

Modification proposal:	<b>Uniform Network Code (UNC) 282/282A: Introduction of a process to manage Vacant sites (UNC282/UNC282A)</b>		
Decision:	The Authority <sup>1</sup> has decided to reject this proposal		
Target audience:	The Joint Office, Parties to the UNC and other interested parties		
Date of publication:	20 July 2011	Implementation Date:	N/A

## Background to the modification proposal

In the GB market, significant numbers of homes are unoccupied<sup>2</sup>. If the gas meter is located inside the premises then it may not be possible for the meter reader to carry out a meter read without first obtaining a right of entry warrant. In these circumstances, the meter reader can flag to the shipper that the site is vacant but will not be able to provide a meter read.

Shippers in the Smaller Supply Point<sup>3</sup> (SSP) market are liable for energy and transportation charges that are linked to the Annual Quantity (AQ) at the site. The AQ is reviewed once a year<sup>4</sup> and is an estimate of consumption for the forthcoming year based on the meter readings for the previous year. If a shipper is not able to submit a meter read to Xoserve<sup>5</sup>, because the site is unoccupied and it is not able to gain access, the AQ will remain unchanged on the next AQ Review. In these circumstances, the shipper will continue to pay energy and transportation charges based on an AQ that assumes there is consumption at the site, when there is unlikely to be any consumption.

## The modification proposal

Two modifications have been raised to address the perceived inaccuracies in allocation of energy and transportation charges for vacant sites. UNC282 has been raised by Scottish Power and an alternative, UNC282A, has been raised by British Gas. Both modifications would only apply to SSPs<sup>6</sup>.

### UNC282

The proposer considers that, where a shipper confirms that a site is vacant, then the energy and transportation commodity charges will be based on there being no consumption at that site, so both charges for the shipper will be zero. Under both modifications the AQ for this site will remain unchanged and will continue to be used for the calculation of transportation capacity charges, but not for energy and commodity charges.

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

<sup>2</sup> A 2008 study by Empty Homes estimated that in England there are approximately 700,000 homes unoccupied. Of these it estimated that over 300,000 homes have been vacant for more than six months: [http://www.emptyhomes.com/documents/stats/emptyhomesstats\\_2008.pdf](http://www.emptyhomes.com/documents/stats/emptyhomesstats_2008.pdf).

<sup>3</sup> A smaller supply point is a meter point with an annual consumption of less than 73,200kWh (2,500 therms)

<sup>4</sup> AQs are reviewed annually by Xoserve. If an updated meter read has been provided to Xoserve by the shipper, then this will be taken into account when calculating a new AQ for that site.

<sup>5</sup> Xoserve operate the gas central systems and databases on behalf of the Gas Transporters.

<sup>6</sup> The UNC282 development group's view was that the volume allocation for Larger Supply Points (LSPs) is dissimilar to the process for SSPs. It was deemed inappropriate for this modification to apply to LSPs.

To classify a site as vacant, a shipper's meter reader would need to have undertaken two separate site visits that are between 75 and 215 calendar days apart<sup>7</sup>. The proposer has set out business rules designed to ensure that shippers do not erroneously classify a site as vacant and, where a site is declared vacant, that there is a sufficient audit trail of this process.

The proposer has also raised a change proposal to introduce an Elective Schedule<sup>8</sup> under the Supply Point Administration Agreement (SPAA) that details the processes around establishing and managing a vacant site. The modification will mandate that any shipper that signs up to this vacant process under the UNC must ensure that its supply company<sup>9</sup> signs up to the Elective Schedule under the SPAA.

Under this modification, transporters will be required to produce monthly reports for shippers on the meter points that they have in the vacant sites process.

The shipper will be responsible for assigning vacant status to a site. If the shipper becomes aware that the site is occupied, then it is the responsibility of the shipper to notify Xoserve and declare the site as live. If a meter read is submitted for the site, or the site undergoes a change of supply, then the central systems will automatically set the site to live status. In this instance, energy and transportation commodity charges would be levied on the relevant shipper on a prospective basis based on the AQ.

Once a site has had a vacant status for two years, the shipper is responsible for isolating<sup>10</sup> the site or returning it to live status.

The proposer considers that this modification will lead to better allocation of costs to vacant sites, and therefore across all sites. It seeks to do this by improving allocation of settlement and transportation charges and removing the site from the reconciliation by difference<sup>11</sup> (RbD) process.

#### *UNC282A*

There are four main differences between UNC282 and 282A. UNC282A proposes that:

- Once a site has been declared vacant, the shipper must re-confirm its vacant status (by carrying out a site visit) every six months, or the site will automatically be declared live and the vacant status will be removed.
- If a GT discovers that a site is not vacant, or no longer vacant, it can retrospectively charge the shipper for any costs that it would have incurred if the site had remained live throughout. Under UNC282, the site would be declared live and the AQ re-instated but retrospective charging would not be permitted.
- The shipper rules for warranting that a site is vacant would be set out under the UNC rather than the SPAA.
- The vacant site will remain in the RbD process.

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<sup>7</sup> This is designed to align with the quarterly and biannual read cycles that the majority of suppliers use.

<sup>8</sup> Under the SPAA suppliers are not mandated to comply with a schedule that is Elective. However, if they do choose to follow the process that is set out in an Elective schedule then they must adhere to it from then onwards.

<sup>9</sup> Though shippers and suppliers are separate licensees, they are often two parts of the same organisation, with each shipper having a related supplier and vice-versa.

<sup>10</sup> Isolation is a process where a shipper notifies the GT that physical work has taken place to ensure gas cannot be offtaken at the site.

<sup>11</sup> Under RbD, any unallocated gas is apportioned across all SSPs in accordance with their consumption.

The proposer considers that the cost and customer inconvenience of isolating a site that is temporarily vacant would be significantly reduced by introducing a vacant sites process. It further considers that RbD accounts for many types of unallocated gas (including shrinkage and LSP meter errors) whose costs should be spread across all sites, not just sites with an active consumption. For this reason it considers that vacant sites should remain within RbD.

### *Implementation costs*

Xoserve has indicated that the estimated development cost for UNC282 is between £554,000 and £714,000. For UNC282A the cost is estimated to be between £690,000 and £892,000. The ongoing cost of generating a monthly report is likely to be between £800 and £1,200 per shipper short code<sup>12</sup> per month. It is estimated that implementing either modification will take slightly less than a year.

Proposers of both modifications have confidentially provided Ofgem with their estimate of the benefits for their respective modification proposals. As these estimates contain details of their supply portfolios, they consider this information confidential and do not wish to share this information publicly.

### **UNC Panel<sup>13</sup> recommendation**

The UNC Panel considered both UNC282 and UNC282A at their meeting on 16 June 2011.

The Panel recognised potential benefits of these proposals in delivering more accurate cost allocation. It was unsure whether these would be realised in practice if all shippers did not participate in the vacant sites process. The Panel had some concerns over whether a process that applied only to SSPs would be unduly discriminatory although reasons for this view were not provided. The Panel was also concerned that a vacant sites process would encourage shippers to declare a site as vacant instead of isolating the site, increasing safety risks by having a live as opposed to an isolated gas supply.

Of the 11 voting members present at the Panel, there were no votes cast in favour of UNC282 and one vote in favour of UNC282A. Therefore the Panel recommended that neither modification proposal should be implemented.

### **The Authority's decision**

The Authority has considered the issues raised by the modification proposal and the Final Modification Report (FMR) dated 16 June 2011. The Authority has considered and taken into account the responses to the Joint Office's consultation on the modification proposal which are attached to the FMR<sup>14</sup>.

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<sup>12</sup> All shippers have a short code assigned to them within Xoserve's systems. Some shippers may have their supply points split across multiple short codes.

<sup>13</sup> The UNC Panel is established and constituted from time to time pursuant to and in accordance with the UNC Modification Rules.

<sup>14</sup> UNC modification proposals, modification reports and representations can be viewed on the Joint Office of Gas Transporters website at [www.gasgovernance.com](http://www.gasgovernance.com)

The Authority has concluded that:

1. implementation of the modification proposal may better facilitate the achievement of the relevant objectives of the UNC<sup>15</sup>; but that
2. directing that the modification be made would not be consistent with the Authority's principal objective and statutory duties.

### **Reasons for the Authority's decision**

We consider that these proposals should be assessed under relevant objectives (d) of the UNC only. We consider that the proposals are neutral in respect of the other objectives of the UNC.

This modification potentially affects customer safety. We have included this within our assessment of our statutory duties rather than under the relevant objectives of the UNC.

Similar modifications that created a process for deeming consumption at long term vacant sites (P196 and P245) were approved and implemented for electricity, under the Balancing and Settlement Code (BSC)<sup>16</sup>. We have reviewed the linkages between these two proposals and we consider that the processes and issues concerning the UNC modifications are sufficiently different<sup>17</sup>.

### ***Relevant objective (d): the securing of effective competition between relevant shippers and suppliers***

We agree with the views of the Panel and some respondents to the FMR that both proposals are likely to result in a more accurate allocation of costs, as the AQ for a site that is declared vacant will better reflect actual consumption.

Other respondents argued that the same goal could be achieved by physically isolating the site. They considered that this is a more certain method of ensuring that there is no consumption at this site. The two proposers considered that declaring a site vacant is a significantly more cost effective method for achieving better cost allocation than isolation. They noted that physically isolating a site and making it live once the site is reoccupied is a costly and lengthy process with negative cost implications on both the shipper and the consumer.

One respondent considered that vacant sites should not be removed from the RbD process as proposed under UNC282. As RbD is allocated on the basis of AQ, it considered that this would increase the amount of RbD costs smeared across all other SSP sites. It considered that this may place a greater burden on those suppliers that have chosen not to participate in the vacant sites process. We do not consider this to be an issue specific to these proposals as suppliers may currently choose to isolate a vacant site with the same effect.

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<sup>15</sup> As set out in Standard Special Condition A11(1) of the Gas Transporters Licence, see: <http://epr.ofgem.gov.uk/index.php?pk=folder590301>

<sup>16</sup> The BSC is administered by ELEXON and details of all BSC code modifications can be found on their website: [www.elexon.co.uk](http://www.elexon.co.uk).

<sup>17</sup> There are three key differences between the processes for gas and electricity: The safety concerns from a live supply of electricity, at a vacant site, are different, and potentially lower than for gas. Electricity meters are reconciled to actual meter reads so any consumption whilst a site is declared vacant can subsequently be attributed to a supplier. The BSC Audit (a yearly audit to ensure that processes defined in the BSC are being complied with) provides a proactive assurance mechanism on compliance with the rules for declaring whether a site is vacant. An equivalent process does not exist and is not proposed for the UNC.

Another respondent considers that the lack of a robust audit process for either modification would potentially mean that the process could be abused, with shippers declaring live sites as vacant due to the cost savings that shippers would receive from doing so. Similarly, one respondent questioned whether there is sufficient requirement for shippers to monitor whether there is gas flowing at the supply point once it has been declared vacant. Both these respondents consider that any gas flowing at these points would be incorrectly apportioned across all other SSPs via RbD. We consider that a robust audit process is important in ensuring that only those sites that are vacant enter and remain within the vacant sites process. We note that no such audit process has been proposed; the vacant sites process in electricity is subject to an audit<sup>18</sup>.

On balance, we consider that both modifications may better facilitates relevant objective (d) of the UNC due to the better allocation of costs that may arise. However, we note the concerns about potential abuse of the process and the lack of formalised audit assurance procedures.

### **Safety**

Some respondents considered that, as isolating a site and declaring it vacant delivers the same benefits for shippers in terms of the cost allocation of energy and transportation charges, shippers may choose to use the vacant sites process instead of isolation. They argued that isolation significantly decreases the risk of theft and gas leaks at a vacant site as declaring a site vacant does not involve physical works at the site to prevent gas from being able to flow.

We note that there is currently no requirement for a shipper to isolate a site that a shipper has identified as vacant<sup>19</sup>. Information has not been provided on whether the vacant sites process would replace isolation in certain circumstances.

Anecdotal evidence suggests that, in response to the current incentive to reduce exposure to charges, a shipper would be more inclined to isolate an SSP if it considered that the site was going to be permanently vacant, or vacant for a significant length of time. In doing so it would weigh up the benefits of avoided charges with the costs of isolation. We are concerned that a decrease in the incentive on shippers to isolate long-term vacant sites will increase the incidence of vacant sites with a live gas supply.

However, we note the concerns from some parties that vacant sites may be particularly vulnerable to damage (for example through vandalism) or gas offtaken being unidentified and smeared through RbD, and that retaining a live gas supply would increase this risk.

After a site has been vacant for two years, the shipper will have the option of isolating it or setting its status back to live. We have concerns that this could result in shippers choosing to set the site back to live (before potentially setting it back to vacant) and that this may prolong the period that a live supply is in place at vacant premises. However, we note that measures could be considered to require isolation in certain circumstances that may mitigate these concerns.

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<sup>18</sup> Under the BSC, there is a yearly risk-based audit to ensure BSC Parties are complying with their requirements under the BSC.

<sup>19</sup> We note that suppliers will still retain a licence requirement to inspect meters at least every two years, including seeking to obtain a warrant to access the premises.

As we are unclear whether shippers will choose to declare a site vacant instead of isolating that site, we are unable to conclude with confidence that there would not be a negative risk to public safety if either of these modifications were approved.

We note that UNC282A includes a requirement to re-visit the site approximately every six months and that this may assist in mitigating any safety concerns. However, we note that this does not require the meter reader to gain access to the premises to inspect the meter and it is unclear whether this would fully address our concerns that these proposals could decrease customer safety.

We have spoken to the Health and Safety Executive and they also have some safety concerns around these modifications.

For these reasons, and in line with our statutory duty to protect the public from dangers arising from the conveyance of gas through pipes, or from the use of gas conveyed through pipes<sup>20</sup>, we are rejecting both modifications.

### **Decision notice**

In accordance with Standard Special Condition A11 of the Gas Transporters Licence, the Authority hereby directs that both modification proposals UNC282 and UNC282A: 'Introduction of a process to manage vacant sites' are rejected.

**Colin Sausman**  
**Partner, Smarter Markets**

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

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<sup>20</sup> Our statutory duties are defined in the Gas Act 1986