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Modification proposal:	**Uniform Network Code (UNC) 425V: Re-establishment of Supply Meter Points – Shipperless sites (UNC 425V)**		
Decision:	The Authority[1] directs that UNC 425V be made[2]		
Target audience:	The Joint Office, Parties to the UNC and other interested parties		
Date of publication:	31 January 2014	Implementation Date:	1 April 2014

Background to the modification proposal

Where a consumer no longer requires a gas supply at their premises, the relevant gas Shipper may take steps to curtail its own exposure to energy and transportation charges associated with that site. Prior to 2004, the Shipper would have requested the Gas Transporter ('GT') to undertake the physical isolation of the meter so that it is no longer capable of flowing gas, whether through its disconnection and removal or some other means such as clamping the Emergency Control Valve in the closed position.

In order to facilitate competition in gas metering services, such services were unbundled from the natural monopoly GT activities as part of the Review of Gas Metering Arrangements ('RGMA') project, which was implemented in 2004. Shippers now warrant to the GT that they have undertaken an isolation of the site and for the purposes of the UNC the term 'isolated' refers only to the contractual status of the supply point rather than a description of the physical works undertaken.

Although the Shipper will avoid certain commodity related transportation charges by isolating a supply point, they will remain liable for capacity based charges. In order to avoid all transportation charges, having first isolated the meter the Shipper may also submit a Supply Point Withdrawal to the GT. This Shipper ceases to be responsible for charges once the Supply Point Withdrawal becomes effective, having been accepted by the GT and the Supply Point Register amended accordingly.

However, the Shipper retains certain responsibilities for the supply point, beyond those set out in the UNC. In particular, once a meter has been disconnected from the gas supply and not replaced within 12 months, there is a requirement under Section 16(3) of the Gas Safety (Installation and Use) ('GSIU') Regulations 1998 to carry out certain works. Where there is no service valve[3], this includes the disconnection of the service pipe as far as reasonably practicable to the mains. These measures are intended to minimise the risk associated with having gas-filled redundant service pipes left within the property.

In order to mitigate the risk that gas meters are not disconnected and are left at Shipperless sites for an indeterminate period of time without triggering the safeguards mentioned above, the UNC goes further than the GSIU Regulations. Under Section 3.8 of the UNC Shippers are also responsible for disconnecting the meter within a maximum period of 12 months following an effective withdrawal. If the Shipper fails to disconnect the meter within the prescribed time, the UNC requires the GT to carry out the works and charge the relevant Shipper accordingly.

[1] The terms 'the Authority', 'Ofgem' and 'we' are used interchangeably in this document. Ofgem is the Office of the Gas and Electricity Markets Authority.
[2] This document is notice of the reasons for this decision as required by section 38A of the Gas Act 1986.
[3] A valve (other than an emergency control) for controlling a supply of gas, which is: incorporated in the service pipe; intended for use by the transporter; and not situated inside the building.

In practice, these 12 month visits are carried out by the GT in the first instance, acting on behalf of the Shipper. In some cases, the GT identifies that the supply point is flowing or capable of flowing gas, contrary to its recorded status. A UNC workgroup set up in 2007 to consider the operational issues that lead to unregistered and Shipperless supply points identified as many as fifteen root causes[4], covering issues such as data quality, failure to pass on information and theft.

Shipperless and unregistered supply points are two of the contributory issues for 'unidentified gas'[5] usage. This is gas known to have been taken from the system but which cannot be accurately attributed to any given supply point. The cost of unidentified gas therefore cannot be accurately allocated to the correct Shipper and is instead socialised across all Shippers. Energy costs will be initially borne by Shippers in the Smaller Supply Point ('SSP') sector[6] via the Reconciliation by Difference (RbD)[7] process, though an element of those costs is now apportioned to Larger Supply Point (LSP)[8] Shippers by the Allocation of Unidentified Gas Expert (AUGE)[9].

In addition to the unallocated energy costs, Shipperless sites avoid the transportation charges that would otherwise be applicable, leading to higher transportation charges for other sites.

UNC369[10] was raised in March 2011 with the aim of clarifying that where an isolated or withdrawn supply point is found to be capable of flowing gas and the original meter remains installed, the relevant Shipper's registration remains in place, effectively voiding the early supply point withdrawal. UNC369 aimed to ensure both that the relevant Shipper was liable for any charges under the UNC associated with that supply point, and that a deemed supply contract may apply for the relevant period, allowing those costs to be recovered from the consumer. The alternative proposal UNC369A had the same aims, but sought to provide exemptions where either the meter was owned by the consumer (and therefore not readily removed), or where the GT has carried out the earlier works directly, rather than working on behalf of the Shipper. Whilst supporting much of the intent of the proposals, in March 2012 the Authority rejected both UNC369 and UNC369A. This was in large part owing to the intended retrospective application of the proposals and consequential impacts of that retrospectivity.

On 24 January 2013 the Authority directed the implementation of UNC424[11], which was a successor to UNC369. UNC424 focused on instances where a supply point that had been subject to an effective supply point withdrawal was subsequently found to be flowing or capable of flowing gas and *with the same meter connected*. That modification was given

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[4] See: www.gasgovernance.co.uk/sites/default/files/Root%20Cause%20Summary%20-%20Approved%20V.1.0.pdf
[5] As defined in section E 10.1 of the UNC
[6] A supply point with an annual consumption of less than 73,200kWh (2,500 therms).
[7] Reconciliation by Difference ('RbD') is the method of reconciling the difference between the initially allocated (estimated) measurements of gas and actual (metered) consumption. Once the metered consumption at Daily Metered and Larger Supply Points ('LSPs') sector is taken from the amount of gas known to have been put into a given Local Distribution Zone ('LDZ'), the remainder is allocated across the SSP sector based upon the Annual Quantity ('AQ') of each supply point. RbD was introduced in 1998 in order to facilitate competition in the Smaller Supply Point ('SSP') sector, as at the time it was not considered practical or economically efficient to individually reconcile all such supply points (which number in excess of 20 million) based on actual meter readings.
[8] A supply point with an annual consumption greater than 73,200kWh (2,500 therms).
[9] The AUGE is an independent expert appointed by the gas transporters. It aims to provide a methodology to identify the sources of Unidentified Gas and apportion a fixed volume of that gas to the LSP sector.
[10] UNC369: '*Re-establishment of Supply Meter Points – measures to address Shipperless sites'*
[11] UNC424: '*Re-establishment of Supply Meter Points – prospective measures to address Shipperless sites*'.

effect on 25 January 2013, though the legal text stipulated that the revised provisions applied only to supply points that were isolated after 1 April 2013, effectively giving Shippers two months notice.

The modification proposal

UNC425V is similar to UNC424, but is intended to address those instances where a site visit to an isolated or withdrawn site identifies that *a different meter has been installed to that previously recorded*. Its core aim is to ensure that a Shipper is identified and registered for any site found to be capable of flowing gas. The party required to register the supply point will be identified following investigations of Shipper activity at the supply point, both by the GT and by any Shipper it considers may have been involved. This could result in a re-registration by the original Shipper, or registration to another Shipper.

Should the Shipper identified following completion of the above process, fail to register themselves within the prescribed timescale or to provide a warrant that it has no relationship with the supply point, the GT may register a Shipper it reasonably considers to be responsible for a supply point following the completion of its own investigations.

If no Shipper can be found responsible for the supply point, the GT will contact the consumer and act in accordance with its existing obligations in respect of theft in conveyance[12]. In particular, the GT will investigate whether there is a supply contract in place and if there is, take steps to complete the registration of the supply point. If there is no supply contract in place the GT will advise the consumer to obtain one as soon as possible. Where the consumer fails to obtain a contract the GT may seek to disconnect the supply of gas, subject to applicable legislation and codes of practice, etc.

As with UNC424, UNC425V is intended to have prospective effect only. The proposer considers that UNC425V would better facilitate relevant objective (d) by preventing further supply points becoming Shipperless and ensuring that the costs associated with those supply points are properly allocated rather than socialised.

UNC Panel[13] recommendation

At its meeting of 21 November 2013 the UNC Panel failed to reach a majority vote and therefore did not recommend the implementation of UNC425V.

The Authority's decision

The Authority has considered its statutory duties and functions in reaching its decision. The Authority has considered the issues raised by the modification proposal and the Final Modification Report (FMR) dated 17 January 2014. The Authority has considered and taken into account the responses to the Joint Office's consultation on the modification proposals which are attached to the FMR[14]. The Authority has concluded that:

[12] Standard Licence Condition 7 of the Gas Transporters licence requires it to investigate the suspected taking of gas in conveyance. Theft that occurs upstream of the ECV is presumed under the licence to be gas taken in the course of conveyance. We also consider that where a supply is taken without a supplier being responsible (e.g. an unregistered site) to be gas taken in the course of conveyance.
[13] The UNC Panel is established and constituted from time to time pursuant to and in accordance with the UNC Modification Rules.
[14] UNC modification proposals, modification reports and representations can be viewed on the Joint Office of Gas Transporters website at www.gasgovernance.com

1. Implementation of UNC425V will better facilitate the achievement of the relevant objectives of the UNC[15]; and
2. Directing that the UNC425V be made is consistent with the Authority's principal objective and statutory duties[16].

Reasons for the Authority's decision

We agree with the proposer and the UNC Panel that UNC425V should be assessed against relevant objective d) and consider that it would have a neutral or no impact against the other objectives.

We note that of the fourteen responses received, four were in support while another two offered qualified support. The reasons for this qualified support are set out below. The remaining eight responses which were opposed to UNC425V being implemented were all from Shipper organisations.

Relevant objective (d): the securing of effective competition

Allocation of costs

The 2012 AUGE Statement[17] attributed £19m (704 GWh) of its £160m (6033 GWh) assessment of Unidentified Gas to Shipperless or unregistered sites. Of this, £8m (318 GWh) was associated with sites which had been found to have a new meter fitted and therefore within scope of UNC425V. The remainder was associated with sites which had the same meter connected as at the time of isolation and which were therefore within scope of the earlier UNC424.

The FMR shows that the number of sites that would fall under the provisions of UNC425V was 4657 as of January 2012. The January 2013 figure has risen to 4898 before dropping slightly later in the year[18]. Given these figures, we anticipate that the AUGE will allocate a similar, if not greater amount of energy to this category of Shipperless sites in its 2014 Statement. We therefore consider this to be a material issue and that the accurate allocation of these costs would be beneficial to competition in the market taken as a whole.

Distributional effects

Whilst the reduction in Shipperless sites should be universally beneficial to Shippers in reducing the amount of gas and associated revenue that is 'lost' to the system, we note the concerns of those Shippers who feel that they should not be individually liable for costs incurred at a supply point from which they have effectively withdrawn. We have particular sympathy for the concerns regarding the actions of third parties subsequent to the withdrawal date. It is appropriate that the UNC contains provisions which allow the Shipper to make an orderly exit from individual supply points, just as it is to exit from the market as a whole. However, we do not agree that they are unable to manage those

[15] 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
[16] The Authority's statutory duties are wider than matters which the Panel must take into consideration and are detailed mainly in the Gas Act 1986.
[17] www.gasgovernance.co.uk/sites/default/files/AUGS%202011%20Version%204.pdf
[18] Source: Shipperless and unregistered sites working group - www.gasgovernance.co.uk/industryinfo/UnconSites

risks and consider they are better placed to do so than either the GT or Shippers who have no association with the consumer.

We note the concern that exposure to these liabilities could cause Shippers to undertake works to fully disable the supply, which would prove to be both costly and disruptive to consumers wanting to restart a gas supply. However, there are many means of temporarily and securely disabling a gas supply. We also consider that the risk could be mitigated through active monitoring of isolated or withdrawn supply points and/or an expedited schedule for site visits to supply points that are considered to pose the greatest risk. Nor do we consider that the Shippers exposure would extend to the Code Cut Off Date[19] (currently up to 5 years) as suggested in scenario 5 of 'Shipper liabilities' appended to the FMR. Assuming the site visit is initiated after 12 months, any subsequent investigations should be concluded and the site re-registered, if appropriate, a matter of months afterwards. The earlier initiation of site visits could limit this exposure even further.

We recognise that these mitigation measures may come at a cost and may not entirely safeguard against Shippers exposure to the liabilities associated with a re-registration. However, we do not consider that these costs will be disproportionate and would more equitably fall upon the Shipper who has previously enjoyed the economic benefit of shipping to that supply point, potentially with such risk priced into their offering, rather than socialised.

We further note that a change has recently been accepted to the Meter Asset Managers Code of Practice[20] that would require registered Meter Asset Managers to only install meters where there is an appropriate supply contract in place. This is intended to further mitigate the likelihood of a supply point being made capable of flowing gas without the appropriate arrangements being in place, including the registration of that supply point with a Shipper.

Given the range of measures that are being undertaken and the fact that UNC425V will apply only on a prospective basis, we consider that Shippers will be well placed to manage their exposure to any risks and associated costs that may arise from the implementation of this proposal. To the extent that there are an additional costs that cannot be avoided, we do not consider that they will outweigh the benefits of accurately allocating the circa £8m per annum of costs that are currently being socialised.

Decision notice

In accordance with Standard Special Condition A11 of the Gas Transporters Licence, the Authority hereby directs that modification proposal UNC 425V: '*Re-establishment of Supply Meter Points – Shipperless sites*' be made.

Rob Church
Associate Partner, Smart Metering and Smarter Markets

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

[19] The implementation of UNC395:' Limitation on Retrospective Invoicing and Invoice Correction (3 to 4 year solution)' will set this to a maximum of four years with effect 1 April 2014.
[20] MAM/13/002: 'Ensuring appropriate Supply Contracts are in place before installing a gas meter'