

## **British Gas Consultation Response to the 2014 Allocation of Unidentified Gas Statement for 2015/16**

**11<sup>th</sup> June 2014**

### **Inaccurate calculation of CSEP consumption**

The CSEP aggregate current AQ is not an accurate estimate of consumption and will over-state CSEP consumption. Mod 392 was implemented in June 2012 and amended the AQ values in the CSEP NEXA table. These AQ values are used as default values when setting up new supplies on IGT Networks. The values in the NEXA table were reduced by 15% to 25% depending on property type. The implication being that new connections on iGT Networks prior to June 2012 would have had AQ values about 20% too high. Additionally, on average 25% fewer AQs are recalculated for IGT sites than for Xoserve sites in the AQ Review each year.

Given that the implications of this deflate the currently estimated volume of Unidentified Gas (UG) and that it provides a root cause, British Gas feels this area should receive attention from the AUGS with a subsequent assessment in the AUGS.

### **UNC Modification 0410A**

Section 4.1 of the AUGS describes the suggested treatment of UG following implementation of Modification 410A. In summary, MPRN's created before 01/09/2013 will be subject to the methodology previously used and MPRN's created since will be treated accordingly under the Modification rules. The AUGS makes the assumption that all UG for MPRN's created after 01/09/2013 is temporary, as it will be back billed to the meter installation details. However this will not always be the case. Only if the supply is registered to the Shipper that installed the meter will UG be back billed and therefore elements of permanent UG will remain if an alternative Shipper registers the site into their ownership.

Further analysis needs to be conducted in order to allow for circumstances where the first registered Shipper does not receive back billed charges and thus the UG remains permanent.

### **UNC Modification 424 and 425V**

Section 4.2 of the AUGS describes the suggested treatment of UG following implementation of Modification 425V. Again the AUGS has made the assumption that all UG for sites withdrawn after the implementation date will be temporary on the basis that back billing will occur. As with Modification 410A this will not always be the case. Whilst the modification allows for back billing of UG to the withdrawing Shipper, where a meter has been found on site, it will not always be the withdrawing Shipper that goes on to register the site. The modification places an obligation on the withdrawing Shipper to investigate, however it is widely recognised that the causes of Shipperless

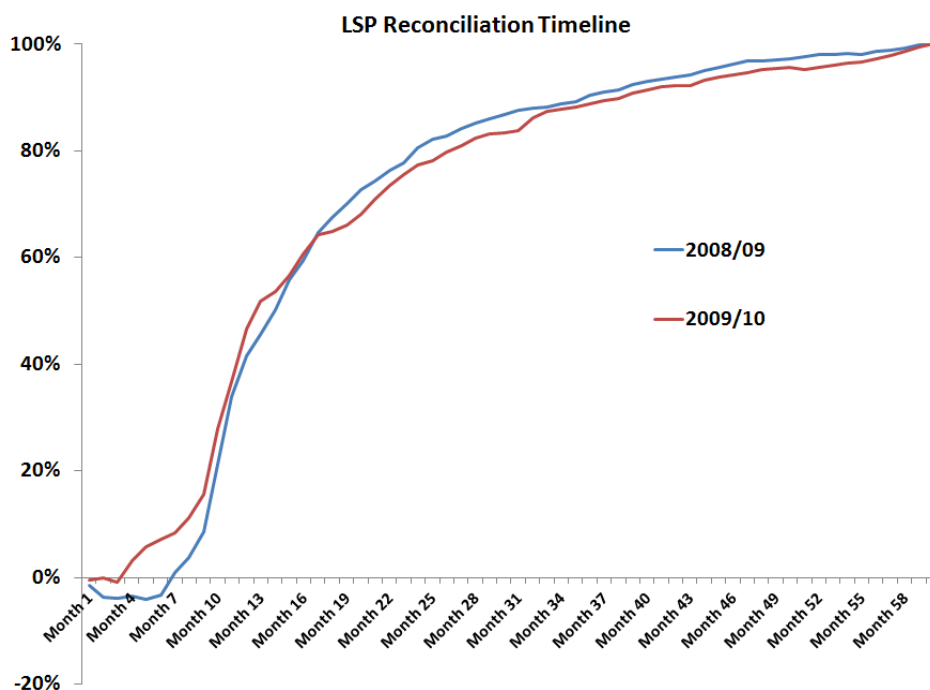
sites under this scenario could mean that the customer has in fact contracted with another Supplier and a failure in the registration process has occurred.

Analysis is required to understand the rate at which different Shippers register sites previously allocated to the Shipperless SSP sector. We also suggest that this analysis is conducted for MPRN's subject to the Modification 424 process, to ensure accuracy of UG allocation with regard to both of these categories of Shipperless sites, as it is quite possible that a different Shipper registers the MPRN due to customer and contractual reasons.

### **Insufficient maturity of reconciliation data**

For an initial allocation period to fully reconcile, it takes a considerable period of time. As such the more recent years (2010/11, 2011/12 and 2012/13) used by the AUGÉ to project forward have not fully reconciled. Since reconciliation has been observed to always reduce the initial allocation, utilising immature data will inevitably lead to an over-statement of LSP consumption. A factor should be calculated and applied to the more recent years to correct for this.

Reconciliation has fully completed for both the 2008/09 and 2009/10 years. Using the actual reconciliation volumes for those years, it can be estimated that as at March 2014, about 95% of the total reconciliation for the 2010/11 gas year had occurred, about 90% of the total reconciliation for the 2011/12 gas year had occurred, and about 79% of the total reconciliation for the 2012/13 gas year had occurred.



As the AUGÉ intends to use the period 2009/10 – 2012/13 as a training period it is our belief that a factor should be applied to each of the 3 incomplete years to allow for the fact that the reconciliation is in various stages of completion. To not correct for this is to knowingly over-state consumption.

## Incorrect Allocation of the Balancing Factor

In the Glossary the Balancing Factor is described thus:

**Balancing Factor**      An aggregate of the combined unidentified gas of various items calculated by subtraction. This includes theft, errors in the Shrinkage estimate, open bypass valves, meters "Passing Unregistered Gas", unknown sites, and additional Common Cause variation.

The methodology currently applies the balancing number across Larger NDM SPCs and Smaller SPCs in line with throughput. There is no allocation to Larger DM SPCs as can be seen from the most recent AUG table.

**Table 2 Unidentified Gas Volumes for 2014/15**

Unidentified Gas source	Aggregate Quantity of Unidentified Gas/GWh	Unidentified Gas Quantity/GWh		
		Larger DM SPCs	Larger NDM SPCs	Smaller SPCs
iGT CSEPs	288	0	0	288
Shipperless/Unregistered	417	0	321	96
- Shipper Activity	0	0	0	0
- Orphaned	33	0	28	5
- Unregistered <12 Months	57	0	49	7
- Shipperless PTS	25	0	14	11
- Shipperless SSrP	291	0	223	68
- Shipperless <12 Months	11	0	5	5
Meter Errors	21	0	21	0
Balancing Factor (Theft + Other)	3779	0	962	2817
<b>Total (inc Independents)</b>	<b>4506</b>	<b>0</b>	<b>1304</b>	<b>3202</b>

The rationale for this 0 allocation would seem to be from 6.1. DM LSP Market Sector:

*"In the 2011 AUGS for 2012/13 [10], the UG attributed to DM LSP sites was concluded to be negligible. This is based on the following assumptions:*

- *There is no theft from DM sites.*
- *Any Unregistered DM sites are back billed.*
- *DM Sites do not become Shipperless*
- *There are no unknown DM sites."*

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There is no evidence provided to confirm the assumption that there is no theft from DM sites. DM sites have different categories, DM Mandatory (DMM) above 58,600,000 kWh threshold, plus DM

Elective (DME) and DM Voluntary (DMV) where consumption is above 73,200 kWh. We are aware that a site with high LSP consumption and daily read and corrector metering equipment have been identified with theft occurring. Whether the sites are nominated as DMM, DMV or DME, is to some degree, irrelevant. Where theft is occurring, AQ's are naturally understated and therefore a Shipper may not choose to opt into the DM regimes due to the fact that actual consumption levels are not known.

Some industry parties suggest that theft does not occur where daily read equipment is in place, as the types of sites under this scenario do not take action to steal gas. This is simply not true and we feel the AUGE should reconsider the assumption that there is no theft on DM sites. There is also an assumption that large companies do not steal gas i.e. from a behavioural perspective, it's not something they would do. We would refute this as evidence of theft does exist in large companies with multiple sites.

Any UG associated to Unregistered and Shipperless sites is captured as part of the directly measurable component of UG. The DM supply point category is applicable for the period of time that a Shipper has a site nominated to it, i.e. DMM, DMV or DME category. It does not represent behaviour or circumstance. To be able to assert that *"Any Unregistered DM sites are back billed"* or that *"DM Sites do not become Shipperless"* the AUGE would need to have established through analysis that; any MPRN that was unregistered for a period of time initially and that subsequently went on to become DM, did in fact have back billing occur and that evidence of this can be seen in Xoserve's records. And that; any site that has been DM for any period of time has never been in a Shipperless status. This analysis should cover the appropriate period of assessment in line with AUGE methodology.

There is no evidence provided to confirm the assumption that there are no unknown DM sites. As they are unknown this cannot be established therefore the working assumption should be that there is no evidence to suggest there isn't.

Even assuming that the AUGE's assumptions hold true once evidence is provided this still leaves residual elements of the Balancing Factor (as described by the AUGE) which are applicable to DM sites:

- Errors in the shrinkage estimate
- Open bypass valves
- Meters "Passing Unregistered Gas"/Meter Errors
- Additional Common cause variation

Taking these factors in turn:

#### **Errors in the shrinkage estimate**

There is no evidence provided that the Shrinkage error will *"even out over time"*. As the AUGE has recognised:

*"If changing conditions over time have led to the Shrinkage model becoming biased, these effects will be picked up by the Balancing Factor (see 6 below), and this is therefore where this element will be captured."*

Leakage (the majority of the Shrinkage) estimates are derived from information obtained from the 2002/3 National Leakage Test programme. It is a reasonable consideration that in the decade that has since elapsed changing conditions may well have led to bias.

Any error in shrinkage affects the total estimation accuracy of UG (as confirmed by the AUGE). As such, any error should be apportioned across the entire market (including DM LSP) in line with throughput.

### **Open bypass valves**

Despite identifying open bypass valves as a cause of UG there is no reference to any analysis conducted within the methodology. Open bypass valves can only increase UG, they cannot “*even out over time*”. As such the Balancing Factor by definition contains UG associated to open bypass valves. Ideally, this element of UG should be estimated and allocated across sector in accordance with the propensity for a bypass valve to exist and be open and the relative quantity of UG will be proportional to throughput. Bypass valves are known to exist in SSP, LSP and DM sites and with no clear industry strategy on the management of such situations, there is likelihood that bypass valves remain open for periods of time causing UG.

A sample of industry data for DM sites, in both mandatory and non mandatory sections shows that 19.35% have a meter bypass fitted. Industry-wide data is available from Xoserve.

The NDM LSP population, as can be found in the AUGE Statement 3, Meter Capacity Report shows just 2.09% of meters with bypasses fitted. Furthermore a sample of SSP sites shows this figure drops to less than 0.002% of sites with a meter bypass fitted. Again, Xoserve data can confirm the industry-wide figures.

It can be concluded that the propensity for UG in both DM and LSP sites under this scenario, varies by Supply Point type and should be factored proportionally into the allocation of the balancing number.

UG through open bypass valves is a known cause, although not currently quantified, however an assumed rate of use could be derived, possibly based on reported use of meter bypasses or a sample based approach. As such DM and indeed LSP sites should receive an allocation of the Balancing Factor to correctly address this.

In addition, we feel this area should receive attention from the wider industry to validate the necessity for and use of bypass valves, as inappropriate use has an impact on the safety and security of the supply network.

## **Meters “Passing Unregistered Gas”/Meter Errors**

It is recognised as a positive move that the AUGE has undertaken analysis to identify meter errors and the Meter Capacity Report (AUGE Statement 3) provides details of this. The AUGE Statement indicates “*Data for meter error calculation consists of meter capacity, AQ and NDM/DM classification records for all LSP sites*”. The report identifies 73,992 in the under-read category and 71 in the over-read category.

However, having reviewed the report it has been noted that no DM sites appear in the analysis and we believe this could be an oversight. We would request that the AUGE ensures a complete dataset for this year’s analysis so that under or over-read can be correctly estimated for DM sites in addition to NDM LSP sites. AQs for DM sites, which routinely have large meters, can be as low as 73,200 due to changing on-site circumstances and therefore it is important that UG due to meter error is estimated as accurately as possible and included.

Additionally, given that daily reads are available for DM sites and that volumes of gas are considerable in this market, more accurate analysis should be undertaken to determine over-read and under-read to a greater frequency. Data in this area shows that sites do not always burn gas consistently on a daily basis with fluctuations in usage occurring day on day depending upon the site concerned. In fact, some DM sites show zero metered consumption for certain days or periods, however there is a strong likelihood that there is still some consumption, albeit small and that the meter is under-reading.

We would welcome more complete analysis in this area and an explanation of how meter under or over read has been calculated given that not all meter errors can be identified and reported.

## **Additional Common Cause Variation**

Common Cause Variation is a source of variation caused by unknown factors that result in a steady but random distribution of output around the average of the data. There is no evidence contained in the methodology as to why DM sites should be excluded from an allocation of UG relating to Common Cause Variation. By definition, they should be included since the source of Common Cause Variation is unknown. As such DM sites should receive an allocation from the Balancing Factor to correctly account for this phenomenon.

To conclude, British Gas firmly believes that additional analysis is required to identify UG in the DM market and that DM sites should receive an UG allocation where evidence is found and an allocation of the balancing factor.

## **Industry Activity and Initiatives relating to Gas & Electricity Theft Detection Rates**

Further to your recent presentation on 30<sup>th</sup> May at the UNCC meeting, we would like to provide some clarity on the Theft Detection information that was presented within slides 22 & 23 of your slide pack.

### **Supplier Licence Obligations**

We can confirm that the obligation on all suppliers to detect, prevent and investigate theft was introduced on 8<sup>th</sup> January 2013, but that this obligation is enduring and does not have an end date.

### **Gas Theft Incentive Scheme**

SPAA are currently developing a change proposal, raised by British Gas, which proposes the introduction of a Gas Theft Incentive Scheme. The scheme as currently proposed, will cover all gas suppliers and all supply points across all sectors, including DM supply points. This change has been raised in response to Ofgem's Gas Theft decision document dated March 2012, which invited the introduction of such a scheme in line with some detailed principles.

The scheme will introduce an initial annual target of 6,000 individual gas thefts (as recommended by Ofgem) across the whole market. The initial 6,000 target is widely viewed (including by Ofgem) as being a conservative figure and is expected to increase year on year as more effort is placed in theft detection and as a result more theft is identified.

The Theft Risk Assessment Service (TRAS) will ultimately be responsible for developing a Theft Methodology which will review and set future annual theft targets. The change proposal proposes an implementation in 2015, aligned with the commencement of the TRAS.

### **Theft Risk Assessment Service (TRAS)**

A joint SPAA/DCUSA working group is currently progressing the development, procurement and implementation of a dual fuel TRAS. The group's current work plan expects the TRAS to be initially operational by approximately June 2015, with a phased implementation approach delivering full implementation of the TRAS by February 2016.