Stage 01: Proposal

0282A:

Alternative to MOD 0282, "Introduction of a Process to Manage Vacant Sites"

An alternative to MOD0282, which seeks to introduce a process to allow vacant sites to avoid commodity charges.

As an alternative Proposal, this proposal will follow the same path as Modification Proposal 0282. It will therefore go out immediately for consultation following the provision of legal text.

High Impact:
Shippers, Suppliers

Low Impact:
Network Owners

Contents

About this document:

This document is an alternative proposal to Modification 0282, and will therefore proceed directly to consultation following the provision of legal text.

Any questions?

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0282A

Modification

09 March 2011

Version 2.0

Page 2 of 15

1 Summary

Why Change?

In England alone it is estimated that there are approximately 700,000 vacant homes, of which 300,000 have been vacant for more than six months[1]. However despite this fact gas Shippers are unable to effectively reduce their settlement and transportation cost exposure to these sites, as:

- An AQ for a site can only be amended by obtaining meter readings
- A Shipper/Supplier cannot obtain access to the site to obtain meter readings
- The Shipper has no redress to change the AQ of the site to reduce costs.

Solution

We support the principle behind Modification Proposal 0282 and agree with the Proposer that a process which allows Shippers to avoid commodity charges for vacant sites is fair. We believe that MOD0282 has three clear deficiencies however which this alternative seeks to resolve. This alternative will therefore also

(1) Shippers are not required to continually maintain a site's vacant process with periodic confirmations that the status remains valid,

(2) Ensure vacant sites are not removed from the Reconciliation by Difference mechanism, and

(3) Bring the business rules on which the process is based to the Uniform Network Code (UNC) as a Related Document.

Impacts & Costs

The ROM produced by xoserve for MOD0282 estimated the costs of delivery at no more than £672k for development and nominal ongoing costs. We consider that the fact that this Proposal does not impact on the RbD mechanism however will lower the potential costs to the industry associated with implementation.

Implementation

This Proposal should be implemented as soon as possible after an Ofgem direction.

The Case for Change

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, thus improving competition.

Recommendations

This Proposal should proceed to consultation alongside MOD0282.

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[1] Study by Empty Homes for the 2008 period – www.emptyhomes.com and details outlined on the Parliament website www.ukparliament.co.uk

2 Why Change?

The text below is taken from MOD0282. As this proposal is largely the same, we consider that it equally applies.

Within the current economic climate there are a large number of domestic and commercial properties that have become vacant. In England alone it is estimated that there are approximately 700,000 homes unoccupied, of which over 300,000 have been vacant for more than six months1. However despite this fact gas Shippers are unable to effectively reduce their settlement and transportation cost exposure to these sites, as:

- An AQ for a site can only be amended by obtaining meter readings
- A Shipper/Supplier cannot obtain access to the site to obtain meter readings
- The Shipper has no redress to change the AQ of the site to reduce costs

This problem was considered in great detail in relation to the electricity market in 2005 under Issue 14 of the Balancing and Settlement Code and subsequently resulted in the successful introduction of MOD196 ("Treatment of Long Term Vacant Sites in Settlement"). Modification 196 was introduced in February 2007 and since introduction 50,000 sites have gone through the electricity Vacant process. The basis of MOD196 is that where a Supplier receives two "notification of failure to obtain reading" flows, with the "site visit check code" noted as "not occupied", of more than 3 months and no more than seven months apart, they can apply for the site to have the Estimated Annual Quantity (EAC) set to zero. (Mod196 has subsequently been amended (P245) to change the timescales for submission of the site check code to "not less than 75 calendar days and not more than 215 calendar days" to ensure more equitable treatment for Suppliers who operate a quarterly meter read cycle).

Exclusions apply within the process and there are monitoring and ongoing management requirements for sites assigned Vacant status and rules to outline when a site no longer qualifies. At the present time in the gas market the AQ for a site can only be brought down, where metering readings suggest that there has been a reduction in the gas consumed at a site. However, with a vacant site a Shipper/Supplier cannot gain access to the site to determine that there has been no consumption. In certain circumstances, a warrant can be obtained through the courts however this is a costly procedure and requires a considerable amount of time and effort. It is therefore the case that the Shipper is left with no re-address in respect of changing the AQ of the site or reducing transportation costs to the site.

3 Solution

The text below is adapted from MOD0282. As this proposal is largely the same, we consider that it equally applies. For clarity the only changes to the MOD0282 solution are

1. That Shippers must confirm a site is still vacant once every 215 days.
2. That vacant sites remain in the RbD process, and
3. Shippers must ensure they comply with the ~~That the~~ business rules ~~form a new UNC Related Document and place an obligation on Shippers to ensure their Suppliers abide by them~~set out in Appendix One of this Proposal. It is intended that these rules will form part of the UNC document itself.

It is proposed that a new process be established under the UNC, where a Shipper can reduce their cost exposure to vacant sites, through a process similar to what exists in the electricity market. It is intended at this time that the Vacants process, if implemented, be applied to sites with an Annual Quantity of <73,200kWh. Discussions within the Distribution Workstream to develop a solution to include DM and NDM LSP sites have highlighted a number of areas of concern and as such may require detailed business rules in order to deliver a Vacants solution. In order to expedite the development and delivery of a workable approach for dealing with Vacants within the NDM SSP market sector, this Proposal as been amended to exclude NDM LSP and DM sites at this time.

It is proposed that a site classified as Vacant would be excluded from commodity charging. For the avoidance of doubt, capacity charging would be retained (LDZ Capacity (ZCA), Customer Capacity (CCA), NTS Exit (NNX)). Shippers/Suppliers would continue to apply the isolation and withdrawal process where is deemed appropriate. Shippers will be obligated to ensure Suppliers comply with business rules set out in Appendix One of this Proposal. This Proposal will add the Business Rules contained within Appendix One to a new UNC Related Document.

It is also proposed that Transporters should provide monthly reports to each Registered User for a relevant MPRNs included within the Vacants process.

4 Relevant Objectives

The Proposer believes that MOD0339A will better facilitate the achievement of **Relevant Objectives (d) and (f).**

Proposer's view of the benefits of MOD0339A against the Code Relevant Objectives	
Description of Relevant Objective	Identified impact
a) Efficient and economic operation of the pipe-line system.	None.

b) Coordinated, efficient and economic operation of
    (i) the combined pipe-line system, and/ or
    (ii) the pipe-line system of one or more other relevant gas transporters.
	None.

c) Efficient discharge of the licensee's obligations.	None.

d) 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.
	Yes, see below.

e) Provision of reasonable economic incentives for relevant suppliers to secure that the domestic customer supply security standards… are satisfied as respects the availability of gas to their domestic customers.	None.
f) Promotion of efficiency in the implementation and administration of the Code	Yes, see below.

We believe that this Proposal will facilitate Relevant Objectives (d) and (f). Specific detail on this is provided below.

Standard Special Condition A11.1 (d): so far as is consistent with subparagraphs (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;

This Proposal would ensure more accurate allocation of costs are more reflective of customer usage in the SSP market by stopping commodity charges and energy allocation. This is a more cost effective process for managing Vacant sites than resorting to isolation. This is based on the assumption that there are different propensities of vacant sites across SSP Shipper portfolios by LDZ.

Misuse of the Vacant Sites process will lead to an inaccurate apportionment of unidentified gas shared across live supply points, but we consider that the increased controls in this Proposal over MOD0282 mitigate this risk.

Standard Special Condition A11.1 (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;

This proposal would increase choice of services provided through UNC.

5 Impacts and Costs

Costs

Indicative industry costs – User Pays
Classification of the Proposal as User Pays or not and justification for classification
This Proposal is User Pays
Identification of Users, proposed split of the recovery between Gas Transporters and Users for User Pays costs and justification
100% payable by Shippers, given the benefits associated with the Proposal are purely for Shippers.
Proposed charge(s) for application of Users Pays charges to Shippers
100% of operational costs to those Shippers using the vacant sites process. 100% of development costs to all SSP Shippers based on supply point count at the date of implementation.
Proposed charge for inclusion in ACS – to be completed upon receipt of cost estimate from xoserve
To be determined.

The ROM analysis for MOD0282 indicated Development costs are in the region of £520k and £672k.

With on-going annual costs for producing and validating the monthly shipper summary report will cost at least £800, but probably not more than £1200, per shipper short code (Business Rule – Reporting). This invoicing costs to recover charges for incorrectly identified vacant sites is likely to be in the region of £200 to £400.

We consider that as this Proposal leaves vacant sites within the RbD process, the costs associated with implementing this Proposal will be less than those provided above.

Impacts

Impact on Transporters' Systems and Process	
Transporters' System/Process	See ROM for impacts.
UK Link	•
Operational Processes	•
User Pays implications	•

Impact on Users	
Area of Users' business	Potential impact

Impact on Users

Administrative and operational	Where Users elect to take the service they will face development and operational process changes. There may be operational impacts for Users who do not take the service as they may need to run an exceptions process.
Development, capital and operating costs	Where Users elect to take the service they will face development and operational cost. Where Users elect not to take the service they may face additional costs to implement a system they do not use. Where Users elect not to take the service they may face additional costs through RbD allocation.
Contractual risks	• None.
Legislative, regulatory and contractual obligations and relationships	• None.

Impact on Transporters

Area of Transporters' business	No impact identified.
System operation	• None.
Development, capital and operating costs	• None.
Recovery of costs	• None.
Price regulation	• None.
Contractual risks	• None.
Legislative, regulatory and contractual obligations and relationships	• None.
Standards of service	• None.

Impact on Code Administration

Area of Code Administration	No impact identified.
Modification Rules	• None.
UNC Committees	• None.
General administration	

Where can I find details of the UNC Standards of Service?

In the Revised FMR for Transco's Network Code Modification **0565 Transco Proposal for Revision of Network Code Standards of Service** at the following location:

http://www.gasgovernance.com/networkcodearchive/551-575/

Impact on Code	
Code section	Potential impact

Impact on UNC Related Documents and Other Referenced Documents	
Related Document	Potential impact
Network Entry Agreement (TPD I1.3)	None.
Network Exit Agreement (Including Connected System Exit Points) (TPD J1.5.4)	None.
Storage Connection Agreement (TPD R1.3.1)	None.
UK Link Manual (TPD U1.4)	None.
Network Code Operations Reporting Manual (TPD V12)	None.
Network Code Validation Rules (TPD V12)	None.
ECQ Methodology (TPD V12)	None.
Measurement Error Notification Guidelines (TPD V12)	None.
Energy Balancing Credit Rules (TPD X2.1)	None.
Uniform Network Code Standards of Service (Various)	None.

Impact on Core Industry Documents and other documents	
Document	Potential impact
Safety Case or other document under Gas Safety (Management) Regulations	None.
Gas Transporter Licence	None.
Transportation Pricing Methodology Statement	None.

Other Impacts	
Item impacted	Potential impact
Security of Supply	None.
Operation of the Total System	None.

0282A

Modification

09 March 2011

Version 2.0

Industry fragmentation	None.
Terminal operators, consumers, connected system operators, suppliers, producers and other non code parties	None.

6   Implementation

This Proposal is able to be implemented immediately following a direction to do so from Ofgem. Given the likely materiality of the scale of any cost reallocation, were this Proposal to be approved, we propose that it be implemented without delay.

0282A

Modification

09 March 2011

Version 2.0

7   The Case for Change

Advantages

Shippers with SSP sites can reduce their cost exposure on a specific vacant site where they choose not to isolate.

- Provides Shippers with SSP sites options rather than just isolation
- Currently Shippers with SSP sites are more likely to isolate, whereas with this proposal they are more likely to use the Vacant site process, therefore reducing inconvenience to new Consumers at a site.
- Some Shippers consider there will be more accurate costs allocated across the Industry.

Disadvantages

- Transporters consider this 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.
- Some Shippers consider the process promotes discrimination between customers based on AQ.

0282A

Modification

09 March 2011

Version 2.0

8 Recommendation

This Proposal should be sent for consultation once legal text is provided.

9 Appendix One – Business Rules

Business Rules – Introduction of a process to manage Vacant Sites

Partaking Shippers must ensure that their contracted Suppliers adhere to the following rules. Shippers bear full responsibility for compliance and in entering a site in to the vacants process the Shipper warrants that it is satisfied that it complies.

1. The Supply Point must be in the requesting Registered Users ownership
2. The Supply Point must be NDM SSP.
3. The Supply Meter Point does not form part of a Sub-Deduct Arrangement.
4. The Registered User will warrant that it has received two notifications from the Meter Read Agent to verify that it is a vacant premise. These attempts must be no less than 75, and no more than 215 calendar days apart.
5. Where a Shipper wishes to utilise the Vacant Site Process and an NDM SSP has been identified as qualifying as Vacant, the Registered User shall notify the Transporter.
6. On receipt of the notification, the Transporter shall amend the Supply Point Register to reflect that the NDM SSP is Vacant providing the previous meter status is live.
7. Following the update to the Supply Point Register, and at D+7 in accordance with UNC, Section H2, NDM SSP Demand will cease to be determined in respect of that NDM Supply Meter Point (Commodity Charging only). For clarity, vacant sites will still count towards a Shipper's RbD market share.
8. The Supply Meter Point will remain within the AQ Review process.
9. Where a NDM SSP increases AQ during the review to a point where it would become LSP, the Transporter will remove it from the Vacants process. This would then be subject to Mod 640 Business as Usual processes. The Transporter will notify the Shipper. For the avoidance of doubt where the NDM SSP increases AQ but remains as a NDM SSP, it will remain in the vacants process
10. Where a Supply Meter Point status is Vacant, the Registered User of the Supply Point will continue to be responsible for gas offtaken.
11. Where the Registered User acquires evidence that the Supply Meter Point no longer qualifies as Vacant, the Registered User will notify the Transporter at the earliest opportunity.
12. Where a Supply Meter Point is flagged as Vacant, and the Transporter identifies that it is /no longer Vacant , the Transporter will take such actions to notify the Shipper. Where the Registered User receives such notification, they will investigate and remove from the Vacant process
13. Where it has been identified by the Transporter that gas was, or is being offtaken at a NDM SSP during such period as was identified as 'Vacant', the relevant User shall be liable for all charges (including without limitation Transportation Charges) as if it has not been Vacant.
14. Where the Registered User notifies the Transporter that the NDM SSP no longer qualifies as Vacant e.g isolated or live, the Transporter will update the Supply Point Register to reflect the appropriate status.
15. Where a NDM SSP has been flagged as Vacant, and subsequently, meter readings are provided by the Registered User to the Transporter, upon receipt of the first meter reading, no action is required to remove the Supply Meter Point from the Vacants process. Where a 2nd meter reading is provided and there is a consumption advance,

the Registered User shall remove the NDM SSP from the Vacants Process. The Transporter will provide each Registered User with a monthly report of meter readings received.

16. Relevant charges will re-commence from D+7 following the Shippers notification of status change.

17. Where an NDM SSP maintains a status of Vacant for a continuous period of 24 months, the Registered User will take reasonable steps to Isolate or set to live the NDM SSP.

18. In the event of a change of Registered User the status of Vacant will be removed.

19. Shippers must warrant that a site within the vacants process remains vacant at least once every 215 calendar days. This will be done by providing the Transporter with details of a meter reading agent notification that the site is vacant. Such a notification will have been provided by the meter reading agent since the last valid warranty to the Transporter.

20. If a Shipper fails to do complete the action outlined in point 19, the status of vacant will be removed.

Reporting Requirements
Transporter to provide monthly reports to each Registered User for a relevant MPRN detailing;

Report 1: Details of each NDM SSP with a status of Vacant.
MPRN
Shipper AQ
Date of entry to vacant process (D+7)
Short Code

Report 2: Details of NDM SSP removed from Vacants
MPRN
Shipper Short Code
AQ Current meter point status
Date of exit from vacant process (D+7)

Report 3: Details of NDM SSP flagged Vacant >24months
MPRN
Shipper Short Code
AQ Date of entry to vacant process (D+7)

Report 4: Transporter to provide monthly anonymised reports to the industry.
Shipper (Annonymised by % of SSP portfolio)
Total sites in Vacant process New in the last month
Sites exiting vacant process in the last month
Number of notifications issued under rule 16
Sites that have been in the vacant process >24 months
Total Sites at end of month
Column B + Column C – Column D

Report 5: Large Transporters Agent will provide report to Shippers re Business Rule 15
MPRN
Read Date
Read
Read Date
Read

Report 6: In addition to the above, the Transporter will provide age analysis reports.
Shipper (Annonymised by % of SSP portfolio) Total sites in Vacant Process
No. Of Sites >x months
Average period within vacant process