

Review Group Report

Review Proposal Reference Number 0208

Information relating to Unallocated Energy

Date 04 February 2009

Nature and Purpose of Proposal

In light of the recent decision by Ofgem to reject UNC Modifications 115/115A “Correct apportionment of NDM error”, it is considered appropriate to better understand the causes of such unallocated energy. The principle of re-allocating a proportion of costs from the SSP to the LSP sector was core to both proposals however, in its decision letter Ofgem pointed to a lack of analysis supporting each proposal. In particular, certain key costs drivers were identified in the original UNC 115 proposal including; theft of gas, read performance and shipperless sites although little evidence was brought forward to substantiate their individual impacts.

Since then Centrica has raised modification 194 which again seeks to apportion in a new way the energy related to this unallocated energy. In the initial meeting of the development group for the modification Centrica made clear that the group will not be considering targeted measures that would encourage Shipper behaviour that would reduce the overall level of unallocated energy.

Information brought forward previously by shippers during the course of these proposals has tended, unsurprisingly, to result in polarised views and ultimately in proposals, which were not backed by wholly representative evidence. To avoid a re-occurrence of this and the potential for further sub-optimal UNC proposals Corona Energy decided a Review Group should be established. The aim of the review was to bring forward all relevant information from shippers, transporters and their agents in order to firstly; quantify the costs drivers and secondly; to form evidence based conclusions with regard to the most appropriate mechanism to allocate any costs.

Where possible any such mechanism should target costs to drive behaviour which reduces risk of unallocated energy occurring and where it does occur, identifies and mitigates the risk.

1. Review Proposal

Corona Energy raised Review Proposal 0208 on 13 March 2008, the content of which is also included within the Terms of Reference (Annex 1).

2. Review Process

In accordance with the Modification Rules, at its meeting on 20 March 2008 the Modification Panel determined that the Review Proposal should be referred to a Review Group for progression. This Review Report was subsequently compiled by the Joint Office of Gas Transporters, and approved by Review Group attendees.

3. Areas Reviewed

The Review Group was asked to consider the following:

- Quantify the relative contribution of cost/risk drivers, including:
 - Theft of Gas
 - Meter Read Performance
 - Meter Accuracy
 - Shipperless Sites
 - Other contributing factors to RbD costs
- Identify division of costs between market sectors
- Identify the relative contribution of the cost/risk drivers for each market segment.
- Identify incentives to improve performance in the cost/risk drivers identified above
- Investigate methods by which costs could be accurately allocated between market segments.
- Consider the impacts of potential changes to Transportation Charging Methodologies e.g. Capacity/Commodity split
- Identify the impact on changes to central systems associated with the implementation of any identified solution.

4. Recommendations

The Modification Panel is invited to accept this report and the Review Group's recommendations:

1. The Review Group considered a number of issues relating to misallocation of energy and prevents the efficient operation of UNC. A number of these issues cannot be addressed by changing UNC and the Panel is requested to write to Ofgem suggesting:
 - a. A holistic investigation into industry process's and procedures for the management theft of gas in both domestic and I&C markets. Evidence presented to the group demonstrated that the current approach which focuses purely on the responsibilities of the gas supplier/shipper was failing as many of the issues cross many industry parties (including the shipper/supplier, the UIP, the MAM, the MRA and the GT) and the flow of information between these respective parties.

The group considered the development of suitable incentives to promote good practice to ensure energy is appropriately allocated. As the group has no mandate to consider parties not subject to the UNC, it was unable to consider in detail the measures required to tackle theft.

The measures considered include standard processes and procedures for all gas industry participants on the discovery of evidence of potential theft. This would ensure that evidence is collected and preserved to ensure that those committing theft can be prosecuted.

Some members of the group suggested that Ofgem may also wish to consider incentives for suppliers to pursue customers for theft. It was suggested that some parties may have a set policy of not pursuing theft through the courts for fear of adverse headlines. As the cost of theft is borne by the entire industry it is important that parties are encouraged to pursue theft where

possible. However, in this situation, incentives could also be developed in UNC to incentivise Suppliers to investigate theft and this could be supported by the development of suitable service agreement provisions between Suppliers and MAMs etc.

- b. Investigate the gas connections process to agree consistent industry wide end to end procedures for managing connections and information flows. The group considered evidence that the current process has a number of significant failings which are caused by the current industry structure.

It was felt by the group that the failings were so severe that attempting to address these through UNC obligations would be insufficient in isolation of an industry review. Further, as third party UIPs and MAMs may operate independent to the gas supplier or shipper, it was felt that any new obligations through the UNC could create commercial disadvantages for Suppliers and Shippers and their service providers who must comply with UNC.

The evidence presented to the group showed that the existing procedures created significant risks in a number of areas throughout the gas connections process. Many of these risks related to either the linking of the MPRN to the physical meterpoint or the disconnect between the physical connection and the consumers requirement to enter into a supply contract. Neither of these issues can be addressed purely through the UNC and the group therefore identified the requirement for a wider review of the process that included consideration of the requirements for UIPs and MAMs.

During the discussions the group considered various solutions to aspects of the issues. Two ideas that the review group recommend further consideration by Transporters and Shippers are as follows:

- i) The use of a permanent MPRN label which would be physically attached or scribed onto the end of the service pipe or on to the meter control valve.
 - ii) The use of either a temporary MPRN or different MPRN status' during the connection process to ensure that all parties are aware of the current physical status of the meterpoint. It was noted that this would require significant system changes which may only be feasible during a system rebuild such as the xoserve Nexus rebuild in 2013.
- c. This report includes a draft letter from the Review Group to Ofgem detailing the recommendations listed above for consideration by the Panel (see appendix 1).

2. During the discussions the group were informed that I&C suppliers were not currently reconciled for theft energy by xoserve when they had confirmed that theft had occurred. The group recommended that xoserve address this issue as soon as possible. It was not felt that a change to the UNC code was required to allow this to occur.
3. The group considered available evidence relating to the accuracy and performance of meter installations and meter readers/reading devices. Concerns were raised that MAMs have little incentive to identify and downsize oversized

meter installations. The group recognised that it is the supplier's responsibility to ensure the correct metering arrangements are in place but recommended that the MAMs consider whether the MAMCoP should include a specific requirement for MAMs to downsize meters promptly upon request. Shippers and Suppliers represented in the Review Group are to discuss these points directly with MAMs.

Appendix 1 Draft Letter to Ofgem

Jonathan Dixon
Head of Code Development
Office of Gas and Electricity Markets
9 Millbank
London
SW1P 3GE

Reference: dwg0208/01

Dear Jonathan,

UNC Review Group 0208: “Information Relating to Unallocated Energy”

I am writing to you in my capacity as Chairman of UNC Review Group 0208, “Information Relating to Unallocated Energy”. The final Review Group Report was accepted by the Modification Panel on XXX and included a recommendation that the Joint Office should write to Ofgem since the Review has identified a number of issues that cannot be addressed by modifying the UNC. This letter has been agreed with Review Group Members.

1. Management of Theft

The Report recommends an investigation into industry wide processes and procedures for the management of theft in both the domestic and I&C sectors of the gas market. Evidence presented to the Review Group demonstrated that the current approach could be regarded as failing since it focuses purely on the responsibilities of the gas supplier/shipper. In reality many of the issues cross a range of industry parties (including the shipper/supplier, UIP, MAM, MRA and GT) and the flow of information between these respective parties can be crucial. In light of the range of parties involved, and the desirability of cross industry participation and cooperation, it would seem appropriate for Ofgem to sponsor and lead any such investigation.

Should the suggested investigation proceed, the Review Group recommends that this includes a review of:

- i) Incentives for the management of theft which promote good practice and help ensure energy is appropriately allocated.
- ii) Common procedures for all gas industry participants on the discovery of evidence of potential theft and how such discoveries are recorded and reported.
- iii) Incentives for suppliers to pursue customers for theft, helping to ensure costs are targeted appropriately.

2. Connections Process

The Review Group Report identifies issues in the gas connections process and

associated information flows. Development of UNC obligations would be insufficient to resolve these issues in isolation of a wider industry change. Further, the Review Group felt that any new UNC obligations had the potential to create commercial disadvantages for Suppliers and Shippers and their service providers, who must comply with the UNC, if this was taken forward in isolation of a wider industry review.

During the discussions the Review Group considered various solutions and participants would be willing to share these views in any applicable industry forum should Ofgem wish to implement industry reviews into theft and connections processes.

Please let me know if you wish to discuss the content of this letter in more detail.

Yours sincerely

Bob Fletcher
Joint Office of Gas Transporters
Tel: 0121 623 2115

Appendix 2 Terms of Reference

Terms of Reference – V1.0 **UNC Modification Reference Number 0208** **Information relating to Unallocated Energy**

Purpose

The aim of the review should be to bring forward all relevant information from Shippers, Transporters and their agents in order to firstly; quantify the costs drivers and secondly; to form an evidence based conclusion with regard to the most appropriate mechanism to allocate any costs. Where possible any such mechanism should target costs to drive behaviour which reduces risk of unallocated energy occurring and where it does occur, identifies and mitigates the risk.

Scope and Deliverables

The Group is asked to:

- Quantify the relative contribution of cost/risk drivers, including:
 - Theft of Gas
 - Meter Read Performance
 - Meter Accuracy
 - All Shipperless Sites – isolated & withdrawn and unfound/unregistered
 - Other contributing factors to RbD costs
- Identify division of costs between market sectors
- Identify the relative contribution of the cost/risk drivers for each market segment.
- Identify incentives to improve performance in the cost/risk drivers identified above
- Investigate methods by which costs could be accurately allocated between market segments.
- Consider the impacts of potential changes to Transportation Charging Methodologies e.g. Capacity/Commodity split
- Identify the impact on changes to central systems associated with the implementation of any identified solutions.

A Review Group Report will be produced containing the findings of the Review Group in respect of the work identified above.

Limits

The Review Group will consider changes required to the following:

- Uniform Network Code

The Review Group in its initial phase will not concern itself with:

- Detailed changes required to processes and procedures
- Detailed changes required to existing systems
- Development of detailed business rules

Composition

The Review Group will comprise the following representation

Name	Organisation
Julian Majdanski (Chair)	Joint Office
Helen Cuin (Secretary)	Joint Office
Richard Street (Proposer)	Corona Energy
Bali.Dohel	Scotia Gas Networks
Brian Durber	EON UK
Chris Warner	National Grid UKD
Fiona Cottam	xoserve
Joanna Ferguson	Northern Gas Networks
John Edwards	Wales and West Utilities
Linda Whitcroft	xoserve
Mark Jones	SSE
Mitch Donnelly	Centrica
Phil Broom	Gaz de France
Richard Dutton	Total Gas & Power
Shelley Rouse	Statoil Hydro
Stefan Leedham	EdF

A Review Group meeting will be quorate provided at least 2 Transporter and 2 User representatives are present.

Information Sources

- Uniform Network Code – Sections (to be identified).
- GT, Shipper and Supplier Licences.
- Gas Act.
- Various Industry legislation as appropriate – may include reference to:
 - Gas Safety (Installation & Use) Regulations.
 - Gas Safety (Management) Regulations.
 - Industry Codes of Practice as relevant.

Timetable

It is proposed that a total period of 6 months be allowed to conclude this review.

- Frequency of meetings – monthly. The frequency of meetings will be subject to review and potential change by the Review Group.
- Meetings will be administered by the Joint Office and conducted in accordance with the Chairman's Guidelines.