

Review Group Report

Review Proposal Reference Number 0208

Information relating to Unallocated Energy

Date 31 October 2008

Nature and Purpose of Proposal

In light of the recent decision by Ofgem to reject UNC Modifications 115/115A “Correct apportionment of NDM error”, it is considered appropriate to better understand the causes of such unallocated energy. The principle of re-allocating a proportion of costs from the SSP to the LSP sector was core to both proposals however, in its decision letter Ofgem pointed to a lack of analysis supporting each proposal. In particular, certain key costs drivers were identified in the original UNC 115 proposal including; theft of gas, read performance and shipperless sites although little evidence was brought forward to substantiate their individual impacts.

Since then Centrica has raised modification 194 which again seeks to apportion in a new way the energy related to this unallocated energy. In the initial meeting of the development group for the modification Centrica have made clear that the group will not be considering targeted measures that would encourage Shipper behaviour that would reduce the overall level of unallocated energy.

Information brought forward previously by shippers during the course of these proposals has tended, unsurprisingly, to result in polarised views and ultimately in proposals, which were not backed by wholly representative evidence. To avoid a re-occurrence of this and the potential for further sub-optimal UNC proposals a Review Group should be established. The aim of the review should be to bring forward all relevant information from shippers, transporters and their agents in order to firstly; quantify the costs drivers and secondly; to form an evidence based conclusion with regard to the most appropriate mechanism to allocate any costs.

Where possible any such mechanism should target costs to drive behaviour which reduces risk of unallocated energy occurring and where it does occur, identifies and mitigates the risk.

1. Review Proposal

Corona Energy raised Review Proposal 0208 on 13 March 2008, the content of which is also included within the Terms of Reference (Annex 1).

2. Review Process

In accordance with the Modification Rules, at its meeting on 20 March 2008 the Modification Panel determined that the Review Proposal should be referred to a Review Group for progression. This Review Report was subsequently compiled by the Joint Office of Gas Transporters, and approved by Review Group attendees.

3. Areas Reviewed

The Review Group was asked to consider the following:

- Quantify the relative contribution of cost/risk drivers, including:
 - Theft of Gas
 - Meter Read Performance
 - Meter Accuracy
 - Shipperless Sites
 - Other contributing factors to RbD costs
- Identify division of costs between market sectors
- Identify the relative contribution of the cost/risk drivers for each market segment.
- Identify incentives to improve performance in the cost/risk drivers identified above
- Investigate methods by which costs could be accurately allocated between market segments.
- Consider the impacts of potential changes to Transportation Charging Methodologies e.g. Capacity/Commodity split
- Identify the impact on changes to central systems associated with the implementation of any identified solution.

4. Recommendations

The Modification Panel is invited to accept this report and the Review Group's recommendations:

1. The Review Group considered a number of issues relating to misallocation of energy and prevents the efficient operation of UNC. A number of these issues cannot be addressed by changing UNC and the Panel is requested to write to Ofgem suggesting:
 - a. An investigation into industry process's and procedures for the management theft of gas. This may include the development of suitable incentives to promote good practice to ensure energy is appropriately allocated.
 - b. Investigate Orphaned Sites to agree consistent industry wide procedures for managing connections as third parties appear to operate differently, which could create commercial disadvantages for Suppliers and Shippers who comply with UNC.
2. The Panel is asked to write to [Ofgem and MAMCoP] requesting them to address issues relating to oversized meters that are failing to register gas flows lower than the existing meter Qmin.

Appendix 1 Terms of Reference

Terms of Reference – V1.0 **UNC Modification Reference Number 0208** **Information relating to Unallocated Energy**

Purpose

The aim of the review should be to bring forward all relevant information from Shippers, Transporters and their agents in order to firstly; quantify the costs drivers and secondly; to form an evidence based conclusion with regard to the most appropriate mechanism to allocate any costs. Where possible any such mechanism should target costs to drive behaviour which reduces risk of unallocated energy occurring and where it does occur, identifies and mitigates the risk.

Scope and Deliverables

The Group is asked to:

- Quantify the relative contribution of cost/risk drivers, including:
 - Theft of Gas
 - Meter Read Performance
 - Meter Accuracy
 - All Shipperless Sites – isolated & withdrawn and unfound/unregistered
 - Other contributing factors to RbD costs
- Identify division of costs between market sectors
- Identify the relative contribution of the cost/risk drivers for each market segment.
- Identify incentives to improve performance in the cost/risk drivers identified above
- Investigate methods by which costs could be accurately allocated between market segments.
- Consider the impacts of potential changes to Transportation Charging Methodologies e.g. Capacity/Commodity split
- Identify the impact on changes to central systems associated with the implementation of any identified solutions.

A Review Group Report will be produced containing the findings of the Review Group in respect of the work identified above.

Limits

The Review Group will consider changes required to the following:

- Uniform Network Code

The Review Group in its initial phase will not concern itself with:

- Detailed changes required to processes and procedures
- Detailed changes required to existing systems
- Development of detailed business rules

Composition

The Review Group will comprise the following representation

Name	Organisation
Julian Majdanski (Chair)	Joint Office
Helen Cuin (Secretary)	Joint Office
Richard Street (Proposer)	Corona Energy
Bali.Dohel	Scotia Gas Networks
Brian Durber	EON UK
Chris Warner	National Grid UKD
Fiona Cottam	xoserve
Joanna Ferguson	Northern Gas Networks
John Edwards	Wales and West Utilities
Linda Whitcroft	xoserve
Mark Jones	SSE
Mitch Donnelly	Centrica
Phil Broom	Gaz de France
Richard Dutton	Total Gas & Power
Shelley Rouse	Statoil Hydro
Stefan Leedham	EdF

A Review Group meeting will be quorate provided at least 2 Transporter and 2 User representatives are present.

Information Sources

- Uniform Network Code – Sections (to be identified).
- GT, Shipper and Supplier Licences.
- Gas Act.
- Various Industry legislation as appropriate – may include reference to:
 - Gas Safety (Installation & Use) Regulations.
 - Gas Safety (Management) Regulations.
 - Industry Codes of Practice as relevant.

Timetable

It is proposed that a total period of 6 months be allowed to conclude this review.

- Frequency of meetings – monthly. The frequency of meetings will be subject to review and potential change by the Review Group.
- Meetings will be administered by the Joint Office and conducted in accordance with the Chairman's Guidelines.