

## Representation

### Draft Modification Report

#### 0282 / 0282A: Introduction of a process to manage Vacant sites

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

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

**Organisation:** ScottishPower Energy Management Ltd

**Representative:** David McCrone

**Date of Representation:** 3 June 2011

#### Do you support or oppose implementation?

0282 - Support

0282A - Not in Support

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

Prefer 0282

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

It is acknowledged by both proposals that where a site is vacant meter readings cannot be obtained in order to amend the AQ, and therefore Shippers are unable to reduce their exposure to transportation, settlement, and associated gas costs. However, under the current arrangements, the market share that is used for RbD includes these supply points even though the Shipper and/or Transporter may know it is not consuming any gas. The effect of this is that Shippers incur commodity charges and RbD smearing that is not reflective of the actual consumption occurring across their portfolio and fixed capacity charges based on AQs which are not reflective of usage at the vacant sites. We therefore believe that it is wrong for sites which are known to be vacant and not consuming gas to be kept within RbD. Mod 0282 is the only option which addresses both these anomalies by ceasing commodity charging while vacant and removing from RbD. Further to this if the sites are removed from RbD then it would allow them to be considered by the AUGE in their understanding of unaccounted for gas and give a cleaner picture of actual live sites.

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

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The draft modification report lists a disadvantage of 0282 as being that some workgroup members would have preferred to have had visibility of the SPAA Schedule developed to accompany mod 0282. We find this confusing as the Schedule was presented at the modification workgroup meetings on 20 September 2010 and 5 October 2010 where parties' comments were received and used to develop the Schedule. It was also progressed through meetings of the SPAA Expert Group and Change Board where both Suppliers and Transporters had the opportunity to comment and we believed any concerns that had been raised during the development of the modification had been addressed.

The SPAA Schedule in its completed format was also discussed at the SPAA Change Board on 17 March 2011. The four Suppliers who submitted indicative votes supported the change dependent upon the outcome of the mod process. However as the mod process was still ongoing it was decided to defer any final decision until the completion of the consultation process rather than show any further preference at that stage.

### **Relevant Objectives:**

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

*(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.*

Mod 0282 will result in a more accurate allocation of costs that is reflective of the usage occurring across the SSP market by stopping commodity charges and energy allocation for vacant sites. This is a more expedient and cost effective means of managing vacant sites than proceeding with the isolation process and also less inconvenient for future customers who would otherwise have to get a supply reinstated upon occupying a previously vacant property. Where costs are allocated on a more accurate basis, the level of effective competition will be improved. By contrast, mod 0282A proposes that sites classified as vacant will be kept within RbD for the purposes of market share. These supply points are known not to be consuming gas so it is wrong to include these with all other supply points when RbD charges are meant to be apportioned on the basis of live SSP AQ. The inclusion of these could skew a Shipper's market share in relation to its cumulative AQ, providing an inaccurate allocation of costs, and ultimately be detrimental to competition.

We are unable to understand the rationale for keeping vacant sites within RbD, as proposed in Mod 282A, nor are we able to see what additional or different benefits this will bring, as this has not been substantiated by the Proposer. Mod 0282 underwent a lengthy development process involving all parties and we do not believe that the proposer of the alternative has suitably demonstrated any additional or different merits of their proposal nor has it undergone the same level of scrutiny as the original.

Rule 13 of 0282A states that where a site previously classed as vacant is found to be consuming gas, the Shipper will be liable for all charges as if it had never been vacant. This does not provide the Shipper the opportunity to challenge the Transporter's decision or provide for any form of redress. It is entirely plausible that a site may be genuinely vacant for a period of time before becoming occupied. If the Transporter discovers this occupancy, and before the Shipper has had the opportunity to update the status, business rule 13 of 0282A states that the Shipper will be liable for charges for that period and when the site was genuinely vacant despite any evidence the Shipper may have to the contrary. This is counter intuitive to the intent of the proposal itself. In contrast mod 0282 business rule 12 states that the Shipper will be required to act upon the Transporter's notification and remove the site from the process if found to be genuinely non-vacant. This requirement on the Shipper to act and confirm the status ensures that the treatment of commodity charging and RbD is maintained fairly until the site is removed from the vacant process. We would highlight that at the start of the process, when the site is initially discovered to be vacant, the Shipper has to get another reading that is 75 days after the first notice. This means that the site will have been incurring costs for at least 2 and a half months at the start of the process before charges cease. Such charges will be unrecoverable from the consumer. We therefore believe that there should be no issue of a Shipper operating as outlined in MOD282.

*(f): so far as is consistent with sub-paragraphs (a) to (e), the promotion of efficiency in the implementation and administration of the network code and/or the uniform network code.*

Mod 0282 will enhance the choice of services provided through the UNC. As agreed by the workgroup and noted in the draft modification report, the inclusion of the SPAA Schedule as part of mod 0282 provides a robust audit mechanism that will aid with the implementation and administration of the proposals by clarifying the role expected of the Supplier in the process. Conversely, mod 0282A states that it would not use the SPAA Schedule but instead simply that Shippers must ensure their contracted Suppliers adhere to the UNC Business Rules. This cannot be described as promoting efficiency in the implementation of the proposal, or having a robust audit mechanism, when compared to 0282 and the steps it describes over and above the proposed Business Rules.

Mod 0282A claims that it has increased controls over and above mod 0282 that will help to mitigate the risk of inaccurate apportionment of unidentified gas. Aside from the SPAA Schedule, the only difference in control would appear to be the addition of an obligation on the Shipper to provide an update to the Transporter every 215 days confirming continuation of the vacant status. This additional requirement would seem to be counter intuitive to an efficient process and would place additional burden on Shippers and Transporters with questionable value. This is further borne out by the ROM provided by xoserve which notes that further development would be required for 0282A as opposed to 0282.

Xoserve have stated that development of 0282 will cost between £554k and £714k, with 0282A costing between £690k and £892k (£136k to £178k more than MOD282). The ongoing costs also differ with 0282 at between £41k and £102k, and 0282A higher

again at between £51k and £124k per annum (£10k to £22k more than MOD282). Both proposals state that since its introduction approximately 50,000 sites have been through the electricity vacants process. When using these volumes as a comparison, we are not convinced that the increased expense of MOD282A is warranted, when it will introduce a less cost effective solution than 0282, with no demonstrable benefits.

### **Impacts and Costs:**

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

The ROM provided by xoserve as part of the process sets out the cost we would expect as a result of the implementation of these proposals and any ongoing costs.

As we have stated in our response above we do not believe that 0282A sets out what benefits 0282A will bring over 0282 in order to justify the increased costs.

We note that some members of the workgroup consider the cost of the isolation process can be recovered in a short time and that this may be more appropriate than employing a vacants process. When considering the sums quoted by agents for this work, it should be noted that this is based on a "best case" scenario and assumes that repeat visits or additional work are not required. It also does not consider the cost to the shipper, supplier, or ultimately, the customer, should they wish to restore a supply at a later date. It is important therefore that the costs incurred by all parties are considered in the whole when comparing against the vacants process.

### **Implementation:**

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

As set out in modification 0282 our preference is that this functionality is introduced at the earliest opportunity following a positive direction from the Authority. Shippers/ Suppliers will continue to be impacted by the costs attributed to vacant sites so a quick implementation will help to mitigate the impact of this.

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

*Are you satisfied that the legal and ACS text will deliver the intent of the modification?*

We are satisfied that the legal text and business rules provided for 0282 deliver the intent of this modification.

The intent of 0282A is that by enabling Shippers to declare sites as vacant and avoid commodity charges, the allocation of costs around the SSP sector will be done more accurately. We do not believe the legal text for 0282A, which states that sites classified as vacant will be removed from commodity charging but kept within RbD, will make the allocation of costs more accurate and therefore does not deliver the intent of the modification.

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

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

We note from the draft modification report that Transporters expressed concerns that the process increases the number of unoccupied premises with a live gas supply, by leading to a reduction in isolations, which may have consequences on safety. Both proposals confirm that the Shipper will still be responsible for capacity charges and this will act as a cost driver for Shippers not to leave sites within the vacant process indefinitely. Both proposals also suggest a backstop date of 24 months where the Shipper will need to make a decision whether to isolate or remove from the process. Introduction of either process will not increase the number of sites within the UK becoming vacant. It is possible though that the additional audit procedures, in particular those in 0282, may actually increase safety as these vacant sites should be monitored more closely than is done currently.

We acknowledge that the current governance arrangements around SPAA could lead to a scenario whereby an I&C Supplier was engaging in the vacants process but was not a signatory to, and therefore governed by, SPAA. Both modifications being proposed apply to sites with an Annual Quantity of <73,200kWh only and so we would imagine this to be unlikely. We would highlight though the ongoing work being undertaken between SPAA, ICoSS, and Ofgem to amend the governance of SPAA to allow the I&C parties to accede. However, in the meantime, should an I&C Supplier have a SSP vacant site and use the vacants process we would expect that they would adhere to the spirit of the SPAA Schedule. Indeed such a situation may even expedite the I&C Shippers agreement to join SPAA, by demonstrating the benefits and usefulness of the SPAA schedules.

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