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3<sup>rd</sup> June 2011

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**Re: UNC Modification Proposals 0282/0282A ("Introduction of a process to manage Vacant sites")**

**Consultation close out date:** 03 June 2011

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

**Organisation:** Wales & West Utilities Ltd (WWU)

**Representative:** Simon Trivella

**Date of Representation:** 03 June 2011

**Do you support or oppose implementation?**

We are **not in support** of implementation of either Modification Proposal.

**If either 0282 or 0282A were to be implemented, which would be your preference?**

We do not support implementation of either Modification, we do believe that modification proposal 0282 has even more disadvantages than modification proposal 0282A.

**Please summarise the key reason(s) for your support/opposition.**

We do not support implementation of either proposal for the following reasons (further details provided in the next section):

- 1) We have serious concerns that implementation would undoubtedly lead to increased numbers of properties that remain unoccupied but have a live gas supply.

24 hour gas escape number  
Rhif 24 awr os bydd nwy yn gollwng

**0800 111 999\***

\*calls will be recorded and may be monitored  
caiff galwadau eu recordio a gellir eu monitro

Wales & West Utilities Limited  
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- 2) The proposed vacant site process, by removing Supply Points from the allocation mechanism, totally undermines the Smaller Supply Point (SSP) settlement regime (allocation and RbD) and will lead to inequitable treatment of other SSPs and Shippers.
- 3) The proposals seek to tackle purported issues with the SSP settlement regime. We believe these issues are being address as part of Project Nexus and, considering timescales of implementation, these proposals would soon become redundant if implemented (see the implementation section below).
- 4) Neither proposal offers sufficient safeguards to prevent gas being offtaken at a “vacant” site without the knowledge of the User or Transporter and could therefore lead to greater volumes of unidentified gas.

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

We do not believe that the issues identified above have been fully addressed and should be recorded in the Modification Report:

#### 1) Safety Issues

We have serious concerns that implementation of either modification proposal would undoubtedly lead to increased numbers of properties that remain unoccupied but have a live gas supply.

In development of these modification proposals the isolation and withdrawal processed have been identified as ‘costly’ to the Shipper and to the consumer. We do not believe this to be the case when compared to the costs incurred by Shippers from retaining such sites within their portfolio (as Transportation Capacity charges would still (correctly) apply). Transportation Charges that are incurred for these sites will not be picked up by the consumer at the property (as there is isn’t one) and therefore will be smeared to all other customers of the particular Shipper. Over a period of up to 24 months the costs of isolation and withdrawal are likely to be far less than Transportation Charges that are incurred.

The Gas Safety (Installation and Use) Regulations 1998 (and in particular regulation 16(3)) requires that a gas service that is no longer in use is physically disconnected as near as reasonably practicable to the main due to the gas service being a potential hazard. Although for a vacant site the meter will have not been removed, which is the perquisite trigger for Regulation 16(3), the safety concern is identical.

The HSE published “Approved Code of Practice and guidance” that supplements Gas Safety (Installation and Use) Regulations 1998 states the following:

*“Regulation 16(3)(b) interfaces with the duty on pipeline operators under the Pipelines Safety Regulations 1996 (PSR) to ensure that certain disused pipelines are left in a safe condition; ...the supplier needs to ensure, so far as is reasonably practicable, that the action stipulated in regulation 16(3)(b) is taken by the public gas transporter (ie the dutyholder under PSR).... The regulation also recognises certain situations, e.g. blocks of flats, where removal of service pipes or service pipework to particular dwellings may not be readily achievable. The gas supplier (together with the transporter in the case of natural gas) needs to decide the appropriate action in a particular case, bearing in mind that unused ‘live’ service pipes or pipework represent a potential hazard”*

Although the duty to disconnect in 16(3) rests with the Supplier, it is acknowledged that the Gas Transporters are ‘best placed’ to carry out this function. With the interaction with the Pipeline Safety Regulations it could be deemed that a declaration of a vacant site is sufficient notification to the Gas Transporter (as the applicable person subject to the PSR) to exercise the duty to disconnect the service.

We would strongly urge Ofgem to consult with the HSE and Gas Transporter safety representatives if they believe that either proposal should be implemented.

## 2) Undermining of the Smaller Supply Point (SSP) settlement regime

The proposed vacant site process, by removing Supply Points from the SSP allocation mechanism, totally undermines the settlement regime (allocation and RbD) and will lead to inequitable treatment of other Supply Points and Shippers.

The basis of the settlement regime for SSPs is that gas is allocated to them based on their Annual Quantity (AQ) and an established annual/daily profile. It is highly unlikely that any SSP will ever 100% conform to such a profile, however, these profiles have been utilised for a number of years and were developed as they were seen as a robust enough “fit” for the vast majority of SSPs. We appreciate that times move on and the industry desire to move away from such a regime (this is covered in point (3) below), however, these modification proposals seek to remove a subset of SSPs from the regime and we do not believe that is equitable or appropriate.

A vacant site is no different to any SSP that does not consume gas in accordance with the established profiles (which is arguably all SSPs to varying degrees). The vast majority of SSPs are occupied domestic premises that utilise gas for space heating and cooking. A typical SSP profile will therefore be a higher consumption in the winter and a proportionally increased consumption at weekends. Any SSP that differs from this is treated in the same way as a vacant site is at the moment. For example, a small business that operates Monday to Friday will receive an allocation of gas at weekends although no gas may be consumed. The same will apply to any domestic premises that is not permanently occupied throughout the year (e.g. holiday home, weekend retreat etc). The allocation that such SSPs receive on days where consumption does take place, will be less than actual consumption. Over a

period of 12 months the allocation will be based on the AQ and therefore equalises out over time. This can be described as the “snakes and ladders” nature of SSP settlement, modification proposals 0282 and 0282A are proposing to only use the ladders and this will lead to a directly proportional increase in ‘snakes’ experienced by all non-vacant sites (even though they also do not consume in line with the established SSP profiles).

This inequitable is intensified due the behaviour of the AQ at such ‘vacant sites’ and would lead to what can only be described as “double (benefit) dipping”. For example:

**Site 1 (non-vacant site (existing SSP settlement regime))**

(AQ = 20,000kWh)

Year 1 – consumes 25,000kWh - allocated 20,000kWh (due to AQ)  
Year 2 – consumes 0kWh - allocated 25,000kWh (due to revised AQ)  
Year 3 – consumes 20,000kWh - allocated 0kWh (due to revised AQ)  
Year 4 – consumes 25,000kWh - allocated 20,000kWh (due to revised AQ)

**Site 2 (utilising the vacant site regime)**

(AQ = 20,000kWh)

Year 1 – consumes 25,000kWh - allocated 20,000kWh (due to AQ)  
Year 2 – consumes 0kWh - allocated 0kWh (due to be declared as a vacant site)  
Year 3 – consumes 20,000kWh - allocated 0kWh (due to revised AQ)  
Year 4 – consumes 25,000kWh - allocated 20,000kWh (due to revised AQ)

Both the above sites have used 70,000kWh of gas over the 4 year period, Site 1 has been allocated 65,000kWh whereas Site 2 is only allocated 40,000kWh. This is the nature of the AQ allocation regime and the fundamental principle is that the amount of energy consumed at a SSP will be correctly allocated to the registered Shipper.

The issue faced (equally) by Shippers is that the timing of such allocation is based upon the recalculation of the AQ and therefore are open to the risks (and rewards) that may present itself through gas prices and purchasing strategies due to the time lag in AQ calculation (which is exactly what modification proposal 0380 seeks to address (“*Periodic Annual Quantity calculation*”)).

We believe that these proposals do not seek to tackle the ‘issue’ and instead remove certain SSP sites from the settlement regime distorting allocation even when the vacant site is removed from the process. This is ‘double dipping’ as charges are avoided during the period of vacancy but then are also avoided in subsequent periods due to the drop in AQ.

3) Timeliness of solution and incompatibility with other industry changes

As mentioned above, these proposals seeks to tackle ‘issues’ with the SSP settlement regime. We believe these issues are being address as part of the Project Nexus work and, considering

timescales of implementation, these proposals will soon become redundant (potentially within 12-24 months of implementation).

Discussions within Project Nexus have, so far, given a strong indication that all future settlement processes (SSP & LSP) will utilise the increased availability of meter reads (due to smart meters) and will contain a reconciliation mechanism. This will resolve the issues raised by the proposers in a fair, equitable and transparent manner and will render these proposal redundant.

The time, cost and use of Transporter Agency project team / system & technical expertise will be significant if either modification proposal is directed for implementation and, in line with the principles of modification proposal 0361 ("*Consider the duration of changes against wider industry developments*") we do not believe that it is appropriate to commit such spend and resource in light of wider industry changes.

#### 4) Insufficient safeguards

Neither proposal offers sufficient safeguards to prevent gas being offtaken at a "vacant" site without the knowledge of the Supplier, Shipper or Transporter and could therefore lead to greater volumes of unidentified gas. This concern has been voiced by Workgroup members (including Shippers) as there are concerns that a declared vacant site could continue to consume gas without the Supplier, Shipper or Transporter being aware.

Gas usage may be detected at the point of a meter inspection (or whenever a meter read is obtained) although there still concerns that this is not a sufficient safeguard to protect other Shippers from potential inappropriate Shipper actions. One example given during discussions at the Workgroup was that a Shipper may identify that a vacant site has consumed gas and, rather than submit readings to confirm this (and pay any potential charges), they may opt to carry out a meter exchange (to also fulfil smart metering roll out obligations) and submit a closing read indicating a zero consumption. Although we do not believe that Shippers would usually act in such a way this has been identified as a possibility and cannot be prevented.

#### **Relevant Objectives:**

*How would implementation of this modification impact the relevant objectives?*

We believe that implementation of this modification will have a detrimental impact on the furtherance of the relevant objectives for the following reasons:

***Standard Special Condition A11.1 (d): so far as is consistent with sub-paragraphs (a) to (c) the securing of effective competition: (i) between relevant shippers; (ii) between relevant suppliers; and/or (iii) between DN operators (who have entered into transportation arrangements with other relevant gas transporters) and relevant shippers;***

As described earlier in this representation, to remove sites from the SSP settlement regime will have a detrimental impact on other SSPs / Shippers as principles of SSP allocation will be severely undermined. The design and function of SSP settlement works on the basis that SSP sites do not consume gas in strict accordance with a profile but in aggregate the result is a generally fair allocation of gas over time. To 'opt' out of this regime and to only experience the upsides of SSP settlement will not increase competition between Shippers/Suppliers but will do the exact opposite; thus being of detriment to the furtherance of this relevant objective.

***Standard Special Condition A11.1 (f): so far as is consistent with subparagraphs (a) to (e), the promotion of efficiency in the implementation and administration of the network code and/or the uniform network code.***

We do not believe that 'increasing the choice of services provided through the UNC' in anyway promotes efficiency in the implementation and administration of the network code and therefore does not better facilitate relevant objective A11.1(f).

### **Impacts and Costs:**

*What analysis, development and ongoing costs would you face if this modification were implemented?*

As a Gas Transporter we would not face any direct costs through implementation of either modification proposal. The vast majority of costs that the Transporter Agent would incur would be charged to Shipper Users through User Pays Charges, however, this would not include the increase in queries and additional consequential administration that this proposal may lead to.

As mentioned above, the biggest impact that this proposal will have is on the development time and resource that is utilised for implementation. Xoserve are currently working with the industry to develop new settlement processes and major redesign of central systems and processes that, based on current industry views, will negate the need for this proposal. To spend over 12 months of system project expertise on facilitating implementation, in our opinion, is not beneficial to the industry as a whole.

Implementation would also then see the majority of Shipper organisations developing their own systems and processes in order to utilise the "vacant" site process in order not to be disadvantaged by other participating Shippers. This will inevitably see increased workloads for all parties with a decreasing amount of perceived benefit.

### **Implementation:**

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

As indicated in the Rough Order of Magnitude (ROM), implementation of this modification is likely to take approximately 12 – 14 months. Taking into account the time for an Ofgem decision, development timescales and UK Link release dates, we can see that implementation





could not be achieved much before early in 2013. We believe that the industry would be better off spending this time (and money) in developing systems and processes that are sustainable in to the future that would have a much prolonged shelf-life.

### **Demand Information:**

As a Gas Transporter we have no demand for this User Pays Service.

### **Legal and ACS (Agency Charging Statement) Text:**

The ACS does capture all necessary User Pays Services and Charges and we have no comments on the legal text at this stage.

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

We have nothing further to add that we wish to be taken in to account.

Once again, thank you for the opportunity to comment upon these Modification Proposals. Unfortunately we **do not support** either proposal but offer our full support to the proposer, and to the industry, in developing and implementing suitable processes (such as ones identified within Project Nexus) that will address the exact concerns that these modifications have attempted to address.

If anyone has any questions or comments on this representation then please do not hesitate to contact me.

Yours sincerely

*{By email}*

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