition 11 of their licence not to discriminate between shippers and between suppliers. This means that each Network Code, and therefore the provision of data management services, is subject to governance arrangements which are mandated by licence conditions and subject to Ofgem's control.

4.20 It is these distinguishing features of the supply market which create the need for governance arrangements not found in most other markets.

The present governance arrangements

4.21 It is important to make a distinction between the different levels of governance of retail market processes. In most cases, various licence conditions govern what services are provided. For example, Standard Condition 22 of the suppliers' licence governs the provision of meters to consumers. However, licence conditions generally do not govern how services are provided.

4.22 With the exception of the provision of metering services on Transco's network, the processes which provide retail services, particularly data management and registration services, are governed by the relevant transporter's Network Code. Licence conditions require certain terms and conditions to be contained in gas transporters' respective Network Codes and shippers and transporters are required to comply with the terms of the relevant Network Code. Licence conditions also define a modification procedure which allows only shippers and the transporter to propose modifications, requires consultation with shippers and other interested parties and requires Ofgem's approval for all changes.

4.23 In the case of Transco, the data management, communication and registration processes are supported by its UK Link system. Changes to the operation of UK

Link are instigated by raising 'change requests'. These are generally designed to support the operation of the Network Code, and as such there are no formal industry governance arrangements that sanction modifications and Ofgem does not consent to changes. Transco facilitates the UK Link committee which allows shippers visibility and the opportunity to co-ordinate the implementation of changes. Transco must give a minimum of three months notice if it proposes to implement a change to its file formats or the processes that define the use of file formats.

5. Concerns over existing governance arrangements

Introduction

5.1 Having described in the previous chapter the present situation regarding gas supply market processes, this chapter articulates concerns expressed to Ofgem over governance arrangements in the gas supply market.

Concerns

5.2 The previous chapter illustrated that retail and wholesale market processes are bundled with the transporter providing both sets of services under terms largely set out in its Network Code. It follows that the governance of many of these services is provided by governance of Network Code as a whole. The concerns centre around whether these governance arrangements are still appropriate for retail market processes. These concerns can be considered in four areas:

- A consequence of the proposed separation of Transco's metering and meter reading business from its transportation business is that metering and meter reading provisions will be removed from Transco's Network Code and placed in a separate contract. This new contract may require new governance arrangements;
- There is a demand for direct communication between suppliers (in addition to that created by an amended CoS process as described in Part I) but at present there are no governance arrangements to facilitate this;
- Network Code may no longer be a suitable governance vehicle for retail processes and that, in addition, there are concerns over the governance of Network Code itself; and
- There is a growing need for harmonisation of the processes which deliver data management and registration services to suppliers on Independent Public Gas Transporter (IPGT) networks. Although the governance of these processes is through the relevant transporter's Network Code, there are no governance arrangements for harmonised processes.

5.3 These areas of concern are discussed in more detail below.

Separation

5.4 Transco has proposed to separate its metering and meter reading businesses from its transportation business. To achieve full and effective separation, it is intended that the present metering and meter reading provisions in Transco's Network Code are removed. Going forward, Transco will provide metering and Daily Meter (DM) reading services through contracts separate to its Network Code. (This reinforces the principle that Network Codes should contain necessary provisions to operate the network but not metering and meter reading provisions, i.e. essentially retail services.)

5.5 In moving metering and meter reading provisions to separate contracts, the regulation afforded by Network Code governance will be lost and the question of replacement arises. Ordinarily, governance of contracts is provided by the terms of the contract and general contract law. In a competitive market, this is generally all that is required to ensure that both parties conform with the terms of the contract. However, because Transco can be considered to be dominant in the provision of metering and DM reading services on its network, the ability of suppliers to negotiate reasonable terms is limited.

5.6 Concerns have been expressed through the RGMA project that 'normal' contractual governance is insufficient to protect the interests of shippers in the short term as metering and DM reading provisions come out of Network Code.

Direct communication

5.7 As described in Chapter 4, most inter-supplier communication takes place using an intermediary. However, there are instances where direct communication between suppliers is preferable.

5.8 The Domestic Suppliers Code of Practice envisages direct communication between suppliers to resolve issues such as agreed reads and erroneous transfers. The facilitation of these processes is undertaken through the Biscuit project. The lack of effective governance of the development and operation of the Code of Practice and Biscuit has hindered the development of improved processes for handling agreed reads and erroneous transfers. There have been many instances

of participants in the Biscuit project not strictly adhering to agreed rules and practices. This has led to errors, data rejections, delays in resolving customer problems and increased industry costs.

5.9 In line with the proposals set out in Ofgem's ICT Way Forward document, several suppliers have attempted to develop an improved process for obtaining accurate estimated meter reads for customers when they change supplier. However, difficulties have been encountered in implementing this 'Shipper Agreed Read' (SAR) avoidance process. One of these difficulties arises from the lack of governance. Suppliers have expressed concern as to how such a process would be policed and how issues of poor performance would be addressed.

5.10 The SAR process also reveals the lack of incentive on Transco to address suppliers' concerns. It is problems with the quality of Transco generated estimates, and suppliers inability to change them, that has led to the proposal of the alternative SAR process.

5.11 In general there is no governance mechanism which allows suppliers to agree on development and implementation of direct communication processes.

Suitability of Network Code

5.12 Transco's Network Code was originally established as a contract between shippers and the transporter containing the terms and conditions for the operation of the transportation network. In addition, terms and conditions for the provision of other Transco services were placed in Network Code, e.g. metering, meter reading and gas storage. It was envisaged that potentially competitive services could come out of Network Code over time. It was for this reason that Non-Daily Meter (NDM) reading provisions were in the transitional document and came out of Transco's Network Code in 1997.

5.13 The work presently being done to remove metering and DM reading from Transco's Network Code will do much to return Network Code to its original conception as a shipper/transporter contract. However, many aspects of retail market operation described in Chapter 4 will remain in Transco's Network Code. Whilst this reflects Transco's position as a data manager and supply point

registrar for the retail and wholesale markets, it is for discussion whether Network Code is an appropriate means of governance for retail services.

5.14 A further consideration regarding the existing governance arrangements is the fact that suppliers are not signatories to Network Code. This has two important implications.

5.15 First, suppliers have no direct contractual influence over the retail services provided to them. Both the nature and timing of changes to Network Code and associated systems have a significant impact on suppliers and they have expressed concern over their limited ability to influence either. Suppliers in their response to Ofgem's ICT consultation document expressed concern that they were disadvantaged by a lack of knowledge about the SPA system in proposing changes. In addition, respondents noted that data definitions which support SPA are held by Transco as the design authority; these are not made widely available and hence could contribute to inefficiencies in the SPA process. One supplier has also indicated that, even when the data definitions are available, they are not accurate.

5.16 Second, in providing transportation services and retail market processes, Transco's role is often not clear and it is subject to conflicting incentives in providing services to non-contracting parties. Three examples are given below to illustrate this point.

- Suppliers have expressed concern over the quality of Transco's Opening Meter Reading (OMR) estimates. However, Transco has expressed the view that it has no particular interest in supplying these estimates, since they are not required for transportation purposes.

- In terms of data management, Transco in its transportation role has little incentive to actively maintain accurate meter asset data. This conflict of roles will become increasingly significant as Transco separates its metering and meter reading business.

- The processes for transferring consumers between suppliers are largely contained in the SPA system. The apparent lack of distinction between the 'wholesale' activity of transferring supply points between shippers

and the 'retail' activity of transferring consumers between suppliers can create difficulties.

5.17 On a more general level, there has been some concern expressed in the industry regarding the current modification process to the Network Codes in terms of timings of modification decisions and implementation dates. Concern has also been expressed in terms of transporters' significant role in the modification process and whether this is appropriate considering its other responsibilities. It is for consideration whether alternative governance arrangements would address these concerns.

5.18 As mentioned earlier in this chapter, representation on the Network Code Modification Panel is restricted to the relevant transporter and shippers. Therefore, within the current governance structure, there is the risk that the impact of changes across the industry may not be fully debated prior to Ofgem making a decision on a modification proposal. As competition in supply has increased, it may no longer be appropriate for changes relating to SPA to be proposed and discussed within the modification process as set out in the Network Code.

Independent PGTs

5.19 Independent Public Gas Transporters (IPGTs) provide the same services as Transco in a similar manner, i.e. bundled wholesale and retail processes governed by the respective Network Codes. It follows that the same issues arise in respect of retail processes as for Transco as set out above.

5.20 In addition, suppliers face additional difficulties in dealing with IPGTs as service providers which arise from differences in the processes which provide the necessary services.

5.21 Independent PGTs use Transco's SPA file formats. However, there is no common electronic interface between IPGTs and suppliers. This means the process of transferring supply points is paper based and not consistent across all transporters.

5.22 Suppliers and shippers have indicated that they require a common approach to sending electronic data to and from IPGTs based on their approach with

Transco. This seems to Ofgem to be a reasonable aspiration. Differences in the operation of services between IPGTs are not only inefficient, they affect the quality of service provided to consumers by virtue of the network they are supplied through. Ideally the transportation network should be 'invisible' to the consumer.

5.23 Ofgem recently consulted on the issue of Electronic Data Interchange (EDI) between shippers and IPGTs. Several respondents expressed a reluctance to commit resources to system development until the governance arrangements for developing a common system and future system developments were clear. For example, concern was raised as to how any changes to Transco's file formats would be fed through and implemented on the IPGT networks. Responses from IPGTs indicated that Transco's file formats were not appropriate for their application or that the volumes involved did not justify investment in systems.

Conclusion

5.24 From the above discussion, it appears that there is a case for considering changes to the existing governance arrangements. This is substantially based on the view that there is a distinction between wholesale and retail market processes. This distinction is not reflected in the current arrangements for the provision of retail services by transporters. In addition, new retail market processes which reflect the separation of Transco's metering and meter reading business and which allow direct communication between suppliers have no existing governance arrangements. Ofgem believes that this makes the development of these processes more difficult, uncertain and costly than if effective governance were in place.

5.25 In addition to issues raised in relation to governance, the separation of retail from wholesale functions within the Network Code could facilitate new approaches to data management. Ofgem believes that suppliers should, in principle, be able to choose who provides their data management and registration services. Ofgem would support such developments in the provision of these services to the extent that they provided benefits to consumers. However, in the absence of adequate governance arrangements, competing suppliers have no means of agreeing on the provision of common services.

5.26 It appears to Ofgem that any change to governance arrangements should ideally address all of the issues raised in this chapter. Such a change should create a vehicle to allow suppliers to influence the provision of services by transporters or seek alternative service providers; allow suppliers to agree and comply with processes for direct communication between each other and create a more stable environment in which IPGT Electronic Date Interchange (EDI) systems could be developed at a lower risk caused by unplanned changes or allow suppliers to purchase these services elsewhere.

5.27 Ofgem would welcome views on the concerns over existing governance arrangements set out in this chapter.

6. Options for change

Introduction

6.1 The industry, and in particular gas suppliers, have raised concerns about various aspects of the operation and governance of the retail gas market. In the preceding chapters we have attempted to précis and articulate these concerns as well as take future developments into account.

6.2 Ofgem considers that there is a need to develop governance arrangements to support metering competition and that this view is supported by much of the industry. In addition we believe that there is also an argument for reviewing the existing governance arrangements for retail processes and that suppliers' interests would be best served by changing existing arrangements.

6.3 Ofgem is not at this stage making a specific proposal for change. Instead we have identified below what would happen if nothing were to be done as well as highlighting two other potential options with a view to stimulating debate. Ofgem's further involvement in developing a solution would to a large extent be influenced by the outcome of this debate.

Option 1 - No specific action

6.4 This section considers what may happen in respect of metering competition and the areas of concern discussed in Chapter 5 if no specific action is taken to address governance issues.

Metering competition

6.5 The existence of a competitive metering market means that suppliers will need to take account of meter provision when acquiring customers. As discussed in Chapter 3, the lack of effective governance arrangements could distort either the metering or supply market or both. This would arise if suppliers did not, or could not, co-operate in a reasonable manner in the making of metering arrangements when consumers change supplier.

Separation

6.6 Under existing proposals, Transco's metering services will be provided by separate contract (or contracts) outside of its Network Code. If no specific action were taken the governance of this contract would be through the provisions of the contract and contract law. Any problems arising as a result of Transco's dominance could be addressed through application of Ofgem's Competition Act powers.

Direct communication

6.7 Suppliers are likely to continue to experience problems in facilitating effective inter–supplier communication. Even with improved compliance monitoring, the voluntary nature of current areas such as the agreed reads and returners processes is likely to continue to lead to complaints about compliance with the agreed industry standard with the associated costs to suppliers and problems for customers.

Suitability of Network Code

6.8 It is possible for the existing SPA activities to continue to be facilitated under existing Network Code arrangements. However, this does not address the concerns raised by suppliers regarding their lack of involvement and influence over issues of direct concern to them.

Independent PGTs

6.9 Ofgem will continue to work with the industry to facilitate effective competition on IPGT networks. However, the lack of effective governance is likely to increase industry concerns about how standardisation across IPGTs is to be maintained and how the change management process will effectively operate.

Option 2 – Minimal change

6.10 The second option for governance envisages that the current arrangements largely remain in place and that no further formal governance structures are established.

Metering competition

6.11 This option may address some of the concerns regarding metering competition and the CoS process. For example, the transmission of information to suppliers in the CoS process would be governed through existing Network Code arrangements. Governance of the direct supplier communication required to support the making of commercial metering arrangements in the CoS process could be addressed through existing arrangements, i.e. through the Domestic Suppliers Code of Practice. However, the existing concerns over the governance of the Code of Practice would need to be addressed.

Separation

6.12 In order to retain existing governance over Transco's metering contract, this contract could form some form of transitional arrangement within Transco's Network Code. Such arrangements have not yet been discussed within the RGMA project. Ofgem envisages that such transitional arrangements would need to endure until competition in metering was effective.

Direct communication

6.13 It is possible that improved monitoring arrangements could be put in place by suppliers, for example by using the Gas Forum as a co-ordinating body to review the operation of areas such as the agreed reads procedure and returners process where suppliers communicate data directly between themselves. However without new governance arrangements it is difficult to envisage how the Domestic Suppliers Code of Practice, which contains the agreed reads and returners processes, would operate other than as a voluntary arrangement, which is likely to decrease market confidence.

Suitability of Network Code

6.14 Issues surrounding existing governance arrangements for Network Code may be resolved by Ofgem's proposed review of Network Code governance arrangements. However, it is difficult to say at this stage what changes may be possible.

Independent PGTs

6.15 It may be possible for IPGTs to reach a voluntary agreement to implement a standard electronic interface to better support competition on their networks and to manage changes to this interface in a co-ordinated fashion. However, because this would be a voluntary agreement there is a limited ability to facilitate and enforce compliance.

Option 3 - Establish new governance arrangements

6.16 Option 3 envisages that a more holistic approach to resolving the concerns expressed in Chapter 5 is taken, by establishing new governance arrangements in respect of retail market processes.

6.17 This could be achieved through the establishment of a new gas supplier agreement and the transfer of new and existing retail market processes into that agreement. For the purposes of describing how this might work, in this document this agreement is referred to as the Supply Point Administration Agreement (SPAA).

6.18 It may be helpful to consider the existing electricity Master Registration Agreement (MRA) as an analogy for the SPAA, although it is not necessary to model the SPAA on the MRA. Nevertheless, the purpose of the agreement and some of the features would be common to both, and the analogy may aid an appreciation of this option. If such an approach were taken it would be sensible to understand the lessons learnt with the operation of the MRA.

6.19 The SPAA would create a vehicle for suppliers to agree how they conduct the transactions necessary for a competitive supply market between themselves and with service providers, including transporters, in their role as providers of retail market services.

6.20 The agreement would principally be between suppliers, although it would seem sensible for transporters, as data managers, communication providers and registration agents, to be signatories. It may also be necessary for other service providers (e.g. metering agents and meter readers) to be signatories to the agreement but this may risk hampering commercial arrangements between

suppliers and their agents. The relationship with agents could potentially be managed through the existing "Supplier Hub Principle".

6.21 A key feature of this option is that it does not require the immediate transfer of existing processes from Network Code to the SPAA. It is envisaged that, in the first instance, a framework agreement could be established. This would set out the administrative arrangements only, e.g. voting procedures, dispute procedure, funding arrangements etc. Once agreed, new and existing processes could be transferred to the SPAA in accordance with its governance arrangements. In order to allow suppliers to take account of potential systems changes in good time, the administration of the SPAA could include a transition plan setting out when processes and procedures were migrated.

6.22 Ofgem would clearly expect that any new governance arrangements, including the SPAA, are wholly and completely compliant with the Competition Act 1998 and the regulatory regime generally.

Metering competition

6.23 Such an approach could be a suitable vehicle to support governance arrangements required by metering competition and the change of supplier process. The SPAA could facilitate the arrangements for providing data (format, timing etc) between suppliers needed to make meter provision arrangements.

Separation

6.24 At present Transco proposes that its new metering contracts, which would provide metering services outside of its Network Code, would be with shippers. This is consistent with the current arrangements and Transco's licence obligation to provide meters to shippers. In principle these services could be provided directly to suppliers. In this case, the SPAA could be used as an alternative to a transitional arrangement in Transco's Network Code. This would provide suppliers with a means of directly influencing the provision of services within an agreed governance structure.

Direct communication

6.25 Currently there is no vehicle for suppliers to govern formally direct communication between themselves. Examples have been given above of the agreed reads procedure and the returners process. There are also other areas where suppliers may wish to have greater confidence over their communication with other suppliers. The SPAA offers the opportunity to migrate processes into this agreement where the industry believes that it would provide benefits. For example, suppliers are currently reviewing the effectiveness of the returners process in response to work carried out under the ICT project. The ICT Way Forward document published in June 2001 sets out a draft Erroneous Transfer Customer Charter which amongst other things requires that a customer is returned to their previous supplier in 28 days. The returners process requires the co-operation of suppliers to ensure that the customer is transferred back to their previous supplier, and the SPAA may facilitate greater confidence that suppliers would operate to agreed industry standards than is currently the case.

6.26 The ICT Way Forward document also notes that governance of the Biscuit project is currently being reviewed by the Gas Forum, and recommends that it would be useful for these developments to incorporate a review of the experiences to date of the operation of the agreed reads procedure with particular regard to compliance. The Biscuit project was initially chaired and facilitated by Ofgem in order to provide a expedient solution to an industry problem relating to agreed reads at the start of domestic gas competition. However, Ofgem does not feel it appropriate for us to manage such projects in the long term. For this reason we have asked the industry to consider the issue of governance. The Gas Forum has experienced difficulty in determining the future governance arrangements for the Biscuit project, and this has begun to effect the operation of processes supported by these arrangements. The SPAA may provide a more effective set of governance arrangements for managing these direct electronic communications between suppliers, and provide a solution to the Gas Forum's current difficulties in determining how the industry should take on responsibility for the Biscuit arrangements.

Suitability of Network Code

6.27 It is possible for relevant parts of transporters' Network Codes providing retail services to be migrated to the SPAA as and when the industry determines that such an approach would provide benefits. This could address many of the concerns surrounding the ability of suppliers to manage issues of direct concern to them in the provision of retail services.

Independent PGTs

6.28 As a general industry agreement, it would be possible for the SPAA to encompass all transporters networks. It could provide a vehicle for harmonisation of SPA functions between transporters (where appropriate) and for co-ordinating change management, so that suppliers and shippers were able to use more integrated and lower cost systems for managing and acquiring customers across all transporters networks.

Comparison of options

6.29 The first two options may be seen to have the lowest cost to the industry to implement. However, there may be associated costs for the industry in not moving to improved ways of working.

6.30 These two options will not prevent further work being done to improve issues such as direct communication, suitability of Network Codes and IPGTs but it will not tackle the fundamental structural issues raised above which are likely to prevent significant improvement.

6.31 The industry has had considerable opportunity to put in place amendments to facilitate the resolution of some of the issues raised above, and it is likely that the lack of progress in these areas results, at least partly, from structural governance issues.

6.32 Option 3 requires the largest short term cost to the industry in terms of change management. Even if the physical systems and processes are not amended as a result of changes to governance, there is likely to be cost associated with amending and supporting the new agreement.

6.33 There are advantages to setting up the proposed SPAA as a framework agreement and adding issues to it when the business case becomes sufficient. Initial views from the industry suggest that there may be a significant case for including arrangements to support metering competition and the change of supplier process in the SPAA as well as other issues. The lack of sufficient governance arrangements is likely to act as a significant hindrance to developments in metering competition.

6.34 Ofgem recognises that this is not a trivial change to current arrangements. For this reason we have set out in appendix 2 our initial thoughts on how the agreement could operate.

6.35 Ofgem would welcome views on the options set out in this chapter and in particular on:

- **the relative advantages and disadvantages of the options described;**
- **whether there are other options, or variations to these options, that should be considered; and**
- **if reform is considered necessary, how this could be taken forward and in what timescale.**

Appendix 1 – Proposed amendments to the CoS process

1.1 The options for amendments to the CoS process are illustrated in this appendix using the 'swimlane' model, as used in the *Gas Industry Protocol for Metering Services.* The *Protocol* was developed as part of the RGMA project in order to give further clarity about the operation of the competitive metering market, setting out roles and responsibilities of all participants in that market, thereby further facilitating market entry. It may therefore be helpful to read these proposals in conjunction with the *Protocol,* which is available on the Ofgem web-site at: www.ofgem.gov.uk/metering/protocol.htm.

1.2 The metering market comprises a number of established roles that are fulfilled by existing, licensed and unlicensed organisations and a number of roles that have been made visible as a result of fragmenting a gas metering service hitherto included in transportation businesses. The existing roles of gas suppliers, gas shippers, public gas transporters and meter reading organisations are well established and the associated obligations are clearly set out in the Gas Act and licences.

1.3 The roles of meter owner, meter asset manager (MAM) and meter worker are also described below. These roles, having been traditionally integrated into the activities of transportation businesses have not previously been defined in their own right. They have been developed by the industry and although the roles are not specifically governed by licences many of the associated activities are governed by provisions in the Gas Act

1.4 In understanding these roles as defined by the *Protocol* it is important to recognise that they are not intended to represent the boundaries between organisations involved in the metering market. The purpose of describing the roles in this way is to maximise the potential for competition by identifying separate roles and relationships and providing market entrants with clarity as to which role or roles to enter into. An organisation may carry out one, more or all of the roles described below.

Definitions of roles

Consumer End user of the gas passing through the network maintained by the PGT, they may if they wish supply their own meter or request the Supplier to provide a meter for their usage

Supplier The party who will contract directly with the consumer to supply gas and provide metering arrangements if requested to do so. Requires a suppliers licence. Supplier is responsible for ensuring that biennial meter inspections take place, and also collecting meter readings and passing them to the Shipper. The Supplier effectively purchases gas from the shipper, at the customer's meter and sells it on to them.

Shipper Link between Supplier and the PGT, the Supplier may also act as the Shipper. Requires a Shipper licence. Shipper is responsible for all communications with the PGT. Shipper is also responsible for balancing, settlement of transportation and metering invoices payable to the PGT.

PGT Public gas Transporter, responsible for maintaining the gas supply network. They may also be requested by the Supplier via the Shipper to provide a meter for the consumers' usage. Requires a PGT licence.

MAM Meter Asset Manager will manage a portfolio of meters on behalf of their client. They could control the meter replacement program, arrange Meter Work or arrange purchase of new meters; there is no fixed summary of the MAM service, as this will be determined by commercial contract. The role is synonymous with the 'Meter Operator' in electricity.

Meter Worker Not involved in CoS process. This is the actual person who will do physical work on the Meter Installation.

Gas Industry CoS process with resultant CoMAM

Version control

0-6	1/6/01	Insertion of I&C pre-processes; reintroduction of MRAs; alternative PGT role demonstrated as well as Supplier to Supplier; consistent with v0-6a and v0-6b of swimlane diagram.
0-5	25/5/01	Extension of notes produced by ITSG, consistent with v0-5 of swimlane diagram. Data flows with the MRA have been removed, as out of scope of this proposed change. A Supplier to Supplier data flow has been introduced in accordance with RGMA direction, in place of PGT maintenance of MAM appointments, and to emphasise the Supplier Hub principle.
	15/5/01	Notes provided by ITSG

Introduction

This document falls into two sections:

- CoS Data Flows
- CoS Processes

It should be read in conjunction with the swimlane diagrams, file names:
Process 6 - CoS Map v0-6a win95.ppt (Supplier to Supplier version) and
Process 6 - CoS Map v0-6b win95.ppt (PGT as holder of MAM identity version)

Each flow in the swimlane diagram is described in the CoS Data Flows section. A short description of its contents (and where it is an existing flow, the flow name) is given, together with a statement of the business objective that the flow is intended to fulfil.

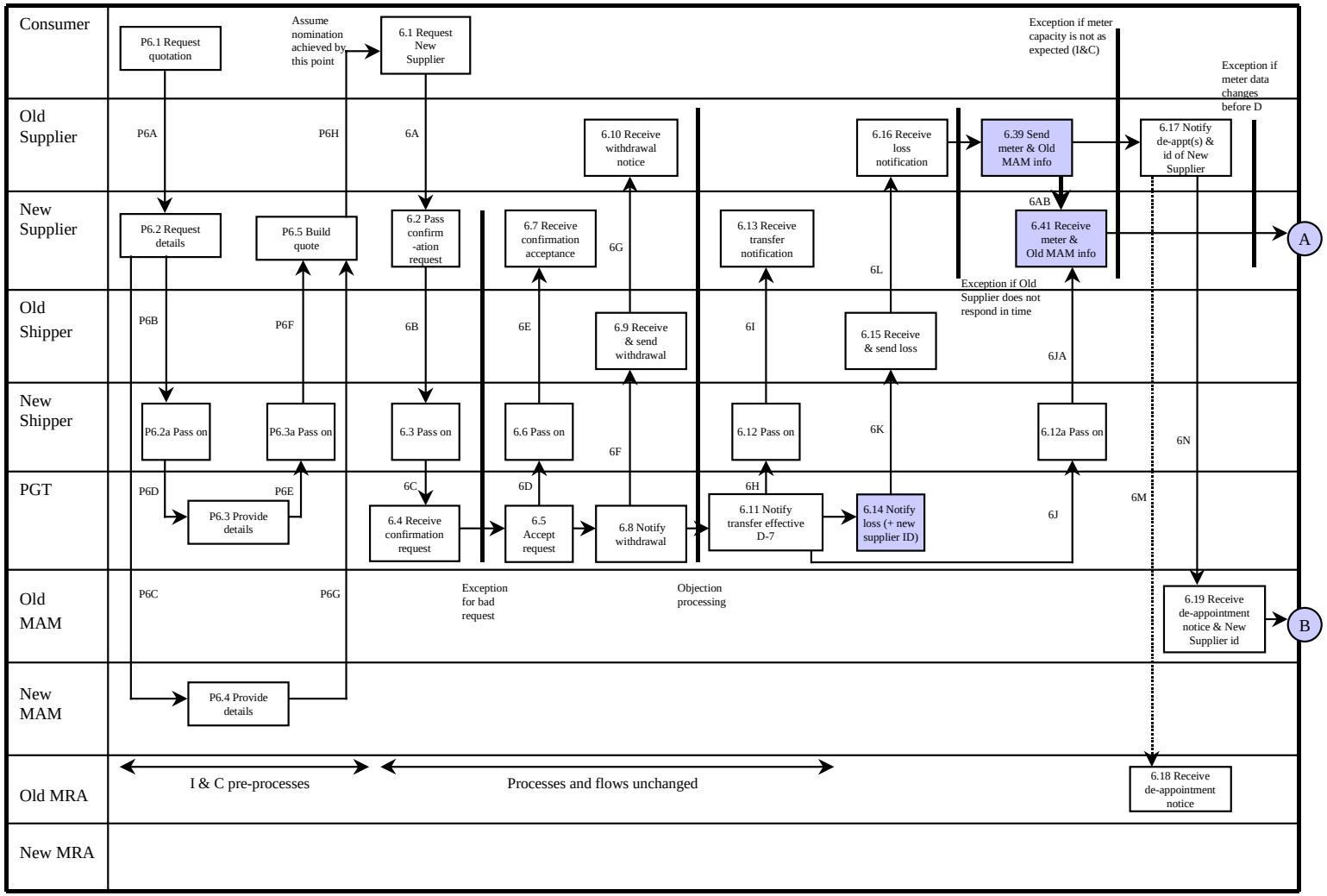
Some of the flows will be (or are already) controlled by the Industry and others are Commercial between participants. This difference is made clear for each of the data flows. A further column of information notes whether the flow is Existing or requires Extension or is a New flow.

Each process box on the swimlane diagram is described in the CoS Processes section. Each process is cross referenced to the data flow (if any) that triggers it, and to any data flow that is created as a result.

The process is briefly described in business terminology. The impact of the new CoS process on each process is noted.

In order to allow backwards change control with other source documents (especially the ITSG provided previous version of this document), numbering of process boxes and naming of data flows has been preserved where the previous process or data flow is not materially changed. New processes and data flows have new numbers and names that do not exist in the earlier version.

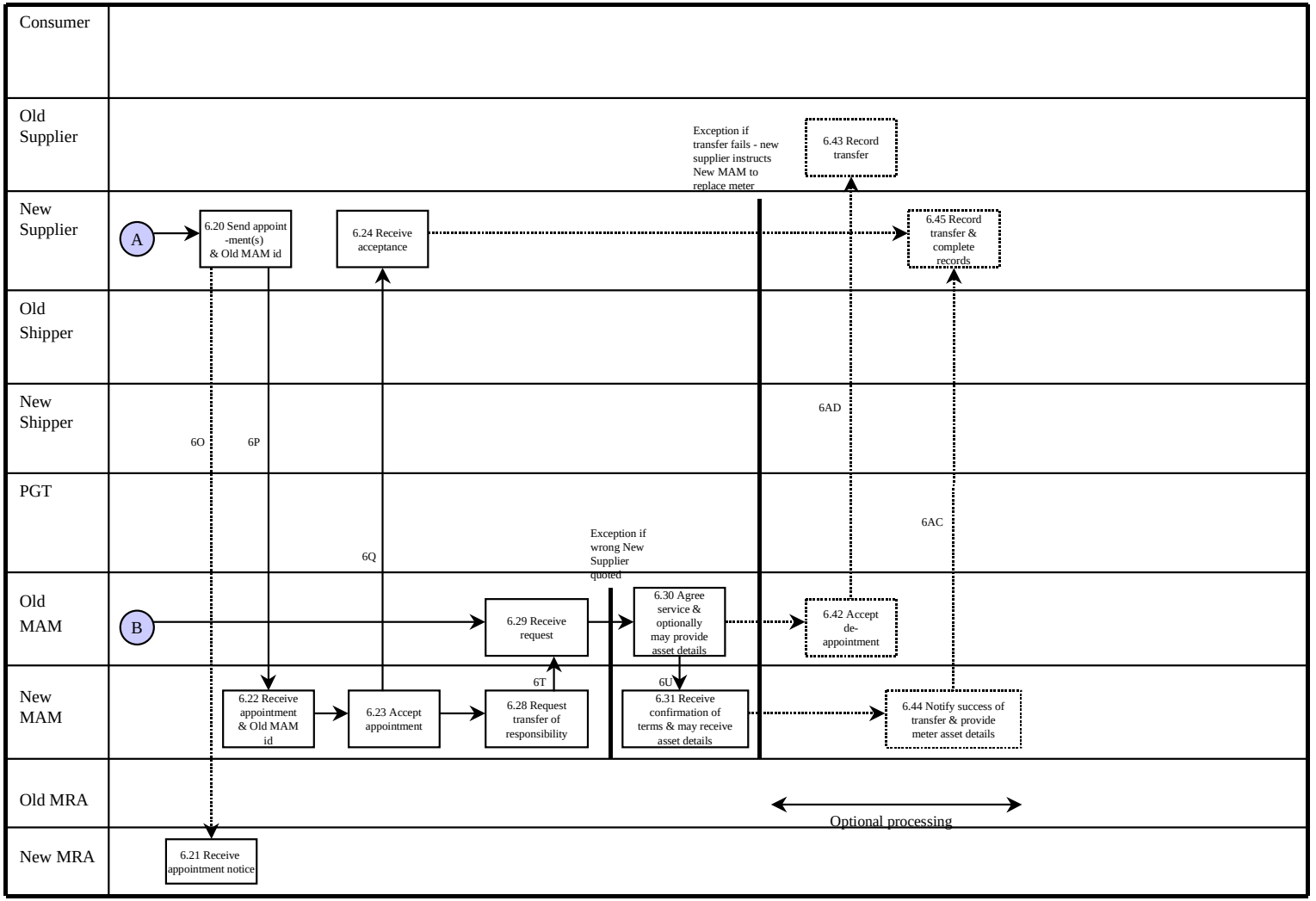
Proposal 1: Supplier to Supplier dataflow - 1 of 2 (specific area of CoS consultation highlighted)



V0-6a: BPRG 1 June 2001

Notes: Vertical bars indicate where exception processing is suggested; dotted lines are optional flows

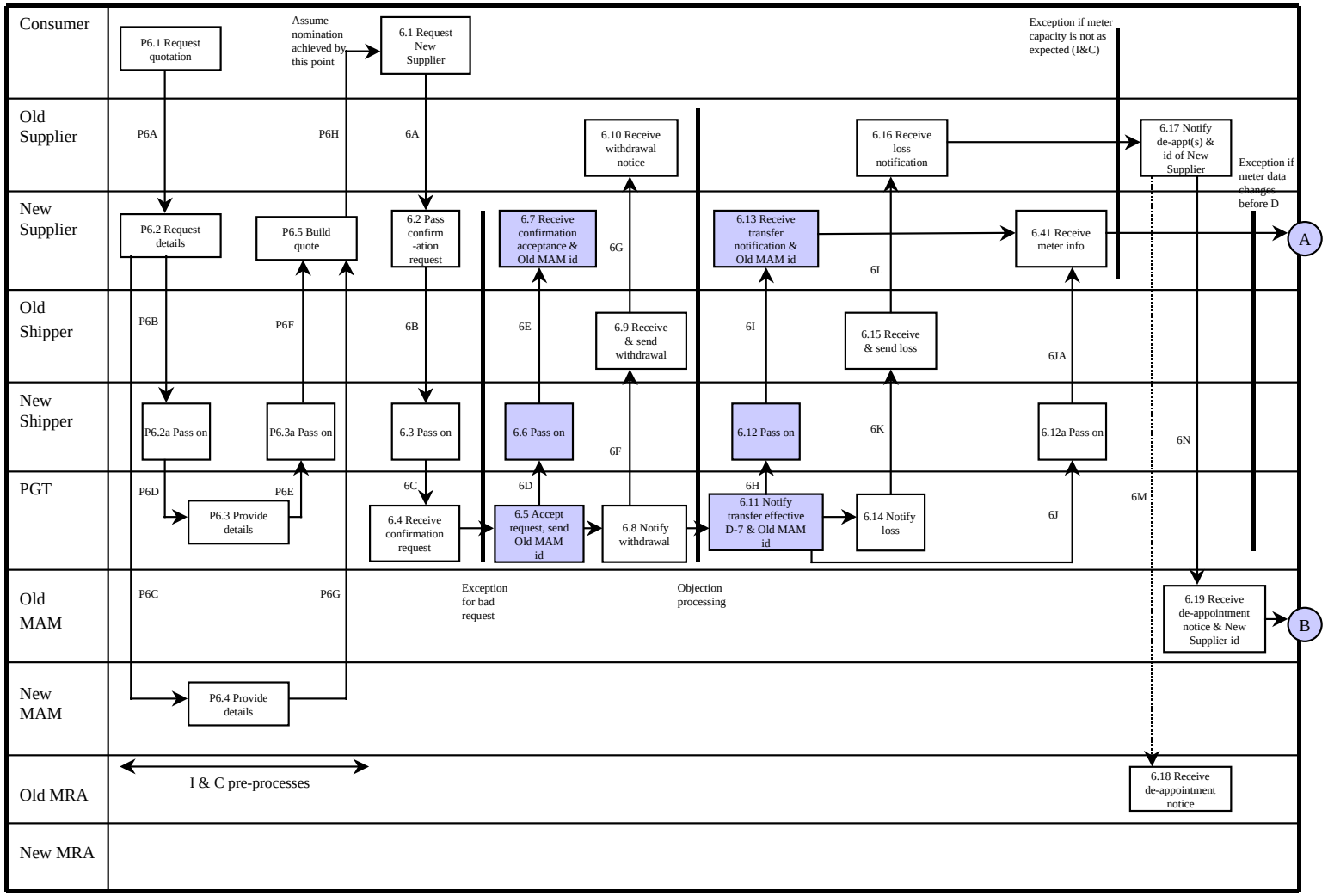
Proposal 1: Supplier to Supplier dataflow - 2 of 2



V0-6a: BPRG 1 June 2001

Notes: Vertical bars indicate where exception processing is suggested; dotted lines are optional flows

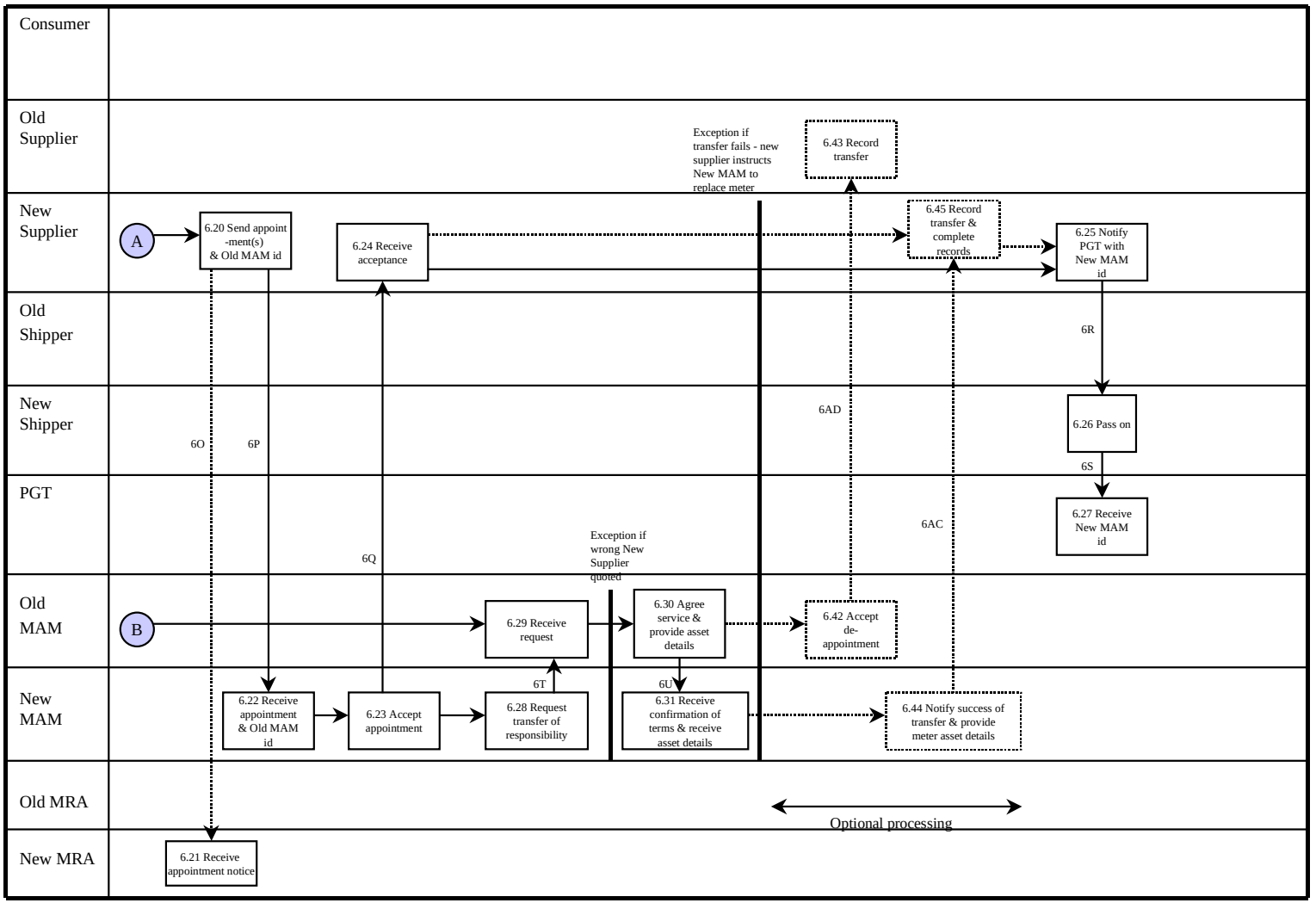
Proposal 2: MAM id from PGT - 1 of 2 (specific area of CoS consultation highlighted)



V0-6b: BPRG 1 June 2001

Notes: Vertical bars indicate where exception processing is suggested; dotted lines are optional flows

Process 2: MAM id from PGT - 2 of 2



V0-6b: BPRG 1 June 2001

Notes: Vertical bars indicate where exception processing is suggested; dotted lines are optional flows

CoS Data Flows

Version A = Supplier to Supplier dataflow
Version B = PGT holds MAM identity

M = Mandatory; O = Optional; C = Conditional

Flow no	Flow contents	Business objective	Gover-nance	Impact	Extra data groups required	Main constituent data items	M/O/C ?
P6A	Manual contact	Commencement of I&C process - customer asks for quote	Commercial	Existing – no impact	None		
P6B	Request for PGT held information on metering	Requires New Shipper to pass request for metering information to PGT	Industry	Existing – no impact	None		
P6C	Request for New MAM quote for metering	Requires New MAM to provide metering quote	Commercial	Existing – no impact	None		
P6D	Request for PGT held information on metering	Passes on the request received from New Supplier	Industry	Existing – no impact	None		
P6E	Metering information as held by PGT	Provides metering information as held by PGT to New Shipper	Industry	Existing – no impact	None		
P6F	Metering information as held by PGT	Passes on the metering information to New Supplier	Industry	Existing – no impact	None		
P6G	Metering quote information	Provides metering quote information to New Supplier	Commercial	Existing – no impact	None		
P6H	Quote	Respond to customer's request for a quote	Commercial	Existing – no impact	None		
6A	Manual contact, offer and contract	Commencement of Industry process – notifies customer requirement to New Supplier	Commercial	Existing – no impact	None		

Flow no	Flow contents	Business objective	Gover-nance	Impact	Extra data groups required	Main constituent data items	M/O/C ?
6B	TRF - S42[1] record or equivalent [i.e. it contains the same data items as S42 but not necessarily in the same format]	Notifies customer requirement to New Shipper with exact identification of MPR, address, reading characteristics	Industry	Existing – no impact	None		
6C	TRF - S42[1] record	Copies the customer requirement information received by the New Shipper to the PGT	Industry	Existing – no impact	None		
6D	TRF - S07[2] record – S75 is assumed to accompany and will be used to carry extra data required	Notifies to the New Shipper that the PGT has accepted the confirmation (subject to objection processes) **ONLY for version B:** Old MAM identity provided	Industry	Existing – no impact for version A Extra data for version B	None for version A **For version B:** Meter point Market Participant Dates	Meter point ref Market Participant role = MAM Market Participant code Date reason = APPOINT From date plus existing data	M M M M M
6E	TRF - S07[2] record or equivalent – S75 is assumed to accompany and will be used to carry extra data required	Copies the acceptance information received by the New Shipper to the New Supplier **ONLY for version B:** Old MAM identity provided	Industry	Existing – no impact for version A Extra data for version B	None for version A **For version B:** Meter point Market Participant Dates	Meter point ref Market Participant role = MAM Market Participant code Date reason = APPOINT From date plus existing data	M M M M M
6F	TRF - S10[3] record	Notifies to the Old Shipper that the customer will withdraw (subject to objection processes)	Industry	Existing – no impact	None		

Flow no	Flow contents	Business objective	Gover-nance	Impact	Extra data groups required	Main constituent data items	M/O/C ?
6G	TRF - S10[3] record or equivalent	Copies the withdrawal information received by the Old Shipper to the Old Supplier	Industry	Existing – no impact	None		
6H	TRF - S15[4] record – assumed to be expanded to contain the identity of the Old Supplier – S75 accompanies and will be used to carry extra data required	Confirms transfer of ownership from effective date to New Shipper, and passes some metering information. The identity of the Old Supplier is included for the purposes of the New Supplier. **ONLY for version B:** Old MAM identity provided	Industry	Existing – current plan to expand. Extra data for version B	Market Participant Date **For version B:** Meter point Market Participant Dates	Market Participant role = SUPP Market Participant code Date reason = REG To date Meter point ref Market Participant role = MAM Market Participant code Date reason = APPOINT From date plus existing data	M M M M M M M M M M
6I	TRF - S15[4] record or equivalent – assumed to be expanded to contain the identity of the Old Supplier – S75 accompanies and will be used to carry extra data required	Copies the confirmation of transfer information received by the New Shipper to the New Supplier. **ONLY for version B:** Old MAM identity provided	Industry	Existing – current plan to expand. Extra data for version B	Market Participant Date **For version B:** Meter point Market Participant Dates	Market Participant role = SUPP Market Participant code Date reason = REG To date Meter point ref Market Participant role = MAM Market Participant code Date reason = APPOINT From date plus existing data	M M M M M M M M M M
6J	MRI - U06[5] record	Passes some metering information to the New Supplier. Note CR 9278 will add data to this flow.	Industry	Existing – no immediate impact.	None		

Flow no	Flow contents	Business objective	Gover-nance	Impact	Extra data groups required	Main constituent data items	M/O/C ?
6JA	MRI - U06[5] record	Copies the metering information received by the New Shipper to the New Supplier	Industry	Existing – no immediate impact.	None		
6K	TRF - S88[6] record – assumed to be expanded to contain the identity of New Supplier (and MPRN)	Confirms cessation of responsibility from effective date to Old Shipper. The identity of the New Supplier is included for the purposes of the Old Supplier, and the MPR is added to assist existing processes.	Industry	Existing with proposed extension	Market Participant Date Meter point	Market Participant role = SUPP Market Participant code Date reason = REG From date Meter point ref plus existing data	M M M M M
6L	TRF - S88[6] record or equivalent – assumed to be expanded to contain the identity of New Supplier (and MPRN)	Copies cessation of responsibility information to Old Supplier	Industry	Existing with proposed extension	Market Participant Dates Meter point	Market Participant role = SUPP Market Participant code Date reason = REG From date Meter point ref Prime meter point ref plus existing data	M M M M M C

Flow no	Flow contents	Business objective	Gover-nance	Impact	Extra data groups required	Main constituent data items	M/O/C?
6AB	Information to the New Supplier named in the TRF S88 record (assumed extended) identifying the MAM for the assets installed, and further metering information. **ONLY for version A**	Provides the New Supplier with full metering information to allow commercial decisions about appointment of a New MAM, the identity of the Old MAM with which the New MAM will negotiate, and the information to initiate the Supplier Hub responsibility.	Industry	New flow	Meter point Market Participant Asset Converter detail Register detail Dates 	Meter point ref Market Participant role = MAM Market Participant code Asset type code Title owner Location code Meter link code Serial number Capacity Software version Meter type Manufacturer Year of manufacture Model Diaphragm Collar status Bypass fitted Meter status Converter operates - temperature Converter operates - pressure Converter operates - compress Converter operates - density Multiplication factor Number of dials Metric/imperial Units of measure Pulse value Date reason = LAST READ Date Date reason = LAST INSPECT Date Date reason = BATT CHANGE Date	M M M M O M C C C C C C C C C C C C C C C M M M M C M M M M C C

Flow no	Flow contents	Business objective	Gover-nance	Impact	Extra data groups required	Main constituent data items	M/O/C?
6M	De-appointment of Old MRA, e.g. MPRN, effective date, etc **OPTIONAL**	Notifies the Old MRA that the Old Supplier will not require services after the effective date.	Commercial	New flow	Meter point Dates	Meter point ref Date reason = APPOINT To date	M M M
6N	De-appointment of Old MAM, e.g. MPRN, effective date, etc	Notifies the Old MAM that the Old Supplier will not require services after the effective date, and the identity of the New Supplier on whose behalf an (as yet unidentified) New MAM will contact the Old MAM.	Commercial	New flow	Meter point Dates Market Participant Dates	Meter point ref Date reason = APPOINT To date Market Participant role = SUPP Market Participant code Date reason = REG From date	M M M M M M M

Flow no	Flow contents	Business objective	Gover-nance	Impact	Extra data groups required	Main constituent data items	M/O/C ?
6O	Appointment of New MRA, including contents of U06[5], extended by information gained from the Old Supplier **OPTIONAL**	Informs the New MRA of the New Supplier's requirement for services at the MPR, the contract conditions that shall apply.	Commercial	New flow	Meter point Contract Asset Register detail Dates 	Meter point ref Contract reference Asset type code Title owner Location code Meter link code Serial number Capacity Software version Meter type Manufacturer Year of manufacture Model Diaphragm Collar status Bypass fitted Meter status Multiplication factor Number of dials Metric/imperial Units of measure Pulse value Date reason = LAST READ Date Date reason = LAST INSPECT Date Date reason = BATT CHANGE Date	M O M O M C C C C C C C C C C C C M M M M C M M M M C C

Flow no	Flow contents	Business objective	Gover-nance	Impact	Extra data groups required	Main constituent data items	M/O/C?
6P	Appointment of New MAM, including contents of U06[5], extended by information gained from the Old Supplier	Informs the New MAM of the New Supplier's requirement for services at the MPR, the contract conditions that shall apply, and the identity of the Old MAM with which the New MAM shall negotiate commercial terms for the transfer of responsibility for the metering installation.	Commercial	New flow	Meter point	Meter point ref	M
					Contract	Contract reference	O
					Asset	Asset type code	M
						Title owner	O
						Location code	M
						Meter link code	C
						Serial number	C
						Capacity	C
						Software version	C
						Meter type	C
						Manufacturer	C
						Year of manufacture	C
						Model	C
						Diaphragm	C
						Collar status	C
						Bypass fitted	C
						Meter status	C
					Converter detail	Converter operates - temperature	C
						Converter operates - pressure	C
						Converter operates - compress	C
						Converter operates - density	C
					Register detail	Multiplication factor	M
						Number of dials	M
						Metric/imperial	M
						Units of measure	M
						Pulse value	C
					Dates	Date reason = LAST READ	M
						Date	M
						Date reason = LAST INSPECT	M
						Date	M
						Date reason = BATT CHANGE	C
						Date	C

Flow no	Flow contents	Business objective	Gover-nance	Impact	Extra data groups required	Main constituent data items	M/O/C ?
6Q	Acknowledgement message re acceptance of appointment as MAM	Confirms to the New Supplier that the New MAM will undertake the provision of the required services.	Commercial	New flow	Meter point Contract Dates	Meter point ref Contract reference Date reason = APPOINT From date	M O M M
6T	Request for transfer of MAM responsibility for metering installation	Contacts the Old MAM to initiate commercial transfer of responsibility negotiations.	Commercial	New flow	Meter point Dates Asset	Meter point ref Date reason = APPOINT From date Asset type code Serial number Manufacturer Year of manufacture Model	M M M O O O O O

Flow no	Flow contents	Business objective	Gover-nance	Impact	Extra data groups required	Main constituent data items	M/O/C ?
6U	Data re transfer of MAM responsibility, and/or charges for services not handed over from Old to New MAM	Confirms to the New MAM the structure and charges for the transfer of responsibility. **ONLY for version A:** optionally can confirm complete metering information where not already obtained. **ONLY for version B:** provides complete metering information.	Commercial	New flow	Meter point Contract Dates Asset Converter detail Register detail Dates	Meter point ref Contract reference Contract other data Date reason = APPOINT To date Asset type code Title owner Location code Meter link code Serial number Capacity Software version Meter type Manufacturer Year of manufacture Model Diaphragm Collar status Bypass fitted Meter status Converter operates - temperature Converter operates - pressure Converter operates - compress Converter operates - density Multiplication factor Number of dials Metric/imperial Units of measure Pulse value Date reason = LAST READ Date Date reason = LAST INSPECT Date Date reason = BATT CHANGE Date	M O O M M O O O O O O O O O O O O O O O O O O O O O O O O O O O O O O

Flow no	Flow contents	Business objective	Gover-nance	Impact	Extra data groups required	Main constituent data items	M/O/C ?
6AD	Acceptance of the de-appointment by the Old MAM, once the transfer of responsibility has been successful **OPTIONAL**	Confirms to the Old Supplier that the Old MAM will cease provision of services and charges from the effective date.	Commercial	New optional flow	Meter point Dates Asset	Meter point ref Date reason = APPOINT To date Asset type code Serial number Manufacturer Year of manufacture Model	M M M O O O O O

Flow no	Flow contents	Business objective	Gover-nance	Impact	Extra data groups required	Main constituent data items	M/O/C ?
6AC	Notification of the success of the transfer of responsibility. **OPTIONAL**	Confirms to the New Supplier that the New MAM has successfully negotiated transfer of responsibility from the effective date. Also can confirm complete metering information where not already obtained.	Commercial	New optional flow	Meter point Dates Asset Converter detail Register detail Dates 	Meter point ref Date reason = APPOINT From date Asset type code Title owner Location code Meter link code Serial number Capacity Software version Meter type Manufacturer Year of manufacture Model Diaphragm Collar status Bypass fitted Meter status Converter operates - temperature Converter operates - pressure Converter operates - compress Converter operates - density Multiplication factor Number of dials Metric/imperial Units of measure Pulse value Date reason = READ Date Date reason = INSPECT Date Data reason = BATT CHANGE Date	M M M O O O O O O O O O O O O O O O O O O O O O O O O O O O O O O O O O O O O O O

Flow no	Flow contents	Business objective	Gover-nance	Impact	Extra data groups required	Main constituent data items	M/O/C ?
6R	Notification of identity of New MAM for an MPR. **ONLY for version B**	Provides the New Shipper with the MAM identity. Note that this flow will be required whenever MAM identities change, whether or not at CoS.	Industry	New flow	Meter point Market Participant Dates	Meter point ref Market Participant role = MAM Market Participant code Date reason = APPOINT From date	M M M M M
6S	Notification of identity of New MAM for an MPR. **ONLY for version B**	Copies the MAM identity received by the New Shipper to the PGT. Note that this flow will be required whenever MAM identities change, whether or not at CoS.	Industry	New flow	Meter point Market Participant Dates	Meter point ref Market Participant role = MAM Market Participant code Date reason = APPOINT From date	M M M M M

Notes on existing Industry SPA flows

[1] S42 record is a 'simple' confirmation request and includes MPRN, effective date, MRF and Supplier Id
[2] S07 record is a confirmation acceptance issued to the confirming Shipper and includes confirmation reference, capacity details (e.g. SOQ/SHQ) and charging information
[3] S10 record is a withdrawal notice issued to the incumbent Shipper and includes confirmation reference, capacity details (e.g. SOQ/SHQ) and charging information
[4] S15 record is a Transfer notification issued to the confirming Shipper and includes confirmation reference, capacity details (e.g. SOQ/SHQ) and charging information
[5] U06 record is the transfer of Asset data issued to the confirming Shipper on transfer of ownership and includes asset data such as MPRN, effective date, location, serial number, number of dials, mechanism, collar, bypass fitted
[6] S88 record is a ceased responsibility notification issued to the incumbent Shipper and includes confirmation reference, end date.

TRF - S42[1] record or equivalent [i.e. it contains the same data items as S42 but not necessarily in the same format]

CoS Processes

Version A = Supplier to Supplier dataflow
Version B = PGT holds MAM identity

Process no	Done by	Trigger flow no	**Process description**	**Result flow no**	**Impact**
P6.1	**Customer**	**none**	Decides to get quotes for supply & metering (I&C)	P6A	None
P6.2	**New Supplier**	**P6A**	Requests details on metering that the PGT holds	P6B	None
P6.2	**New Supplier**	**P6A**	Requests details of metering costs from the New MAM	P6C	None
P6.2a	**New Shipper**	**P6B**	Passes on the New Suppliers request to the PGT	P6D	None
P6.3	**PGT**	**P6D**	Provides the details of metering held	P6E	None
P6.3a	**New Shipper**	**P6E**	Passes on the details to the New Supplier	P6F	None
P6.4	**New MAM**	**P6C**	Provides metering quotation information to the New Supplier	P6G	None
P6.5	**New Supplier**	**P6F & P6G**	Puts together a quote for supply and metering, and passes it to the Customer	P6H	None
6.1	**Customer**	**none**	Decides upon change of Supplier and contacts New Supplier	6A	None
6.2	New Supplier	6A	Agrees terms with customer and submits confirmation request to New Shipper	6B	None
6.3	New Shipper	6B	Passes on the confirmation request to the PGT	6C	None
6.4	PGT	6C	Receives confirmation request	Internal	None
	PGT, New Shipper, New Supplier		Exception processing for errors in confirmation request		None
6.5	PGT	internal	Accepts confirmation request and passes acceptance to New Shipper **ONLY for version B:** passes the identity of the Old MAM	6D	None for version A Extension for version B
6.6	New Shipper	6D	Passes on the confirmation request acceptance to New Supplier **ONLY for version B:** passes the identity of the Old MAM	6E	None for version A Extension for version B
6.7	New Supplier	6E	Receives confirmation request acceptance **ONLY for version B:** receives the identity of the Old MAM	Internal	None for version A Extension for version B
6.8	PGT	internal	Sends notification of withdrawal to Old Shipper	6F	None
6.9	Old Shipper	6F	Receives notice of withdrawal, records, and passes notice to Old Supplier	6G	None
6.10	Old Supplier	6G	Receives withdrawal notice		None

Process no	Done by	Trigger flow no	**Process description**	**Result flow no**	**Impact**
	Old Supplier, PGT, New Supplier		Exception processing for objections		None
6.11	PGT	internal	Notifies transfer to New Shipper, with identity of Old Supplier **ONLY for version B:** passes the identity of the Old MAM	6H & internal	Extension of existing Further extension for version B
6.11	PGT	internal	Send MRI data to New Shipper	6J	None
6.12a	New Shipper	6J	Pass on MRI data to New Supplier	6JA	None
6.12	New Shipper	6H	Passes on the transfer notification, with identity of Old Supplier, to New Supplier **ONLY for version B:** passes the identity of the Old MAM	6I	Extension of existing Further extension for version B
6.13	New Supplier	6I	Receives notification of transfer, with identity of Old Supplier **ONLY for version B:** receives the identity of the Old MAM	Internal	Extension of existing Further extension for version B
6.14	PGT	internal	Notifies loss to Old Shipper with identity of New Supplier	6K	Extension of existing
6.15	Old Shipper	6K	Receives notification of loss, records, and passes loss to Old Supplier, with identity of New Supplier	6L	Extension of existing
6.16	Old Supplier	6L	Receives notification of loss, with identity of New Supplier	Internal	Extension of existing
6.39	Old Supplier	internal	**ONLY for version A:** Sends meter and Old MAM information to New Supplier	6AB & internal	New process for version A
	New Supplier, Old Supplier		**ONLY for version A:** Exception processing if Old Supplier does not respond within defined time		New process for version A
6.17	Old Supplier	internal	Notifies Old MAM of de-appointment and identity of New Supplier	6N	New process
6.17	Old Supplier	internal	Notifies Old MRA of de-appointment	6M	Existing optional process
6.41	New Supplier	6AB	**ONLY for version A:** Receives meter and Old MAM information	Internal	New process
6.41	New Supplier	internal	**ONLY for version B:** Receives Old MAM information	Internal	New process
6.41	New Supplier	6JA	Receives MRI data from New Shipper	Internal	None
	New Supplier, Customer		**Only for I&C:** Exception processing if meter capacity is not as assumed in quote process		New process
6.18	Old MRA	6M	Receives and processes de-appointment	none	Existing process

Process no	Done by	Trigger flow no	**Process description**	**Result flow no**	**Impact**
6.19	Old MAM	6N	Receives notice of de-appointment and identity of New Supplier	Internal	New process
6.20	New Supplier	internal	Notifies New MAM of appointment and identity of Old MAM	6P	New process
6.20	New Supplier	internal	Notifies New MRA of appointment	6O	Existing optional process
6.21	New MRA	6O	Receives and processes appointment	none	Existing process
6.22	New MAM	6P	Receives notice of appointment and identity of Old MAM	Internal	New process
6.23	New MAM	internal	Accepts appointment and informs New Supplier	6Q & internal	New process
6.24	New Supplier	6Q	Receives acceptance of appointment from New MAM **ONLY for version B:** acts as trigger for informing the PGT of the New MAM identity	Internal	New process
6.28	New MAM	internal	Requests transfer of responsibility for installed metering equipment from Old MAM, quoting New Supplier identity	6T	New process
6.29	Old MAM	6T	Receives request for transfer of responsibility for installed metering equipment. May also request detailed asset information.	Internal	New process
	Old MAM, New MAM		Exception processing if Old MAM receives a request with a non-matching New Supplier identity		New process
6.30	Old MAM	internal	Agrees with New MAM terms for transfer of responsibility and **ONLY for version A:** optionally may provide detailed asset information if required. **ONLY for version B:** will provide detailed asset information	6U & internal	New process
6.31	New MAM	6U	Receives confirmation of terms for transfer of responsibility and **ONLY for version A:** may receive detailed asset information from Old MAM **ONLY for version B:** will receive detailed asset information from Old MAM	Internal	New process
	New Supplier, New MAM, Old MAM		Exception processing if transfer of responsibility is not agreed		New process
6.42	Old MAM	internal	Sends acceptance of de-appointment to Old Supplier	6AD	New optional process
6.43	Old Supplier	6AD	Receives acceptance of de-appointment from Old MAM, and record	none	New optional process

Process no	Done by	Trigger flow no	**Process description**	**Result flow no**	**Impact**
6.44	New MAM	internal	Notify success of transfer of responsibility to New Supplier. May optionally send detailed asset information for the New Supplier's records, if not already known.	6AC	New optional process
	New Supplier, New MAM		Exception processing if New MAM does not report successful transfer of responsibility within defined time		New optional process
6.45	New Supplier	6AC	Receives notification of success of transfer of responsibility from New MAM, and record. May also receive detailed asset information. **ONLY for version B:** optionally may be the trigger for informing the PGT of the New MAM identity	None for version A internal for version B	New optional process
6.25	New Supplier	internal	**ONLY for version B:** Send identity of New MAM to the New Shipper	6R	New process
6.26	New Shipper	6R	**ONLY for version B:** Pass on the identity of the New MAM to the PGT	6S	New process
6.27	PGT	6S	**ONLY for version B:** Receive and store the identity of the New MAM	none	New process

Appendix 2 – Overview of SPA A

Introduction

2.1 This appendix describes key features of the Supply Point Administration Agreement (SPAA) discussed in Chapter 6 in more detail. It also describes how the SPAA could be used to facilitate harmonisation with the electricity market and how a transition to the new agreement could be made.

Key features

Ownership

2.2 In principle, the owners of the agreement would be the signatories and they may chose to formalise this position by forming a limited company with themselves as the sole shareholders. This is the method used in electricity (where MRASCo is a limited company owned by the signatories and established to administer the MRA) and seems appropriate in this case.

2.3 It is probably not appropriate, or necessary, for Ofgem to be a signatory to the SPAA. Consequently, we would not have any ownership rights or obligations.

Mandate

2.4 One of the concerns set out in Chapter **5** is that new processes such as the SAR avoidance process has no mandate. There is no compulsion on individual suppliers to reach agreement on the form and use of the process. This has meant that, although there is a mechanism for negotiating an agreement (in this case British Gas Trading is acting as a co-ordinating body) it is proving very difficult (and may ultimately be impossible) to reach a binding agreement.

2.5 Ofgem recognises the need for competing parties to make their own commercial arrangements. However, we also acknowledge that some degree of co-operation and consistency is required in order to allow consumers to exercise choice without undue difficulty. Because this co-operation might not always be of mutual benefit, and as a consequence suppliers may occasionally seek to break the agreement, the agreement needs to be mandatory.

2.6 In the case of electricity, this mandate is provided by a licence condition which requires suppliers to be signatories to the MRA. This may be appropriate for the SPAA. It is open to debate whether PGTs should also be required to be signatories given their present dual role as transporters and data managers. One way to resolve this issue would be to amend the standard PGT licence to require PGTs to be signatories to the SPAA for either a limited time period or until the existing SPA process was migrated from Network Code to the SPAA.

Funding

2.7 Although it is likely that the costs of administering the SPAA would initially at least be low, funding and financial accountabilities would need to form part of the agreement. It would seem appropriate for signatories to provide the funding.

2.8 It is worth noting the costs of administering the SPAA could be considered to be netted off against the present industry costs in maintaining existing governance arrangements. It is possible that the administration of the SPAA would be more efficient than the existing governance arrangements leading to a net saving for suppliers.

Administration

2.9 Ofgem envisages that the role of the SPAA administration body could include administering procedures for maintaining data definitions and agreed data flows, recording supplier performance against the agreed processes, administering votes, circulating information etc.

2.10 Ofgem believes that the role of the SPAA administration body should be limited to administering the SPAA, i.e. it would not provide any of the services required to facilitate the market processes such as data management services. However, it would seem appropriate for the administrative body to provide a means of procuring these services. For example, the administration body could tender for data management services, either to manage the entire SPA process (a role currently fulfilled by PGTs) or particular services such as the SAR avoidance process. Restricting the role of the administration body in this way would help avoid it unfairly restricting competition in the provision of these services.

Voting

2.11 It is self evident that changes to agreed processes should only be made with the agreement of signatories. This implies that some form of voting system would need to be established. The key issue in such a system is the weighting of votes.

2.12 The most straightforward arrangement would be to allocate one vote to each signatory and use a simple majority system. This may be sufficient where all parties are equally effected by the proposed change. However, it is likely that there will be occasions when this is not the case.

2.13 Some changes will not affect PGTs (as data managers) and it might be appropriate in these cases to weight the votes towards suppliers. However, some changes might be of common interest to suppliers, but not in the commercial interest of PGTs. This has been identified as a problem with existing governance arrangements.

2.14 In addition to recognising the influence of a non-commercial data manager, i.e. the transporter, the voting system would need to recognise that one supplier is dominant in the supply market and may therefore have different commercial drivers to other suppliers both individually and collectively.

2.15 It is for this reason that a voting system would need to be designed to allow for conflicting commercial interests under varying circumstances.

Disputes

2.16 Ofgem considers that it would need to have a role in dispute resolution. This is for two main reasons. First, it is likely that even a well designed voting system will sometimes result in one or more parties being aggrieved by the result. Second, Ofgem has a statutory duty to protect the interests of consumers by securing competition where appropriate. Although suppliers should have incentives which are consistent with Ofgem's duty, we would need some measure of controlling influence over suppliers' actions. It is partly for this reason that we have a role in existing governance arrangements and we see no reason to abandon this regulatory instrument at this time.

2.17 Nevertheless, Ofgem would wish to limit the extent of its powers as far as is possible. This implies that we may not wish to continue to have the power of veto over all change proposals. It might be more appropriate to have this veto only for certain types of modification or where there is a genuine dispute. This is analogous to Ofgem's role in respect of the MRA.

Harmonisation with electricity

2.18 Ofgem is aware that many industry parties believe that an alignment of key processes in the gas and electricity supply markets would be beneficial. We also noted in our ICT consultation document that the difficulties of achieving alignment are exacerbated by having completely separate governance arrangements for each sector.

2.19 With this in mind, Ofgem believes that the SPAA, and its comparable governance arrangements, would facilitate harmonisation between the two markets. However, there are some initiatives which could accelerate this process. For example, the SPAA administration body could have a memorandum of understanding with MRASCo, possibly containing a 'technology transfer' type agreement. In the future the SPAA administration body could merge with MRASCo. We envisage that convergence of the two industries could ultimately create such economies of scope as to make a merger economically sensible.

Transition

2.20 As mentioned in Chapter 6, one of the key features of this option is that it does not require a complete agreement covering all aspects of the retail market operation to be immediately established. All of the necessary processes are currently in place. This allows the development of a robust framework agreement which acts as a vehicle for suppliers to reach agreement on those processes which require co-operation between industry parties over a period of time.

2.21 Once the framework agreement is in place and supported by relevant parties, Ofgem would propose the necessary licence modifications to require suppliers and transporters to sign the SPAA. By only proposing such licence modifications

after agreement is reached, we anticipate that this would be a straightforward process.

2.22 When the framework agreement and administration procedures are in place, work can begin on establishing new processes and migrating existing processes into the agreement. This can be done at a pace dictated by signatories to the SPAA, however, it would seem sensible to set out a timetable for change at an early stage.