



Margaret Coaster
Ofgem
9 Millbank
London
SW1 3GE

SSE
Inveralmond House
200 Dunkeld Road
Perth
PH1 3AQ

31 October 2011
Steven.Findlay@sse.com
01738 516852

Dear Margaret,

Tackling gas theft

SSE is pleased to provide comment on the above consultation. We have provided answers to the questions posed within the consultation in the attached annex.

SSE is supportive of Ofgem's proposals in relation to the detection, prevention and investigation of theft. We recognise that theft has been a problem in relation to gas and welcome Ofgem's indication to bring the obligation more in line with electricity. We are however, concerned that the proposed licence conditions are repetitive and could potentially result in double jeopardy.

Also, we are slightly concerned that Ofgem consider that further consumer protection is required for vulnerable customers. Regardless of whether theft has occurred, SSE will always take the customer's ability to pay into account prior to disconnection. We always do our utmost to ensure that a customer remains on supply and would never knowingly disconnect a vulnerable customer at any time of year. It is already in a supplier's interest to ensure that the charges for disconnection are recovered through whatever means possible. We are therefore disappointed that Ofgem considers it necessary to regulate in this area.

Whilst SSE would support the idea of the NRPS mechanism suggested within chapter three providing a national lead and focus in relation to theft we believe that the data analysis aspect should be delivered in line with smart metering. Ofgem need to give due consideration to the existing and planned central data repository bodies that are and will be established to manage data flows between the various industry parties. Whilst we consider the NRPS to be the most suitable of the three ideas, we would suggest that, should Ofgem decide to implement this proposal, it should give due consideration to the role that these bodies, for example the DCC, could undertake in relation to theft. Additionally we ask that, should Ofgem decide to introduce the NRPS in the short term, that the possibility of Xoserve undertaking this work on a user-pays basis be given proper consideration, to further reduce costs to the Industry.



We believe that industry should be united in its efforts to tackle theft rather being put in competition with each other to increase theft detection activity. SSE does not believe that this is a suitable incentive mechanism and would rather incentivise an independent organisation to detect theft and monitor the performance of suppliers to ensure that Industry activity is fair and equitable. This will lead to increased theft detection, ultimately leading to an overall reduction in theft activity. We have detailed our concerns in the attached annex.

In conclusion, whilst SSE is supportive of Ofgem's proposed licence conditions to reduce theft we do not agree with the proposed methods by which it is proposing to allow for greater detection of theft. We also do not agree with the current draft of the proposed licence conditions. Also, we do not consider that further regulation is required in order to protect vulnerable customers as SSE already offers customers this level of protection due to commercial incentives to recover debt and also through the ERA Safety Net.

Please call me if you have any questions

Yours sincerely

Steven Findlay

Regulation

Annex

CHAPTER: Two

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

SSE agrees in principle with the proposal to introduce licence conditions in relation to the detection, prevention and investigation of theft. Additionally, we do consider it is appropriate to oblige the industry to ensure cooperation in developing an industry centralised process.

However, we do not believe it is reasonable for Ofgem to introduce both an objective and more detailed licence requirements e.g. licence condition 1.5. We believe this to be repetition and that given the existing statutory obligations on suppliers there is a risk of double jeopardy. We intend to make a further submission to Ofgem on the content of the licence conditions in due course.

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

Yes, SSE agrees the proposed licence conditions will achieve the desired effect. However, SSE does not agree with the proposal to introduce further consumer protection obligations as detailed above and also believe that it is not reasonable for Ofgem to introduce both an objective and more detailed licence requirements e.g. licence condition 1.5 as detailed in our response to question one..

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?

SSE believes that this should only be restricted to the winter months as this is consistent with other licence obligations. SSE would never knowingly disconnect a vulnerable customer whether for theft or any other reasons during any time of the year. However, where it is imperative that a customer must be disconnected for safety reasons (SSE has previously been instructed to disconnect by the police) suppliers should have the ability to do so. We would then use best endeavours to ensure that a customer was reconnected as soon as reasonably practicable.

The ERA Safety Net covers circumstances whereby a customer is struggling to pay for their energy and ultimately fall into arrears. In some scenarios, a customer genuinely struggling to pay for their energy they may decide to steal the energy in order to avoid paying for it. Therefore these customers will not be disconnected regardless of whether a theft has occurred.

However, SSE would recommend that Ofgem allow suppliers to disconnect persistent offenders on the basis of potential safety implications.

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?

Yes, SSE currently undertake this process. We consider it to be in the supplier's and the customer's interest to ensure an appropriate payment plan is agreed to recover the charges for the supply of gas and any outstanding charges.

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 and the detailed arrangements for compliance with our proposed consumer protection measures?

SSE agrees with the proposal to introduce a theft code of practice. This will ensure consistency between suppliers in dealing with specific situations. We do however believe that Ofgem should introduce an obligation on Industry and Commercial (who generally supply the larger non-domestic sites) to comply with the code to ensure further consistency.

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

SSE agrees with the principle to introduce the licence condition to prevent, detect and investigate theft, however we do not agree to introducing further protection for vulnerable customers given that we consider adequate protection to already be in place for these customers.

It is also inevitable that any proposed changes will require a significant lead time in order for suppliers to introduce these requirements and ensure compliance. Also, should Ofgem decide to introduce one of the proposed schemes SSE is very concerned about the level of change that is currently required to support other Government lead proposals now and in the coming years. The costs of which will inevitably be passed onto the end consumer.

CHAPTER: Four

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

Yes, SSE agrees that the majority of situations have been accounted for. However, we believe the visibility of a National Revenue Protection Service that will act as a significant deterrent to theft and this impact should also be considered.

Question 8: Do you agree with the assumptions that we have made and the outcome of our analysis in Appendix 2 of the accompanying IA?

Yes, SSE is in broad agreement with the assumptions made by Ofgem.

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

NRPS

Given the current pressures on industry to deliver various other major industry changes that are expected in the near future we do not consider it appropriate for Ofgem to oblige suppliers to implement yet another project. The significant resource required to ensure the efficient delivery and success of such schemes may prove as a distraction to the delivery of other key Government objectives. For example Green Deal, Mandatory Smart Rollout, EU Third Package requirements, Information on Bills, Retail Market Review, Spring Package Consumer Protections etc. Each of these will require significant IT investment in order to achieve their full potential.

Whilst, out of the three proposals, SSE would favour this one, we still consider it not to be appropriate in its current form. In order to ensure maximum benefit from a central body such as the NRPS, we believe its remit should be extended to cover for scenarios of fraud, vacant properties, shipper-less and unregistered sites. In theory, this would allow suppliers to prevent customers attempting to indicate that a change-of-tenancy has occurred in order to avoid debt payments. This would help strengthen the cost benefit analysis for this solution and costs to legitimate consumers should fall.

Should Ofgem decide that the NRPS is required prior to the mandated smart metering roll-out, SSE suggests that Xoserve would be best placed to undertake an NRPS function. As all



of the major suppliers currently provide Xoserve with metering information we would suggest that Xoserve introduced a system capable of producing risk profiles for each metering point in order to identify sites that suppliers would be obliged to investigate. As suppliers currently send this information to Xoserve it would also prevent the need for suppliers to send these flows to a third party at an added cost.

SETS

We believe that industry should be united in its efforts to tackle theft rather being put in competition with other suppliers to increase theft detection activity. An incentive regime that focuses on the theft detection performance of other suppliers can incentivise other undesirable behaviours.

This proposed scheme will benefit the incumbent gas supplier due to the historic nature of the gas market. The incumbent supplier will inevitably have a wealth of data over and above that available to the other suppliers who have more recently entered the gas market. Also, the incumbent gas supplier will have a higher proportion of theft within their portfolio due customers, who have been successful in their attempts to steal gas, not requiring to switch providers.

Additionally the SETS scheme operates on the assumption that theft is spread evenly throughout Great Britain, which we do not believe to be the case. Also, there would be no cap on how much the industry spends on theft and the actual spend of each supplier would be determined by the performance of other suppliers..

The scheme also creates a disincentive for suppliers' cooperation, by sharing information that would enable greater theft detection for example. However it does incentivise an aggressive approach to defining a case as theft. Where Ofgem determine the measurement of success based on the volume of gas stolen, it will inevitably lead to the inflation of these volumes due to these being estimated. SSE is also concerned that any auditing undertaken as part of the SETS scheme will be inconclusive due to the evidence of theft having been removed, the lack of willingness of the consumer to being interviewed and the inability to revisit premises in order to verify the supplier's position.

Enhanced SETS

Our concerns highlighted above are also attributable to Enhanced SETS.

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 have set out our proposed alternative in response to Q9.