

Modification proposal:	Uniform Network Code (UNC) 431: Shipper/Transporter - Meter Point Portfolio Reconciliation (UNC431)		
Decision:	The Authority ¹ directs that UNC431 be made ²		
Target audience:	The Joint Office, Parties to the UNC and other interested parties		
Date of publication:	20 February 2014	Implementation Date:	1 May 2014

Background to the modification proposal

The creation of a new supply point connecting to the mains gas supply is a competitive activity. However, any party wishing to make such a connection must first obtain from the Gas Transporter (GT) a Meter Point Reference Number (MPRN) for each supply point. The GT will record these MPRNs on the Supply Point Register on the date, or as soon as possible after, the connection is made.

The UNC requires that a supply point must be registered to a gas Shipper before any gas may be off-taken³. However, this does not always occur. A number of issues may arise that leads to gas being consumed at an as yet unregistered supply point. Work undertaken by a UNC workgroup identified as many as fifteen root causes⁴ for shipperless and/or unregistered supply points, covering issues such as data quality, failure to pass on information and theft.

Unregistered sites following new network connections are a significant source of 'Unidentified Gas'⁵ usage, which is gas known to have been taken from the system but cannot be accurately attributed to any given supply point. The cost of unidentified gas therefore cannot be accurately allocated to the correct Shipper and is instead socialised across all shippers. Energy costs will be initially borne by shippers in the Smaller Supply Point (SSP) sector⁶ via the Reconciliation by Difference (RbD)⁷, though an element of those costs is now apportioned to Larger Supply Point (LSP)⁸ shippers by the Allocation of Unidentified Gas Expert (AUGE)⁹.

In August 2013 the Authority directed the implementation of UNC410A¹⁰, which requires Shippers to ensure that a valid supply contract is in place before commissioning the installation of a meter at a new connection point. This modification came into effect 1 September 2013.

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 See: www.gasgovernance.co.uk/sites/default/files/Root%20Cause%20Summary%20-%20Approved%20V.1.0.pdf

⁵ As defined in section E 10.1 of the UNC

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

⁷ Reconciliation by Difference (RbD) is the method of reconciling the difference between the initially allocated (estimated) measurements of gas and actual (metered) consumption. Once the metered consumption at Daily Metered and Larger Supply Points (LSPs) sector is taken from the amount of gas known to have been put into a given Local Distribution Zone (LDZ), the remainder is allocated across the SSP sector based upon the Annual Quantity (AQ) of each supply point. RbD was introduced in 1998 in order to facilitate competition in the Smaller Supply Point (SSP) sector, as at the time it was not considered practical or economically efficient to individually reconcile all such supply points (which number in excess of 20 million) based on actual meter readings.

⁸ A supply point with an annual consumption greater than 73,200kWh (2,500 therms).

⁹ The AUGE is an independent expert appointed by the gas transporters. It aims to provide a methodology to identify the sources of Unidentified Gas and apportion a fixed volume of that gas to the LSP sector.

¹⁰ UNC410A: 'Responsibility for gas off-taken at Unregistered Sites following New Network Connections'

UNC410A also requires that where the GT identifies an unregistered site created after 1 September 2013 that has not been registered within 12 months of its creation date, they will undertake proactive measures to identify the responsible Shipper. The Shipper will then be given 1 month to register the site, after which time the GT may complete the registration on the Shipper's behalf. We accepted UNC410A as we considered that it would appropriately incentivise parties to ensure that no further connections add to the population of unregistered sites. However, it was acknowledged that UNC410A would not itself address the backlog of such unregistered sites that already existed prior to 1 September 2013.

The modification proposal

UNC431 seeks to reduce the historic backlog of unregistered sites not addresses by UNC410A. Shippers would be required to provide MPRN information to Xoserve, acting on behalf of the GTs, to compare the data with that held on the Supply Point Register.

Once each year, Shippers will be required to obtain and forward onto Xoserve the following data from each Supplier for whom they undertake Shipping activities:

- each MPRN currently being supplied;
- the Meter Serial numbers for each MPRN;
- the full postcode; and,
- associated Shipper and Supplier short codes.

Xoserve will reconcile the data provided with that held on the Supply Point register and submit a report to each relevant Shipper. This report will detail any MPRNs that have a supply contract in place and are consuming gas but are unregistered, Shipperless, or erroneously recorded as being dead, extinct, or duplicated.

The Shipper is then expected to complete the registration of the MPRN within 40 business days of the report being issued. If the Shipper does not consider their registration to be appropriate, they will provide a reason to Xoserve within that 40 business day period¹¹. If, by the end of this period the Shipper has not registered the MPRN or provided reasons why they have not done so, Xoserve will complete the registration on the Shipper's behalf.

If a Shipper is unsuccessful in securing the supply portfolio of a Supplier to whom it is contractually associated, the Shipper will inform Xoserve, who may then attempt to obtain the information directly.

UNC Panel¹² recommendation

At its meeting of 16 January 2014 the UNC Panel voted unanimously to recommend the implementation of UNC431.

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

¹¹The Shipper may request additional time while they undertake further investigations.

¹²The UNC Panel is established and constituted from time to time pursuant to and in accordance with the UNC Modification Rules.

Modification Report (FMR) dated 17 January 2014. 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 FMR¹³. The Authority has concluded that:

1. Implementation of UNC431 will better facilitate the achievement of the relevant objectives of the UNC¹⁴; and
2. Directing that the UNC431 be made is consistent with the Authority's principal objective and statutory duties¹⁵.

Reasons for the Authority's decision

Xoserve's presentation to the January 2014 meeting of the Unregistered and Shipperless workgroup¹⁶ states that there are around 15,000 unregistered MPRNs falling into the 'Shipper Activity' or 'Orphaned' categories and that these numbers have been falling in recent months. Orphaned is the term used for MPRNs created at least 12 months previously, but with no subsequent Shipper involvement, as distinct from those which do have some evidence of Shipper activity but nonetheless remain unregistered.

The AUGE has allocated 33GWh of unidentified gas, with a value of £0.79m to these two categories of unregistered supply points in its 2014/15 table¹⁷. This is down from an allocation of £3m in the 2012/13 AUGE statement.

We agree with the proposer and the UNC Panel that UNC431 and its potential to impact upon these figures should be assessed against relevant objectives c) and d). We consider that UNC431 would have a neutral or no impact against the other objectives.

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

Several respondents noted that the GTs have obligations under Standard Licence Condition (SLC) 7¹⁸ of the GT licence to investigate where it appears that gas may have been taken in the course of conveyance and use reasonable endeavours to recover the value of gas. This may include situations where gas is off-taken at an unregistered supply point. It would clearly be inappropriate for the GT to undertake such actions and potentially cause distress to the consumer where there is a supply contract in place and the failure is one of communication between industry parties.

We welcome the steps taken by GTs since August 2013 when we invited them to commit to a plan of action on tackling the number of unregistered supply points and their impact on consumers¹⁹. This has included a data cleansing exercise as well as giving effect to a range of recent UNC modification proposals such as UNC410A, as mentioned above. The next steps will include letters being sent directly to the unregistered sites. However, we note the GTs concern at the lack of engagement from some Shippers.

¹³ UNC modification proposals, modification reports and representations can be viewed on the Joint Office of Gas Transporters website at www.gasgovernance.com

¹⁴ As set out in Standard Special Condition A11(1) of the Gas Transporters Licence, see: <http://epr.ofgem.gov.uk/Pages/EPRIInformation.aspx?doc=http%3a%2f%2fepr.ofgem.gov.uk%2fEPRIFiles%2fStandard+Special+Condition+PART+A+-+Consolidated+-+Current+Version.pdf>

¹⁵ 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.

¹⁶ www.gasgovernance.co.uk/sites/default/files/SU%20wgroup_29JAN13_v3.ppt

¹⁷ www.gasgovernance.co.uk/sites/default/files/Final%202013%20AUG%20Table%20for%202014_15_1.pdf

¹⁸ SLC7: 'Provision of information relating to gas illegally taken'

¹⁹ www.gasgovernance.co.uk/sites/default/files/Letter%20to%20GDNs%20on%20unregistered%20sites.pdf

We consider that the sharing of data, allowing for a comparison of registered supply points as envisaged by UNC431, is a sensible measure which may limit the need for more expensive and intrusive means of confirming the status of the supply point, such as site visits. We also consider it is appropriate for the modification to provide for a robust default position, allowing Xoserve to complete registrations where appropriate, i.e. if the Shipper fails to respond within the specified timeframe. Whilst the primary aim of UNC431 is to reduce the number of unregistered supply points, we agree with those respondents who suggested that in doing so the number of potential cases of theft in conveyance will be reduced. This will allow the GTs to target their resources more effectively and discharge their SLC7 obligations in a more efficient manner.

Relevant objective (d): the securing of effective competition between relevant shippers

The majority of respondents considered that the implementation of UNC431 would reduce the number of unregistered sites and increase the accuracy of data held by Xoserve. They considered that this would reduce the amount of unidentified gas and ensure that costs would be more accurately allocated, thereby furthering effective competition.

Although all respondents supported the aims of UNC431, the two respondents who were opposed to its implementation suggested that it was not the most efficient means of addressing the problem of unregistered sites. These concerns were also shared by some of the respondents who supported implementation.

We consider that UNC431 provides a cost effective means of addressing the backlog of unregistered sites. We understand that no changes to central systems will be required and note that there are no additional User Pays charges proposed. We recognise that Shippers will have an additional administrative burden in order to generate and/or pass on the required data, but we do not consider that the costs of doing so will be prohibitive.

We welcome the recent initiatives undertaken by GTs to address data quality and consider that UNC431 is complementary, rather than an alternative, to such initiatives. Just as there are around fifteen root causes of unregistered and shipperless sites, a package of measures may be needed in order to address them. Although the number of unregistered supply points that have a supply contract in place may be relatively small, we consider it appropriate that steps are taken to ensure costs are accurately allocated to the Shippers who are receiving the economic benefit of those contracts, rather than being socialised. The accurate allocation of these costs will further effective competition between Shippers, and we consider that the sharing of existing data as envisaged by UNC431 is a proportionate means of achieving this.

Decision notice

In accordance with Standard Special Condition A11 of the Gas Transporters Licence, the Authority hereby directs that modification proposal UNC431: '*Shipper/Transporter - Meter Point Portfolio Reconciliation*' be made.

Rob Church

Associate Partner, Smart Metering and Smarter Markets

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