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31<sup>st</sup> January, 2011.  
Your Reference: 154/10

Dear Cesar,

**National Grid Gas response to Ofgem's consultation in respect of reducing supplier disincentives to detect and investigate gas theft – uniform network code proposal UNC231V and other changes**

Thank you for the opportunity to respond to Ofgem's consultation regarding the above matter. In principle National Grid Gas Distribution (NGD) has no objection to the proposed changes to Standard Licence Condition 7 of the Transporters' Licence. However, we have provided responses to the specific questions identified within the consultation document below.

**CHAPTER: Two**

*Question 1: What factors have led to the limited number of suppliers using the current compensation arrangements?*

We are unaware of the reasons for this. We believe it is appropriate for Suppliers to provide an informed response to this question.

**CHAPTER: Four**

*Question 1: Do you agree that the £1,000 cap per allowance (apart from Allowance (vii)) is reasonable? Please provide supporting arguments.*

We have no specific information to clarify whether such an allowance is reasonable for Suppliers given that we do not undertake investigation of instances of gas taken illegally where it has been conveyed to premises. We believe that it is more appropriate for Suppliers to demonstrate that the existing allowances are insufficient in light of the prevailing costs associated with such investigation.

*Question 3: Views are invited on whether the audit and compliance arrangements for the payment of allowances to suppliers are appropriate. In particular, are they sufficient to meet the implied requirement under SLC7 of the gas transporters licence to only make payments when the relevant criteria are met?*

We believe that the current arrangements for the validation of claims made are sufficient. The fact that the values are proposed to increase should not adversely impact the integrity and sufficiency of the validations applied to date. For NGD, in 2009 our agent xoserve rejected 42% of claims, and in 2010 rejected 38% of claims which we believe in part, demonstrates the effectiveness of the existing validation of claims.

*Question 4: Do you agree that an equivalent modification should be raised to the IGT UNC?*

We believe that convergence would be appropriate to ensure consistent treatment of customers and processes, thereby making them more efficient. Accordingly, an equivalent change to the maximum values able to be claimed by Suppliers pursuant to the relevant scheme in respect of iGT Supply Points (where investigation and recovery costs are expected to be equivalent to those incurred in respect of Supply Points connected to the Distribution Network) would appear logical.

*Question 5: Views are requested on the compatibility of UNC231V with the proposed NRPS, SETS or any other industry developments.*

Where a Supplier utilises the cost recovery services of the prospective National Revenue Protection Service (NRPS), it is expected that it would pay for such provision via the service charge payable to the NRPS. In this scenario, we envisage that Supplier would nevertheless instigate a 'Reasonable Endeavours Scheme' claim with the Transporters where the NRPS fails to recover all of the relevant costs (in order to recover an element of the NRPS service charge and any other relevant costs). In addition, NGD notes that one of the 'optional' service lines which an NRPS service would be required to offer is "...submitting claims against existing industry schemes to recover costs associated with the investigation of theft where those costs cannot be recovered from the party who steals<sup>1</sup>..." From this perspective we would view the changes advocated by Modification Proposal 0231V as compatible with the proposed NRPS arrangements.

UNC Modification Proposals 0277 and 0346 which seek to implement an incentive scheme within the UNC (the Supplier Energy Theft Scheme – SETS) are to some extent unrelated to UNC Modification Proposal 0231V. The incentive scheme is based on rates of theft detection whereas Modification Proposal 0231V and the prevailing Reasonable Endeavours Scheme are aimed at enabling Suppliers (via Shippers) to recover the costs associated with the theft (i.e value of energy and investigation costs) in the event that such costs are not able to be recovered from the relevant consumer. Given the different elements of 'Theft of Gas' each mechanism is focussed upon, we believe that both can co-exist. In the event that a number of Suppliers elect to utilise the NRPS to deliver investigative and revenue recovery services, we would expect the amounts sought under the Reasonable Endeavours Scheme to harmonise to some degree in light of provision of services by a common provider.

## **CHAPTER: Five**

*Question 1: Views are requested on our proposals to amend SLC7 and each large gas transporter REAS and RES.*

We agree with the principles of the changes such that the respective schemes may be detailed in a 'stand-alone' document or in a document referenced by a scheme. In respect of Distribution Networks, in the event of the implementation of Modification Proposal 0231V, the UNC would detail the principles and amended compensation values of the Reasonable Endeavours Scheme.

Reviewing the proposed amendments to Standard Licence Condition 7(6) we would recommend that references to the purpose of the scheme (i.e to enable recovery of the 'reasonable costs to the supplier') are retained such that the condition would read as follows:

The allowance referred to in paragraph 5 is one in respect of the reasonable cost to the supplier concerned of complying with such a request or requirement as is mentioned in paragraph 5 and of an amount calculated in accordance with principles set out in:

- (a) a scheme; or
- (b) a document described in a scheme,

designated by the Authority for the purposes of this condition.

*Question 2: Views are requested on our proposed timetable to amend SLC7 and each large gas transporter REAS and RES.*

Noting the Authority's aspiration to instigate the formal Collective Licence Modification process in quarter one of 2011 and in the event that the Authority directs implementation of Modification Proposal 0231V, we agree that it would be sensible to co-ordinate changes to the UNC and to the Licence arrangements concerning Supplier 'reasonable endeavours' for implementation in quarter two of 2011.

*Question 3: Do any of the proposed changes have potential detrimental consequences for the arrangements on IGT networks?*

<sup>1</sup> Gas Forum Request for Information (RFI) relating to the provision of a National Revenue Protection Service – 3 September 2010. (<http://www.gasforum.co.uk/admin/documents/GF%20NRPS%20RFI%20v%20Final.pdf>)

We do not believe that there would be any detrimental impact in respect of iGT arrangements as the proposed revised wording of Standard Licence Condition 7 contemplates that the Reasonable Endeavours Scheme can be comprised within a separate scheme document or contained within another document.

*Question 4: (For gas transporters only) Would you accept a notice period of less than six months for the proposed changes to the RES and REAS?*

We are comfortable with a notice period of less than six months on the basis that the principles of the scheme are unchanged. Conversely, the changes proposed are limited to the governance arrangements of the DN schemes and to the values that are able to be claimed by Suppliers.

**CHAPTER: Six**

*Question 1: Do you agree with our further proposals to improve the drafting of SLC7?*

NGD agrees that the changes proposed are appropriate.

Please contact me on 01926 653541 (chris.warner@uk.ngrid.com) should you require any further information.

Yours sincerely

By Email,

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