

To: Gas Distribution Networks

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Dear Colleague

### **Open letter to Gas Distribution Networks on tackling unregistered sites**

Further to our recent discussions, we invite you, the Gas Distribution Networks (GDNs), to formally write to us setting out your commitments to tackle the impact of unregistered sites on consumers and the market and take steps to deliver material and measureable improvements within a reasonable timeframe. For clarity, this request relates to unregistered sites currently in existence, preventing newly created sites from taking gas without being registered with a shipper and resolving unregistered sites appropriately when they do occur.

#### **Context**

When a new site is connected to the network, whether by a GDN or Utility Infrastructure Provider (UIP), it must be registered by a shipper, on behalf of a supplier, before any gas is taken. In some instances, a site is physically connected to the gas network and a meter is fitted meaning that gas is flowing, or capable of flowing, but it remains unregistered. In this instance, the energy and transportation costs are not correctly associated with that site. In effect, they are smeared back to sites that are correctly registered. This is likely to increase costs for those customers at sites that are registered with a shipper.

Ofgem has yesterday approved a modification to the Uniform Network Code (UNC410A<sup>1</sup>). This modification sets out what action will be taken at newly created sites after 1 September 2013 where there is evidence that a meter is in place and the site is, or is capable of, flowing gas.

We note that two further modifications have been proposed and are being developed within the industry code change control arrangements:

- A modification to the UNC (UN431S) would undertake a portfolio reconciliation between suppliers and gas transporters with the aim, amongst other things, to identify potential unregistered sites where a supply Contract may be in place despite the lack of shipper registration
- A change to the Supply Point Administration Agreement (SPAA) (MAM 13/002) aims to prevent unregistered sites from illegally off taking gas by requiring MAMs to only fit a meter at a site where there is a supply contract in place.

We welcome the efforts of industry parties to reduce the impact of unregistered sites for consumers through these proposals. However, by themselves, we are concerned that these

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<sup>1</sup> <http://www.gasgovernance.co.uk/0410>

measures do not fully mitigate the risks of unregistered sites for consumers and we are aware that other related initiatives are currently underway.

We consider that progress to date in tackling unregistered sites has been slow and that these issues have been known about for many years. We therefore want to ensure that the current suite of reform proposals deliver material improvements for consumers and the market in a timely manner.

GDNs have a duty under the Gas Act 1986 to facilitate competition in the supply of gas.<sup>2</sup> Ensuring that sites that are flowing gas, or are capable of doing so, are correctly registered to a supplier (via its shipper) is an important contribution to the performance of this duty.<sup>3</sup>

The numbers of unregistered sites are reported at the Shipperless and Unregistered Sites Working Group.<sup>4</sup> Its most recent meeting on 1 July 2013 reported that there were 16,954 cases where there were concerns that a site may be flowing gas without being registered. In addition, there were 31,011 sites that had been connected in the last 12 months and had not been registered<sup>5</sup> and a further 37,072 sites that are legitimately unregistered (ie there was evidence that they were not yet flowing gas). In its most recent report<sup>6</sup> the Allocation of Unidentified Gas Expert (AUGE)<sup>7</sup> set out its view that the value of gas taken (and therefore not correctly recorded against those sites) was in the order of 340GWh (~£8m).

## **Our expectations**

Based on our assessment of the current position, we consider that it is reasonable to expect the following additional areas to be examined by GDNs with the aim of tackling unregistered sites. We note that work is already underway in many of these areas. However, as noted above, we want to make sure that they are progressed in a timely manner:

### **A. New connections**

- Improved controls on the Meter Point Reference Number (MPRN) creation process so that gas transporters better manage their allocation and use by connections companies.
- A review of the messages that appear on labels at new connections so that parties are aware of what should be done before fitting a meter or taking a supply.
- Agreed measures for the treatment of vulnerable customers identified at unregistered sites (we note that discussions are currently taking place on this under the SPAA).
- The introduction of a risk based approach to inspecting newly connected sites to identify whether they are, or are capable of, flowing gas prior to registration.
- Requirements for new connections to be locked so that gas cannot flow, without the lock being removed by an authorised person, if the site is not intended to be used in the near future.

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<sup>2</sup> Section 9, paragraph 1A.

<sup>3</sup> Where a gas transporter suspects that an unregistered site may be consuming gas that it is required under Standard Condition 7 of its licence to investigate and seek to recover from the consumer the value of any gas taken.

<sup>4</sup> <http://www.gasgovernance.co.uk/industryinfo/UnconSites>

<sup>5</sup> In these instances, it was suggested that these may not be flowing gas as connections can be made some time before the premises is ready to be occupied.

<sup>6</sup> [http://www.gasgovernance.co.uk/sites/default/files/AUGS%20Table%20including%20rates%202012%2001022013\\_1.pdf](http://www.gasgovernance.co.uk/sites/default/files/AUGS%20Table%20including%20rates%202012%2001022013_1.pdf)

<sup>7</sup> 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.

B. Existing unregistered sites

- Draw up a robust plan to reduce the number and materiality of existing unregistered sites that are taking, or are capable of taking, a supply of gas.
- Implement the plan so that the impact of existing unregistered sites has been materially and measurably reduced within 12 months of the date of this letter.

**Next steps**

We invite you to submit your response to this letter, including on the measures proposed and any further initiatives that GDNs consider could help to tackle unregistered sites. We would welcome a response within 4 weeks of the date of this letter and your agreement to publish your response(s) on our website. We are also asking you to report on the impact of the measures introduced on reducing the impact of unregistered sites in 12 months time (August 2014) and periodically after that as agreed between us.

If you would like to discuss these issues further, then please contact Andrew Wallace ([andrew.wallace@ofgem.gov.uk](mailto:andrew.wallace@ofgem.gov.uk); 020 7901 7067). I look forward to your response.

Yours sincerely,

**Maxine Frerk**  
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