Modification proposals:	**Uniform Network Code (UNC): Re-establishment of Supply Meter Points – prospective measures to address shipperless sites (UNC424)**		
Decision:	The Authority[1] directs that this proposal be made[2]		
Target audience:	The Joint Office, Parties to the UNC and other interested parties		
Date of publication:	24 January 2013	Implementation Date:	To be confirmed by the Joint Office.

Background to the modification proposal

Where a consumer no longer requires a gas supply at their premises, a gas shipper may undertake steps to prevent gas from flowing and withdraw from the site. In doing so, the shipper will reduce its exposure to energy and transportation charges associated with that site.

A shipper can inform the transporter that it has Isolated the site. In doing so, it warrants that physical work has been undertaken and the site is no longer capable of flowing gas. This physical work will involve all potential means of taking gas from the service pipe being sealed closed, for example by capping or clamping the Emergency Control Valve (ECV). Where a site has been Isolated, the shipper remains liable for all the charges applied to the site, including transportation charges.[3]

If a shipper has Isolated a site, it may also submit a Supply Point Withdrawal to the transporter. This indicates that the shipper intends to end its registration for the supply point. This would have the effect of removing the shipper as the party responsible for that supply point in the Supply Point Register. In the instance where the shipper has notified the transporter of an Isolation and a Supply Point Withdrawal, it would not be liable for transportation or energy charges. This is known as an Effective Supply Point Withdrawal. It is at this point that the site becomes "shipperless".

Problems occur when, despite the shipper having submitted an Effective Supply Point Withdrawal, a supply meter is still connected and gas is still capable of flowing. This typically occurs where a shipper has not correctly undertaken the necessary physical works or has provided erroneous data to the transporter. It may also occur where the consumer or another third party has reconnected a meter or removed the device preventing the flow of gas without being authorised to do so.

Currently, where following an Effective Supply Point Withdrawal, it is established that a supply meter remains connected to a supply point that is capable of flowing gas, the shipper is liable for transportation capacity and transportation customer charges as if the request had not been made. Where subsequently it is established that gas has flowed through a meter that has been subject to an Effective Supply Point Withdrawal, the shipper will also be liable for energy and transportation commodity charges.

Where the site has been Isolated, or subject to an Effective Supply Point Withdrawal, there is a requirement to conduct a site visit to disconnect the site under the Gas Safety (Installation and Use) Regulations (GSIUR) 1998.[4] Shipperless sites where a supply

[1] The terms 'Authority', 'Ofgem' and 'we' are used interchangeably in this document. Ofgem is the Office of the Gas and Electricity Markets.
[2] This document is notice of the reasons for this decision as required by section 38A of the Gas Act 1986.
[3] Although if the AQ is set to 1 (the minimum possible) then the charges linked to consumption will be limited.
[4] Once a meter has been cut-off from a gas supply and not replaced within 12 months, there is a requirement under Regulation 16(3) of the Gas Safety (Installation and Use) Regulations to ensure that the service pipe or service pipework for those

meter is connected and gas is capable of flowing, are typically identified during such visits. They may also be identified when a new customer moves into premises. Xoserve collates and reports statistics on shipperless sites.[5]

Supply arrangements

The Gas Act 1986 sets out where a contract for the supply of gas is deemed to exist in circumstances where there is not an express contract between the supplier and the consumer. In the case of a shipperless site, a deemed contract would not currently apply.[6]

Where a supplier does not have a contract (deemed or otherwise) with the consumer at the premises, the gas transporter is required to investigate and to charge the consumer for any gas taken.[7] Therefore, once a shipperless site is identified with a meter fitted that is capable of flowing gas, the shipper last responsible for the site would be liable for energy and transportation charges. However, as the deemed contract provisions do not currently apply, the supplier would not be able to recover these charges from the consumer.

The modification proposal

UNC424

National Grid Distribution (the proposer) raised UNC424 in May 2012[8]. UNC424 aims to clarify that a shipper's registration remains in place from the date of a Supply Point Withdrawal, where it is identified that the same meter is installed at the premises and is capable of flowing gas. This would ensure that, where all the elements of the relevant statutory provisions are satisfied,[9] a deemed supply contract is in place from the date of the Effective Supply Point Withdrawal and would enable the shipper to recover its costs through its supplier arrangements.

The proposal also aims to ensure that where, following either Isolation or an Effective Supply Point Withdrawal, the same meter is found to be connected to the transporter's system and capable of flowing gas, the shipper would be registered to the supply point within one month of notification and responsible for the costs incurred by transporters for visits carried out under the GSIUR. Note that these new rules would only apply to sites that are Isolated after 1 April 2013.

UNC424 further clarifies that the charges for which a shipper is liable after Isolation include energy charges.

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premises is disconnected as near as is reasonably practicable to the main and that any part of the pipe or pipework which is not removed is sealed at both ends with the appropriate fitting. Typically this requirement is fulfilled by the gas transporter.

[5] Xoserve is the gas transporters' agent. Statistics on shipperless sites are presented at the Xoserve administered 'Shipperless and Unregistered Sites Working Group', which is working on identifying and advance solutions on the root causes for shipperless and unregistered sites (an unregistered site is a supply point in the Supply Point Register that has never been registered to a shipper).

[6] In that situation there is no longer a shipper registered to the supply point in the Supply Point Register and gas is not being taken in pursuance of arrangements made with the gas transporter by the shipper. See Gas Act 1986, Schedule 2B paragraph 8(2)(a).

[7] See Gas Act 1986, Schedule 2B paragraph 9 and Standard Licence Condition 7 of the Gas Transporters Licence.

[8] In doing so, the proposer sought to take into account the Authority's decision on a related modification "Re-establishment of Supply Meter Points – measures to address Shipperless sites (UNC369) and its alternative (UNC369A)". See the Authority's decision http://www.gasgovernance.co.uk/sites/default/files/Ofgem%20Decision%20Letter%20UNC369-369aD.pdf

[9] This would include, that a supply of gas has previously been made to the premises by a gas supplier and that the owner or occupier of premises has, in fact, taken a supply of gas. See Gas Act 1986, Schedule 2B paragraph 8(2).

UNC Panel[10] recommendation

At the UNC Panel (the Panel) meeting held on 20 December 2012, of the ten Panel members, seven voted in favour and three opposed the implementation of UNC424. Therefore, the Panel recommended the implementation of UNC424.

The Authority's decision

The Authority has considered the issues raised by the modification proposal and the Final Modification Report (FMR) dated 20 December 2012. The Authority has considered and taken into account the responses to the UNC's consultation on the modification proposal.[11] We have concluded that:

1. implementation of the modification proposal will better facilitate the achievement of the relevant objectives of the UNC[12]; and
2. directing that the modification be made is consistent with the Authority's principal objective and statutory duties.[13]

Reasons for Authority decision

We have assessed the proposed modification against the UNC Relevant Objectives. The proposer considered that it would better facilitate relevant objectives (d) and (f). We have assessed the modification proposal against these relevant objectives and also against relevant objective (a). We consider that the modification proposal has no impact or is neutral against the remaining objectives.

Relevant objective (a): the efficient and economic operation of the pipe-line system

We consider that the proposal would facilitate improvements to network planning and therefore support the efficient and economic development of the pipeline system. The proposer and the majority of respondents to the consultation noted that the proposal would mitigate the risk of shipperless sites occurring with meters fitted capable of flowing gas. We would expect this to provide transporters with a clearer view of where and when gas is being used, which transporters could use to determine the scale of investment needed in system capacity. The likely scale of shipperless sites may mean that this benefit would be small.

Relevant objective (d): the securing of effective competition

In circumstances where gas continues to flow at a shipperless site that has not yet been identified, the energy and transportation charges would be borne by shippers in the Smaller Supply Point (SSP) sector[14] through the Reconciliation by Difference (RbD) mechanism.[15] It is anticipated that an element of the energy cost would also be apportioned to shippers on the Larger Supply Points (LSPs)[16] market by the Allocation of Unidentified Gas Expert (AUGE).[17]

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[10] The UNC Panel is established and constituted from time to time pursuant to and in accordance with the UNC Modification Rules.
[11] UNC modification proposals, modification reports and representations can be viewed on the Joint Office of Gas Transporters website at www.gasgovernance.com
[12] As set out in Standard Special Condition A11(1) of the Gas Transporters Licence, see: http://epr.ofgem.gov.uk/Pages/EPRInformation.aspx?doc=http%3a%2f%2fepr.ofgem.gov.uk%2fEPRFiles%2fStandard+Special+Condition+PART_A__-_Consolidated_-_Current+Version.pdf
[13] The Authority's statutory duties are wider than matters that the Panel must take into consideration and are detailed mainly in the Gas Act 1986.
[14] A supply point with an annual consumption of less than 73,200kWh (2,500 therms).
[15] RbD is the method of reconciling the difference between actual (metered) and deemed (estimated) measurements of gas allocated to Small Supply Points (SSPs). Gas flowing through shipperless sites would not be metered and therefore would be allocated to shippers in the SSP market for the purposes of calculating energy and transportation commodity charges.
[16] A supply point with an annual consumption greater than 73,200kWh (2,500 therms).
[17] 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 and apportion a fixed volume of UAG to the LSP sector.

As noted above, we would expect that the proposal should help to reduce the occurrence of shipperless sites where the same meter was fitted and found to be flowing gas. This would promote the accuracy of energy and transportation cost allocation and mitigate the risks of such costs being smeared across other shippers. We agree with the majority of respondents and the proposer that UNC424 is therefore likely to facilitate competition in the gas market in this regard.

We note the concern of some UNC Panel members and some respondents that UNC424 would increase the risk faced by shippers, (with additional costs) which is beyond their control. Some parties considered that, as shippers do not control metering arrangements, they were not the party best able to manage the risks of gas continuing to be capable of flowing at a site that was shipperless. These parties suggested that introducing such costs into the market would be contrary to facilitating effective competition. We recognise these concerns but we consider that the competition model in the GB market, which is supported by the consumer protection measures, established in the Gas Supply Licence, means that where achievable, the relationship with the consumer should be managed by the supplier.[18] We also note that the Gas Act envisages that a supplier will have the primary responsibility for tackling instances where a meter is reconnected without the consent of a supplier.[19]

We therefore consider that it is appropriate to retain this primary role for the supplier where possible. We also consider that retaining the allocation of charges to the shipper last responsible for that site will help to encourage action to minimise the instances of this occurring and seeking to remedy it once identified, even where the supplier is not able to remove the meter from the premises.

We have also considered the concern raised by some UNC Panel members that UNC424 could result in more meters being removed from sites. A consequence of this could be that reconnection and subsequent offtake of gas was more complex and that it would discourage these sites from being connected. We note the view of these UNC Panel members that this could be seen as being detrimental to competition because it would be more difficult for end users to access the market and because the scale of the gas market as a whole could be marginally reduced. We note that shippers are currently liable for energy and transportation charges once a shipperless site is found that is capable of flowing gas. As such, shippers should already be responding to these liabilities in deciding how to manage sites in their portfolio. We therefore remain of the view that UNC424 better meets this relevant objective.

We acknowledge that UNC424 has the potential to limit the application of energy and transportation charges to a shipper following an Effective Supply Point Withdrawal. Under the current arrangements, a shipper may be liable for any energy and transportation charges where a different meter is found to be fitted and capable of flowing gas. The effect of the modification proposal is to align cost liability and cost recovery only for shipperless sites where the same meter is found to be fitted and capable of flowing gas. In the case of a different meter being found, the relevant gas transporter would be required to investigate and seek to recover any charges from the consumer. We would encourage the industry to address different meter arrangements as quickly as possible, so that where appropriate, shippers are responsible for managing these supply points. We note that work to address this is being undertaken through UNC 425.[20]

[18] The gas supplier's licence includes a number of conditions that warrant protection to consumers (eg Standard Licence Condition 25 to 30) which do not exist in the gas transporter's licence.
[19] See Gas Act 1986 Schedule 2B, paragraph 11. Where the customer commits such an offence under the Gas Act, the supplier is permitted to cut-off the premises until the matter is remedied (including the recovery of associated charges).
[20] UNC425 "Re-establishment of Supply Meter Points – Shipperless sites" see http://www.gasgovernance.co.uk/0425

Relevant objective (f): promotion of efficiency in the implementation and administration of the code

Some respondents considered that the measures identified within the modification would promote efficiency in implementing and administering the code. We note that there are likely to be benefits in clarifying the arrangements following Isolation or Effective Supply Point Withdrawal where the same meter is found to be flowing, or capable of flowing gas.

Some Panel members and respondents considered that it was inappropriate and inefficient to use the UNC as a vehicle to seek to change behaviours in the metering market, and that any such change should be targeted directly at the parties involved, for example through the Meter Asset Manager Code of Practice. We note these concerns but continue to consider UNC424, which gives effect to a deemed contract in certain circumstances and targets the costs of aborted safety visits at the last shipper responsible for the site is appropriate. We consider that shippers, via their supplier, will be able to consider how best to mitigate their risk to such costs, including through their commercial contracts with MAMs and through MAMCOP.

We therefore consider that, on balance, the proposal would further meet relevant objective (f).

Further issues

We welcome the efforts of the proposer and other industry parties to address the concerns expressed in our decision not to approve UNC369. In rejecting UNC369 we noted our concern that the effect of the modification would be to potentially put in place a deemed contract before the implementation date of the modification. This could provide a supplier with a mechanism to make retrospective charges to the customer for a period before the modification had been implemented. We note that the effect of UNC424 in relation to deemed contracts would only apply to sites that are Isolated after 1 April 2013. We have received written assurances from the GDNs that UNC424 can be implemented with immediate effect and that they will issue an appropriate instruction to the Joint Office immediately on receipt of any approval of this modification proposal

Decision notice

In accordance with Standard Special Condition A11 of the Gas Transporter Licence, the Authority hereby directs that modification proposal UNC424: "Re-establishment of Supply Meter Points – prospective measures to address shipperless sites" be made.

Colin Sausman
Partner, Retail Markets and Research
Signed on behalf of the Authority and authorised for that purpose