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Dear Cesar,

Re: Consultation 154/10: Reducing supplier disincentives to detect and investigate gas theft – uniform network code proposal UNC0231V and other changes

Thank you for the opportunity to respond to Ofgem's consultation on UNC0231V implementation. Northern Gas Networks (NGN) has been actively involved in the industry development of this UNC Modification Proposal and other proposals relating to theft of gas.

NGN did not vote in favour of this Modification Proposal at the Modification Panel although the principle of the proposal was supported. This was driven by the need for corresponding changes to be made to the GT Licence which could have led to a dual obligation if the UNC Modification Proposal was implemented without the necessary GT Licence changes. We welcome this consultation which addresses this issue and therefore makes UNC0231V a suitable change.

Our response to each of the individual questions posed in the consultation is attached.

Please let me know if you would like any clarification of any aspect of this response. Note that our response can be regarded as non-confidential.

Yours sincerely,



Joanna Ferguson
Network Code Manager

Reducing supplier disincentives to detect and investigate gas theft – uniform network code proposal UNC0231V and other changes
Ref: 154/10

CHAPTER: Two

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

NGN believes that there is a considerable amount of administration that is required in order to qualify for payments under the current arrangements, particularly if the person(s) responsible for the theft can be identified, and on a cost/benefit basis this may create insufficient disincentive for suppliers to utilise the existing scheme. During the Distribution Workstream discussions on Modification Proposal 0231 NGN became aware that the level of understanding of the scheme and the steps required to qualify for it were not understood to the same level by all organisations.

CHAPTER: Four

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

It is difficult for NGN to make judgement on the level of compensation that is reasonable for suppliers for undertaking the necessary steps to qualify for the scheme. The amounts incurred by each supplier will vary considerably based on the level of resource they make available to investigate theft and there are undoubtedly some economies of scale to be obtained by larger organisation for the administration of theft investigation and legal costs for pursuing outstanding debts resultant from theft.

Question 2: (For suppliers only) Do you have further supporting information on your actual costs associated with each of the activities set out in Table 1? Information on average costs and the range and distribution of costs would be particularly helpful.
Not applicable

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?

The current audit and compliance arrangements rely on the shippers providing a warranty that they have complied with all elements of the scheme in addition to providing evidence and a statement of receipts and costs to the Transporters agent, xoserve. NGN believes that this is sufficient to meet our Licence requirements in this area and further believes that it would be inappropriate for xoserve to undertake any additional activity, particularly where they may be asked to provide an opinion on the reasonableness of claims.

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

NGN believes that it would be appropriate for the obligations and processes to be consistent between both iGTs and Large GTs. This ensures that shippers and suppliers have a single, clear set of procedures they can follow in all instances of theft of gas. This consistency is

particularly useful for smaller suppliers and new entrants who may have fewer resources available.

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

NGN believes that UNC0231V is compatible with the proposed Shipper Energy Theft Scheme (SETS) which was also proposed by British Gas. The SETS model has an industry wide neutrality to incentivise more theft detection and investigation and UNC0231V would allow suppliers to recover more of their costs of undertaking this work, thereby providing more incentive to suppliers to both detect and investigate theft and participate in the UNC0231V scheme as a means of full or partial cost recovery. It would be appropriate to implement UNC0231V prior to the implementation of SETS as this would help incentivise suppliers to increase their activity early in a manner that would mitigate their risk of penalty under the SETS model.

It is less clear to us whether it is appropriate for suppliers to be able to use the UNC0231V scheme to recover costs paid to the National Revenue Protection Scheme (NRPS) model given that they may not have control of the activities or costs. As the NRPS model is not yet finalised, and is likely to contain an element of optional services it may be appropriate for the optional services to be recovered through the UNC0231V proposal, although until the NRPS model is finalised it is difficult to make further comment on the compatibility of the schemes.

The UNC0231V proposal would act as a suitable interim measure to help encourage more visible supplier activity in theft investigation should a final NRPS model not be compatible with this. Any incompatibility between the schemes would also introduce potential implementation difficulties of a new scheme to ensure that all issues have been addressed.

CHAPTER: Five

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

NGN is broadly satisfied that the proposed changes to SLC7 and the REAS and RES are consistent with the intent of UNC0231V and are compatible with the legal text provided for UNC0231V. We agree that the proposal ensures that the issues raised of dual governance have been addressed and the ability of Transporters to be financially neutral to the scheme has been maintained. We have not at this stage taken a full legal view on the changes.

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

Given the various schemes which are proposed to tackle issues relating to theft of gas and the potential that they will not be compatible with each other in their current formats NGN agrees that a formal impact assessment into all proposals is a necessary step to take and that the timescales associated with both the impact assessment and the CLM process proposed within this consultation are reasonable if all the schemes being assessed are fully developed.

We are aware that UNC Modification Proposals 0277 and 0326 have now received recommendation from the UNC Modification Panel, but understand that the NRPS development

is still ongoing and is not expected to deliver any final proposals until the end of February. As it is important that all the schemes are fully developed for inclusion in the impact assessment we believe that any delay in the final stages of development of the NRPS model could jeopardise the Q1 2011 timescales proposed for the impact assessment.

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

NGN is not aware of any detrimental impacts that these proposed changes could have on iGTs.

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?

UNC0231V has been subject to extensive industry discussions for a considerable time and with this in mind NGN can see no reason why we would object to shortened timescales for the implementation of changes to the RES and REAS documents that would be required to implement UNC0231V.

CHAPTER: Six

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

The additional changes proposed are mostly of a housekeeping nature and it is appropriate to make these changes at this time.