

## Representation

### Draft Modification Report

#### **0410 and 0410A: Responsibility for gas off-taken at Unregistered Sites following New Network Connections**

**Consultation close out date:** 07 June 2013

**Respond to:** enquiries@gasgovernance.co.uk

**Organisation:** British Gas

**Representative:** Andrew Margan

**Date of Representation:** 07 June 2013

#### **Do you support or oppose implementation?**

**0410** - Not in Support

**0410A** – Support

#### **If either 0410 or 0410A were to be implemented, which would be your preference?**

Prefer **0410A**

#### **If either 0410 or 0410A or both were to be implemented, which would be your preference?**

Prefer **0410A**

#### **Please summarise (in one paragraph) the key reason(s) for your support/opposition.**

##### **Oppose Modification 410**

Whilst British Gas understands the intention of Modification 410 we do not support its implementation because –

- The liability is placed on the Shipper that creates the MPRN rather than the Shipper that requests the meter install. It is the meter install that creates the ability for offtake of unregistered gas.
- There is no incentive on a Shipper who requests the meter install to remedy the situation if they did not request the MPRN, which could result in increased volumes of unregistered sites and uncapped liabilities being applied to the wrong party.

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- To protect against uncapped liabilities being applied, the unintended consequence may be that MPRNs stop being created.
- The proposal does not offer a mechanism or steps to reduce unregistered site volumes.
- The proposal has the potential to break the relationship between a liable Shipper and a gas consumer.

### Support Modification 410A

British Gas supports 410A as we believe its implementation will –

- Apportion the industry cost to the party that is responsible for the recovery of unregistered gas and the party who is best placed to recover those costs from the consumer or results in the curtailment of the Theft of Gas.
- Provide a mechanism to reduce the volumes of unregistered sites, by registering them to the correct industry party, thus reducing unidentified gas.
- Ensures the relationship between a relevant Shipper and a customer is maintained.

### Modification Panel Members have indicated that it would be particularly helpful if the following question could be addressed in responses:

*Q1: Do you believe that both Modifications could be implemented, such that both the 0410 and 0410A requirements are introduced to the UNC?*

British Gas believes the modifications are true alternatives of each other and that both cannot be implemented at the same time. Should both proposals be implemented it will result in double charging of industry costs and we believe double charging should not be introduced under the UNC Governance arrangements.

**Example 1** - If Shipper A creates the MPRN under 410 it is liable for costs. If Shipper A fails to register the site and this was identified by a network under 410A Shipper A is liable for the charges a second time.

**Example 2** - If shipper A creates the MPRN under 410 it is liable for costs. If Shipper B fails to register the site under 410A it is liable for charges. Shipper A and Shipper B both receive charges and the Transporter receives two payments.

We believe this risk of double jeopardy means that both proposals cannot be implemented at the same time. We do not believe it is fair, or that it is the intention of the proposals, to allow Transporters to charge twice for the same costs.

If implemented together the double jeopardy issue could adversely distort competition within the industry by charging a party twice. Alternatively the charge could be applied to a party who has no way to recover the costs from the consumer. We believe this is against the relevant objective (d) to facilitate competition between industry parties.

## Are there any new or additional issues that you believe should be recorded in the Modification Report?

No new issues have been identified

### Relevant Objectives:

*How would implementation of either of these modifications impact the relevant objectives?*

#### Modification 410

- British Gas is concerned this proposal does not address the root cause of unregistered sites and will not lead to a reduction in the unregistered site volumes. 410 states that Xoserve will generate an adhoc invoice to recover the unregistered gas costs at M+2. However this will only account for consumption up to a point in time. As the Modification does not seek a resolution to the unregistered supply, then it is likely that gas could continue to be consumed after an invoice has been issued, which would not be accounted for and therefore the unregistered site and unidentified gas continues.

We understand that following developments under the AUGGE, LSP Shippers receive a smear of unidentified gas caused by unregistered sites. We believe that this proposal is a cynical attempt to move that cost away from LSP focused Shippers, without addressing the real issues or developing a mechanism which enables the resolution of unregistered sites. In fact this proposal has the potential to apply the liabilities to a party which has no relationship with the consumer, the meter install or the illegal offtake of gas.

The proposal's focus is directed at the party that creates the MPRN, rather than the party which creates the unregistered site, through the request of a meter install. British Gas believes this proposal will have the following unintended consequences which will negatively impact competition.

1. This proposal does not target cost on industry parties that are best placed to recover the cost from consumers. The relationship between the customer and the relevant Shipper who is receiving the industry costs may be broken.
2. Industry parties including Transporters and Shippers will stop issuing or requesting MPRNs to protect themselves from unrecoverable liabilities which will impede competition.
3. Developers and consumers will be forced to sign long term contracts ahead of the meter install and site works, which limits their ability to switch suppliers and enables them to obtain the best supply deals. This impact will be felt most in the domestic market, which this proposal does not consider.

As a result Modification 410 does not facilitate competition between industry parties and we do not believe it better facilitates any of the relevant objectives.

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## Modification 410A

British Gas believes this proposal is well developed and will ensure the relevant Shipper is responsible for registering the unregistered site, the liability will sit with the correct party and the relationship between the Suppliers, the relevant Shipper and the customer is maintained.

Meters installs, in the main, are requested by a Supplier which has a relationship with a Shipper. The relevant Shipper under the UNC rules has an obligation to register the site on the industry systems which allows for the recovery of industry charges. Modification 410A remedies this scenario by identifying the shipper who has the relationship with the consumer and therefore identifies the industry party who is best placed to recover the costs from this consumer.

Although for this scenario under the UNC code a Shipper has the obligation to register the site it does not occur in all instances due to process or system failures. Nor does the UNC code enable the Transporter to register the site on behalf of the Shipper. As a result the UNC code is ambiguous. We believe 410A addresses these concerns and corrects the provisions within the UNC code.

For the scenario where a meter install has occurred, without a Shipper or Supplier action, the proposal is developed to ensure the consumer obtains a supply contract. Following the contractual relationship between a customer and a Supplier the relevant Shipper should register the site, thereby completing the industry registration process.

Should the consumer not contract with a Supplier and obtain a supply contract this is theft. The Shipper has no rights to access the property under this scenario however the situation can be managed by the Transporter. Modification 410A allows for this scenario by codifying the responsibilities of the Transporter to contact the consumer to ensure they sign a supply contract. If the consumer continues to offtake gas and fails to contract with a Supplier, as a last resort the Transporter has the obligation to curtail the offtake of gas and recover the liabilities from the consumer.

On balance we believe this proposal places the obligation on the party that is best placed to resolve the unregistered site and therefore if implemented it will –

- Place the right obligations on relevant Shippers or Transporters to take an action which will lead to the reduction of unregistered sites and the associated liabilities will incentivise the correct behaviour to proactively manage the root causes of unregistered sites.
- Provide incentive to manage the liabilities and the ability of the Transporter to register a Shipper on their behalf or curtail the offtake of gas, which will reduce the unregistered element of the RbD (and AUGÉ) unidentified gas smear. This will assign the liabilities to the party which is best placed to recover the cost from the consumer.

As a result British Gas believes Modification 410A better facilitates competition, because it apportions the liability to a party who can recover the cost, rather than perversely apportioning the liability to a party that cannot recover that cost. Therefore this proposal meets the relevant objective (d) to better facilitate competition between parties.

In addition British Gas believes this proposal meets relevant objective (c) through the efficient discharge of the licensee's obligations by clarifying under UNC code the Shipper and Transporter obligations for registering sites.

### **Impacts and Costs:**

*What analysis, development and ongoing costs would you face if either of these modifications were implemented?*

British Gas believes there will be impacts and costs associated with both proposals.

#### **Modification 410**

British Gas would expect small system and process changes to receive and manage the Transporter site visit notification file. To manage the customer/shipper resolution process, because of its complexity in trying to source information on consumers they have no relationship with, initially we believe it will require 2 FTEs to manage the process.

Notwithstanding the above British Gas is concerned that this proposal will allocate industry costs to a party that has no ability to recover costs from the consumer.

To quantify the risk of misallocation we have extrapolated the 2012 Xoserve orphaned sites volumes, (sites not registered by the MPRN requesting Shipper).

#### **Calculation summary**

2012 Orphaned sites 2,180 - total AQ 235 GWh

System Average Price (SAP) 2p/kWh

235 GWh x 0.02 = £4.7m risk of misallocation

We believe this could have a material impact to Shippers and have an adverse impact to competition.

Further to the above, the intention of the proposer is, if Modification 410 is implemented they will seek to raise a change to the AUGE process. The change will be to remove all unidentified unregistered gas cost from the AUGE citing that all unidentified gas caused by unregistered sites can be accounted for and identified.

We are concerned by this process as it will undo the work of the AUGE which was to identify and correct the perverse position that SSP Shippers subsidise LSP Shipper's unidentified gas.

The proposer takes no account of the fact that invoicing of Unregistered sites to the party that raised the MPR is not an ongoing process. It merely raises an invoice to a point in time and the unregistered site continues.

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We believe this move, if this change is progressed, will adversely impact the SSP Shipper market by (c£7.3m – based on AUGS table released 1 February 2013).

Furthermore, 410 states that the Transporter will be required to visit every site in 12 months of the MPRN being created where it has not been registered or discontinued. Given that there were 2,605 MPR's for the 12 months to Jan 2012 and 1,910 MPR's for the 12 month to Jan 2013 this would generate significant year on year costs which the industry would need to bear. A visit may not be the most effective solution to this issue. If Shipper activity is evident and there is already an indication that a meter is present, why would a visit be needed? Additionally it is suggested that a further site visit may be necessary to assist Xoserve with the calculation of energy offtaken. 410A provides an alternative solution as, if it is clear that a meter is fitted and there is shipper involvement, then registration would inevitably take place without the need for visits.

### **Modification 410A**

British Gas would expect small system and process changes to enable receipt and action of the Transporter notification file and to manage the auto-registration file. We believe that to manage the receipt of the file and to manage customer resolution of unregistered sites we believe 2 FTEs will be required at first, although this number could reduce as the unregistered site volumes decrease.

Regarding Transporter site visit cost we believe it is correct that they are passed to the party which failed to register the site. This will act as an incentive for Shipper parties to correct unregistered sites before they are identified by the Transporter.

### **Implementation:**

*What lead-time would you wish to see prior to either of these modifications being implemented, and why?*

Modification 410 will require complex system and process changes to customer registration process including changes to the MPRN process. As a result British Gas would require a minimum of one year to implement it.

Modification 410A will require less complex system changes to route Transporter notification files to the correct teams to manually process. As a result British gas requires a minimum of six months to implement it.

### **Legal Text:**

*Are you satisfied that the legal text and the proposed ACS (see [www.gasgovernance.co.uk/proposedACS](http://www.gasgovernance.co.uk/proposedACS)) will deliver the intent of these modifications?*

We are satisfied with the legal text and have no further comments.

## Is there anything further you wish to be taken into account?

*Please provide any additional comments, supporting analysis, or other information that you believe should be taken into account or that you wish to emphasise.*

### **Additional Modification 410 comments**

Whilst British Gas believes extensive development has occurred with this proposal, we are concerned that some elements will lead to unintended consequences. British Gas believes Modification 410 does not address the following areas.

Under the proposal there is no forced registration to remedy the unregistered sites. In addition this proposal does not address the root cause of unregistered sites, which is the physical install of a meter. Our concern is that there is no incentive on a Shipper to resolve the unregistered site, if they did not create the MPRN and therefore we are concerned that unregistered site volumes could continue to grow.

From time to time we are aware that other shipper organisations utilise British Gas to raise MPRNs for their customers. The risk to British Gas is that they could raise an MPRN in good faith and be liable for the costs if the sites is not registered. To mitigate this risk we would block the release of these MPRNs. However we feel this could impact the consumer and their ability to "shop around" for a supplier.

Under the Shipperless and Unregistered Workgroup, there is a category of orphaned sites that are believed to have a meter and are assumed to be consuming gas, although a meter may not be fitted and therefore there is no risk gas is being offtaken from the system. We believe under the Modification 410 proposal the risk is the orphaned sites cost would be assigned to the Shipper which created the MPRN. This is not an issue under the Modification 410A proposal, because the trigger is the meter fit.

Regarding charging, the proposal does not re-allocate the energy via RbD and the risk is energy allocation is not smeared correctly to SSP Shipper's portfolios.

Although not a direct impact to British Gas the proposal is not developed regarding how Transporters recover charges they will incur. If the Transporter is required to bill the consumer it is likely this will be at a premium rate and therefore this could adversely disadvantage end users and not facilitate competition.

The proposal does not cater for how the situation of customer own meter installs should be managed, whilst this is covered by the 410A proposal.

We are also concerned that the proposal does not cover the situation of disconnections of an unregistered sites and how unregistered sites are managed where a supply contract is found to be in place.