

Modification proposal:	Uniform Network Code (UNC) 410/410A: Responsibility for gas off-taken at Unregistered Sites following New Network Connections (UNC 410/410A)		
Decision:	The Authority ¹ directs that UNC 410A be made ²		
Target audience:	The Joint Office, Parties to the UNC and other interested parties		
Date of publication:	8 August 2013	Implementation Date:	To be confirmed by the Joint Office

Background to the modification proposal

Competition in connections provides for both Gas Transporters and independent connections companies to make new physical connections to the gas network. Any party wishing to install a new connection to the gas network must request a meter point reference number (MPRN) from the relevant Gas Transporter.

If requested to make a new connection, a connections company will then install the physical connection and inform the Gas Transporter that the supply point has been labelled with the requested MPRN. The UNC sets out that a supply point must be registered before any person is entitled to off-take gas from the new meter point³.

There are legitimate cases where a site can be physically connected to the gas network but remain unregistered. For example where no meter is installed or where a meter is installed but rendered physically incapable of flowing gas. However, problems occur where a number of possible process failures lead to a customer off-taking gas from an unregistered site. The customer may or may not have a supply contract in place but in either case, problems arise if the relevant shipper has not registered the site on the supply point register. For the purpose of this letter, any reference to an unregistered site is to one where a meter has been fitted and is flowing gas, or is capable of flowing gas.

Unregistered sites following new network connections are a significant source of unidentified gas and as a result have financial consequences for the user community. The energy costs from unidentified gas are borne by shippers in the Smaller Supply Points (SSP) sector⁴ through the Reconciliation by Difference (RbD) mechanism⁵. An element of the energy cost is also likely to be apportioned to shippers on the Larger Supply Points (LSPs)⁶ market by the Allocation of Unidentified Gas Expert (AUGE).⁷ Unregistered sites can therefore lead to increased energy costs for registered customers. In addition to the cost of energy, unregistered sites are not liable for transportation charges. Their share of transportation costs are allocated across registered sites and could also lead to higher charges for registered customers.

Standard Licence Condition 7 of the Gas Transporter Licence places obligations on the Gas Transporter where it appears that a person has, or may have, taken a supply of gas

¹ The terms 'the Authority', 'Ofgem' and 'we' are used interchangeably in this document. Ofgem is the Office of the Gas and Electricity Markets Authority.

² This document is notice of the reasons for this decision as required by section 38A of the Gas Act 1986.

³ UNC TPD Section G para 7.3.3.

⁴ A supply point with an annual consumption of less than 73,200kWh (2,500 therms).

⁵ RbD is the method of reconciling the difference between actual (metered) and deemed (estimated) measurements of gas allocated to Small Supply Points (SSPs). Gas flowing through unregistered sites would not be metered and therefore would be allocated to shippers in the SSP market for the purposes of calculating energy and transportation commodity charges.

⁶ A supply point with an annual consumption greater than 73,200kWh (2,500 therms).

⁷ The AUGE is an independent expert appointed by the gas transporters. It aims to provide a methodology to identify the sources of Unaccounted for Gas (UAG) and apportion a fixed volume of UAG to the LSP sector.

in the course of conveyance. In such cases, which include cases where gas is off-taken at an unregistered site, the Gas Transporter must investigate the matter and use reasonable endeavours to recover the value of gas.

The modification proposals

UNC 410

UNC410 was raised by Total Gas & Power Ltd on 2 December 2011. UNC410 aims to reduce the incidence of unregistered sites by placing liability for the costs of gas that the site has abstracted from the network with the party that has control over the creation and use of the MPRN. The Gas Transporter would be responsible and accountable for the costs of gas for any site where the MPRN was created for any party other than the shipper. The shipper would be responsible and accountable for the consequences of any gas off-taken prior to registration for sites where that shipper has requested the creation of an MPRN from the Gas Transporter.

The proposal would also require Gas Transporters to visit every site within 12 months of the MPRN being created where the site has not been registered with a shipper and has not had the service discontinued. The proposal would only apply to new network connections after the implementation date (which is proposed to be April 2014)⁸. After the implementation date, there would also be an additional 12 month period during which the modification would not be effective.

UNC 410A

UNC 410A was raised by National Grid Distribution on 23 May 2012. UNC410A requires shippers to ensure that a supplier has a valid supply point contract in place before commissioning the installation of a meter at a new connection point created after 1 September 2013.

UNC410A also aims to ensure that, where a Gas Transporter identifies an unregistered site created after 1 September 2013 that has not been registered for at least 12 months since that date, they undertake proactive measures to identify any supplier responsible and provide them with an opportunity to register the site. If the shipper fails to respond to the Gas Transporter within 1 month of notification, the Gas Transporter may register the site on the shipper's behalf. If a supplier which has a contract with the customer has not been identified then the Transporter will provide the consumer with an opportunity to secure a supply contract. Where the customer fails to secure a contract, the Gas Transporter will, in normal circumstances, seek to disconnect the supply of the gas to the consumer subject to any relevant prevailing legislation, regulation or codes of practice.

UNC Panel⁹ recommendation

The UNC Panel met on 20 June 2013 to vote on whether or not to recommend the implementation of UNC410 and UNC410A. Of the ten Panel members, three votes were cast in favour of implementing UNC410 and nine votes were cast in favour of implementing UNC410A. Members considered which of the two modifications would be

⁸ The Final Modification Report sets out that if a decision is received after 01 October 2013 implementation should on the following 1 April that is at least 6 months after the decision date.

⁹ The UNC Panel is established and constituted from time to time pursuant to and in accordance with the UNC Modification Rules.

expected to best facilitate the relevant objectives. One vote was cast for UNC410 and eight were cast in favour of UNC410A.

The Panel therefore recommended by majority that Modification UNC410A should be implemented.

The Panel also discussed UNC410 and UNC410A at its meeting on 19 July 2013, as the Proposer of UNC410A identified a change to the legal text since the June Panel meeting, to clarify in the legal drafting that UNC410A would apply to new sites created after 1 September 2013. The Panel decided by majority that no further consultation was required on the proposal¹⁰.

The Authority's decision

The Authority has considered its statutory duties and functions in reaching its decision. The Authority has considered the issues raised by the modification proposal and the Final Modification Report (FMR) dated 12 July 2013. The Authority has considered and taken into account the responses to the Joint Office's consultation on the modification proposals which are attached to the FMR¹¹. The Authority has concluded that:

1. Implementation of UNC410A will better facilitate the achievement of the relevant objectives of the UNC¹²; and
2. Directing that the UNC410A be made is consistent with the Authority's principal objective and statutory duties¹³.

Reasons for the Authority's decision

We have assessed the proposed modifications against the UNC Relevant Objectives. The proposers of both modifications considered that they would better facilitate relevant objective (d) and may have some impact on (c). We have assessed the modification against these relevant objectives and also against relevant objective (a). We consider that the modification proposals have no impact or are neutral against the remaining objectives.

Relevant objective (a): the efficient and economic operation of the pipe-line system

UNC410 seeks to put in place a new inspection regime for Gas Transporters and is expected to strengthen incentives on them to prevent the flow of gas from unregistered sites through unspecified control measures. UNC410A seeks to put in place a series of measures to address unregistered sites when found which are expected to incentivise shippers to register sites where there is a supply contract in place. In particular, UNC410A is expected to lead to unregistered sites being correctly registered by the relevant shipper and for the shipper to be liable for the Gas Transporter's reasonable

¹⁰ The minutes of the 19 July Panel meeting are available on the UNC website:

<http://www.gasgovernance.co.uk/sites/default/files/Minutes%20and%20Voting%20Record%202018%20July%2013%20V1.0.pdf>

¹¹ UNC modification proposals, modification reports and representations can be viewed on the Joint Office of Gas Transporters website at www.gasgovernance.com

¹² As set out in Standard Special Condition A11(1) of the Gas Transporters Licence, see:

<http://epr.ofgem.gov.uk/Pages/EPRInformation.aspx?doc=http%3a%2f%2fepr.ofgem.gov.uk%2fEPRFiles%2fStandard+Special+Condition+PART+A+-+Consolidated+-+Current+Version.pdf>

¹³ The Authority's statutory duties are wider than matters which the Panel must take into consideration and are detailed mainly in the Gas Act 1986.

costs in visiting the site. Alternatively, the site would be disconnected subject to any specific rules in relation to the treatment of vulnerable customers.

We would expect both modifications to lead to a reduction in the number of unregistered sites and to therefore provide Gas Transporters with a clearer view of where and when gas is being used. We consider that Gas Transporters could use this improved information to help determine the scale of investment needed in system capacity. We therefore consider that both proposals would facilitate improvements to network planning and therefore support the efficient and economic development of the pipeline system.

Relevant objective (c): the efficient discharge of the licensee's obligations

We note the concern of some Panel members that UNC410 may be inconsistent with Standard Special Condition D4 of the Transporters' Licence requirements to remain neutral to or not to procure energy. We do not consider that this issue has any impact on our assessment and decision to approve UNC410A (to which this issue is not relevant). We have therefore not considered this issue further.

The Gas Transporters licence SSC A31 "Supply Point Information Service" requires Gas Transporters to maintain a register of information to facilitate, amongst other things, change of supplier and balancing in respect of premises. We consider that both proposals are likely to allow Gas Transporters to better meet their requirements under this licence condition as they would improve the accuracy and completeness of the register of supply points and the subsequent provision of relevant information to the market to facilitate switching and balancing.

Relevant objective (d): the securing of effective competition

As noted above, we consider that UNC410 would provide incentives on Gas Transporters to reduce the quantity of unidentified gas off-taken through unregistered sites although it does not prescribe the specific measures that Gas Transporters would undertake.

We consider that the measures introduced by UNC410A would provide practical means by which unregistered sites will be resolved as well as incentivising shippers to register sites where there is a supply contract in place. We consider that these incentives result from the potential disconnection of the site and proposed liability for the reasonable costs incurred by the Gas Transporter for example where it attends a site to validate the presence of meter.

We consider that both UNC410 and UNC410A would better meet relevant objective (d) by promoting the accuracy of energy cost allocation and mitigate the risks of such costs being smeared across the wider user community.

In considering the relative merits of the two proposals we recognise the concerns of several parties that UNC410 may not place the liability for costs with the party responsible for installing the meter. In particular, we note that a shipper may request a connection to be made but may not have control over whether a meter is subsequently fitted to that connection. We agree that UNC410A, which seeks to link responsibility (via its shipper) to the supplier which has in place a consumer contract, will better reflect the consumer's contracted position and therefore support effective competition in the market.

Further issues

We note respondents' views and the discussion among Panel members on whether UNC410 and UNC410A could be implemented together. We recognise that UNC410 could be implemented to place greater commercial incentives on Gas Transporters to make sure UNC410A is fully effective. However, we agree with the Panel that both modifications would need to be redrafted as complementary modifications to ensure that conflicting situations would not take place and the risk of double charging would be removed.

We note that the FMR sets out that system changes may be required to implement UNC410A. We expect Gas Transporters to ensure that any changes to their systems that they identify may be required will take place prior to 1 Sept 2014. This is the earliest date that Gas Transporters will be able to take action under the provisions that UNC410A introduces given that these provisions only apply to new sites created after 1 September 2013 that have not been registered for at least 12 months since that date.

We note that the principles included within UNC410 might have been expected to have a positive impact on reducing unregistered sites. Whilst, for the reasons set out in this letter, we have approved UNC410A in this instance, were unregistered sites still to have an enduring material impact on consumers and the market, we would welcome parties considering further modifications to the UNC, including potential incentive based modifications similar to UNC410.

We note that UNC410 proposed to place an obligation on Gas Transporters to inspect all new connections every 12 months where they have not been registered. Whilst we consider that it is important for Gas Transporters to make all relevant efforts to identify where unregistered sites start to flow, or become capable of flowing gas, we do not consider that sufficient information has been provided to allow us to conclude that such a measure would be cost effective. We are separately writing to Gas Transporters to, amongst other things, identify what proportionate measures they should ensure are in place to help identify unregistered sites. We have asked Gas Transporters to write to us setting out their commitments to reduce the number and materiality of unregistered sites and report to us on progress in 12 months.

Decision notice

In accordance with Standard Special Condition A11 of the Gas Transporters Licence, the Authority hereby directs that modification proposal UNC 410A: 'Responsibility for gas off-taken at Unregistered Sites following New Network Connections' be made.

Maxine Frerk
Partner, Retail Markets and Monitoring

Signed on behalf of the Authority and authorised for that purpose.