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Your Reference:UNC Modification Proposal 0410/0410A

UNC Modification Proposals 0410 & 0410A - Responsibility for gas off-taken at Unregistered Sites following New Network Connections

Dear Bob,

Thank you for your invitation seeking representations with respect to the above Modification Proposals.

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.

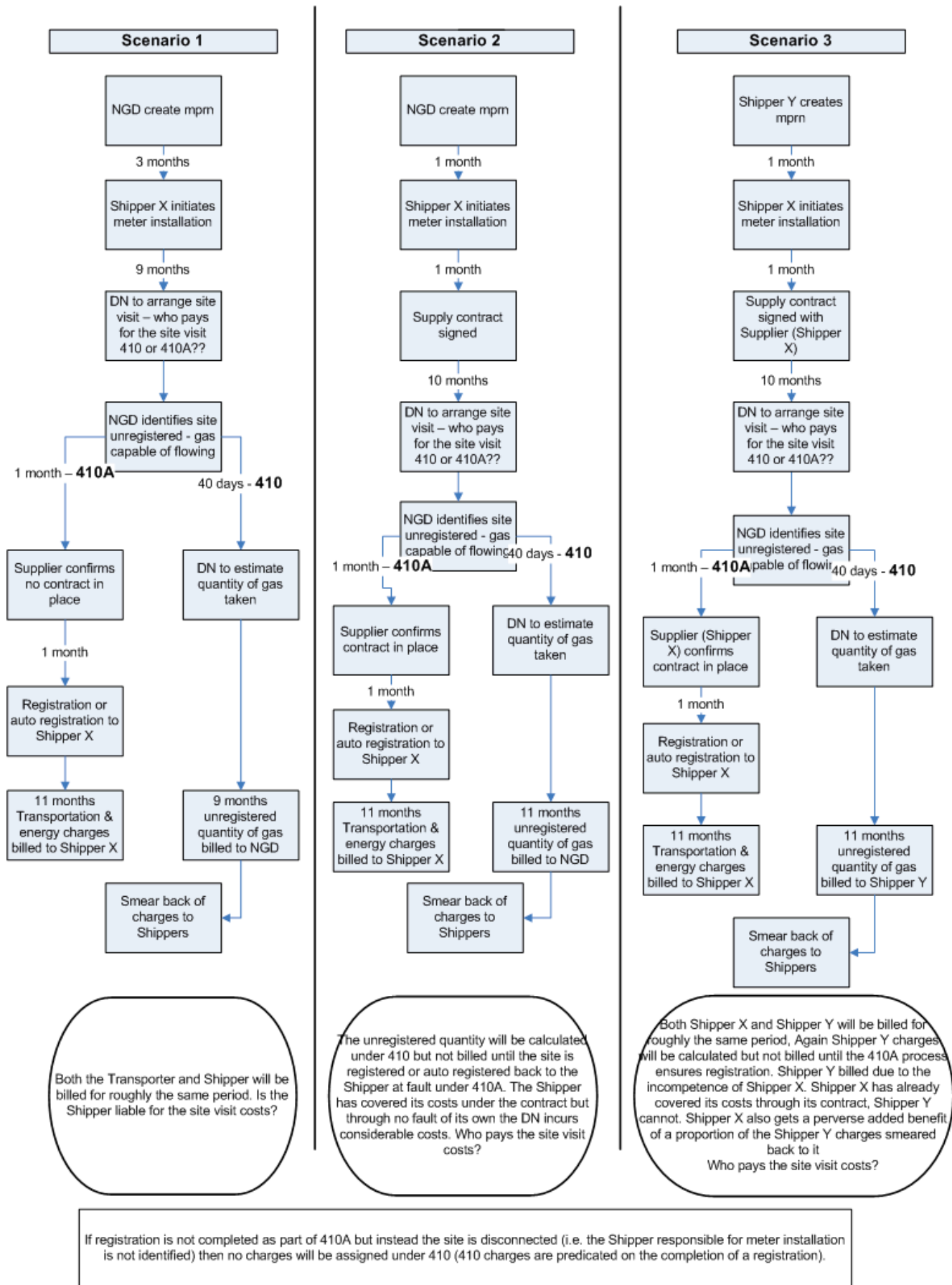
We believe that Modification Proposal 0410 identifies a wholly inappropriate and disproportionate solution which fundamentally fails to address the root cause of Unregistered sites.

Conversely, as the proposer of Modification 0410A, we believe the framework and measures identified in the alternative Proposal represent a pragmatic way forward which fully addresses the root cause of Unregistered sites.

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?

We have carefully considered this matter and it is our opinion that simultaneous implementation of both Proposals would give rise to multiple issues around dual governance and charging, specifically 'double' and site visit charging. We have illustrated and explained the anomalous situation which would be created in a series of scenarios set out below.



Although not highlighted it is also possible that a User could create both the Supply Meter Point Reference Number (MPRN) and arrange for the installation of the Supply Meter but for reasons of oversight, data issue, etc, failed to correctly register the Supply Meter Point. That User could face charges through both Proposals. This could be compounded by the fact that they may have to reimburse to the consumer the money collected under their Supply Contract through this being deemed invalid due to the absence of a Supply Point Registration.

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

We are not aware of any new or additional issues. However, we note that some parties have expressed a view that both Modification Proposals should be implemented. While we strongly disagree with this view, in the event this were to occur there would need to be a full and extensive revisiting of the Proposals within a relevant Workgroup. We would draw attention to the fact that there has been very little industry discussion to date regarding this eventuality.

Relevant Objectives:

How would implementation of this modification impact the relevant objectives?

Standard Special Condition A11.1 (d): so far as is consistent with subparagraphs (a) to (c) the securing of effective competition:

- (i) Between relevant Shippers;
- (ii) Between relevant suppliers;

Modification Proposal 0410

This Proposal sets out an arrangement where Transporters and Users are required to underwrite the de-facto energy costs of gas taken in the absence of a Supply Point Registration (even where another User may hold a Supply Contract). The allocation of costs is predicated on a principle that the party which created the MPRN, regardless of whether it installed the corresponding service pipe or Supply Meter is responsible for the costs of gas subsequently flowing in the absence of a registration by a User. We believe that the Proposal establishes an inappropriate financial liability for a number of reasons which we have set out in detail below:

Principle

We have consistently stated that the Users exposure to the energy costs of gas taken in the absence of a User registration commences where the flow of gas is enabled. In almost every case this commences when a Supply Meter is installed. The installation of the service pipe accompanied by the creation of an MPRN does not enable gas to flow. It is merely establishing the engineering infrastructure, which then Suppliers can use to supply gas consumers.

Our opinion is that it is illogical and counter productive to create a mechanism which would penalise the organisation creating an MPRN irrespective of the party which actually caused gas to flow by the installation of the meter.

Root cause

As we have mentioned above, Proposal 0410 fails to (and by the proposers admission was never designed to) address and identify measures by which New Supply Points are registered with a User.

We believe it inappropriate to pass on the costs of gas used at an unregistered site to the party which has created the MPRN. The Proposal does not identify the significance of the installation of the Supply Meter neither does it identify any coherent sequence steps or events aiming to apportion responsibility or ownership at each stage of the gas supply process. A service pipe and a capped Emergency Control Valve (ECV) does not and cannot facilitate the offtake of gas without the action of another party.

Charge definition ambiguity

We are still unclear about the nature of the charge which would be levied under the Proposal. It remains ambiguous as to whether this constitutes a liability or energy charge. Furthermore we understand from the proposer that the charge is not an Energy Balancing charge therefore we are unsure as to how the level of the charge equates to the 'offence' which has been committed? There appears to be no analysis which justifies the level of the liability.

Uncapped liability

We are concerned as to the presence of an uncapped liability on Transporters (and Users) which is a significant feature of the Proposal. We note that in its decision letter in deciding to reject UNC Modification Proposals 0335 & 0335A¹ Ofgem stated:

"While we remain of the view that a cash-flow incentive such as that set out in UNC335 would provide an effective incentive for GDNs to make appropriate investment to avoid future offtake metering errors, we also consider that the GDNs liability must be proportionate and should be capped. Otherwise, this could have the inappropriate effect of diverting investment from elsewhere and potentially run counter to our duty to ensure that licence holders are able to finance their licensable activities".

Process integrity

We have identified numerous flaws and inconsistencies in the Modification Proposal to the extent that we believe it to be incapable of implementation. We are aware that the production of legal text was unnecessarily protracted due to the lack of clarity in the business rules and it is our view that these remain ambiguous and illogical. We have set out the reasons for this below:

The business rules and legal text refer to 'trigger points' for activities being the Supply Point Confirmation. For example:

We believe business rule 4.3 (Xoserve will calculate the Unregistered Gas within 40 business days where Confirmation has occurred) is incorrect or misleading. The legal text TPD Section G7.3.8(g) has been written as followsthe Unregistered Offtake Amount shall be payable by way of an adjustment by the User to National Grid NTS and shall at the point at which the Supply Point Confirmation is made be invoiced and payable in accordance with Section S.

Supply Point Confirmations can be submitted well ahead of any Supply Point Registration Date and can lapse or be cancelled. Therefore, logic suggests the Modification Proposal should refer to the Supply Point Registration Date as opposed to the Supply Point Confirmation. It is unclear to us why the Proposer appears to have referred to Confirmation and whether this is an error in terminology or whether the Proposer *meant* Registration?

TPD Section G7.3.8(c) places an obligation on the Transporter to calculate the gas used within 40 Business Days of the site visit but the business rules or legal text do not stipulate that the relevant Supply Meter Point needs to be either disconnected or registered within this timeframe. A scenario could exist where the User which created the MPRN is invoiced for the gas taken in the previous 12

¹ UNC Mod Proposal no 0335/0335A - Ofgem decision letter 27th July 2012

months, but any gas taken after that time would require recovering from the consumer by the Transporter via the mechanism set out in GT Licence Standard Condition 7 (if the site remains unregistered) or from the User's supplier which holds the Supply Contract (where there is a contract but no Supply Point Registration).

TPD Section G7.3.8(g) & (h) also state that invoices would be issued following Supply Point Confirmations being made. Therefore in circumstances where a Supply Point Confirmation is never made, where the service is disconnected, or site goes out of business, an invoice would never be issued. A situation could also arise in which the invoice is calculated but is retained by the Transporters agent, Xoserve for a number of months (years) until such Supply Point Confirmation occurs.

A perverse scenario could also occur in which a User which had initiated the installation of a Supply Meter and arranged for a Supply Contract (but failed to ensure Supply Point Registration) would also gain from a proportion of the redistribution of charges payable by the User which requested the creation of the MPRN.

Process consequences

We believe that in the event this Modification Proposal were implemented NGD would have little alternative but to refuse to issue an MPRN to any party unless we had clear evidence of an agreed Supply Contract and ideally a User registration being in place (for which an MPRN is required as a pre-requisite). We believe this would not be inconsistent with our obligations set out in Standard Condition 31 of the GT Licence. However, we are aware that industry parties including Utility Infrastructure Providers (UIPs) have expressed their serious concerns about the effect on their businesses should Transporters adopt this stance.

Conclusion

We believe that relevant objective (d) is not furthered. Measures which serve to reduce Unidentified Gas can be expected to be consistent with correct targeting of costs on Users which in turn facilitate competition in the gas market. We believe that implementation would inappropriately target costs onto Transporters and seriously impact the process for third party connections to the network. This would have a detrimental effect on competition.

Modification Proposal 0410A

Contrary to the measures identified within Modification Proposal 0410, this Proposal sets out a methodical and proportionate set of steps and procedures featuring a balanced range of responsibilities on Users and Transporters by which the registration of New Supply Meter Points is achieved efficiently. The Proposal is set in the context of the installation of the Supply Meter and the fundamental principle is that the User is required to ensure it's Supplier has in place a Supply Contract prior to it installing or procuring the installation of a Supply Meter

Root cause

We have consistently and firmly emphasised our opinion in the Modification 0410/0410A Workgroup that the ability to flow gas at a New Supply Meter Point is completely dependant on the installation of the Supply Meter. Without this equipment being in place gas cannot legally flow or be capable of flowing. Therefore it is entirely logical that the responsibility for gas taken in the absence of a Supply Point Registration should lie with the party which requested or commissioned installation of the Supply Meter. It is also appropriate that where the installation of the Supply Meter was not requested by the Supplier then the Transporter should have responsibility to take necessary action to secure Supply Point Registration or seek curtailment of the supply of gas.

Therefore, the Proposal has been structured to feature an orderly sequence of timely events designed to apportion responsibility for and secure User registration of the relevant Supply Point and wherever possible to account for, recover and apportion the energy and transportation costs of any gas taken.

Supporting measures

We have designed these arrangements to be complementary to other initiatives being undertaken within the remit of installation of the Supply Meter. For example, Transporters have recently raised changes under the Supply Point Administration Agreement (SPAA) to seek to change the Meter Asset Managers Codes of Practice (MaMCoP) such that Meter Asset Managers (MAMs) only install Supply Meters where a Supply Contract is in place². Further related proposals for change are expected shortly.

Conclusion

We believe that relevant objective (d) is furthered. Measures which serve to reduce Unidentified Gas can be expected to be consistent with correct targeting of costs on Users which in turn facilitate competition in the gas market. Our view is that the measures identified within Modification Proposal 0410A are likely to bring about a reduction in the volume of Unidentified Gas and the overall number of Unregistered sites.

Impacts and Costs:

Systems development work would be required to facilitate implementation of either Modification Proposal.

Implementation:

What lead-time would you wish to see prior to this modification being implemented, and why?

Either Modification Proposal could be implemented with immediate effect upon direction by the Authority.

Legal Text:

We have identified a number of anomalies with the legal text for Modification Proposal 0410.

TPD Section G7.3.8(g) refers towhether a meter has been fixed at the relevant offtake point; Should be consistent with Section M2; i.e. Supply Meter being installed at the Supply Meter Point.

TPD Section G7.3.8(c) Within 40 business days. Should be Business Days (defined term). Also paragraph Z below, whereas all other UOQ shall be dealt with as described in paragraphs 8-9 below. Should be g, h and i

.....creation of the MPRN to the date of the site visit, the "Unregistered Offtake Period". MPRN is not defined (also on (e and g).

TPD Section G7.3.8 (g) Where the Unregistered Offtake Amount is in relation to a site. Should be Supply Meter Point.

² SPAA Change Proposal MAM 13/002

TPD Section G7.3.8(h) In respect of all other Unregistered Offtake Amounts arising within an LDZ such sums shall at the point at which the Supply Confirmation Point is confirmed, fall into the prevailing reconciliation Billing Period and be added to the UOQ Pot for that LDZ. We are unclear as to the meaning of the underlined text? Also UOQ Pot is not defined. Finally, should be Reconciliation Billing Period.

TPD Section G7.3.8(j) for a Billing period. Should be Period.

TPD Section G7.3.8(k) incurred by the relevant transporter. Should be Transporter

NGD has provided legal text for Modification Proposal 0410A and is satisfied that the drafting as published by the Joint Office within the Draft Modification Report meets the requirements of the Modification Proposal.

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

No further matters have been identified.

We trust that this information will assist in the compilation of the Final Modification Report.

Please contact me on 01926 653541 or 07778 150668 (chris.warner@nationalgrid.com) should you require any further information.

Yours sincerely,

Chris Warner
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