



Margaret Coaster
Smarter Markets
Ofgem
9 Milbank
London
SW1P 3GE

margaret.coaster@ofgem.gov.uk

Shell Gas Direct Ltd
Gas & Power
1-3 Strand
London
WC2N 5EJ
United Kingdom
Tel +44 (0)20 7546 2460
Fax +44 (0)20 7257 0101
Email: amrik.bal@shell.com
Internet
<http://www.shell.com/gasdirect>

26 October 2011

Dear Margaret

Ofgem Consultation - Tackling Theft (ref 112/11)

The following comments are offered on behalf of Shell Gas Direct (SGD) Ltd, the holder of both gas shipper and (non-domestic) supplier licences. SGD is part of Shell Energy Europe Ltd, Shell's pan-European gas, power and CO trading and marketing arm. This response is not confidential.

SGD welcomes the opportunity to comment on the issues addressed in the document and accompanying Impact Assessment (IA). The theft of gas has a number of negative impacts both for customers and consumers, as well as the industry at large; for the former, primarily in terms of additional costs, for the latter in terms of competition. It must therefore be in the interests of all stakeholders to ensure that the level of theft is reduced.

While this is an exercise for all parties, the responsibility, at least initially, lies with shippers & suppliers. In particular, it should be up to these parties to develop and reach agreement on a way forward that first identifies the causes of theft to enable its ultimate reduction.

Of the three industry initiatives currently under consideration, the most cost-effective and the one with the greatest degree of industry-wide support is the National Revenue Protection Scheme (NRPS), a proposal being developed by the Gas Forum. SGD supports development of the NRPS approach as the most appropriate means of introducing a harmonized, industry-wide and enduring approach to the issue of theft of gas.

Answers to some questions are contained in Appendix 1. While we have not sought to provide a response to each and every question, SGD remains willing to discuss its views with Ofgem on any or all of the issues considered in this consultation.

Please do not hesitate to contact me should you wish to discuss these comments or any other part of our response.

Yours sincerely

Amrik Bal
Commercial and Regulatory Affairs Manager, Shell Energy Europe Ltd

Please note as this letter has been delivered electronically this letter is unsigned

Appendix 1

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

SGD agrees that a new industry approach to theft is necessary as current arrangements can be enhanced to provide a consistent approach to tackling the issue. Introducing new licence obligations would ensure that there is a consistent approach and also provides clarity for Suppliers.

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

SGD has no substantive comments to make other than to say that policy intent described in Chapter 2 appears to be adequately reflected in the proposed Supply Licence changes. Overall, the policy intent and proposed licence changes seem a reasonable and proportionate response to the issue of theft of gas.

We would, however, suggest that:

- changes to the drafting may be required depending on which of the policy options is chosen; and
- any 'domestic' obligations should be restricted to the domestic supply licence conditions.

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?

In broad terms SGD welcomes measures that protect vulnerable customers. However, consideration must also be given to the range of measures available in the event that any such customer is complicit in either stealing energy or allowing energy to be stolen at their premise to ensure that they do not unfairly profit from criminal activity.

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?

While SGD understands the driver behind this question, the wording and intent is too lax for inclusion in the licence. A judge would almost certainly be required to provide a view on a supplier's interpretation of this phrase.

Ofgem is already working on measures under the Retail Market Review discussions to ensure suppliers treat customers in debt in a fair and reasonable way, including working with customers who have difficulty paying to find fair and reasonable solutions. SGD believes that the same protections should ultimately apply to all customers.

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?

SGD supports establishing a code of practice amongst suppliers, in theft and in other areas, where this is possible. SGD is currently participating in developing a code of practice for the installation of smart meters and customer back-billing and can see the benefits both to customers and suppliers of standardization. We do however strongly believe that where it not possible to introduce a single code of practice that covers both Domestic and I&C suppliers that the reasons for this are recognised and separate codes implemented, rather than ending up with something that is not completely fit for purpose for either market sector.

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

Given that a supplier's current methods for tackling theft may vary significantly, timescales for introducing new licence conditions would need to reflect this. Some suppliers may have to introduce significant changes to existing business processes and recruit additional resources to ensure licence obligations could be met. The timeframes would also depend on which proposal was implemented, as in the NPRS proposal, the establishment of the central database and availability of support services would be on the critical path. We therefore believe it would not be advisable to introduce licence obligations until these were established.

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

SGD supports implementation of the NRPS proposal. As a relatively small supplier, compared with the "Big 6 Domestic" suppliers (SGD supplies both SSP and LSP) we feel that centralising data analysis to highlight high risk areas, the sharing of best practices and the development of a central source of support services would result in a greater number of thefts being detected by smaller suppliers. Such suppliers may not otherwise have the resources available to improve the way in which theft allegations are currently investigated.

We also believe that establishing a 24 hour hotline for tip offs on suspected theft of gas will provide the industry with valuable leads and information, which will help strengthen the case against customers being accused of theft.

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

SGD believes that there has been sufficient industry discussion on the topic of theft and the proposals that have been raised cover the potential ways in which the issue could be tackled. We therefore do not have an alternative proposal we wish to be considered.

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?

The scale of theft of gas is difficult to determine. However, recent independent assessments by TPA Solutions (as part of the development of UNC Code Modification 0229) and the more recent study by GL Noble Denton in its role as AUGÉ, would seem appropriate starting points.

Levels of theft between portfolios of suppliers are also likely to be significantly different based on a number of factors that both individually and collectively can have a significant effect. These factors include market sector; geographical presence; the incentive to switch and route to market; credit checking, metering; and meter reading regularity.

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?

SGD would support the sharing (de-sensitised) with the industry of data following implementation & the implementation within the appropriate industry work forum of a group(s) to discuss.

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?

We believe that there is a material difference between UNC 277 (market share of supply points) and UNC 346 (market share of throughput). For example, a smaller I&C suppliers with a portfolio of mainly large consuming daily metered customers would be expected to fund the scheme and detect high rate of theft in a sector of the market where we believe it is most unlikely that theft is occurring.

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?

SGD believes that the NRPS is the most effect and efficient mechanism for detecting and recovering theft. Against the backdrop of the levels of theft identified in the AUGE Statement, the targets appear very achievable. These targets should be assessed on an annual basis.

IA Question 6: Would the NRPS prevent some suppliers from realising additional commercial benefits from theft detection that may be available to them, eg 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?

SGD does not believe that suppliers should benefit commercially from theft by their customers. The NRPS ensures that suppliers would not gain in such a way; the pressure for constant improvement on the part of the NRPS would be service and licence driven and not with commercial gains in mind.

It is not immediately clear why the NRPS would exclude investment in other sources of detection (whatever these may be). Indeed, it could be equally the case that the development and use of other forms of cost-efficient detection could be incorporated in the NRPS model.

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?

SGD believes that it is necessary to compensate a supplier when theft costs cannot be recovered. Without the ability to claim compensation, the supplier would bear all the costs, despite having followed all the agreed steps throughout the investigation to try to prove that theft has occurred.

Failure to agree compensation terms for unrecoverable thefts, could act as a disincentive for investigation, within certain activities / areas that currently are or become identified as "high risk".

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?

As indicated in previous answers, SGD does consider that cost and availability of services is a material issue for small suppliers. SGD believe that the specific & detailed skill sets required of revenue protection / threat detection investigation agents, on a case by case example, may well have a material impact upon smaller suppliers.

Larger suppliers have the necessary resources to be able to create their own central team to analyse data, investigate large volumes of suspected cases of theft, are able to collect more evidence on methods in which consumers are using to bypass meters and develop expertise in proving where theft has occurred. We feel that such a function can only be replicated for smaller suppliers via the NRPS model.

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?

This is a difficult point to address as the most common ways in which theft occurs results in an impression that no energy has been consumed, eg. by-passing the meter will show zero consumption.

In time, such a flaw will be remedied by the rollout of smart and advanced meters.

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

SGD believe that it is the responsibility of each supplier to:

- implement appropriate risk assessment & standard operating practices; and
- take due care & consideration for the well being of any agent that it engages to undertake consumer facing activity in order to meet the new licence conditions.

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

SGD supports the NRPS proposal. The centralizing and sharing of data & knowledge in an iterative way thereafter will be the biggest overall beneficial contributor to health & safety.