

Representation

Draft Modification Report

0410 and 0410A: Responsibility for gas off-taken at Unregistered Sites following New Network Connections

Consultation close out date: 07 June 2013
Respond to: enquiries@gasgovernance.co.uk
Organisation: Scotland & Southern Gas Networks
Representative: Erika Melén
Date of Representation: 06 June 2013

Do you support or oppose implementation?

0410 - Not in Support

0410A - Support

If either 0410 or 0410A were to be implemented, which would be your preference?

Prefer **0410A**

If either 0410 or 0410A or both were to be implemented, which would be your preference?

Prefer **0410A**

Please summarise (in one paragraph) the key reason(s) for your support/opposition.

Modification 410 has been developed in order to allocate charges to the party who created the MPRN if this MPRN subsequently goes on to be unregistered. SGN do not feel that these charges are fairly allocated as the party who created the MPRN may not be able to take the appropriate action in order to avoid them. It is also not a root cause solution but simply an unfair penalty and ultimately does not necessarily lead to the MPRN being registered which should be the goal for any process set out in this area.

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Process:

We feel that the MPRN creation is not the appropriate trigger in the process as an MPRN being created and service laid does not enable gas to be taken illegally; this is enabled by the meter being fitted. The modification also places an obligation on transporters to visit every unregistered site after 12 months of the MPRN creation. This will be a substantial unfunded cost and workload for networks which is unjustified and unnecessary. A majority of the sites to be visited, should this modification be implemented, will be known by the network and are likely to be legitimately unregistered i.e. service laid but no meter and so a site visit will not achieve anything aside from wasting network resources which should be allocated to safety incidents.

As stated above this modification also does not offer a root cause solution i.e. it will not prevent new unregistered sites being created. Also, as charges are only applied once a site has been confirmed, this can be seen as a disincentive for shippers to register the site as then they will incur charges if they were the party who created the MPRN. The process outlined in the modification also does not ensure registration of the MPRN; if a site is not confirmed it simply disappears from the process following the site visit.

Allocation of Charges:

As this modification allocates charges to the party who created the MPRN this could also lead to charges being placed on the incorrect party. Networks undertake a large amount of investigations on the current unregistered sites and through this we find a considerable number of instances where the MPRN is unregistered but being billed by a supplier. In these cases, if the supplier billing is not linked to the shipper who created the MPRN or if a transporter created the MPRN, the charges will be allocated to a completely "innocent" party and would then result in a complicated process to resolve this. This process would also have a very negative impact on the customer involved due to invoicing/refunding being required from different parties to resolve the situation, something we are very keen to avoid. These sites should be addressed through SGN's modification 0431S which will ensure the least customer impact possible.

Root Cause Solutions:

Significant action has been taken by networks recently in order to put root cause solutions in place. GDNs have developed a package of measures aimed at reducing the number of newly created unregistered sites including limiting the number of MPRNs in the batches issues to connection providers, putting an obligation on MAMs to not fit meters without evidence of a supply contract being in place ([currently going through the change process within SPAA](#)), obligation on MAMs to inform Xoserve of meter fits (soon to be raised as a MAMCoP change) as well as communication materials from GDNs to customers following new connections to enforce the need for a supply contract (in development). We strongly feel that these measures once implemented will have a significant impact on the number of new unregistered sites created

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and industry should be given the time to evaluate the success of these measures first before any other arrangements are put in place.

Implications of implementation:

Over the past 12 months GDNs have undertaken extensive work in finding and implementing root cause solutions as mentioned above. One of the solutions discussed was for shippers to request the creation of all new MPRNs and connections only being carried out once a supply contract was in place. Following extensive industry consultation ([consultation](#) and [responses](#) on ENA's website) it was agreed not to progress with this option due to the negative impact this could have on the gas connection industry. However, should MOD410 be implemented GDNs would be left with no other choice than to implement this potentially detrimental solution in order to protect ourselves from the charges which would be incurred.

Modification 410A

Modification 410A proposes a different solution triggered by a meter being fitted i.e. gas being enabled to flow. This modification sets out a process whereby transporters are responsible for monitoring for meter fits and carrying out visits where necessary to establish if gas is being used on site. This also enables transporters to register the site to the shipper who's supplier fitted the meter should the shipper not register the site within set timescales. Although we note that this is not a root cause solution either, this modification proposes a thought-out process which places responsibility on the party who allowed gas to flow by fitting the meter and where this is not possible reverts back to the transporter as per our licence obligation.

SGN are supportive of this modification as we feel that this poses a good solution which does not place undue costs on any industry party and does achieve the goal of ensuring that MPRNs are registered (or disconnected as per transporter discretion) at the end of the process. This solution is also well synchronised with the root cause measures being implemented and will act as an excellent backstop should the measures in some cases not be effective.

Modification Panel Members have indicated that it would be particularly helpful if the following question could be addressed in responses:

Q1: Do you believe that both Modifications could be implemented, such that both the 0410 and 0410A requirements are introduced to the UNC?

SGN do not believe that the two modifications are compatible.

Firstly the two modifications pass on different types of charges (although they are likely to be of similar value) and so many parties will incur double charges if both modifications were implemented. As MOD410 allocated charges based on transportation and SAP but which are in fact "unregistered" charges these would be charged as soon as a shipper registers a site. At the same time under MOD410A charges would be allocated

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through the normal settlement process for transportation and gas back to the meter fit date hence creating double charging. It would be impossible to recover these double charges as the consumer who has taken the gas (if the party is able to identify the relevant consumer) could only be billed for one set of charges whilst the other would simply be a penalty on the party creating the MPRN.

One example which needs to be considered in this area is if the MPRN is created by the GDN and meter fitted by supplier X and a supply contract is in place i.e. the consumer is being billed for gas used but the site is not registered to Shipper X. Shipper X would be invoiced and registered under 410A whilst the GDN would be invoiced under 410. As per previous Ofgem guidance in this area, Supplier X would be requested to refund the monies paid by the customer for the GDN to then invoice the customer. This will then leave Shipper X with the 410A charges which it will not be able to recover. However, as GDNs must be financially neutral to amounts recovered under SLC7 the GDN would then be required to pass through the amount recovered from the customer, leaving the GDN with the unrecoverable 410 charges as a penalty at no fault of their own. This is illustrated by the process flow in Appendix A.

Added complications will also present themselves where different shippers are involved for example where Shipper A created the MPRN and Shipper B fitted the meter. If Shipper B then goes on to register the site they will be invoiced back to the meter fit date under MOD410A whilst Shipper A would receive the MOD410 charges with only one of the shipper (or another) registering the MPRN.

The site visit process also needs to be considered in these circumstances as MOD410 requires site visits after 12 months whilst MOD410A would only require a site visit in certain circumstances following identification of a meter fit. Where site visits are required under both modifications it will be difficult to determine which site visit is being carried out and which party the costs should be recovered from. The requirement of site visits under MOD410 could also be unnecessary if MOD410A processes have already progressed. For example, a meter is fitted after 11 months and the Transporters are made aware. MOD410A processes commence and the shipper who's supplier requested the installation of the meter is contacted and registration commences. If this is not completed within the 12 months from MPRN creation the relevant Transporter will still be required to carry out a site visit which will be completely unnecessary. This is illustrated in the process flow in Appendix B.

Are there any new or additional issues that you believe should be recorded in the Modification Report?

No

Relevant Objectives:

How would implementation of either of these modifications impact the relevant objectives?

MOD410

SGN strongly disagree that MOD410 better facilitates relevant objective d) securing effective competition. As stated above, the charges imposed by MOD410 to the party creating the MPRN can not in all cases be recovered and as creating an MPRN and making a connection does not facilitate gas to be taken these costs are allocated to the incorrect party. For these reasons MOD410 can be seen to worsen competition.

The proposer also states that this objective is satisfied as the modification reduces the likelihood of an unregistered site being created. As MOD410 is not a root cause solution this statement is not true and so invalidates the proposers' argument.

MOD410A

We agree with the proposer that MOD410A better facilitates relevant objective d) as this modification actually results in the registration of the sites either by the shipper or on their behalf by the Transporter. This will ensure that charges are passed to the correct party i.e. the party who requested the meter fit and hence allowed the flow of gas.

We also agree with the proposer that MOD410A further facilitates relevant objective f).

Impacts and Costs:

What analysis, development and ongoing costs would you face if either of these modifications were implemented?

Transporters would face considerable costs should MOD410 be implemented. As stated above we would be responsible for visiting every unregistered site 12 months after MPRN creation even where we know the site is not offtaking gas, only being able to claim back the costs where the MPRN has been created by a shipper. Additional site visits may also be required following the initial one. This places a very substantial and unnecessary cost on our business.

Transporters would also be allocated the "energy" costs for unregistered sites where we created the MPRN which could amount to very substantial costs. We are unlikely to be able to recover a large proportion of these costs from the end consumer due to ownership and tenancy details not being known and what is recovered cannot be retained by the GDN due to SLC 7 cost neutrality and so these costs will place a huge undue strain on our business.

Modification 410 states that costs should be allocated to the responsible party with 80% of charges for the transporters due to transporter creating around 80% of MPRNs. We do not believe that this is a fair split as out of these 80% we currently create around 20% at the request of shippers and so this needs to be taken into account should the modification be implemented.

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Implementation:

What lead-time would you wish to see prior to either of these modifications being implemented, and why?

We agree with the recommendations put forward in both modifications

Legal Text:

Are you satisfied that the legal text and the proposed ACS (see www.gasgovernance.co.uk/proposedACS) will deliver the intent of these modifications?

Yes

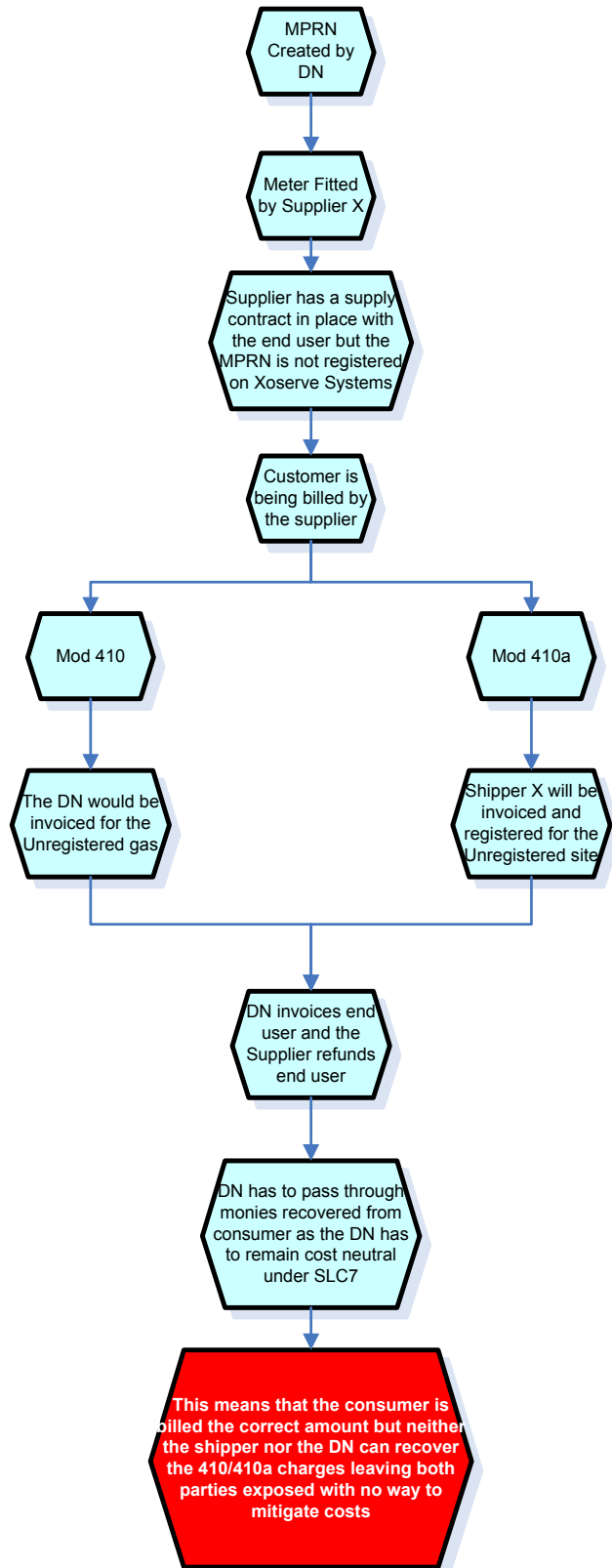
Is there anything further you wish to be taken into account?

Please provide any additional comments, supporting analysis, or other information that you believe should be taken into account or that you wish to emphasise.

No

Appendix A:

**Mod 0410 / 0410a MPRN Creation Process /
Unregistered Sites Cost Allocation**



Appendix B:

Event	MPRN Created by GDN	Meter found - fitted by Shipper X
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MOD410				Site visit required	Unregistered site charges to GDN			
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Months	1	2	-----	11	12	13	14	15	→
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MOD410A	Process Starts - Identification of Shipper X involvement in fitting meter				Auto-registration of Shipper X - Transportation and energy charges to Shipper X			
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