

31<sup>st</sup> January 2011

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*(by e-mail)*

Email: [Lorraine.kerr@scottishpower.com](mailto:Lorraine.kerr@scottishpower.com)

Dear Cesar,

**Re: 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 the above referenced consultation.

ScottishPower are supportive of the Reasonable Endeavours Scheme (RES) and the Reasonable Endeavours Allowances Scheme (REAS), but we have not utilised the Scheme due to onerous actions and steps required in order to make a claim and claim amounts not always being sufficient to cover costs. We therefore welcome the principle of UNC231V to increase the amounts that can be claimed. We also agree with Ofgem that it is necessary to review the actions required to make a claim, since they have not been materially amended since 1997, to ensure they remain fit for purpose.

In addition we believe that the audit provisions surrounding the Schemes should be considered should UNC231V be approved. It is essential that any audit is robust and proportionate to the amount of money that can be claimed. Given the large increases from the existing values being proposed by UNC231V we feel it is appropriate to revisit the current audit processes.

We fully support the key principle established by the REAS that suppliers' compensation should be set at a level that removes any disincentives to investigate theft and that reasonable endeavours is used to recover the charges to which it is entitled, and believe that UNC231V can help to deliver this.

With regards to governance we are supportive of the proposal to transfer this into the UNC since this will increase transparency and also enable developments via a UNC Modification Proposal, as opposed to further Licence changes. We are pleased that Ofgem have recognised the concerns raised by Transporters relating to dual governance and therefore support the consequential changes to SLC7 and each large Transporter's REAS and RES. We do have some comments regarding the proposed drafting changes that we have included in response to the specific questions of the consultation.

We have set out our response to the consultation questions in the attached Annex.

Should you have any queries regarding this response please do not hesitate to contact me.

Yours sincerely

Lorraine Kerr  
Commercial Regulation Manager  
ScottishPower

## Annex 1

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

The current compensation arrangements make it difficult to make successful claims. We do not believe that the current arrangements are clear and transparent enough and this can cause confusion over the circumstances in which claims can be lodged and be deemed valid. We do not think it was clear, until the UNC231V discussions, that all applicable actions under the RES have to be completed before making a claim. In relation to the actions required it is not always possible to complete each action, for example, Action 5 (If payment arrangements are not agreed, or the full set of payments have not been completed, the supply of gas must be cut off, or disconnected, for more than 28 days), although the supplier will have incurred cost in pursuing the theft with no way of recovering these costs. We are not able to disconnect in all cases, and we will not disconnect where there is vulnerability at the premises.

In addition the current compensation amounts do not always allow suppliers to recover the actual or reasonable proportion of costs incurred and the amount of time and effort required to make a claim, which may then be rejected, outweighs any payment that would then be received. This in effect would add further cost onto theft detection.

We therefore believe that a move to increase the current compensation cap will be beneficial in providing a further incentive on suppliers to detect and investigate suspected theft. However, we do not believe that increasing the cap in isolation will provide a full solution. Hence, we are fully supportive of the Ofgem proposal that a review of the actions required to make a claim is conducted, irrespective of whether UNC0231V is approved, since they have not been materially amended since 1997, to ensure they remain fit for purpose.

- **Do you agree that the £1000 cap per allowance (apart from Allowance (vii)) is reasonable? Please provide supporting arguments.**

We agree the proposal cap of £1000 for each of the elements (apart from Allowance (vii)) is suitable to ensure that suppliers have the ability to claim for the actual costs they have incurred. ScottishPower's costs will vary in certain aspects, for example, an assessed account, on a case by case basis. We would not expect the cost of a visit to reach £1000, due to our economies of scale, but we recognise this may not be the case for all suppliers. Also, UNC0231V will only allow Shippers to claim for the actual costs incurred so this provides protection over any inflated claims to make a 'benefit' from theft detection.

- **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. –**

*Please consider the response to this specific question confidential.*

[...].

- **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 GT Licence to only make payments when the relevant criteria are met?**

We believe that the audit and compliance arrangements should be reviewed to ensure they are robust and fit for purpose. This is due to the fact that the revised compensation amount should result in more claims being made and suppliers being able to claim either actual or a high proportion of costs.

We would suggest this is conducted as part of the review of the required actions to make a claim. Although we wish a review to be conducted it is important to note that any changes have to be proportionate to risk. Therefore, we are not supportive of an overly onerous and costly audit process. This would have a negative result since the costs to support the process would outweigh the advantage of the increased compensation amounts, most likely resulting in a further change to increase the compensation amounts.

The audit and compliance process has to provide appropriate comfort that the implied requirement under SLC7 of the GT Licence, to only make payments when the relevant criteria are achieved, are met.

- **Would it be appropriate for suppliers to receive UNC231V compensation payments if the NRPS model was implemented, when they are not in control of the decision to detect or investigate theft and would not therefore be in a position to respond to the intent of the scheme to reduce supplier disincentives;**

We believe it would still be appropriate for suppliers to receive UNC0231V compensation payment if the NRPS model is implemented. Although suppliers will not necessarily be in control of the decision to detect or investigate theft the NRPS or the supplier (depending on which services in addition to the core service the supplier takes) will have completed any relevant actions, which will have incurred cost. Any cost that cannot be recovered should be able to be recouped via the RES. This fully supports the key principle established by the REAS that suppliers' compensation should be set at a level that removes any disincentives to investigate theft and reasonable endeavours should be used to recover the charges to which it is entitled.

- **If either the NRPS or SETs models were implemented, would UNC231V encourage suppliers to go over and above the performance anticipated by either model.**

ScottishPower do not believe that UNC0231V would necessarily encourage suppliers to go over and above the performance anticipated by either the NRPS or SETs models. The NRPS model will introduce a single body responsible for identifying potential theft, which in itself should result in more cases of theft being found. The introduction of UNC0231V should not effect this, however, what UNC0231V would do is ensure that suppliers can claim actual or a large proportion of costs. This in turn provides an incentive to detect and investigate instances of theft by ensuring the effect is cost neutral on suppliers. The SETs model will introduce a competitive framework with suppliers competing against each other to reach targets or face financial penalties. Therefore, we suspect that the result will be more claims to the RES.

- **Could UNC231V provide interim benefits before either the NRPS or SETs are implemented.**

We support Ofgem's proposal to consider UNC0231V in light of the development of the NRPS and SET schemes. We therefore recognise any decision will be held until after the completion of the Impact Assessment (IA) covering these broader theft developments. However, we do feel this modification has merits separate to the wider theft proposals and can be considered as a stand-alone modification. Hence, we would suggest that UNC0231V could be implemented in isolation. This should provide interim, and potentially ongoing, benefits for parties since they should be able to claim money that will cover costs, which is not currently the case.

- **Do you agree that an equivalent modification should be raised to the iGT UNC?**

Consistency between the large Transporters and the iGT's is sensible and we do not think it is appropriate to have different arrangements in place for large and independent transporters. Hence we do agree that an equivalent modification should be raised to the iGT UNC.

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

The proposal to amend SLC7 and each large Transporter REAS and RES is sensible and required to support the implementation of UNC0231V. As highlighted by the large Transporters in their responses to UNC0231V a double recovery could be created if the proposed consequential amendments were not made.

- **Views are requested on our proposed timetable to amend SLC7 and each large transporter REAS and RES.**

As a shipper/supplier we are comfortable with the timetable being proposed and think it is sensible to provide a shorter notice period to correspond with the implementation of UNC0231V, but suggest that the large Transporters are best placed to provide views here.

- **Do any of the proposed changes have potential detrimental consequences for the arrangements on iGT networks?**

There are no detrimental consequences for the arrangements on iGTs networks that should not be resolved as part of the price control review that is expected this year.

- **Do you agree with our further proposals to improve the drafting of SLC7?**

We do agree with Ofgem that the further amendments to rectify unintended errors, improve drafting and add clarity is appropriate. This would be sensible irrespective of whether or not UNC231V is approved.

We are generally happy with the proposed drafting. However, we do have a comment on the specific drafting amendments to SLC7(5) (c):

*'the licensee shall treat the amount of gas to which so much of the supplier's charges as have not been, and cannot reasonably be expected to be recovered, relate as not having been taken out of its pipe-line system by the relevant shipper....'*

The intention of this drafting is reasonable and we would not expect to be able to claim for money that had been recovered from the customer, but we think the drafting would

benefit from the removal of 'relate' to make this clearer and concise. So the condition would be:

*'the licensee shall treat the amount of gas to which so much of the supplier's charges as have not been, and cannot reasonably be expected to be recovered, as not having been taken out of its pipe-line system by the relevant shipper.....'*