

**Review Group 0384 – ‘Review of ‘M’ Number Creations’**

**Review Group Report – October 2000**

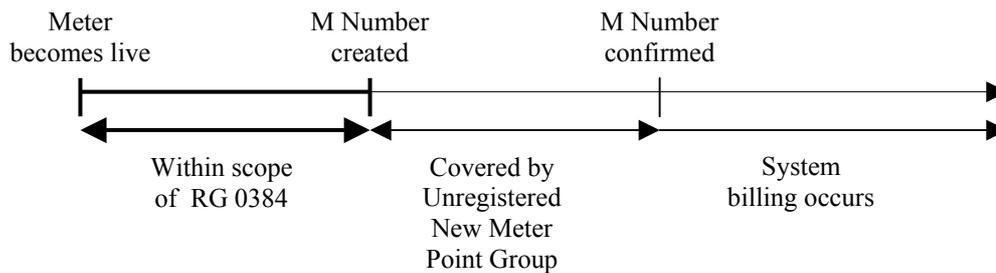
**Summary**

Review Proposal 0384 was raised by TXU Eastern and received by Transco on 9 February 2000. The Proposal was discussed by the Network Code Modification Panel on 17 February 2000 which directed that a Review Group be convened. The group first met on 7 March 2000.

The Review Proposal suggested that shippers may have meter points on their billing systems that are not registered on PGT systems. TXU believed that evidence of this may be based on the amount of ‘M’ numbers created by Transco. It suggested that as a result of this, registration problems may occur when a gas customer wishes to change supplier.

The Proposal detailed possible financial implications that unregistered sites have on the rest of the domestic shipping community. The proposer also expressed the view that changes in the ‘M’ number creation process may be appropriate.

A principal area of group debate was concerned with identifying financial responsibility within the shipping community for meter points where gas may have been offtaken prior to ‘M’ number creation. The following diagram illustrates the scope of this:



Non-‘greenfield’ ‘M’ number creation occurs with respect to ‘existing’ sites when meters are ‘found’ either by Transco, shippers or gas customers. As Transco has no record of these meters, detailed analysis was required in two specific areas as a prerequisite to discussion:

- Volume of ‘M’ numbers created by Transco (CPM) since February 1998 (IQR close out).
- Root cause analysis for ‘M’ number creation.

Having identified the above information, the main focus of group debate was:

- To identify prospective measures by which the volume of ‘M’ number creations may be reduced and the efficiency of the creation process improved.
- To develop and initiate appropriate mechanisms whereby retrospective charges may be recovered where appropriate.

Note: A key principle identified by the group was that retrospective transportation charges should be applied with respect to a meter point offtaking gas prior to ‘M’ number creation and registration, in circumstances where the end customer had been charged under a supply contract.

The Review Group concluded its deliberations by agreeing the following recommendations:

- The implementation of measures by which retrospective transportation charges will be sought from Users in the period prior to ‘M’ number creation.
- The implementation of a range of improvements associated with the ‘M’ number creation process.
- The implementation of measures to facilitate the identification of ‘unfound’ meters.

### Meetings held

The Review Group met on five occasions. For the last two meetings, it was agreed that the group should meet on the same occasion as the 'Unregistered New Live Meter Points' group which is accountable to the CPM Operational Forum. This was for the purposes of consistency.

During earlier meetings of the group, concern was expressed by group members with respect to apparent slow progress. Transco's response was that progress was methodical but maintained that this was a result of the extensive analytical work undertaken by its CPM department in producing relevant information which formed the basis for discussion. It was suggested that more rapid progress might have been possible if items such as producing an invoice reconciliation methodology and developing business principles for accepting responsibility for charges had been debated in parallel with Transco undertaking its analysis. Transco, however, identified that it was of fundamental importance that robust information be produced which provided a basis for determining the optimum solution. Transco maintained that this was particularly important given that community 'claims' relating to the volumes of 'M' number creation varied widely and were largely unsubstantiated. Transco expressed the view that this gave rise to the risk of solutions being identified which were not commensurate with the overall size and nature of the problems identified.

### The Review

The group developed Terms of Reference as follows:

- To establish the nature and impact of the issue
- To substantiate the size of the problem.
- To undertake process analysis to identify the cause of the problem.
- To develop options for resolution of the issue:
  - To propose a way to address any outstanding charges or cross-subsidies
  - To consider potential improvements related to the M Number creation process.

As part of the review the group also considered:

- The reason for M number creations and how volumes may potentially be reduced.
- The potential impacts on the Network Code.
- Any possible implications for iPGTs.

The group agreed that issues associated with 'M' Number Creations pertinent to new supply points i.e. 'greenfield' sites should not be considered.

### Transco's analysis – 'M' Number Creations

Since the start of February 1998, to April 2000 it was identified that 52,840 'M' numbers (non-greenfield) had been created. At the time of analysis this figure comprised:

Domestic confirmed	36,785
Domestic unconfirmed	13,765
I&C confirmed	1,661
I&C unconfirmed	629

In response to a request by the group, Transco also produced a breakdown by LDZ of the above information (appendix 1). No significant variations or concentrations of 'M' number creations were identified on any particular LDZ other than where that concentration had arisen as a result of a migration issue.

The above statistics excluded the project undertaken to resolve the British Gas Trading (BGT) dummy 'M' number issue (circa 25,000 'M' number creations) which has since been completed.

### 'M' Number Creation Process

Transco shared and reviewed with group members the process by which it created 'M' numbers. This involves a series of nine systems checks including, where appropriate, reference to BGT's systems.

These checks are detailed in appendix 3.

Transco confirmed to group members that all 'M' number creations within the scope of the Review Group were created by its CPM department and that LDZ initiated creations were for 'greenfield' site and therefore by definition out of scope.

Transco also shared with the group 'M' number creation data on a month by month basis detailing creations in proportion to requests in the first six months of 2000. From a total of 12,691 requests 5,127 resulted in an 'M' number creation by CPM.

#### *Anomalies identified:*

Two anomalies were identified by the group which potentially led to the creation of duplicate 'M' numbers.

#### *CSEPS:*

It was identified that Transco had on occasions created CSEP 'M' numbers on its Sites & Meters database. This was principally due to Transco not having access to individual iPGT portfolios and associated process failures.

It was agreed that measures should be taken to ensure that iPGT's provide access to their 'M' number databases as necessary to enable requisite checks to be made during 'M' number creation. Ofgem indicated to group members that it has written to iPGTs concerning the release of their 'M' number data and that measures will be taken shortly (by Ofgem) to secure the release of iPGT 'M' number data.

Group members claimed that this anomaly may indicate that Transco may not be aware of where its assets are. Transco challenged this claim, however, identifying that the number of incidences of 'M' number creation on a CSEP were minimal and may have been partially due to administrative error. Transco accepted that its detailed asset database may not be wholly complete and, as with any facility of this size and complexity, open to improvement. It also noted, however, that proactive work had been undertaken to identify possible missing assets. The objective of this was to aid data quality with regard to the recording of CSEP sites.

#### *'Plot' addresses:*

It was identified that a problem existed with respect to new build 'plot' addresses and the transition to full postal address. It was agreed that Transco should consider and implement measures to preclude the risk of duplications. Transco is currently addressing this in the following way:

- Address reconciliation initiative being raised with all LDZs to identify best practice.
- Postcard initiative – (to be piloted) left with end customer when gas installation complete to facilitate clarification of address.
- Contact with the National Land and Property Gazetteer (NLPG) to be initiated by CPM (future state because of major system enhancement required).
- Ongoing dialogue with LDZs by the Account Management LDZ Team.

Following detailed discussion, enhancements to the 'M' number creation process were identified as follows:

#### *Agreed improvements (creation process):*

- That Transco monitors all future 'M' number creations through to registration.

- That following completion of the ‘dummy’ ‘M’ number exercise being undertaken in conjunction with BGT, subject to an interim ‘trial’ period, Transco no longer checks with BGT to identify whether the meter point exists on BGT’s system.
- That Transco asks the requesting shipper to indicate whether prior to ‘M’ number creation its supplier has been recovering charges from its customer or whether it is intended that such charges will be recovered. If the response is ‘yes’, Transco will enter into negotiations with the relevant shipper to confirm whether transportation charges should be recovered and the applicable period. If charges are recoverable, Transco will automate the ‘ADJ1’ process whereby it seeks to recover such charges.

Note: There was extensive group debate with regard to this issue. One shipper expressed the view that costs should be reallocated without the requirement to enter into negotiations, it not being Transco’s concern whether the contract between the end customer and supplier allowed for recovery of such costs. A further point noted was that Transco should bill a shipper automatically should it receive a meter reading with respect to a site it has no record of. Transco responded that these points were acknowledged but the notes that the consensus view of the group was the principles of the end customer billing prerequisite and the need for shipper negotiation formed a pragmatic basis for resolving issues governing the application of retrospective transportation charges.

#### Root Cause Analysis

At the request of Review Group members, Transco undertook analysis of the root causes leading to ‘M’ number creation.

In summary, the following information was presented to the Review Group indicating % of problem caused by:

- Migration: 19%
- Siteworks: 3%
- Found meters: 78%

#### Migration issues – extrapolation analysis

Whilst trying to substantiate the size of the problem, concern was expressed by Review Group members that while Transco’s analysis had identified the number of ‘M’ numbers created from February 1998, further evidence was required with respect to determining whether all ‘migration’ issues had been addressed. The group sought a level of assurance that all ‘migrated’ sites existing at the start of competition were accounted for on Transco’s Sites & Meters Database. To clarify the requirement, the following hypothetical example is used:

Road X (100 houses) was missed from being successfully migrated to Transco’s Sites & Meters database at the start of Network Code. During supplier transfer, shipper A had sought 25 ‘M’ number creations from Transco for houses in that road, which were subsequently found on BGT’s database. It is therefore logical that assuming 25% of domestic properties have transferred away from BGT since the start of competition, Transco should be able to account for the other 75 houses, by demonstrating that 75 ‘M’ numbers had been created for these. If, through its analysis, Transco finds that fewer than 75 ‘M’ numbers have been created, then there may be a reasonable basis for suspicion that not all properties offtaking gas in that road have been accounted for.

Transco presented its analysis to the Review Group in the following way:

*Theoretical extrapolation technique.*

The group identified that ‘M’ number creations could be broken down into the following categories:

*Category A*

These are ad-hoc ‘M’ number creations identified through supplier transfer and were due to migration problems where Supply Meter Points were not registered on Transco’s systems but as part of the ‘M’ number creation process were found to be on BGT’s systems.

*Category B*

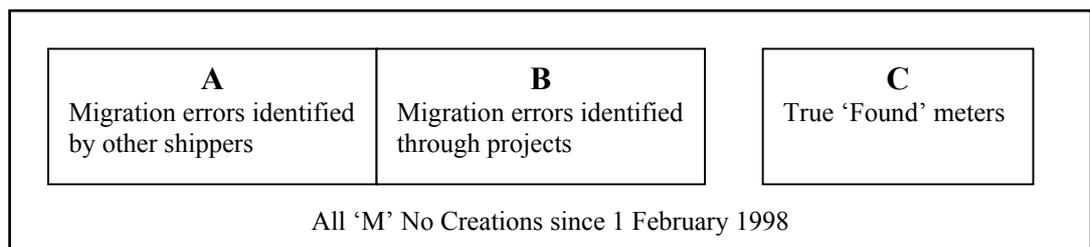
These are the projects initiated by Transco to address migration errors, for example the ‘dummy M number’ project, and the instances where there had been missing postcodes.

*Category C*

These are true ‘found’ meters which were discovered by Transco engineers, shippers or customers and were not found to be on Transco’s or BGT’s system.

The group agreed that the above categories represent the total of non greenfield ‘M’ numbers created since February 1998.

Each category was then applied as follows:



Transco explained that from the above, if category A were identified when customers switched supplier and 25% of customers have switched, then A should be 25% of (A+B). Therefore, B should be at least 3 times A. Transco’s actual results, however, revealed that B was six times A. Shippers agreed that this suggested that Transco projects to identify and resolve migration issues were substantially complete.

Note: Transco was not permitted by the group to disclose its detailed shipper by shipper analysis utilised to develop the above for reasons of confidentiality.

Group members suggested that a further indication of whether sites were ‘missing’ from Transco’s Sites & Meters database may be achieved by comparing the ‘error margin’ or ‘tolerance’ between British Gas Trading (BGT) and Transco’s databases at migration. The group were, however, informed that permission to disclose the tolerance had not been forthcoming from BGT.

‘Unfound’ meters

Review Group members expressed concern that measures should be taken by Transco to seek out any ‘unfound’ meters. The rationale for this was that any such meters would be unlikely to be identified unless a change of occupier occurred.

Transco therefore agreed that it would implement proactive searches based on:

- ‘M’ number creations.
- Emergency and meter work to sites and meters database comparison.

- Recent new build areas for properties of approximately two years old.

Transco noted that work undertaken so far had not identified any 'unfound' meters. It noted, however, that ongoing progress on this matter would be reported to the 'Unregistered New Live Meter Points Group'.

Concerns were expressed that Transco will be able to identify a problem if it receives meter reads for a meter which it does not have recorded. Transco responded that it did undertake investigative work for read rejections for the codes 'Meter Point Does Not Exist' and 'Meter Point is at DE Status'.

#### Unregistered meter points

The issue of unregistered meter points is being addressed in detail by the 'Unregistered New Live Meter Points' group which is accountable to the CPM Operational Forum. The group identified that satisfactory progress has been made by this group for which agreement in principle has been forthcoming for the application of retrospective charges. This applies for the period from 'M' number creation to supply point registration. As part of the process individual portfolios of unregistered meter points (with meter assets attached) were issued to shippers for action.

In order to address the situation where non 'greenfield' 'M' numbers have been created but not registered, Transco has in addition issued portfolios (including unregistered sites without meter assets attached) to shippers for action.

#### Invoicing methodology

Transco developed a draft retrospective invoicing methodology which was discussed and approved by the Review Group. (Appendix 2).

#### Conclusion

Whilst no changes requiring Modification of the Network Code have been identified, improvements to the 'M' number creation process and ancillary activities have been identified. Group members believe that these address the following apparent weaknesses in the current process:

- Lack of accountability from 'M' number creation to Supply Point registration leading to 'shipperless' sites.
- Lack of process for identifying and raising charges for previous 'M' number creations.
- Lack of process for identifying and raising charges for ongoing 'M' number creations.
- Potential for incomplete asset knowledge and records.

Agreement has also been forthcoming in the group for the principles by which retrospective transportation charges will be applied with respect to 'M' numbers created since February 1998.

The Review Group determined that Transco should write to shippers to establish from what date, if any, retrospective transportation charges should be applied prior to their 'M' number creations. This would apply in circumstances where the gas customer has been charged or will be charged retrospectively under a supply contract. Group members agreed that progress on this matter should be reported to the 'Unregistered New Live Meter Points' group.

It is therefore the opinion of the Review Group that its Terms of Reference have been met and that the recommendations below be implemented at the earliest opportunity.

## **Recommendations**

The following recommendations are made by the Review Group which are commensurate with analysis contained within this report.

Transco should undertake/initiate the following activities:

- Resolve any disputed unconfirmed 'M' numbers (in association with work ongoing within 'Unregistered New Live Meter Points' group).
- Implement amendments to the 'M' number creation process managed by Transco (CPM) as described above.
- Undertake/continue work (reporting to 'Unregistered New Live Meter Points Group'):
  - To improve Transco's handling of the 'plot to postal address' process;
  - To investigate the scale and size of Transco/CSEP 'M' number duplications.
- For 'M' numbers created prior to implementation of the revised procedures identified in this report, confirm the retrospective billing position with all shippers. Transco to write to all shippers asking for confirmation of the date from which they/their suppliers have billed customers in the period prior to 'M' number creation.
- Based on the above confirmations and the attached invoicing principles, issue retrospective charges where appropriate. It is planned that the following timetable will apply:

Issue confirmed 'M' number creations data:	23 October 2000.
Close out for responses:	24 November 2000.
Initiate 'chase' for non-responses – complete by:	1 December 2000.
Calculate and issue invoice adjustments:	31 January 2001.

## **Responses to Draft Review Group Report/Further process work required**

The Review Group concluded its discussions on 20 September 2000 by agreeing that the Terms of Reference had been met. The group further identified that any process points arising would be transferred to the ongoing 'Unregistered New Live Meter Points' group. This would enable regular progress reporting to take place and for residual process issues arising from RG0384 to be addressed.

Transco issued a Draft Review Group Report to Group members on 4 October 2000. Five responses were received which identified various points previously discussed within the Review Group. Where appropriate, these are addressed in this final report. A number of the respondents also raise points which have not been previously discussed by the Review Group. These are identified below:

*Ref: Agreed improvements (creation process).*

- Four respondents seek that Transco should confirm that its checks are sufficiently thorough to pick up all sites on which charges have been or will be recovered. Respondents seek that each shipper should be required to give a specific warranty that they have declared all sites to Transco where charges have been made. One respondent suggests that where transportation charges are not recoverable (due to the shipper stating that the customer has not been billed) that Transco provides clear information showing the proposed cost of this subsidy to each shipper.
- Four respondents identify a need that if the shipping community has reasonable grounds to believe that all sites have not been declared, it can call for an independent audit. If the audit finds no irregularities, the cost of the audit should be borne by the shippers calling for the audit. If, however, the audit identifies significant numbers of undeclared sites, the cost should be borne by

Transco and shippers who are in default of their warranty.

- One respondent suggested that for the period prior to 'M' number creation, sites where no reallocation of costs occur should be treated as shipperless sites with Transco being responsible charges in line with current shrinkage methodology.

*Ref: Theoretical extrapolation technique.*

- Three respondents state the concern of shippers other than BGT that the error tolerance between BGT and Transco's Sites & Meters database would not be made public. Respondents recommend that this figure should be disclosed to Ofgem which should make a judgement as to whether the figure is material enough to be placed in the public domain.

*Ref: Invoicing methodology*

- One group member commented that the calculation principles assume that reads are available for the period to be billed on C&I Supply Points. It expressed concern with what will happen where sufficient reads are unavailable for the correct period, again, given Domestic Shippers bear the cost, the risk to RbD must be considered. On Domestic supply points it believed that on at least a sample of meter points, reads should be required for the period being billed to assess the quality of the AQ used to calculate the transportation charges. Depending on the results of this sampling, the group member suggested that it may be that the basis for calculating the domestic charges needs revisiting.

Transco intends that the above points be included for discussion on the agenda of the next 'Unregistered New Live Meter Points Group' scheduled for 26 October 2000. Transco would reiterate that it is committed to resolving all residual process issues arising from RG0384 and will maintain the above forum for as long as is necessary to ensure that this occurs.