



Steve Mulinganie  
Regulation & Compliance Manager  
Gazprom Energy  
Tel: 0845 2302058  
Mob: 07590 245256

E-mail: [steve.mulinganie@gazprom-energy.com](mailto:steve.mulinganie@gazprom-energy.com)  
[www.gazprom-energy.com](http://www.gazprom-energy.com)

Margaret Coaster  
Smarter Markets  
9 Millbank London  
SW1P 3GE  
[margaret.coaster@ofgem.gov.uk](mailto:margaret.coaster@ofgem.gov.uk)  
[Andrew.wallace@ofgem.gov.uk](mailto:Andrew.wallace@ofgem.gov.uk)

26<sup>th</sup> October 2011

Dear Margaret,

**Ref: Ofgem Consultation on Tackling Gas Theft**

**Due: 26<sup>th</sup> October 2011**

Gazprom Marketing & Trading Retail (GMT&R) trading as Gazprom Energy (GE) would like to thank you for the opportunity to respond to your consultation on Tackling Gas Theft. We are happy for our comments to be shared with interested parties

Gazprom Energy operates in the UK Non Domestic Sector as a Gas Supplier and a Gas Shipper. In addition we also operate in the UK Non Domestic Power Market.

We welcome the consultation and as well as Ofgem have been an active participant in the review of existing arrangements and the development of alternatives including the National Revenue Protection Service (NRPS) and Supplier Energy Theft (SETs) schemes.

Steve Mulinganie Regulation & Compliance Manager  
E-mail: [steve.mulinganie@gazprom-mt.com](mailto:steve.mulinganie@gazprom-mt.com) Mobile: 07590 245 256



Gazprom Energy **supports** the proposal to implement a **National Revenue Protection Service**. Gazprom Energy does not support the Supplier Energy Theft Scheme (SETs) proposal (including enhanced SETs).

Gazprom Energy carries out a number of pre checks on potential customers including Credit Checks to minimise risk on our business. This additional upfront cost is considered worthwhile as it reduces the overall risk to our business and maintains a high quality portfolio. We are also proactively rolling out Automated Meter Reading (AMR) across our portfolio which as well as requiring a detailed inspection of the insitu equipment as part of the installation process also provides remote granularity of consumption and identifies any significant variations in usage. Our AMR solution also incorporates an active tamper warning. We note Ofgem have highlighted these aspects of remote reading as delivering a positive impact on reducing gas theft.

In our market Sector many of our sites are read on a monthly basis and this provides for a regular inspection of the equipment. We of course require our meter readers to report any suspected theft which they may come across.

We believe our robust approach to ensuring a high quality portfolio is reflected in our practical experience of theft. As we have previously reported we have conducted a number of investigations of alleged theft using an independent Chartered Engineer however while we have identified some confusion when encountering Automated Meter Reading (AMR) equipment we have yet to find an authentic case of Theft.

Whilst we understand the proposed SETs scheme we believe that at best it provides only an enhancement of existing arrangements. In financially rewarding finding theft we believe it fails to recognise that some Suppliers take proactive action, up front, to manage risk on their portfolios and thus have a proportionally lower level of theft within their portfolios.

A reward scheme could have the effect of creating a “bounty” on consumers which could lead to inappropriate behavior by market participants looking to maximize the revenue opportunity.



As previously noted we believe the proposal for a single NRPS provides the best holistic approach to managing the unbundled competitive Supply Market.

We believe the NRPS will be able to deliver: -

1. A fair and consistent Consumer Experience

The NRPS will be independent in carrying out its role and Consumers will be treated consistently whoever the relevant Supplier actually is.

2. Transparent Approach & Risk Based Methodology

The NRPS will operate in an open and transparent manner providing a single central hub for managing Theft. Consumers, Consumer Bodies and Ofgem will be able to interact with the central body to ensure appropriate behavior is maintained.

A common methodology will drive consistent and transparent behavior and reporting

3. A Single Industry Message

The NRPS will be able to deliver a single industry message which transcends all market participants. It will provide a clear and consistent message when dealing with Theft. The NRPS will be able to communicate common messages across the market.

4. A Consistent Treatment

Consumers will be assured that the industry's approach to detecting and managing theft is consistent and that they will be treated in an even handed manner.

5. An Enduring approach

By providing a centralized industry approach we will provide a stable and predictable model for managing theft into the future. We will also be able to identify best practice and incorporate it for the benefit of the whole market.



As markets change and new technologies evolve including Smart Metering the benefit of a centralized approach which can take into account these changes will we believe enhance theft detection e.g. the NRPS may be able to benefit from a level of data granularity arising from the Smart Metering Program which may be greater than that which consumers would be happy to see supplied to individual Suppliers.

#### 6. A Solution for managing Change of Supplier events

We see one of the main benefits of a centralized approach will be to avoid the fragmentary approach which currently occurs in particular when a consumer changes Supplier prior to or during an investigation. E.g. If a consumer suspects they are being investigated they may initiate a CoS hoping to “restart the clock”. The NRPS will have the complete overview and will be neutral to any CoS event.

#### 7. Best Practice

By having a holistic view of the market the NRPS will be able to roll out best practice across the whole market instead of individual Suppliers enhancing their own operations.

#### 8. Supports Innovation

We believe the NRPS will provide a focus for dealing with Theft of Gas and that it will develop initiatives based on its developing experience of the market. As the industry “expert” the NRPS will also be able to look at initiatives which deliver benefits across the whole market.

#### 9. Creates Efficiency

We believe that a centralized holistic approach will deliver the most efficient approach to managing theft across the whole market. The NRPS will be focused on actively managing theft and will be able to leverage economies of scale which are unavailable to many smaller market participants.



## 10. Performance Assurance

While we recognise that initially a performance framework may be difficult to establish we believe that the NRPS should be funded and expected to deliver a performance that as a minimum aligns with the view of the “best” current market operation.

The current high level performance is estimated to be 18,000 leads with 6,000 actual thefts detected and this suggests a 33% conversion rate.

We also recognise that as the NRPS develops the industry will obtain a greater understanding of its potential and that we should then design an appropriate Performance Framework and Incentive scheme. It is expected an appropriate framework would be developed during the early years of the NRPS operation.

## 11. Developing Products

We would expect the NRPS to develop products for the industry to enhance the detection & management of theft e.g. providing centralized laboratory services

## 12. Deterrent Effect

We believe the presence of a dedicated centralized NRPS which actively monitors the whole market will have a deterrent effect on consumers who may consider inappropriate behavior. The NRPS “brand” could also be promoted on an industry wide basis providing consistent messages to consumers on the safety risks associated with interfering with equipment.

## 14. Pooling Information

As we have seen demonstrated in other markets the NRPS will be able to benefit from pooled information from the whole industry. As the information will be provided to an independent party whose sole focus is Theft detection we should be able to benefit from the granularity arising from Smart Metering without being open to the challenge that the data is being used for ancillary purposes.

E.g. Use of common data across multiple contracts e.g. mobile phone number

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E-mail: [steve.mulinganie@gazprom-mt.com](mailto:steve.mulinganie@gazprom-mt.com) Mobile: 07590 245 256



#### 15. Consistent Approach across Markets

We note that DCP054 workgroup has considered the application of NRPS to electricity. The Group has also considered SETS but does not support taking this proposal forward.

#### 16. Provision of Field Services

We believe the provision of centralized Field Services by the NRPS will help with consistency and will also allow smaller Suppliers to access the economies of scale available to the NRPS. In particular when putting in place a UK wide field services product.

#### 17. Supports Smaller Suppliers and new Market Entrants

An NRPS will ensure that smaller Suppliers and new market entrants will be able to leverage current industry knowledge and working practice and be able to integrate into the market seamlessly.

We have set out our specific responses to your specific questions in the attached appendix.

If this information meets your requirements however if you have any queries please do not hesitate to contact me directly.

Yours Sincerely

Steve Mulinganie  
Regulation & Compliance Manager



## Appendix 1 – Ofgem Questions

**Question 1:** Do you agree with our proposals to introduce new gas supply licence obligations in relation to theft?

While we support the general thrust of the proposals it is unclear why linking theft and damage is appropriate. Damage could occur for a number of reasons and it is not necessarily linked to Theft. If concerns exist over damage perhaps these should be covered in a separate licence obligation to avoid confusion.

As part of our existing arrangements with our Meter Readers we require any physical read to include an inspection which covers checking the general condition of the meter and looking for signs of tampering or damage and reporting them accordingly.

Currently if we become directly aware of any damage to the metering equipment we would initially report the matter to the Emergency Service Provider to ensure the installation is checked for safety.

In terms of existing operation we investigate any suspected report of Theft

**Question 2:** Do you agree that our drafting proposals set out in Appendix 3 meet the policy intent described in this chapter?

We are unclear how the wording in 1.1 (iv) would be achieved in relation to “the physical security of the supply” and would be grateful for clarity on this point as we are [unable to] carry out actions upstream of the ECV.

In terms of 1.2 is this not a repetition of the “all reasonable steps” obligation already set out in 1.1?

In 1.3 should the reference be to “relevant” conditions

Even though damage is in the title Conditions 1.5-1.7 make no reference to damage in terms of scope. As previously noted we do not see the benefit of including damage within Theft

The Theft Arrangement is not clearly defined is this the Code of Practice?



In terms of the Standards for theft investigation the majority of obligations relate specifically to Domestic customers therefore should the clause be split between domestic and non domestic.

**Question 3:** Do you consider that our proposal for gas suppliers to make reasonable efforts not to disconnect vulnerable customers should apply throughout the year or be restricted to the winter months?

While we understand the need to protect vulnerable customers during winter months however we do not see the need to extend the existing arrangements throughout the year.

**Question 4:** Do you consider that gas suppliers should be required to offer vulnerable customers and customers that would have genuine difficulty paying, a wide range of methods for the repayment of charges associated with gas theft as an alternative to disconnection?

Gazprom Energy does not operate in the domestic market and therefore are unable to comment on the provision of suitable payment methods in this market

**Question 5:** Do you consider that Ofgem should include a licence requirement on all suppliers to establish a code of practice on, among other things, theft investigations?

We believe a common code of practice would provide a baseline for the NRPS in carrying out its functions consistently and as such any Code of Practice should clearly distinguish between the Domestic and Non Domestic Markets.

We do not believe that the current SPAA arrangements are fit for purpose and therefore have concerns over the imposition of an obligation to be party to the SPAA in respect of a Code of Practice. In such circumstances we would be concerned with the consequences of SPAA making arbitrary changes to the CoP which could have the effect of placing us in breach of our licence.





**Question 6:** Do you agree that our proposed new gas supply licence should be introduced as soon as reasonably practical?

We believe that any revised licence conditions should be implemented in line with the lead times for implementing the proposed solutions.

**Question 7:** Have we correctly assessed the main impacts in the accompanying IA? Are there additional, material impacts that we should consider?

Yes

**Question 8:** Do you agree with the assumptions that we have made and the outcome of our analysis in the accompanying IA?

Yes

**Question 9:** Which, if any, of the three proposals to increase theft detection should be implemented and why?

Gazprom Energy **supports** the proposal to implement a **National Revenue Protection Service**. Gazprom Energy does not support the Supplier Energy Theft Scheme (SETs) proposal (including enhanced SETs).

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E.g. Use of common data across multiple contracts e.g. mobile phone number

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We believe the provision of centralized Field Services by the NRPS will help with consistency and will also allow smaller Suppliers to access the economies of scale available to the NRPS. In particular when putting in place a UK wide field services product.

## 21. Supports Smaller Suppliers and new Market Entrants

An NRPS will ensure that smaller Suppliers and new market entrants will be able to leverage current industry knowledge and working practice and be able to integrate into the market seamlessly.

**Question 10:** Do you consider that there are any alternative proposals, or variations on existing proposals to improve theft detection that should be considered?

We believe a significant amount of work has been put into the development of the NRPS and that it represents the best approach to addressing concerns over the detection of theft



**IA Question 1:** What do you consider to be the scale of theft in the GB gas market? Do you consider that there is a material difference in the prevalence of gas theft between suppliers' customer portfolios? What factors drive any considered difference in theft distribution?

In the absence of definitive data we believe a starting point of 18,000 leads with 6,000 actual thefts detected (33% conversion rate) provides a suitable starting point for scaling services.

We believe there is a material difference between the prevalence of theft on different portfolios. Based on Suppliers historic positions and the level of validation undertaken at customer take on.

BG as the incumbent Supplier will have started with all theft within its portfolio. As the market opened to competition it is doubtful that those parties stealing gas will have wished to raise their profile and receive cheaper gas and a physical opening read visit by electing to move away from the incumbent.

As we have previously stated we undertake credit and other checks as a matter of course before entering into contract with a customer and thus we believe our portfolio to be of a high quality and therefore less prone to theft. Due to the nature of our portfolio we also read many of our customer's sites on a monthly basis and are also proactively rolling out AMR which again means we have an increased level of oversight of our customers. Although we have carried out investigations in the past into alleged theft we have yet to find an actual proven case of theft on our portfolio.

**IA Question 2:** Where theft has been detected, how long on average would you expect future revenues from a customer to fully reflect their consumption, i.e. what is the expected reoffending rate over time. Do you expect there to be a material difference under each of the three proposals?

As previously noted we have not found a proven case of theft on our portfolio. However we note that a centralised NRPS would be better able to detect reoffending if a customer attempts to change Supplier when being investigated or moves property were they may attempt to re-offend.



**IA Question 3:** For each industry proposal, are the proposed compliance measures sufficient to ensure suppliers conduct investigations to satisfactory standards and thereby protect customer interests? Are there any further measures that should be introduced to help address any perceived weakness?

We believe the NRPS model provides a common framework which supports compliance. We also believe the audit regime will ensure Suppliers undertake investigation to an appropriate standard.

**IA Question 4:** Are there any material differences between suppliers' ability to compete for incentive payments between UNC277 and UNC346? Would Enhanced SETS address any potential concerns raised about suppliers' ability to compete?

As previously noted we believe a SET's based approach could lead to customers being targeted inappropriately. A reward scheme could have the effect of creating a "bounty" on consumers which could lead to inappropriate behavior by market participants looking to maximize the revenue opportunity. We also note that the potential number of thefts will vary by Supplier due to each Supplier's historic position and the robustness of validations undertaken when taking entering into a contract with a customer.

**IA Question 5:** Do you consider that the current NRPS proposal is likely to establish and realise targets for theft detection that are proportionate to the potential customer benefits? If not, what additional measures do you think are needed to meet this aim?

We believe the proposed volumes provide a suitable start point for the NRPS with appropriate Performance Assurance framework being developed once the scheme has bedded in.



**IA Question 6:** Would the NRPS prevent some suppliers from realising additional commercial benefits from theft detection that may be available to them, e.g. by going further than the NRPS mandated investigation requirements? Would the focus of the NRPS proposals on data analysis reduce the overall efficiency of the market in theft detection by excluding investment in other sources of detection?

We believe the NRPS provides a common and consistent approach to Theft Detection which would improve the overall level of performance. In terms of innovation we believe the NRPS would have a positive effect on delivering industry wide initiatives and best practice.

We do not see the link between the NRPS carrying out industry wide analysis and the exclusion of investments in other sources of detection if commercially viable to an individual party. In fact we would hope that by being centralised the NRPS would be better placed to deliver innovation as the benefits would be shared across the whole market.

**IA Question 7:** For each of the three industry proposals, is a scheme necessary to compensate a supplier when it is not able to recover its costs from theft?

We would note that the existing scheme has little uptake and this is due to its complex and bureaucratic nature. As the leads will be generated centrally and an investigation must be undertaken to an agreed standard we do not see the need for a specific scheme rather the costs lie with the relevant Supplier and are a result of the nature of that Suppliers portfolio.

**IA Question 8:** Do you consider that cost and availability of services to support theft detection and investigation is a material issue for small suppliers?

We agree that for smaller Suppliers the cost of putting in place arrangements to respond to leads is expensive and smaller cannot leverage the economies of scale of larger Suppliers e.g. short notice call out and UK wide coverage for low volumes of leads.

We would hope the NRPS ability to provide investigation services would help make it easier for smaller Suppliers to access high quality investigative services while benefiting from the NRPS size to reduce costs.





**IA Question 9:** What percentage reduction in consumption would you expect customers to make when an illegal gas supply is detected? To what extent do you consider that this would result from a response to increased costs and/or an increased propensity to invest in energy efficiency measures?

As previously noted we have not found a proven case of theft on our portfolio. However it seems obviously that someone stealing gas will have no reason to moderate their usage so it would seem reasonable to assume a significant reduction in use would take place post theft.

**IA Question 10:** Do you have any further information on safety incidents where harm has directly resulted from theft of gas.

As previously noted we have not found a proven case of theft on our portfolio.

**IA Question 11:** Do you consider that any of the proposals are likely to reduce the health and safety of any particular individuals?

We believe the NRPS will have a positive effect in reducing risk as we believe it will increase the detection of theft earlier which will reduce the period during which gas may be off taken in an unsafe manner.

**IA Question 12:** Which proposal do you consider will have the greatest overall benefit on health and safety?

We believe the NRPS will have the greatest long term benefit

**IA Question 13:** Do you consider that the proposed implementation timescales for each proposal are realistic and achievable. If not, what do you consider to be a realistic timeframe? What additional measures, if any, do you consider should be undertaken to secure implementation within a reasonable timeframe?

We believe the NRPS timelines are realistic



**IA Question 14:** Do you consider that gas transporters should be required to adhere to a code of practice on the conduct of theft investigations?

Yes

**IA Question 15:** What impact will either of the three industry proposals have on the annual number of investigations of theft in conveyance that gas transporters undertake and the total cost of undertaking these?

It seems logical that the NRPS will identify theft both before the ECV and after the ECV as the analysis would not consider the potential location of the illegal connection. Therefore we would expect the number of investigation to increase.

**IA Question 16:** What, if any, changes to the regulatory arrangements need to be made to enable gas transporters to adhere fully to their requirements to conduct theft investigations?

It seems logical that if the NRPS is adopted then its scope could readily incorporate upstream theft analysis.