

Tackling gas theft: the way forward

Consultation

Reference: 35/12

Publication date: 26/03/2012

Response deadline: 30/04/2012

Contact: Andrew Wallace

Team: Smarter Markets

Tel: 020 7901 7067

Email: andrew.wallace@ofgem.gov.uk

Overview:

We consider that the existing regulatory framework does not adequately encourage suppliers to be proactive in detecting and preventing theft of gas. This is important because theft of gas has a material impact on consumers in terms of cost and safety.

This document sets out our final proposals on a new licence condition for gas suppliers on tackling gas theft and enables an accompanying requirement to introduce a central service to profile the risk of theft at premises. It also sets out principles that we consider should be adopted in a scheme to provide incentives for gas suppliers to detect theft, as well as other supporting measures.

Context

This document reflects the commitment set out in Ofgem's Corporate Strategy and Plan 2010-15, to support industry initiatives to introduce revised theft arrangements and consider whether further action is required.

Our proposals support several key themes outlined in our Corporate Strategy and Plan. These include promoting value for customers, protecting the interests of vulnerable customers and helping to maintain security of supply.

The focus of this document is on the gas market. We aim to bring forward proposals for reform in the electricity market, where necessary, later this year.

Associated documents

[Tackling gas theft – Consultation, August 2011. Ofgem \(Ref: 112/11\)](#)

[Tackling gas theft – Draft Impact Assessment, August 2011. Ofgem \(Ref: 112A/11\)](#)

[NRPS Workgroup Report to Ofgem, 16 June 2011. Gas Forum](#)

[The Creation of a Revenue Protection Activity Co-ordination Agent \(RPACA\) and a Central Revenue Protection Unit \(CRPU\), 8 April 2011. British Gas](#)

[UNC277 - Creation of Incentives for the Detection of Theft of Gas \(Supplier Energy Theft Scheme\), Final Modification Report, 21 January 2011](#)

[UNC346 - An Alternative to the Supplier Energy Theft Scheme Based on Throughput, Final Modification Report, 21 January 2011](#)

[Theft of Gas and Electricity - Next Steps, January 2005. Ofgem \(Ref: 06/05\)](#)

[Theft of Gas and Electricity - Discussion Document, April 2004. Ofgem \(Ref: 85/04\)](#)

Contents

Executive Summary	1
1. Introduction	2
Structure of this document	3
2. Enhancing supplier obligations	4
Proposed licence condition on gas suppliers to tackle gas theft	4
Code of Practice for theft investigations	10
Timing of implementation	11
3. Assessment of industry proposals	13
Updated assumptions	13
Updated analysis on industry proposed schemes	14
Conclusion	16
4. Ofgem proposals to improve theft detection	17
Improving incentives	17
Assessing theft risk	19
Additional supporting measures	21
Overall assessment of our proposed package of measures	23
Existing compensation arrangements	23
Impacts on gas transporters	24
5. Conclusion and next steps	26
Implementation arrangements and timescales	26
Other sources of unaccounted for gas	28
Electricity theft	29
Appendices	31
Appendix 1: Consultation Response and Questions	32
Appendix 2: Summary of responses	34
List of respondents	34
Summary of responses	34
Appendix 3: Statutory consultation on amendment to the Gas Supply Licence	41
Appendix 4: Draft Direction to implement Theft Arrangement	48
Appendix 5: Glossary	56
Appendix 6: Feedback Questionnaire	59

Executive Summary

Theft of gas increases the costs paid by customers and can have serious safety consequences. It also leads to a misallocation of costs among suppliers, which can distort competition and hamper the efficient functioning of the market.

Ofgem is keen to see action taken to reduce the amount of gas theft. We proposed in August 2011 to make changes to the regulatory framework for tackling gas theft. We also proposed to add impetus to the process of industry-led reform. Consultation responses were broadly positive about our proposed approach.

Final proposals

In the light of responses to our August 2011 consultation, we have concluded that changes should be made to help ensure that the regulatory arrangements – and the actions taken by participants within that framework – act in the best interests of consumers. The aim of these changes is to:

- Strengthen the obligations on gas suppliers to detect, prevent and investigate theft,
- Improve the incentives on individual suppliers to detect theft,
- Improve the ability of suppliers to collectively assess the risk of theft occurring, and
- Improve the standards of investigations into suspected theft

Next steps

In order to implement these changes, we are taking the following steps:

- Introducing a new licence condition for gas suppliers. This document constitutes a statutory consultation on these proposed new obligations. Responses are requested by 30 April 2012.
- Directing suppliers, in accordance with the new licence condition, to put in place a central theft risk assessment service. This document consults on a draft Direction. Responses are also requested by 30 April 2012.
- Setting out the principles behind an incentive scheme to increase theft detection that we would like the industry to develop for inclusion in industry code arrangements.
- Supporting industry participants in developing a code of practice for how suppliers and gas transporters should undertake theft investigations.

Subject to responses to consultation, we aim to introduce the new licence obligations by summer 2012. We would then expect the incentive scheme and the code of practice to be in place by the end of the year, with the theft risk assessment service to be operational by the end of 2013.

We intend to consider later in the year potential changes to the regulatory framework for tackling theft in the electricity sector. Where appropriate we will draw on the principles that we have established for the gas sector.

1. Introduction

1.1. Theft of gas has safety implications for consumers that undertake the theft, other individuals in close proximity, industry staff that work on the physical gas infrastructure and the emergency services. Theft also increases costs for consumers. This is estimated by the industry to be up to around £6 per gas customer per year.¹

1.2. We welcome the efforts made by the industry to bring forward changes and improvements to the arrangements to tackle gas theft.² This is a key area where we consider that changes should be made to protect consumers' interests.

1.3. In August 2011 we consulted on measures to improve the arrangements for tackling gas theft.³ These included a proposed new Gas Supply Standard Licence Condition (SLC). We also consulted on three industry proposals to improve theft detection⁴. Our analysis of these proposals was supported by a draft Impact Assessment (IA).

1.4. We received 24 responses to the consultation. Respondents were broadly supportive of our proposal to introduce a new Gas Supply SLC, although there were comments on the proposed content. Parties also broadly supported new arrangements to increase theft detection and expressed a range of views on which aspects of the three proposed schemes should be progressed. A summary of responses is set out in Appendix 2.

1.5. This document sets out final proposals for reform that we consider should be implemented to tackle gas theft. In developing these measures we have taken respondents' views into account.

¹ The AUGE (an independent expert appointed with the aim of quantifying and allocating an appropriate share of unaccounted for gas to the LSP market) has published an initial statement which indicates volumes of gas associated with different sources of unaccounted for gas. The methodology used allocates unaccounted for gas that cannot be associated with another source to the category of "Theft + Other". Based on an average SAP over the last three years, this would provide an approximate retail value in the domestic sector of £138m. Note that this methodology is dependent on a range of factors and assumptions. Nonetheless the potential scale is significant and justifies efforts to reduce the costs of stolen gas that are smeared across consumers. Further information can be found at: <http://www.gasgovernance.co.uk/auge>.

² For the purposes of this document we use the term "theft" to describe a number of offences under schedule 2B of the Gas Act 1986 where a consumer prevents a meter from correctly registering the amount of gas supplied, has damaged equipment or reconnects the supply without the relevant permission.

³ Tackling gas theft, Ofgem. 31 August (Ref:112/11).

⁴ The three schemes are described in detail in Chapter 3 of the August 2011 consultation document.

Structure of this document

1.6. This document is structured as follows:

- Chapter 2 sets out updated proposals to introduce new gas supply licence obligations to deliver improvements to gas theft arrangements.
- Chapter 3 provides an assessment of the three industry proposals to improve theft detection discussed in the August 2011 consultation.
- Chapter 4 sets out our proposals to improve theft detection and prevention. Our proposals are supported by an updated Impact Assessment.⁵
- Chapter 5 sets out how we think our package of measures should be implemented.

1.7. The appendices contain two consultations:

- Appendix 3 sets out a statutory consultation on amending the Gas Supply Licence to introduce the new licence obligations described in chapter 2.
- Appendix 4 sets out a draft Direction that would require suppliers to implement one of the elements of our proposals.

⁵ Tackling gas theft: Draft impact assessment, Ofgem, 31 August 2011. Ref 112A/11.

2. Enhancing supplier obligations

Chapter Summary

This chapter sets out our amended proposals for a Gas Supply SLC on tackling gas theft. It describes our reasoning and includes analysis of the responses to our August 2011 consultation.

Question 1: Do you agree with our final policy proposals and the related drafting of our licence condition on:

- a) The Objective for tackling theft of gas?
- b) Requirements to detect, prevent and investigate theft of gas?
- c) The Theft Arrangement?
- d) Standards for theft of gas investigations?
- e) Introducing a new relevant objective for the Supply Point Administration Agreement on tackling gas theft?

2.1. Gas suppliers are not currently required to be proactive in tackling gas theft. In our August 2011 consultation we proposed to remedy this by introducing a new licence condition.

2.2. In this chapter we describe our original proposals, discuss the views of consultation respondents and then set out our final proposals. A statutory consultation on our final proposals, including the draft licence condition, is set out in Appendix 3. We welcome views on this statutory consultation by 30 April 2012.

2.3. The majority of respondents to the August 2011 consultation were supportive of our proposals. Several respondents had comments on the detailed policy proposals and the proposed licence condition. We have included these, where relevant, in our discussion below. A more detailed summary of responses is set out in Appendix 2.

Proposed licence condition on gas suppliers to tackle gas theft

2.4. Our proposed licence condition for gas suppliers included the following components which are discussed in turn below:

- An overarching objective,
- Detailed requirements to detect, prevent and investigate theft,
- A requirement to introduce a 'Theft Arrangement' as directed by the Authority,
- Specific measures on the standards for theft investigations,
- New definitions, and
- Changes to the Supply Point Administration Agreement (SPAA)⁶ objectives.

⁶ An agreement to which all domestic gas suppliers and all gas transporters are required by their licences to accede. It sets out the inter-operational arrangements between gas suppliers and transporters in the GB retail market.

Objective

Background

2.5. In our August 2011 consultation, we proposed that gas supply licence holders ('Licensees') should have an overarching objective to detect, prevent and investigate theft individually and by working together where appropriate. In seeking to achieve this, we proposed that Licensees should deal with customers in a fair, transparent, not misleading, appropriate and professional manner. We proposed that, the requirements set out in the proposed new licence condition would assist suppliers' compliance with the overarching objective.

Respondents' views

2.6. Some respondents considered that an objective-based approach was unnecessary and duplicated the detailed requirements set out later in the proposed licence condition. One respondent also considered that a requirement on all Licensees to take all reasonable steps to work with each other was unachievable as it should not be held responsible for other suppliers' actions.

Final proposal

2.7. The aim of our proposals is to require Licensees to comply with an overarching objective to take all reasonable steps to detect, investigate and prevent theft. We propose to retain this broad intent, although we have proposed some specific changes as noted below. Our proposals would require Licensees to consider how best, working individually and where necessary together, to achieve this objective. It would also require them to ensure that their actions are appropriate when dealing with a consumer and, in particular, to take into account the impact of their actions on specific consumer groups.

2.8. We consider that there is merit in introducing both an overarching objective and specific requirements in the licence condition. This will provide clarity on both the broad scope of Licensees' requirements and detail on specific measures that will contribute towards the achievement of that objective. We further consider that the inclusion of an overarching objective allows us to take a less prescriptive approach which provides Licensees with some flexibility on how to comply with these requirements, while protecting consumers' interests.

2.9. We have inserted a new requirement on Licensees to consider whether a consumer is of pensionable age, disabled or chronically sick or will have genuine difficulty in paying charges associated with theft of gas, when seeking to meet the overarching objective.⁷ Our intention here is to make the approach on theft consistent with the other licence conditions that require Licensees to give consideration to these specific consumer groups, given the potentially higher impact on them of actions taken by suppliers.

⁷ See proposed new SLC12A paragraph 1.1(b)(ii) in Appendix 3.

2.10. We have also clarified that we require Licensees to ensure that their representatives also comply with our proposed licence conditions. This recognises that, for the licence obligation to be effective, the Licensee must ensure that it also applies to any third party working on its behalf. We have also made further minor adjustments to this part of the proposed licence condition.⁸

2.11. We do not agree with the view expressed that a requirement on all Licensees to take all reasonable steps to work with each other would be unachievable. We would expect Licensees to fulfil this requirement by providing information and/or assisting other Licensees in instances only where it is necessary to do so to meet the objective of detecting and preventing theft.⁹

Detect, prevent and investigate theft of gas

Background

2.12. In our August 2011 consultation we proposed specific obligations on Licensees to take all reasonable steps to detect and prevent theft of gas, and to investigate when theft of gas is suspected. The requirement to investigate would not apply in instances where this was the responsibility of the gas transporter under its licence.¹⁰

Respondents' views

2.13. As noted earlier, several respondents considered that our proposals duplicated the requirements to detect, prevent and investigate theft of gas established by the proposed objective section in the licence.

Final proposal

2.14. Our final proposals are designed to ensure that Licensees take all reasonable steps to detect and prevent theft, as well as investigating theft when it is suspected. The only exception to this is where this responsibility sits with the gas transporter.

2.15. We propose to make a minor change and clarify that the reference to a gas transporter should be to the "relevant" gas transporter.¹¹ Our aim here is to make it clear that the provision relates to the gas transporter to whose network the premises is connected. This follows the convention elsewhere in the Gas Supply SLCs. We also propose to make a further change to remove the "fully" when referring to

⁸ We have removed the reference to "physical" security of supply (See previous paragraph 1.1(a)(iv) in Appendix 3 of the August 2011 consultation) as we agree with one respondent that the use of this word is unnecessary and a potential source of confusion.

⁹ Examples of such cooperation could include developing common, minimum standards and putting in place common arrangements for consumers to report suspected theft.

¹⁰ Gas transporters are required to investigate suspected theft of gas that originates upstream of the Emergency Control Valve (ECV). See SLC 7 of the Gas Transporters Licence.

¹¹ See proposed new SLC12A paragraph 1.7 in Appendix 3.

investigating theft. We consider that this is implicit that Licensees will be required to fully investigate any incidences of gas theft and therefore unnecessary.¹²

The Theft Arrangement

Background

2.16. In our August 2011 consultation, we proposed a requirement on Licensees to become a party to and comply with arrangements as set out in a Direction by the Authority ('the Theft Arrangement'). We proposed that Licensees should take all reasonable steps, including by working together with other Licensees, to implement the Theft Arrangement by a date stated in the licence.

Respondents' views

2.17. One respondent was concerned about the requirement to comply with the Direction and to be a party to the Theft Arrangement. It considered that the requirement to become a party to a Theft Arrangement and comply with and maintain it was not compatible with a requirement to implement the Theft Arrangement by a date set in the licence.

Final proposal

2.18. Our proposals aim to require Licensees to co-operate with each other in putting the Theft Arrangement in place by a date set in the Direction. The aim is for the Authority to be able to provide detailed requirements for Licensees to introduce specific measures to improve theft detection.

2.19. We do not agree with the respondent's view stated above. We consider that that our original proposal will only require Licensees to comply with the Theft Arrangement in line with the date specified in the licence. Nonetheless, to provide flexibility, we have amended our proposals to include the date of implementation for the Theft Arrangement within terms of the Direction rather than on the face of the licence.¹³

Standards for theft of gas investigations

Background

2.20. In our August 2011 consultation, we proposed standards that Licensees must adhere to when investigating a suspected theft of gas and when taking action where theft is identified. These standards included identifying whether the domestic customer or an occupant of the premises is vulnerable¹⁴ and taking all reasonable steps not to disconnect them during winter. It also included offering to supply

¹² See previous paragraph 1.6 in Appendix 3 of the August 2011 consultation.

¹³ The Theft Arrangement and timing for its implementation are discussed further in chapter 4.

¹⁴ Defined as being of pensionable age, disabled or chronically sick.

domestic vulnerable customers, or any domestic customer that would have difficulty in paying charges associated with any theft, through a prepayment meter prior to disconnection.

2.21. We proposed standards for evidence of theft that Licensees would need to satisfy before disconnecting or seeking to recover associated charges. We also set out requirements on information that Licensees would have to provide to consumers where theft is identified, including how the consumer could dispute whether a theft had occurred. In addition, our proposals set out requirements for the Licensee to provide information to Ofgem on its compliance with the licence requirements.

2.22. In our consultation we asked whether the prohibition on disconnection of vulnerable customers should apply throughout the year. We also asked whether consumers that would have genuine difficulty in paying charges associated with theft should be offered a wide range of payment methods (ie more than just through a prepayment meter) as an alternative to disconnection.

Respondents' views

2.23. The majority of respondents considered that a prohibition on disconnection during winter for vulnerable customers was reasonable. However, some considered that this obligation would remove a deterrent effect.

2.24. The majority of respondents supported a requirement to offer a wide range of payment methods to vulnerable customers and customers that may have difficulty paying as an alternative to disconnection. Others considered that it was not appropriate to afford consumers that take an illegal supply the same level of protection as other consumers.

2.25. One respondent suggested that any reporting requirements on suppliers should include details of what information Licensees would be required to report on. Another respondent considered that a reporting requirement was unnecessary as Ofgem already had the capability to request information under the gas supply licence.

Final proposal

2.26. We continue to consider that the prohibition of disconnection for vulnerable customers is necessary during winter. Our proposals therefore prohibit disconnection unless the Licensee has taken all reasonable steps not to disconnect the supply during winter.¹⁵ We intend to work with the industry and Consumer Focus to help define when disconnection is likely to be a reasonable course of action in the proposed new Gas Theft Code of Practice and what additional action the supplier should undertake when a disconnection takes place. Our initial view is that it may be reasonable to consider disconnection where the consumer is a repeat offender and all reasonable measures have been taken to prevent the theft from reoccurring or

¹⁵ We intend to collect data on an annual basis to support our analysis of disconnections in the energy markets. In doing so, we will request information of disconnections associated with gas theft.

where there is a material safety issue.¹⁶ In doing so we would expect a supplier to notify the relevant authorities (eg Social Services).¹⁷

2.27. Our proposals reflect our view that, for some groups of customers, the consequences of disconnection can be more severe and potentially life threatening. We consider that the licence obligations should be supported by a code of practice that establishes, among other things, clear rules for the treatment of vulnerable customers, to ensure that an increase in theft detection activity does not have an undue impact on these customers. The code should include, for example, procedures for identifying vulnerable customers and fitting prepayment meters instead of disconnection.

2.28. We recognise that there may be commercial incentives on suppliers to offer a range of payment arrangements to consumers where theft is detected to help recover costs. However, this may not always be the case. Given the potential significant impact of disconnection on consumers, we consider that it is appropriate to require Licensees to offer vulnerable customers and those that would have genuine difficulty in paying charges the opportunity to repay charges via a prepayment meter where it is safe and reasonably practical to do so. Our intention is that the judgement on whether it is safe and reasonably practical should be considered from the consumer's perspective. We intend to work with suppliers and Consumer Focus to establish guidance in the proposed Gas Theft Code of Practice on what additional protections should be given to those customers for whom a prepayment meter is not safe or practical, in particular those that are vulnerable and whose welfare could be seriously impacted by disconnection.¹⁸

2.29. We do not consider that there should be a licence requirement on gas suppliers to offer a wide range of payment arrangements where theft has been identified. For example, the Licensee may have less confidence that such consumers will adhere to repayment plans and may not want to extend credit. We therefore propose that suppliers should only be required to offer to recover a debt associated with a theft of gas through a prepayment meter. We also propose that this offer should only be extended to vulnerable customers and those that would have genuine difficulty paying charges. Where a consumer agrees to the recovery of theft charges through a prepayment meter, and it is safe and reasonably practicable, then such a meter should be fitted as an alternative to disconnection.

2.30. We have clarified in the proposed new licence condition that suppliers must provide the information collected under the licence condition to the Authority on request. We will continue to work with the industry, under the proposed new Gas

¹⁶ We note that suppliers do not have primary responsibility for safety. This responsibility resides with gas transporters. However, a supplier could use its powers to disconnect a gas supply for theft selectively in circumstances where this would halt a serious safety concern.

¹⁷ This should be done at the time of disconnection, where possible. This would allow the relevant authorities to make alternative arrangements for the vulnerable individual or anyone else in the house being put in danger by the tampering. We consider that suppliers should work together to set out common rules in the code of practice for tackling these situations in conjunction with customer representative bodies.

¹⁸ For example, it may in certain circumstance be appropriate for the supplier to arrange for the meter location to be moved if that would enable the customer to make use of a prepayment meter. In other instances, it may be appropriate to offer to recover charges via social security benefits payments or through other regular instalments.

Theft Code of Practice, to help define Licensees likely reporting requirements under this condition.

2.31. We have made some further clarifications to the drafting of this section of the proposed gas theft licence condition. In particular:

- Any information given to the consumer around the detection of theft must be in plain and intelligible language. This aims to ensure that consumers are able to understand the information that they receive from their supplier and are aware of the potential next steps they can take.
- When establishing whether there is evidence of theft of gas, with the aim of demanding associated charges from the consumer, we propose that Licensees should confirm that the offence was, on the balance of probabilities, undertaken by the consumer directly or that they were culpably negligent.¹⁹ This reflects the test that currently exists under the Gas Act when a supplier is considering its ability to exercise powers of disconnection on grounds of theft.

2.32. As noted above, we consider that additional work should be undertaken to define how the proposed standards should operate in practice under the proposed new Gas Theft Code of Practice. We will work with the industry and Consumer Focus to develop this code.

Definitions and SPAA objective

2.33. We proposed new definitions for the gas supply licence to support the draft new licence condition. We also proposed a new objective for the SPAA industry code to secure compliance with the gas supply licence condition on tackling gas theft. We did not receive any substantive comments on these conditions and they have therefore remained unchanged.

Code of Practice for theft investigations

Background

2.34. In our August 2011 consultation we asked whether it was necessary to include an obligation on Licensees to establish a new Theft Code of Practice. Our minded to position was that this obligation would not be necessary. This was because work was underway under the SPAA to introduce a code of practice and our intention was to require non-domestic suppliers to adhere to the SPAA through a change to the gas supply licence.²⁰

¹⁹ For example, where a consumer was aware that an action had been taken in relation to its supply of gas, that it was reasonably clear that this action would lead to the supply not being properly recorded by the gas meter and the consumer failed to take reasonable steps to avoid that action taking place.

²⁰ Currently only domestic gas suppliers and gas transporters are required to adhere to the SPAA.

Respondents' views

2.35. Many respondents considered that a licence obligation should be introduced to require suppliers to create a new Theft Code of Practice. Some respondents specifically requested that this condition apply to all suppliers and not just those that were currently signatories to the SPAA.

2.36. Some respondents expressed concern that having requirements in both the licence and the code of practice may lead to contradictions as both have separate governance processes.

Final proposal

2.37. We continue to consider that a new gas Theft Code of Practice should be developed and apply to non-domestic and domestic suppliers. Our aim here is to ensure that there are appropriate standards for investigations that will apply for all gas consumers.

2.38. The proposed new Gas Supply SLC on tackling gas theft would establish high-level requirements for Licensees. We consider that Licensees should develop the gas Theft Code of Practice in a manner that complements the objective and requirements of their licences. Ofgem will consider this in any request to approve a change to the SPAA to implement the gas Theft Code of Practice.

2.39. We welcome the current work being undertaken to develop a code of practice for gas theft investigations.²¹ We note the intent of the SPAA working group is that this proposal should go live by the end of 2012.

2.40. While we had intended to amend the gas supply licence to require non-domestic suppliers to adhere to the SPAA (and therefore the code of practice), this has not yet been possible. We note that consideration is currently being given to amending the SPAA governance arrangements so that non-domestic suppliers would have an appropriate voice in determining the content of that code. Once this has been established we will consider proposing a modification to the Gas Supply Licence to require non-domestic suppliers to become parties to and comply with the relevant sections of SPAA.

Timing of implementation

Background

2.41. In our 2011 August consultation we proposed that the new Gas Supply SLC should be implemented as soon as reasonably practical.

²¹ We further note that a change to the SPAA governance arrangements is being developed. The aim of this proposal is that non-domestic suppliers will have an appropriate level of influence in governing the SPAA and its requirements.

Respondents' views

2.42. There was general support for introducing the new licence condition quickly. Some respondents considered that the implementation of the new theft-related licence obligations should be aligned between gas and electricity. Others wanted to delay implementation to align with any new theft detection measures.

Final proposal

2.43. We note that there are already licence obligations on electricity suppliers to detect and prevent electricity theft.²² It is also likely to take time to implement our proposed theft detection measures for the gas market (some of which rely on the licence being in place to secure delivery). For these reasons, we consider it worthwhile implementing new obligations in the gas market now, where the current obligations are very limited.²³

2.44. Subject to any representations made during this statutory consultation, we propose to implement the new Gas Supply SLC on tackling gas theft, including the revisions noted in this chapter, as soon as possible.

2.45. We have set out a statutory consultation in Appendix 3. This document, and in particular this chapter and Appendix 3 constitutes a notice consulting on a modification to the Gas Supply Licence for respondents to provide their views. Subject to any representations, we will then publish a decision notice to proceed with the modification. The modification will come into effect at the end of 56 days from the date of the decision notice. Application to the Competition Commission for permission to appeal must be made within 20 working days from the day after the date of the decision notice.

²² See SLC 12 "Matters relating to Electricity Meters".

²³ We set out our proposals for reform of the arrangements for tackling electricity theft in chapter 5.

3. Assessment of industry proposals

Chapter Summary

This chapter sets out a revised assessment of the three industry proposals to increase theft detection. This takes into account respondents' views and our further analysis.

3.1. In our August 2011 consultation and draft IA we requested views on three industry proposals to improve theft detection²⁴, these were:

- National Revenue Protection Scheme (NRPS): A central database to profile theft risk at each supply point. The proposal would require the highest risk cases to be investigated by suppliers. The NRPS would also procure services needed to tackle theft (such as field investigators and debt collection) to be used on an elective basis.
- Supplier Energy Theft Scheme (SETS): An incentive scheme to encourage suppliers to invest in theft detection.
- Enhanced SETS: This proposal builds on SETS by adding additional measures that would support suppliers' attempts to respond to the incentive scheme. It contains two key elements:
 - Firstly, a Revenue Protection Activity Co-ordination Agent (RPACA) which would provide services (such as management information on theft location and type and a telephone tip-off line) that may not be provided to the same extent in a competitive environment.
 - A second variation adds a Central Revenue Protection Unit (CRPU) to the RPACA proposal. The CRPU would provide theft management services, such as data analysis and investigation agents, for use on an elective basis.

3.2. The majority of respondents supported the introduction of the NRPS. One supplier supported the introduction of a modified Enhanced SETS arrangement. Two respondents did not hold a preference and one suggested that there was insufficient evidence on the extent of theft to proceed with any of the proposals. Further detail on respondents' views is set out in Appendix 2.

Updated assumptions

3.3. This section sets out the key areas where we have updated the assumptions that support our analysis of the proposals to increase theft detection.²⁵

²⁴ The three industry proposals are described in more detail in chapter 3 of our August 2011 consultation.

3.4. We have amended our assumption on the investigation costs associated with theft detection.²⁶ The effect of this change is that:

- Being proactive in detecting theft no longer provides a marginal benefit for suppliers in the Smaller Supply Point²⁷ (SSP) market. In our modelled base case, this would mean that being proactive in detecting theft would lead to significant average costs for SSP suppliers of £537 per theft identified.
- In the Larger Supply Point²⁸ (LSP) market we now recognise that the costs of investigation are likely to be higher than in the SSP market. Accordingly, we have amended our assumption on the average investigation costs incurred for every theft detected.²⁹ Our modelled base case on the marginal impact in the LSP market now suggests that detecting a gas theft would return a benefit of £731.

3.5. This analysis only considers the marginal impact of theft detection. There are likely to be other costs incurred by suppliers in proactively detecting theft, for example investment in the operation of data analysis services. Suppliers may also discount any potential benefits in theft detection given the uncertainty on whether these will be realised in practice. These factors are likely to increase costs and reduce supplier benefits from being proactive.

3.6. We have also amended our assumptions on the expected reoffending rate once theft had been detected.³⁰ This information informs our break-even assessment for the three proposed schemes. The effect of this is to increase the break-even period although the observed effect is small.

Updated analysis on industry proposed schemes

3.7. In this section we provide a summary of our updated analysis of the three industry proposals. This revised analysis incorporates the changes to our revised assumptions noted above and is set out in more detail in our accompanying IA.

²⁵ Further information can be found in our Final IA.

²⁶ Our modelling in the August 2011 Draft IA used a weighted average for the cost of investigation. This approach was inconsistent with the rest of the model, which reflected the total expected impacts of finding the next theft (including the costs where an investigation was undertaken but theft was not found). We consider that a more robust approach would be to use the total investigation costs that would be incurred to find the next theft case, ie to also include the average costs of investigations where theft is not found.

²⁷ An SSP is a supply point with an annual consumption of less than 73,200kWh (2,500 therms).

²⁸ An LSP is a supply point with an annual consumption greater than 73,200kWh (2,500 therms).

²⁹ We have updated our analysis together with a correction on the recovery rate in our model. Our stated assumption was that the recovery rate for charges associated with gas theft in the LSP market was 60%. However, this was not applied in the detailed modelling (a figure of 25% was incorrectly used). This is the main reason the change in results for the LSP market.

³⁰ Our new assumption is that 5% of customers will reoffend each year. Our previous model assumed this figure to be zero.

NRPS

3.8. We consider that there are likely to be benefits in suppliers pooling data and resource to better target costly theft field investigation activity. In particular, we consider that this will help smaller suppliers, who may be less able to develop their own bespoke data analytics approach because of the smaller data sets involved.

3.9. However, we remain concerned that the NRPS proposal does not adequately address the disincentives on suppliers to make reasonable efforts to detect theft on a proactive basis. Whilst suppliers would be required to investigate leads specified by the NRPS, there would still be a commercial driver not to find theft during an investigation. Demonstrating non-compliance with an obligation in this respect may not be straightforward and may not sufficiently address suppliers' disincentives.

3.10. Several respondents argued that the proposal to offer services other than data analysis was not needed. They considered that a requirement to take action would provide an appropriate signal for providers of associated revenue protection services, such as theft investigation and debt management, to enter the market. We consider that these are relevant concerns where the NRPS may have the effect of unnecessarily effecting competition in the provision of revenue protection services. At this stage, we do not consider that it has been sufficiently demonstrated that intervening in the market for these services (other than data analysis) is necessary, although we recognise that it may be a concern for certain parties in the market, for example small suppliers.

3.11. We remain concerned that the intended scope and effect of the NRPS is not clear. Whilst we have used an interpretation of the expected number of investigations and thefts detected under this scheme for the purpose of our modelling, this commitment has not been reflected in the industry documentation on the NRPS proposal.

SETS

3.12. We support the aim of this proposal to address the disincentives faced by suppliers. However, our analysis suggests that the justification for the proposed size of the incentive pot is weak and does not contain an enduring mechanism to consider whether it remains fit for purpose.³¹ We also recognise the concerns raised that theft may not be distributed evenly between supplier portfolios and that some suppliers may be better able to exploit economies of scale in analysing data.

3.13. We therefore consider that, without a clear methodology for determining the size of the incentive pot, linked to the overall benefits for consumers, this proposal may unduly effect competition. In particular, we are concerned that it may lead to an inappropriate distribution effects between suppliers.

³¹ These issues also recognised by British Gas (the proposer) it is response to the August 2011 consultation).

Enhanced SETS

3.14. We recognise the aim of the proposal to support suppliers in responding to an incentive scheme and that there are many areas of these proposals which are likely to be beneficial. However, rather than leaving the theft risk assessment service to be developed as an optional measure (which may lessen the impact of this service), we consider that there are likely to be benefits from having a single, central service that all suppliers are required to support, with the aim of detecting theft.

Conclusion

3.15. For the reasons summarised above and set out in more detail in our final IA, we consider that all three industry proposals have merits but that it would not be appropriate to implement any of them in their current form.

3.16. As SETS has been developed through two modification proposals to the Uniform Network Code (UNC), we are required to make an assessment against the relevant objectives of the UNC. We have separately set out our assessment and our reasons for rejecting these proposals.³²

3.17. In the next chapter we set out our proposed package of measures, which build on the best aspects of the three industry proposals. Our proposals aim to improve incentives to conduct thorough theft investigations and to ensure that the efforts made by suppliers to detect theft are proportionate to the likely benefits for consumers whilst minimising the effect on actual or potential competition. In setting out our proposals we have attempted to address the weaknesses identified in this chapter.

³² Available on the Ofgem website:
www.ofgem.gov.uk/Licensing/GasCodes/UNC/Mods/Pages/Modspage.aspx

4. Ofgem proposals to improve theft detection

Chapter Summary

This chapter sets out our proposed package of measures to improve theft detection. These measures aim to support suppliers in achieving the requirements of the new Gas Supply SLC on theft. We also set out our views on an industry proposal to modify existing supplier compensation arrangements, and our views on funding gas transporters for investigations.

Question 2: Do you agree with our proposals to direct the implementation of the Theft Risk Assessment Service?

Question 3: Do you agree with our proposed requirements for the Theft Risk Assessment Service and the related drafting of the proposed Direction on:

- a) The services provided by the Theft Risk Assessment Service?
- b) The Theft Target?
- c) The governance of the Theft Risk Assessment Service?
- d) The appointment and operation arrangements of the Theft Risk Assessment Service?
- e) The reporting requirements for the Theft Risk Assessment Service?

Question 4: Do you agree that we should require the Theft Risk Assessment Service to be implemented by 31 December 2013?

Improving incentives

4.1. Our revised analysis, presented in our final IA, indicates that SSP suppliers have a strong commercial disincentive not to be proactive in detecting theft of gas. In the LSP market, we have also identified disincentives on suppliers being proactive in detecting theft.

4.2. We do not consider that the effect of these disincentives can be fully addressed through the auditing of supplier performance (as proposed under the NRPS). This is because it would be difficult to identify if a supplier had not made reasonable efforts to detect a theft as part of an investigation.³³

4.3. We therefore consider that an incentive scheme should be introduced to improve incentives to detect theft. We have set out principles below that we consider should guide the development of an incentive scheme on gas theft. We would welcome a new modification proposal, to be raised by an industry party, to bring an incentive scheme into effect in line with these principles.

³³ For example, an auditor or Ofgem would not have rights of entry to examine a consumer's meter and associated installation to understand whether a theft should have reasonably been detected.

Principles for an incentive scheme

4.4. The overall aim of the incentive scheme is to encourage suppliers to detect theft. The aim is for theft detection to be at a level that is beneficial for consumers, taking into account the costs and other impacts of this activity. The principles that we consider should be incorporated within an incentive scheme are as follows:

- An aggregate target (the “Theft Target”) should be established³⁴ for the number of theft detections within a period.³⁵ This target should be established in the context of the overall benefits of theft detection for consumers.
- A robust methodology should be established to identify the costs that suppliers are likely to incur in achieving the Theft Target.³⁶ The total value of these costs should be used to set the size of the incentive pot.
- The incentive pot should be split between market segments to recognise material differences in the impacts of theft detection on suppliers in those segments.³⁷
- The incentive pot should be funded by suppliers based on the number of sites that they supply.³⁸
- The incentive pot should be paid out to suppliers at the end of each period in proportion to the number of thefts identified in each market segment.
- The arrangements should be regularly reviewed³⁹ and the Theft Target, and resultant incentive pot size, amended where this would lead to an overall increase in consumer benefits.
- Information transparency measures should be in place to provide suppliers with close to real time information on the number of thefts identified during the period so that they can understand their relative performance.⁴⁰

4.5. To encourage other suppliers to make efforts to respond to the incentive scheme, we propose to exclude British Gas from participating in the scheme for an initial period. This reflects the fact that, for historical reasons, British Gas may

³⁴ Our view is that the target could initially be set by reference to the best performing suppliers in the market. Based on our analysis we consider that a Theft Target in the order of 6,000 theft detections per year would meet this aim.

³⁵ We consider that a year would be an appropriate period and this reflects the SETS proposition.

³⁶ Our IA sets out our best view on a methodology that could be used to determine supplier impacts.

³⁷ Our analysis indicates that the different settlement arrangements in the SSP and LSP markets have a material impact on suppliers’ costs in proactively detecting theft. Other differences could also be explored, for example between domestic and non-domestic customers and between different metering types in the LSP sector which can range significantly in cost and complexity for replacement.

³⁸ British Gas made an alternative proposal (UNC346) that funding and payment under the incentive scheme should reflect throughput rather than number of sites supplied. We consider that targeting the scheme based on number of sites is most appropriate. This is likely to have a more beneficial impact on safety as more unsafe gas installations will be detected. Furthermore, our analysis shows that, even under the proposed approach, suppliers will achieve greater benefits for detecting theft where the volume of gas abstracted is higher.

³⁹ For example every two to three years or when there was a significant change to the industry arrangements such as a change to the settlement rules.

⁴⁰ Measures should also be considered to discourage any potential gaming, for example in not declaring identified theft until the end of the period.

currently have in place more advanced techniques to allow it to detect theft. This approach would provide other suppliers with an opportunity to put in place processes and procedures to derive benefits from an incentive scheme without their returns being impacted by British Gas' performance.

4.6. We would expect British Gas to participate in the incentive scheme once the other arrangements set out in this chapter have been implemented or, where these had not been implemented, within an appropriate timescale. We would expect consideration to be given to the impact of British Gas operating within the incentive scheme before this takes place, to ensure that this would not have a detrimental effect on its operation.

4.7. The incentive scheme should be introduced at the earliest opportunity. We consider that there would be significant advantages, in terms of consistency in consumer treatment, to a code of practice on theft investigations being in place by the time the incentive scheme commences operation. However, we do not consider that there is a need to synchronise its implementation with the other arrangements set out in the chapter.

Assessing theft risk

4.8. As noted in the previous chapter, we recognise the benefits of a central service to profile the risk of theft, and potentially other sources of unrecorded gas. These benefits are likely to come from pooling data from all suppliers and other sources to better target where it would be sensible to undertake a physical investigation to identify whether gas was being correctly recorded. We note that the use of data analytics to identify potential theft occurs in other markets such as insurance, water, telecoms and parts of the electricity industry.⁴¹

4.9. We do not at this stage consider that revenue protection services need to be provided centrally. Central procurement of these services, such as an investigation field agents and debt management, may unduly effect competition in those markets. This is an area that could be revisited in the future if there was evidence of problems, for example on access to services.

4.10. We intend to require suppliers to implement the Theft Risk Assessment Service (TRAS) through a Direction under the gas supply licence. We consider that suppliers should take the principles set out in the Direction and implement the TRAS by using appropriate industry governance mechanisms, for example under the SPAA.

4.11. A draft of the Direction is set out in Appendix 4. We would welcome views on our proposals in this area as well as the detailed legal drafting.

⁴¹ In the insurance market the Insurance Fraud Bureau (IFB) has been established to tackle organised and cross industry fraud. The IFB employs a central data based risk assessment service (www.insurancefraudbureau.org). Water companies work with organisations and have internal teams to identify where customers may be taking a water supply without paying for it. Telecoms companies work with data organisations such as www.cifas.org.uk to help identify fraud. In electricity, some Distribution Network Operators use data analytics to identify potential cases of theft in order to target investigations.

4.12. Subject to our consultation, our intention would be to introduce the Direction at the same time or as soon as possible after the proposed new licence condition was implemented. We recognise that it will take time to implement the TRAS. We would therefore welcome views on our proposed timeframe requirement that the TRAS should be implemented not later than 31 December 2013.

Main features of the TRAS

4.13. Our aim is for the TRAS to provide information to suppliers on the risk of theft at premises that they supply. It should do this by profiling the risk of gas theft at premises in the GB market using data from all relevant sources (including suppliers and gas transporters).⁴²

4.14. We propose to require that the TRAS should establish the Theft Target⁴³ used by the incentive scheme to establish the size of the incentive pot. Information provided by the TRAS to suppliers should allow the supplier to understand the view of the TRAS on which sites should be investigated to allow the Theft Target to be met.

4.15. Suppliers would be expected to investigate all cases provided to it by the TRAS with the aim of meeting the Theft Target unless there were good reasons for not doing so. In choosing not to investigate a specific site, a supplier would need to ensure that it was operating in accordance with the proposed new licence requirement to take all reasonable steps to detect, prevent and investigate suspected theft of gas.

4.16. It is important that the TRAS provides high-quality outputs given the cost of undertaking investigations and our expectation that suppliers will investigate the theft leads provided to them by the TRAS required to meet the Theft Target. The TRAS should therefore be subject to a robust performance assurance framework. This should include incentives around the quality of the theft leads provided.

4.17. To support this performance assurance framework, we consider that there should be regular independent audits and transparent reporting on the performance of the TRAS. We also consider that the performance of suppliers should be assessed and, where appropriate, published.

4.18. We consider that the TRAS should provide regular reports to assist suppliers and transporters in their efforts to detect theft. This might include information on geographical clustering of theft and the prevalence of existing and emerging forms of gas theft.

⁴² This service could also add value by identifying other sources of unrecorded gas such as unregistered sites.

⁴³ As discussed above, until the TRAS is in place and able to derive the Theft Target, it appears sensible to set the Theft Target by reference to the best performing suppliers in the market. Once the TRAS is in place it should adjust the Theft Target so that it maximises the potential benefits for consumers. We would expect the TRAS to review the Theft Target on a periodic basis to ensure that it continued to meet its aims.

Additional considerations

4.19. The TRAS will require access to data in order to perform its functions. It is important that this data is provided, held and processed in accordance with the Data Protection Act (DPA) 1998. There is nothing in our proposals should be treated as an obligation on the gas supplier or the TRAS to operate otherwise than in accordance with the DPA 1998. We propose that suppliers ensure that the TRAS has in place a compliance statement for how it would operate in accordance with the DPA 1998. Suppliers should also ensure that a Privacy Impact Assessment⁴⁴ is undertaken and maintained for the development and operation of the TRAS, in accordance with the best practice set out by the Information Commissioner.⁴⁵

4.20. Introducing a central service provider for theft data services may impact on the provision of services by other parties. Whilst we recognise that there are likely to be advantages in improving the efficiency of theft detection, we consider that measures should be introduced to limit the effect on competition. We therefore propose that TRAS is appointed through a robust competitive tender process and retendered on a regular basis.

4.21. We also propose specific additional measures to limit the impact of the TRAS on competition. For example by seeking to ensure that the TRAS manages and operates its services in a way that does not restrict, prevent, or distort competition, by introducing requirements that suppliers should not contain a competitive advantage in appointing the TRAS or through its operation and ensuring that the TRAS should be independent from suppliers and transporters.

Additional supporting measures

4.22. Both Enhanced SETS and the NRPS industry proposals set out a number of additional measures to improve the arrangements for tackling gas theft. We consider that many of these have merit and should be implemented.

4.23. The key additional measures that we consider should be taken forward are described below:

- Introduce a new code of practice for how suppliers should undertake theft investigations and treat consumers where theft is identified.
- Establishing and maintaining a single, 24-hour theft telephone contact number that members of the public or other third parties could use to report suspected theft. This number could be advertised by suppliers and industry members, for example on company websites. In establishing this service it must be clear that

⁴⁴ A Privacy Impact Assessment is a process which helps assess privacy risks to individuals in the collection, use and disclosure of information. They help identify privacy risks, foresee problems and bring forward solutions. The Information Commissioner's Office (ICO) regards the conduct of a Privacy Impact Assessment as best practice.

⁴⁵ The Gas Forum provided commissioned legal advice on the operation on the NRPS in respect of data privacy. British Gas similarly commissioned legal advice on Enhanced SETS. This information was shared with Ofgem and we have taken it into account in setting out our proposals.

any emergency situation should be reported directly to the existing 0800 999 111 emergency line. Measures should also be in place for information to be passed to the emergency line immediately if there are safety concerns, for example if there is a smell of gas. Information from the telephone contact service could provide a useful source of information for the TRAS.

- A stolen meters register should be established to assist theft investigators identify where meters may have been illegally switched.⁴⁶ We consider that this role could be performed by the TRAS as a central repository of data.
- Enhanced SETS proposed establishing a forum for sharing best practice in theft detection. We would welcome such a move either under the banner of the TRAS, the proposed new Theft Code of Practice or existing organisations such as the UK Revenue Protection Association (UKRPA).⁴⁷ This is likely to be especially important as the roll-out of smart metering presents new challenges to those determined to take an illegal supply.
- Enhanced SETS also proposed that coordination measures with other agencies should be introduced to promote the tackling of gas theft. Such agencies could include the police, theft detection services operated by some of the Distribution Network Operators (DNOs) in the electricity industry, the UKRPA and consumer representative bodies. We consider that a coordinated approach is likely to be beneficial in tackling theft and reducing its incidence.
- Lastly, we support the proposals to reform the gas settlement arrangements to correct the allocation of charges prospectively once a theft has been discovered.⁴⁸ Currently the allocation arrangements may take several years to readjust and, in the meantime, shippers will not be paying the correct settlement and transportation charges. We consider that without such a change, it may be more difficult to calculate the costs that a supplier will incur in being proactive in detecting theft – and therefore the appropriate size of the incentive pot. This is because these costs will otherwise be dependent on the proximity of the next AQ review and supplier’s submission of meter reads to inform that process.

4.24. At this stage we consider that the industry should move to implement these measures without the need for us to introduce new licence requirements. We are willing to support the industry in developing these proposals, for example by participating in industry workgroups. However, we will consider this further, for example by amending the terms of the Direction, if appropriate changes are not progressed in a timely manner.

⁴⁶ This may be helpful in investigations as it provides information on whether a stolen meter may be being used to flow gas rather than a new meter having been fitted through the industry arrangement but without this being correctly recorded on industry systems.

⁴⁷ The UKRPA is a trade association focusing on detecting, preventing and investigating theft of electricity and gas.

⁴⁸ The allocation processes for gas sites reflect an estimate of the Annual Quantity (AQ) of gas taken by the site. This AQ is adjusted yearly and will typically reduce where theft has occurred. The process to amend the AQ uses the same yearly amendment process and therefore takes time to readjust. A process, referred to as the British Thermal Unit (BTU) process, could potentially be used to make this adjustment once theft is identified. This was a feature of both NRPS and Enhanced SETS proposals.

Overall assessment of our proposed package of measures

4.25. Our final IA assesses our proposal to introduce a package of measures to increase theft detection. This assessment focuses primarily on the expected effects of the incentive scheme and the TRAS. We have also compared this proposal with the three industry proposals to detect theft.

4.26. Our overall assessment is that our package of measures is likely to be more effective in detecting and preventing theft efficiently. Our approach seeks to establish a clear methodology for the effort that should, as a minimum, be expended on detecting theft. We consider that our proposal is likely to do this more efficiently by combining a central data analysis solution that is likely to provide better targeted theft leads for investigation. Our proposals also seek to make it more attractive for suppliers to undertake thorough investigations with the aim of detecting theft.⁴⁹

4.27. Our approach intends to allay concerns that the incentive scheme would lead to profiteering behaviour ie by suppliers received rewards for detecting theft that are not linked to the specific disincentives that they face and the benefit of detection for consumers. By setting a theft target linked to suppliers' costs in meeting this target, we aim to encourage suppliers to perform to an appropriate standard by providing compensation related to expected costs. There will be distributional impacts if for example, one supplier does not have significant amounts of theft in their portfolio or performs poorly in detecting theft. In these cases, other suppliers will be rewarded for their performance and will potentially be incentivised to go further in detecting additional theft up to the point where their costs are no longer likely to be met.

4.28. Our analysis suggests that our package of measures will lead to greater financial benefits for consumers than the three schemes proposed by industry on the basis of cost savings that can be passed on by suppliers. Our analysis suggests that, for each year of operation, our proposed approach is likely to lead to consumer benefits after 17 months of operation.⁵⁰

Existing compensation arrangements

4.29. Arrangements currently exist which aim to remove disincentives on suppliers to detect theft.⁵¹ We consider that these arrangements have not supported satisfactory efforts to detect gas theft across the market.

4.30. We consider that our proposed incentive scheme would be sufficient to encourage suppliers to proactively detect theft. We also consider that operating one

⁴⁹ Our analysis shows that a supplier would derive a positive benefit from being proactive in detecting its share of the Theft Target when compared to a supplier that does nothing, or does not seek to put in place robust detection processes.

⁵⁰ Note that this does not include set up costs which will extend payback for the first year of operation. We estimate that the payback period would lengthen by one month for each additional £0.324m spent on set-up costs.

⁵¹ This is known as the Reasonable Endeavours Scheme (RES). The aim of the RES is to remove disincentives by making a contribution towards a supplier's costs where the supplier has tried but failed to recover charges from the consumer, in accordance with rules set down by the gas transporter.

incentive scheme would be preferable to operating multiple schemes (eg by retaining the current arrangements). A single scheme would minimise the potential for unintended consequences.⁵²

4.31. We therefore propose to remove the existing compensation scheme. This will require a modification to the Gas Transporter licence.⁵³ However, because the current compensation scheme has been used by at least one supplier, we intend to retain this arrangement until our proposed incentive scheme is introduced.

4.32. As we propose to remove the current compensation arrangements, we have also rejected UNC231V, a modification that aimed to increase the amount of compensation available to a supplier under the existing scheme.⁵⁴

Impacts on gas transporters

4.33. Gas transporters are required under the conditions of their licences to investigate suspected theft occurring upstream of the Emergency Control Valve (ECV) and seek to recover costs from the relevant consumer where theft is identified. This is part of a broader obligation in relation to gas taken in the course of conveyance.⁵⁵

4.34. We consider that increased investigation activity by suppliers is likely to identify more cases where theft upstream of the ECV is suspected and where gas transporters will be required to take action.⁵⁶ In particular, it is unlikely that the TRAS would be able to identify whether the source of any suspected theft was upstream of the ECV. This would require a subsequent physical investigation, for example by the supplier.

4.35. Respondents to our August 2011 consultation expressed broad support for our proposal that gas transporters should be required to sign up to and comply with a code of practice on investigating gas theft. We welcome the recent involvement of gas transporters in the development of the proposed new gas Theft Code of Practice and the inclusion within this draft code of specific measures for gas transporters. As noted above, we are content at this point for the industry to continue to develop the

⁵² For example, operating both schemes would allow suppliers to potentially recover the same set of costs under both sets of arrangements.

⁵³ The arrangements are currently set out in the Gas Transporters Licence SLC 7 'Provision of Information Relating to Gas Illegally Taken'. In making this change we intend to retain the specific provisions that allow a gas transporter to recover certain costs incurred through investigation of theft in conveyance. Theft in conveyance is considered to be theft of gas that originated upstream of the Emergency Control Valve (ECV).

⁵⁴ We have set out our assessment of UNC231V against the relevant objectives of the UNC in our decision letter which is available on the Ofgem website: www.ofgem.gov.uk/Licensing/GasCodes/UNC/Mods/Pages/Modspage.aspx

⁵⁵ Under SLC 7 of the Gas Transporters Licence a gas transporter is required to investigate the suspected taking of gas in conveyance. Theft that occurs upstream of the ECV is presumed under the licence to be gas taken in the course of conveyance. We consider that where a supply is taken without a supplier being responsible (eg an unregistered site) then this is also considered to be gas taken in the course of conveyance.

⁵⁶ Some respondents to our August 2011 consultation also noted that the meter replacement work associated with the roll-out of smart metering was also likely to identify suspected theft upstream of the ECV that the gas transporter would be required to investigate.

code. However, if this was not to be implemented in an appropriate form or within an appropriate timescale we would consider measures to require its implementation.

4.36. The Gas Transporters Licence currently contains provisions so that gas transporters remain financially neutral in relation to the cost of investigating gas taken in the course of conveyance where they have recovered or attempted to recover the value of the gas taken. These arrangements do not provide compensation for gas transporters in instances where an investigation takes place but it is not identified that gas has been taken in the course of conveyance.

4.37. There was some support from respondents to extend the scope of funding for gas transporters. It was suggested that this should apply broadly to all instances where the gas transporter was required to investigate gas taken in the course of conveyance, for example in relation to unregistered sites.

4.38. We remain concerned that insufficient efforts are being made to address the root causes of unregistered sites and to resolve these once identified. We are therefore not proposing at this stage to amend the funding arrangements for gas transporters without other measures being in place to minimise their instance and impact once identified. As the current funding arrangements for theft and unregistered sites are linked, this will not necessarily impact on the funding arrangements for gas theft. Gas transporters will nonetheless still be required to continue to meet their existing licence requirements to investigate gas taken in the course of conveyance.

4.39. We would welcome further proposals from gas transporters on this issue. These could include integrated proposals for prevention, investigation and resolution of unregistered sites. We may consider amending the funding requirements should suitable changes made to the existing industry arrangements.

4.40. The RIIO-GD1 Price Control strategy decision⁵⁷ sets out that, in the absence of a suitable amendment to the network code (UNC) we will consider introducing a licence condition to ensure that large gas transporters implement the systems and practices required in order to fulfil their role in processing unregistered sites. We would welcome further approaches from gas transporters on how best to take this issue further.

⁵⁷ Decision on strategy for the next gas distribution price control - RIIO-GD1 Outputs and incentives, Ofgem. 31 March 2011. See paragraph 3.57.

5. Conclusion and next steps

Chapter Summary

In this chapter we set out the next steps for implementing our proposed package of measures, including an expected timeline for delivery. We also set out how we expect to build on our gas proposals to drive forward improvements in the arrangements for tackling electricity theft.

5.1. Having carefully considered respondents' views, we have established a package of measures that we consider will deliver effective and proportionate arrangements to tackle gas theft. These are:

- A new licence obligation on gas suppliers to tackle gas theft.
- A Direction (provided for by the proposed new licence condition) to gas suppliers to implement the proposed TRAS.
- Principles for an incentive scheme for gas suppliers to encourage theft detection.
- Additional supporting measures, including a code of practice.
- Our intention to consult on changes to the Gas Transporter Licence to remove the ineffectual existing gas supplier compensation arrangement.

Implementation arrangements and timescales

5.2. Our views on when these measures should be implemented are set out below.

Gas Supply SLC on tackling gas theft

5.3. This document represents a statutory consultation on changes to the gas supply licence (see Appendix 3). We are seeking responses on this consultation by 30 April 2012. Subject to views received, we intend to publish a statutory notice in June 2012 on introducing the new licence condition. Our aim is that the licence condition should be implemented during summer 2012.

Direction

5.4. This document consults on our draft Direction to introduce the TRAS. Responses are also requested by 30 April 2012. Subject to views received, it is our preference that the Direction should be implemented at the same time as the new licence condition.

5.5. We recognise that the TRAS will take time to put in place. The NRPS workgroup indicated that the NRPS proposal could be implemented within 12 months of an Ofgem decision. We note that another one considered that similar provisions under Enhanced SETS could take between 18 and 24 months. We have used this information to help us set a reasonable timetable for implementing the TRAS.

5.6. We propose to require that the TRAS is implemented by 31 December 2013. We consider that it would be helpful for suppliers to take steps now towards implementation rather than wait until the Direction has been implemented. Such steps could for example include identifying key milestones and appropriate project management arrangements, and other resources required to ensure delivery within this timescale. We requested views on the appropriateness of this timescale in chapter 4.

Incentive scheme

5.7. We do not consider that it is necessary to couple the introduction of the incentive scheme with the implementation of the TRAS. As set out above, it will take time to implement the TRAS and we consider that there are likely to be benefits to consumers from suppliers improving their performance sooner.

5.8. Given the previous work to develop a similar set of proposals under UNC277 and UNC346, and the supporting analysis we have provided in our final IA, we consider that such a scheme could be in place by the end of this year.

5.9. We would welcome efforts by the industry to swiftly raise such a modification proposal, in accordance with the principles set out in chapter 4, to give effect to the incentive scheme. We will support the development of that proposal, for example through access to our non-confidential modelling, wherever possible.

Additional supporting measures

5.10. We are now looking to the industry to implement a series of additional supporting measures to improve the arrangements to detect theft. These include a code of practice and a 24-hour tip-off line

5.11. We have not established a timeline for implementation for all of these additional measures as part of this document. Instead, we are looking to the industry to consider adopting these proposals as soon as is reasonably practicable.

5.12. We note that significant progress is being made on the code of practice. We consider that, to support the incentive scheme, the code of practice should be in place by the end of 2012.

Removal of existing supplier compensation arrangements

5.13. As discussed in chapter 4, the current supplier compensation scheme is likely to distort the effect of the proposed incentive scheme. We therefore propose to amend the Gas Transporters Licence to remove the scheme so that this coincides, as closely as practicable, with the introduction of the proposed new incentive scheme.

5.14. To facilitate the removal of the current supplier compensation scheme from the Gas Transporter Licence, we aim to publish a consultation setting out detailed proposals during summer 2012.

Summary of proposed implementation timeline

5.15. Figure 1 summarises the expected timeline for implementing improvements to the gas theft arrangements. The dates shown indicate when we consider that the specific proposal should have effect.

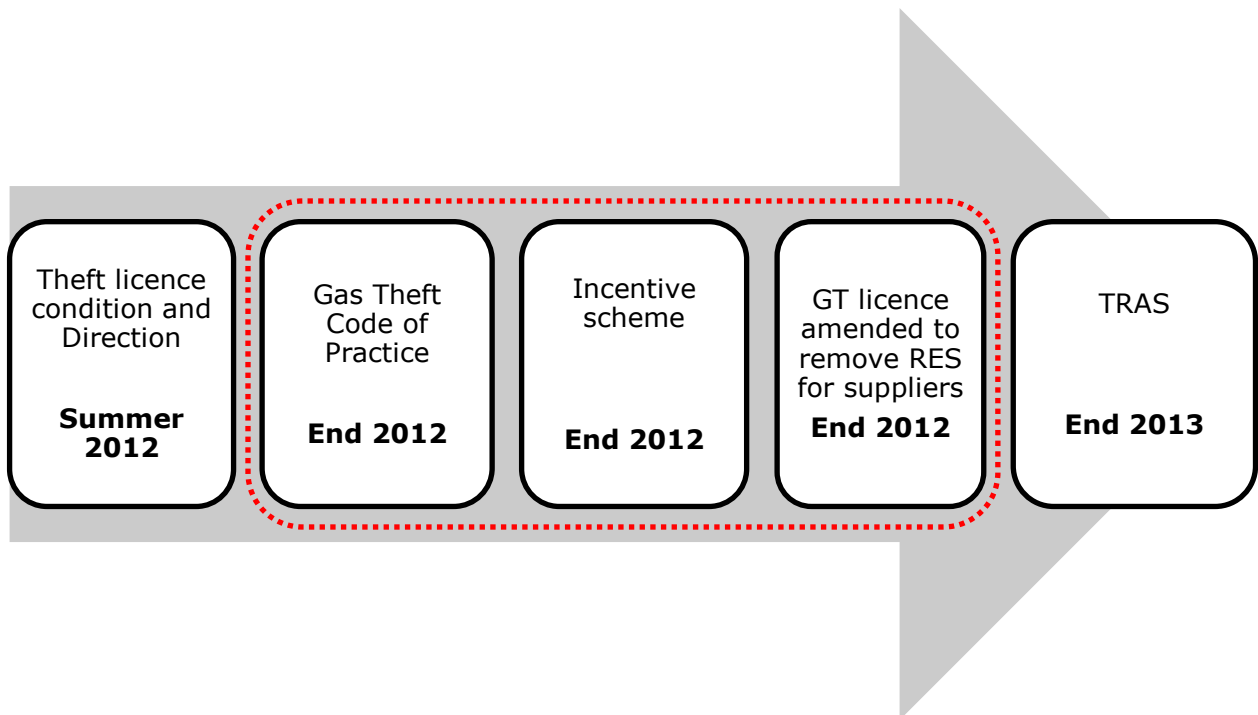


Figure 1: Timeline showing intended dates for when proposed improvements to arrangements for tackling gas theft should have effect

Other sources of unaccounted for gas

5.16. Theft of gas is one source of unaccounted for gas. Other proposed modifications to industry arrangements are seeking to tackle other sources and reduce costs for consumers:

- UNC369/A: This proposal and its alternative aim to clarify responsibility for sites where a shipper has informed the gas transporter that it has taken action to stop gas flowing but, on subsequent inspection, it is identified that the same meter is in place and is capable of flowing gas.⁵⁸
- UNC410: This proposal would place an obligation on gas transporters and gas shippers to take responsibility for any gas taken at an unregistered site following a new connection to the network.⁵⁹

5.17. We welcome these efforts and will continue to support the industry in developing proposals to more accurately account for gas and improve cost allocation in the industry.

Electricity theft

5.18. Theft is also an issue in the electricity market both in terms of cost and safety. There are also links to organised crime, for example through cannabis cultivation. While there is currently greater theft detection activity in the electricity market,⁶⁰ there are also concerns that suppliers are not sufficiently incentivised to detect theft and greater efforts should be made to protect consumers' interests.

5.19. Work is continuing in the industry to review the arrangements for tackling electricity theft. In particular, a working group⁶¹ is updating a code of practice for investigating electricity theft along similar lines to code of practice being developed in the gas market.

5.20. Our August 2011 consultation asked electricity suppliers and Distribution Network Operators to develop robust proposals for reform and notify us by the end of 2011 on what proposals should be taken forward. We are disappointed that this further work has not taken place.

5.21. We therefore propose to consult later this year on the potential application to the electricity sector of the principles that we have established for the gas sector. We recognise that the detailed regulatory framework is different for gas and electricity. Examples of these differences include the supplier liabilities for energy and network charges once theft is discovered and the differing incentives between gas and electricity network operators to reduce losses.

⁵⁸ Re-establishment of Supply Meter Points – measures to address shipperless sites
<http://www.gasgovernance.co.uk/0369>

⁵⁹ Responsibility for gas off-taken at Unregistered Sites following New Network Connections
<http://www.gasgovernance.co.uk/0410>

⁶⁰ In electricity there were approximately 19,000 annual theft detections each year on average during 2009 and 2010 compared with 2,900 in the gas market over the same period. Further data on gas was presented in the Appendix 2 of the August 2011 consultation. We have also today published a summary of electricity data on our website <http://www.ofgem.gov.uk/Markets/RetMkts/Compl/Theft/Pages/Theft.aspx>.

⁶¹ DCP054: Revenue Protection/Unrecorded Units into Settlements
<http://www.dcuca.co.uk/Public/CP.aspx?id=68>.



Tackling gas theft: the way forward

5.22. To assist our thinking, we would also welcome views in advance of our consultation on what improvements could be made to the arrangements for tackling electricity theft.

Appendices

Index

Appendix	Name of Appendix	Page Number
1	Consultation Response and Questions	32
2	Summary of responses	34
3	Statutory consultation on amendment to the Gas Supply Licence	41
4	Draft Direction to implement Theft Arrangement	48
5	Glossary	56
6	Feedback Questionnaire	59

Appendix 1: Consultation Response and Questions

1.1. Ofgem would like to hear the views of interested parties in relation to any of the issues set out in this document. In particular, we would welcome responses to the consultation on introducing a new licence condition on gas suppliers and directing gas suppliers to implement a new theft arrangement.

1.2. We would especially welcome responses to the specific questions which we have set out at the beginning of each chapter heading and which are replicated below.

1.3. Responses should be received by 30 April 2012 and should be sent to:

Harpal Bansal
Smarter Markets
9 Millbank
London
SW1P 3GE
Tel: 020 7901 7092
Email: smartermarkets@ofgem.gov.uk

1.4. Unless marked confidential, all responses will be published by placing them in Ofgem's library and on its website www.ofgem.gov.uk. Respondents may request that their response is kept confidential. Ofgem shall respect this request, subject to any obligations to disclose information, for example, under the Freedom of Information Act 2000 or the Environmental Information Regulations 2004.

1.5. Respondents who wish to have their responses remain confidential should clearly mark the document/s to that effect and include the reasons for confidentiality. It would be helpful if responses could be submitted both electronically and in writing. Respondents are asked to put any confidential material in the appendices to their responses.

1.6. Having considered the responses to this consultation, Ofgem intends to publish a decision notice in relation to the statutory consultation on changes to the gas supply licence and publish a decision on our proposed Direction to gas supplier to introduce a new theft arrangement. Any questions on this document should, in the first instance, be directed to:

Andrew Wallace
Smarter Markets
9 Millbank
London
SW1P 3GE
Tel: 020 7901 7067
Email: andrew.wallace@ofgem.gov.uk

CHAPTER: Two

Question 1: Do you agree with our final policy proposals and the related drafting of our licence condition on:

- a) The Objective for tackling theft of gas?
- b) Requirements to detect, prevent and investigate theft of gas?
- c) The Theft Arrangement?
- d) Standards for theft of gas investigations?
- e) Introducing a new relevant objective for the Supply Point Administration Agreement on tackling gas theft?

CHAPTER: Four

Question 2: Do you agree with our proposals to direct the implementation of the Theft Risk Assessment Service?

Question 3: Do you agree with our proposed requirements for the Theft Risk Assessment Service and the related drafting of the proposed Direction on:

- a) The services provided by the Theft Risk Assessment Service?
- b) The Theft Target?
- c) The governance of the Theft Risk Assessment Service?
- d) The appointment and operation arrangements of the Theft Risk Assessment Service?
- e) The reporting requirements for the Theft Risk Assessment Service?

Question 4: Do you agree that we should require the Theft Risk Assessment Service to be implemented by 31 December 2013?

Appendix 2: Summary of responses

1.1. Our August 2011 consultation sought the views of interested parties on a range of proposals to better tackle gas theft. We received 24 responses. This appendix lists all those that responded and summarised their views.

List of respondents

	Name
1	Association of Meter Operators
2	British Gas
3	Consumer Focus
4	Corona Energy (confidential response)
5	EDF Energy
6	Electricity North West
7	Energy Retail Association
8	EON
9	First Utility
10	Gas Safe Register
11	Gazprom
12	Gemserve
13	IBM
14	National Grid
15	Power Data Associates
16	RWE nPower
17	Scottish Power
18	Shell Gas
19	Sohn Associates
20	SSE
21	Teccura
22	UKRPA
23	Wales and West Utilities
24	Xoserve

Summary of responses

1.2. Responses received by Ofgem which were not marked as being confidential have been published on Ofgem's website (www.ofgem.gov.uk). Copies of non-confidential responses are also available from Ofgem's library.

1.3. The following is a summary of those responses that were received. The summary has been organised by themes rather than specific questions. This is because several broad issues were raised under different questions by respondents.

Chapter 2: Enhancing obligations on suppliers

Objective and requirement to detect, prevent and investigate theft

1.4. Respondents generally supported our proposals to introduce new gas supply licence obligations in relation to theft. Some respondents considered that licence obligations would help ensure that suppliers have incentives to be proactive in identifying and tackling theft in a consistent manner.

1.5. One smaller supplier argued that it is not reasonable to set both an objective and more detailed licence requirements. It considered this to be a repetition and given existing statutory obligations of suppliers, there is a risk of double jeopardy. One respondent suggested that new licence obligations should be more robust than those currently in place for electricity, whilst others considered it sensible align obligations between gas and electricity.

1.6. One respondent considered that the smart meter rollout presented an opportunity to check every meter as they are changed to smart meters. This respondent argued that smart meter consumption data should not be used in isolation to try to identify theft. It was considered that the regulatory framework should be capable of responding to the dynamic nature of gas theft.

1.7. Several suppliers considered that an obligation to take all reasonable steps in cooperation with other licence holders to achieve the objective, places a possibly unachievable burden on individual licensees.

Standards for treatment of consumers

1.8. The majority of respondents agreed that, in respect of vulnerable customers, suppliers should make reasonable efforts not to disconnect supply during winter months on grounds of theft.

1.9. Those who opposed a restriction on disconnecting supply at any time of the year for vulnerable customers considered that it would reduce the deterrent to steal gas in winter months. In addition, this would present safety concerns and would mean significant debt would be built up, revenue lost and investigation costs would be levied, with little or no hope of recovery. It was suggested that this could be avoided by the proposed restriction for vulnerable customers applying to offences other than repeat offences or where it is unsafe for another reason to reconnect the supply. It was suggested that were a vulnerable customer was disconnected in winter months, the supplier should alert the relevant Local Authority who could consider the consumer's welfare.

1.10. Several respondents requested clarity on the meaning of reasonable steps in respect of not disconnecting vulnerable customers during the winter months. It was suggested that it would be unreasonable to maintain supply where there is an unsafe connection, the crime had been repeated or where consumers were not paying for their energy when they had the financial means to do so.

1.11. Several of the Big 6 argued that suppliers should be required to offer vulnerable consumers, and customers that would have genuine difficulty paying, a range of methods for the repayment of charges associated with gas theft as an alternative to disconnection. Two said they currently undertake the process of offering alternative payment options, with one supplier stating they consider it to be in the interest of both the supplier and consumer. One supplier considered that such obligations already exist under Standard Licence Condition 27.6.

1.12. One supplier held the view that the proposal to require a range of payment methods did not consider the possibility that a consumer may re-offend. It argued that any such obligation must be effective in remedying the matter, i.e. paying for the stolen gas and preventing future theft. In general, other respondents believed that disconnection of supply should be deemed as a last resort, but should still remain as a deterrent to theft. One respondent stressed the importance of striking the right balance between safety, vulnerability and commercial risk when suppliers set repayment terms.

1.13. One Big 6 supplier who did not agree with the proposal considered that those involved in criminal activity should not receive the same level of protection as those who need genuine help to manage their debt. This supplier further considered that consumers should not be able to receive credit until outstanding charges for gas stolen and repaid in full. By requiring the supplier to offer consumers alternative payment methods, it argued that the bad debt charge associated with theft would increase further. This would increase the degree to which the costs of theft are socialised across the wider consumer population in the form of higher charges. In turn, this may negatively affect Ofgem's assumption that increased theft detection activity will decrease the cost to consumers.

1.14. Several respondents highlighted the current protection measures for those who had difficulty paying under the ERA Safety Net. One supplier said that this safety net should be expanded so that it provided a consistent level of support to for vulnerable customers that had resorted to these desperate measures with the aim of getting the consumer back on to a proper financial footing with their supplier.

1.15. Two smaller suppliers considered the wording of the proposal appeared too lax for inclusion in the licence. Specifically the phrase, "*customers that would have genuine difficulty paying*" appeared to be open to interpretation. It was considered that such wording may provide an impression that the energy sector regards energy theft as a lesser crime than any other form of theft.

1.16. Several respondents referred to the discussion under Ofgem's Retail Market Review on ensuring that suppliers treat consumers in debt in a fair and reasonable way. One supplier considered that the same protections should ultimately apply to all consumers.

Gas theft code of practice

1.17. The majority of respondents supported the proposal to introduce a licence requirement on suppliers to establish a code of practice governing theft investigations

1.18. One respondent held the view that current arrangements under the SPAA are not fit for purpose in terms of governance and expressed concerns over any obligation to be party to the SPAA in respect of a code of practice.

1.19. Several Big 6 suppliers shared the view that a code of practice would ensure that suppliers maintained a consistent approach when tackling gas theft. One respondent considered a code of practice would establish a baseline and encourage suppliers to go 'above and beyond' it to achieve higher standards. One Big 6 supplier noted several advantages that a code of practice will bring, including transparency to consumers, safeguards for consumers from aggressive investigations and the alignment with activities in electricity.

1.20. One supplier, who did not consider it appropriate to introduce a licence condition to establish a code, noted that work was currently underway for a draft code of practice under SPAA. It reported that the intention was to introduce a change before the end of the year to incorporate the code as a mandatory schedule.

1.21. A Big 6 supplier considered that the licence and code should apply to all parties which could investigate and take action for theft under the Gas Act ie gas transporters. It argued that Gas Transporters (GTs) should also be required to collect evidence about site visits where immediate safety concerns had been raised, which can be used by suppliers at a later date to help identify theft.

1.22. In recognition of the different requirements between the domestic and non-domestic sectors, one respondent said that the code of practice should distinguish between the two sectors. Other respondents shared the view that a single code of practice covering both gas and electricity sectors may not be possible and therefore proposed separate codes to be implemented.

Implementation timescale

1.23. A range of views were presented on the timing for introducing the proposed new gas supply licence condition. Many respondents supported the view that the licence condition should be implemented as soon as reasonably practicable.

1.24. Several respondents considered that the proposed changes would require significant lead time and that suppliers were at different stages of development. Two respondents considered that a more sensible approach would be to align changes in gas and electricity, with one stating this would minimise the cost of consequential system changes.

1.25. One respondent considered that the new licence condition should not be introduced until the NRPS proposal was in place. Another respondent held concerns about the level of change required to support this set of changes and other Government lead proposals now and in future and the associated impacts of costs on consumers.

Chapter 4: Assessment of industry proposals

Ofgem's assessment and assumptions

1.26. There was broad support across all respondents on our assessment of the three proposed industry schemes to increase theft detection. Several respondents suggested amendments and presented additional information.

1.27. Several Big 6 suppliers presented views on the costs per successful investigations. One considered that the assumptions we made were incorrect and presented alternative information. It suggested that aggregate investigation costs associated with making a theft detection for a typical SSP site was £1,100 and £3,950 for a typical LSP site; both significantly above Ofgem's assumed values.

1.28. One supplier suggested that an assessment should be made on which scheme was best able to respond to a reducing amount of theft if the proposals were successful.

1.29. Several respondents said that it was difficult to make robust assumptions. This was because of the lack of information about the current level of theft and weaknesses in the data provided to Ofgem in its 2010/11 survey on gas theft in the market.

1.30. The view that theft is not uniform across the market was raised by a few suppliers. It was suggested that an assessment should be made on the differences between supplier portfolios eg whether theft is most common from credit or prepayment meters and whether it is more prevalent in urban areas.

1.31. One supplier questioned the assumption that increased activity would lead to a material rise in the number of successful investigations. One respondent argued that consumption would reduce after theft had been detected as the consumer would have to pay for their energy use.

Views on industry proposals and alternatives

1.32. The majority of respondents considered that the NRPS proposal would increase theft detection and should be implemented. Two respondents did not hold any preference for or against the proposals to be implemented, but provided comments. One respondent considered that Enhanced SETS should be implemented.

1.33. Arguments in favour of NRPS included that: industry cooperation and consistency across suppliers would deliver the best results; a mechanism for centralised data analysis would enable industry to draw on a greater pool of data to identify and prioritise investigations; and, unlike SETS or Enhanced SETS, it would maintain a level playing field between suppliers.

1.34. A Big 6 supplier considered there was not sufficient evidence to demonstrate that implementation of any of the schemes would offer a significant increase in the identification of theft above that likely to be delivered by the revised licence obligations, the code of practice, and the roll out of smart metering. This supplier further considered that it was not appropriate to obligate suppliers to implement another project given significant resource required for the Green Deal, Smart Meter Rollout, EU Third Package and the Retail Market Review.

1.35. One supplier considered that to maximise benefit from a NRPS, its remit should extend to cover for scenarios of fraud, vacant properties as well as shipperless and unregistered sites. In addition, this would allow suppliers to prevent consumers attempting to indicate that a change of tenancy has occurred to avoid debt payments. This would strengthen the cost benefit analysis and costs to legitimate consumers should fall.

1.36. A Big 6 supplier suggested that xoserve would be best placed to undertake NRPS function if Ofgem considered that the NRPS is required prior to Smart Meter Rollout. It was noted that suppliers currently send relevant information to xoserve that it could use to profile theft risk. This, the supplier argued, would also prevent the need for suppliers to send these flows to a third party at an added cost.

1.37. One respondent in favour of Enhanced SETS considered that it would deliver the largest number of theft detections as it combined a financial incentive mechanism which can provide benefits with services that would not otherwise be provided by the market, for example co-ordination and facilitation. This respondent further stated that implementation of NRPS was unworkable in its current format as it did not address suppliers' disincentives. It considered that this would create a large central monopoly organisation with a remit to detect theft, controlled by an industry which continues to benefit from a failure to detect theft.

1.38. Respondents not in favour of SETS and Enhanced SETS did not consider that these schemes would address the issue of theft appropriately. They considered that theft did not occur evenly across all supplier portfolios and that a scheme to reward those who detect theft and penalise those that don't will result in an unfair distribution of funds.

1.39. A Big 6 supplier said that there were different interpretations as to what constitutes as a valid case of theft under the Gas Act and expressed concern on what evidence would be needed under the SETS and Enhanced SETS incentive schemes. In addition, this respondent considered that under the incentive proposals, there will be a decrease in the number of cases where suppliers would currently give consumers the benefit of doubt. This could then lead to an increased number of

complaints and conflicts with suppliers efforts to reduce the number of disconnections.

1.40. In relation to the NRPS, one respondent suggested that there may be an incentive to under record theft if the costs of finding theft outweighed the costs of investigating but not finding theft. Under SETS and Enhanced SETS it argued that there would be considerable commercial drivers which may lead to overzealous investigations and misreporting. However, it was considered that such issues would be addressed through the proposed code of practice if it set standards for theft investigations and established audit and penalty provisions.

1.41. One respondent suggested several changes to the incentive proposals supporting SETS and Enhanced SETS schemes. This included an amendment to the value of the incentive scheme so that it would be calculated from an assessment of the net cost a supplier will face if they choose to move from doing nothing to detecting theft. Additionally, it considered that an independent annual review of the value of the incentive scheme should be made to ensure that it was set at the appropriate level to deliver the desired results. It also considered amendments to the way that the share of incentive payments were calculated under modification proposal UNC346 so they would be paid out based on invoiced amounts rather than on the initial assessed amount.

1.42. In respect of the NRPS scheme, a Big 6 supplier considered that there should be an opportunity for suppliers to claim money back in the event that leads generated amounted to nothing when investigated. In addition, this respondent believed that statistics collated as a result of the proposed code of practice would allow parties to better assess whether implementation of the NRPS was proportionate to the level of theft occurring. This approach would allow additional time to resolve issues such as governance arrangements and data privacy.

1.43. One respondent considered that gas transporters should be required to take action to assist and prevent cases of theft. Another respondent considered that all theft responsibilities could be moved to gas transporters.

1.44. One respondent recommended that the promotion of the 24-hour tip-off hotline should be closely linked to the providers of first-tier consumer advice to avoid confusion.

Appendix 3: Statutory consultation on amendment to the Gas Supply Licence

NOTICE UNDER SECTION 23(2) OF THE GAS ACT 1986

The Gas and Electricity Markets Authority (“the Authority”) hereby gives notice pursuant to section 23(2) of the Gas Act 1986 (“the Act”) as follows:

- 1.** The Authority proposes to modify all gas supply licences granted or treated as granted under 7A(1) of the Act by introducing a new SLC 12B ‘Matters related to Theft of Gas’ and amending SLC 1 ‘Definitions for standard conditions’, SLC 27 ‘Payments, Security Deposits, Disconnections and final bills’ and SLC 30 ‘Supply Point Administration Agreement’.
- 2.** The reasons why the Authority proposes to make this licence modification are to protect consumers’ interests by putting in place proportionate arrangements to require suppliers to proactively tackle gas theft. Further detail is set out in our document ‘Tackling gas theft: the way forward’, published on 26 March 2012 (Document reference: 35/12).
- 3.** The effect of the proposed modification(s) is to ensure that suppliers make reasonable efforts to detect, prevent and investigate theft and protect consumers’ interests in undertaking this activity. It aims to achieve this by including an overarching objective and detailed requirements to detect, prevent and investigate theft, to require gas suppliers to introduce a ‘Theft Arrangement’ as directed by the Authority, introduce specific standards for theft investigations and for the treatment of customers once theft is detected, introduce supporting definitions and change the relevant objectives of the Supply Point Administrative Agreement to secure compliance with SLC 12B.
- 4.** Relevant licence holders for the purposes of this Notice are all holders of gas supply licences with Section A of the Gas Supply Licence in force.
- 5.** A copy of the proposed modification(s) and other documents referred to in this notice are available (free of charge) from the Ofgem library (telephone 020 7901 7003) or on the Ofgem website (www.ofgem.gov.uk).
- 6.** Any representations to the proposed licence modifications may be made on or before 30 April 2012 to: Harpal Bansal, Office of Gas and Electricity Markets, 9 Millbank, London, SW1P 3GE or by email to smartermarkets@ofgem.gov.uk.
- 7.** All responses will normally be published on Ofgem’s website and held in the Research and Information Centre. However, if respondents do not wish their response to be made public then they should clearly mark their response as not for publication. Ofgem prefers to receive responses in an electronic form so they can be placed easily on the Ofgem website.

8. If the Authority decides to make the proposed modification it will take effect 56 days after the decision is published.

.....
**Colin Sausman, Duly authorised on behalf of the
Gas and Electricity Markets Authority**

26 March 2012

SCHEDULE

Condition 12B. Matters related to Theft of Gas

Objective

- 12B.1 The objective of this licence condition (the "Objective") is to ensure that:
- (a) the licensee and any Representative individually and/or in cooperation with other licence holders where necessary:
 - (i) detect Theft of Gas;
 - (ii) investigate suspected Theft of Gas;
 - (iii) prevent Theft of Gas once detected;
 - (iv) prevent Theft of Gas by other means such as deterrence and the security of the supply in respect of any premises to which the licensee is registered for the purposes of the Network Code; and
 - (b) when taking the steps mentioned in sub-paragraph 12B.1(a), the licensee and any Representative:
 - (i) behaves and acts towards Customers in a manner which is fair, transparent, not misleading, appropriate and professional; and
 - (ii) takes into account whether the Domestic Customer and/or the occupants of the relevant premises is of Pensionable Age, disabled or chronically sick and/or the Domestic Customer at the relevant premises will

have difficulty in paying all or part of the Charges for the Supply of Gas resulting from Theft of Gas.

- 12B.2 The licensee must take (and ensure that any Representative takes) all reasonable steps:
- (a) to secure the achievement of the Objective; and
 - (b) to avoid doing anything which jeopardises its ability to achieve the Objective.
- 12B.3 The steps which the licensee must take (and ensure that any Representative takes) to secure the achievement of the Objective include, without limitation, the steps which are detailed at paragraphs 12B.5 to 12B.16 of this condition, the obligations set out in paragraphs 3 and 4 of standard condition 17 and paragraph 6(e) of standard condition 30.
- 12B.4 For the avoidance of doubt, where the licensee is not registered at a premises for the purposes of the Network Code, its obligations under paragraphs 12B.1 and 12B.2 in respect of that premises are limited to the provision of notification to the Relevant Gas Transporter under paragraphs 3 and/or 4 of standard condition 17.

Requirement to detect, prevent and investigate Theft of Gas

- 12B.5 In respect of any premises to which the licensee is registered for the purposes of the Network Code, the licensee must take (and ensure that any Representative takes) all reasonable steps to detect and prevent Theft of Gas.
- 12B.6 Where, in respect of any premises to which the licensee is registered for the purposes of the Network Code, the licensee has reasonable grounds to suspect Theft of Gas, it must take (and ensure that any Representative takes) all reasonable steps to investigate that suspected Theft of Gas.
- 12B.7 Paragraph 12B.6 does not apply if the Relevant Gas Transporter is required to investigate whether the supply of gas is/was illegally taken under paragraphs 1 and 2 of standard condition 7 of the Gas Transporters Licence.

The Theft Arrangement

- 12B.8 The licensee must be a party to, comply with, and maintain such arrangement to give effect to the Objective, as the Authority may direct (the "Theft Arrangement").
- 12B.9 The licensee:
- (a) must take such steps as are necessary and within its reasonable control; and
 - (b) must not take any unreasonable steps to prevent or delay, to ensure that the Theft Arrangement is implemented by such a date as the Authority may direct.
- 12B.10 The licensee must take all reasonable steps to secure and implement changes to the Theft Arrangement and its systems, procedures and processes which are necessary to give full, timely and practical effect to the Theft Arrangement.
- 12B.11 The licensee must take all reasonable steps to cooperate with other licence holders where necessary, to facilitate the achievement of the Theft Arrangement.

Standards for Theft of Gas investigations

- 12.B12 The licensee must ensure (and ensure that any Representative ensures) that the following standards are met when it is taking any of the steps referred to in paragraphs 12B.1, 12B.2, 12B.3 and 12B.4 of this Condition:
- (a) The licensee must take (and ensure that any Representative takes) all reasonable steps to identify whether the Domestic Customer and/or the occupants of the Domestic Premises (in this condition "the relevant premises") is of Pensionable Age, disabled or chronically sick;
 - (b) The licensee must take (and ensure that any Representative takes) all reasonable steps to identify whether a Domestic Customer at the relevant premises will have difficulty in paying all or part of the Charges for the Supply of Gas resulting from Theft of Gas;
 - (c) Where the licensee or any Representative has identified that a Domestic Customer and/or the occupants of the relevant premises is reasonably suspected to be of Pensionable Age, disabled or chronically sick and/or the Domestic Customer at the relevant premises will have difficulty in paying all or part of the Charges for the Supply of Gas resulting from Theft of Gas,

the licensee or any Representative must before seeking to Disconnect the relevant premises, as a minimum offer the Domestic Customer to pay those Charges for the Supply of Gas by using a Prepayment Meter, where it is safe and reasonably practicable in all the circumstances of the case for the Domestic Customer to do so;

- (d) Where the licensee or any Representative knows or has reason to believe that a Domestic Customer and/or the occupants of the relevant premises is of Pensionable Age, disabled or chronically sick, the licensee or any Representatives must take all reasonable steps not to Disconnect the supply of gas to the relevant premises in Winter;
- (e) The licensee must have (and ensure that any Representative has) sufficient evidence to establish (on the balance of probabilities) the Statutory Disconnection Power before stopping the supply of gas to a premises on grounds of Theft of Gas;
- (f) The licensee must have (and ensure that any Representative has) sufficient evidence to establish (on the balance of probabilities) that Theft of Gas has occurred as a result of that Customer's intentional act or by culpable negligence before requiring payment of all or part of the Charges for the Supply of Gas relating to that Theft of Gas; and
- (g) The licensee must provide (and ensure that any Representative provides) in plain and intelligible language, clear, timely and accurate information and advice to the Customer about:
 - (i) the basis of any assessment made by the licensee (or its Representative) that Theft of Gas has been committed;
 - (ii) the basis for the calculation of any Charges for the Supply of Gas associated with the Theft of Gas made to the Customer;
 - (iii) what steps the Customer should take if they wish to dispute that a Theft of Gas had occurred; and
 - (iv) the steps a Customer may take to reinstate supply if the licensee (or its Representative) has exercised the Statutory Disconnection Power.



Tackling gas theft: the way forward

- 12B.13 The licensee must keep (and ensure that any Representative keeps) a record of its compliance with its obligation under this licence condition.
- 12B.14 The licensee must take all reasonable steps to establish management arrangements that facilitate the licensee’s compliance with its obligations under this condition, including, as appropriate, steps to ensure that any Representative, agent and subcontractor of the licensee establish equivalent arrangements.
- 12B.15 The licensee must provide to the Authority, in such manner and at such times as the Authority may reasonably require, such Information as the Authority may require or deem necessary or appropriate to enable the Authority to monitor the licensee’s compliance with this condition.
- 12B.16 The licensee is not required to comply with paragraph 12B.15 if it could not be compelled to produce or give the Information in evidence in civil proceedings before a court.

Definitions for Condition

12B.17 In this condition:

Theft of Gas	<p>includes, but is not limited to;</p> <p>(a) circumstances described in paragraphs 10(1)(a) and 11(2) of Schedule 2B to the Gas Act 1986 in so far as they relate to a gas supplier; and</p> <p>(b) circumstances described in paragraphs 10(1)(b) and 10(1)(c) of Schedule 2B to the Gas Act 1986.</p>
---------------------	---



Condition 30. Supply Point Administration Agreement

[Introduce new sub-paragraph after SLC 30.6(d)]

- 30.6 The relevant objectives referred to in sub-paragraph 30(a) are:
 - (e) securing compliance with standard condition 12B.

Condition 27. Payments, Security Deposits, Disconnections and final Bills

[Introduce new paragraphs after SLC 27.8 and 27.11]

- 27.8A The obligations described in paragraphs 27.5 to 27.7 shall not apply where the licensee is considering exercising its Statutory Disconnection Power.

- 27.11C The prohibitions described in paragraphs 27.9 to 27.11B shall not apply where the licensee is considering exercising its Statutory Disconnection Power.

Condition 1. Definition for standard conditions

[Insert new definition in SLC 1.2]

Statutory Disconnection Power	means paragraphs 10(2) and 11(2)(b) of Schedule 2B to the Gas Act 1986
--------------------------------------	--



Appendix 4: Draft Direction to implement Theft Arrangement

The Company Secretary
Name and registered address of licence holder

GAS SUPPLY LICENCE

STANDARD CONDITION 12B. Matters related to Theft of Gas

Notice of direction issued by the Gas and Electricity Markets Authority pursuant to Standard Condition 12B

WHEREAS:

1. Each of the companies to whom this Notice is addressed ('the licensee') holds a gas supply licence granted, or treated as granted, pursuant to section 7A(1) of the Gas Act 1986 ('the licence').
2. The Gas and Electricity Markets Authority ('the Authority') has the power pursuant to Standard Condition 12B ('SLC 12B') of the licence to issue direction in respect of requirements relating to the Theft of Gas.
3. In accordance with SLC 12B of the licence, on [date] the Authority consulted with the licensee and has carefully considered the responses to that consultation.

NOW THEREFORE:-

4. The Authority hereby directs that the licensee must comply with the requirements specified in the Schedule.
5. The direction shall take effect on and from the date specified below and shall continue until revoked or amended by the Authority following consultation with the licensee in accordance with SLC 12B.

Dated the -----20[12]

[Name and title]

**DIRECTION UNDER PARAGRAPH 12B.8 OF STANDARD CONDITION 12B
(MATTERS RELATED TO THEFT OF GAS) OF THE GAS SUPPLY LICENCE**

PART A: TERMS IN RESPECT OF DIRECTION

1. Under section 7A of the Gas Act 1986 (the "Act") and standard licence condition (SLC) 12B, paragraph 12B.8 of the Gas Supply Licence, the Gas and Electricity Market Authority (the "Authority") may from time to time direct a party to, comply with, and maintain such arrangement to give effect to the objectives set out in SLC 12B (the "Theft Arrangement").
2. The Authority hereby makes the following Direction:

PART B: PURPOSE OF THE THEFT ARRANGEMENT

3. The purpose of the Theft Arrangement (the "Purpose") is to ensure that:
 - a. the licensee and any Representative individually and/or in cooperation where necessary with other licence holders develop, maintain and operate a service (the Theft Risk Assessment Service (TRAS)) to support:
 - (i) detection of Theft of Gas;
 - (ii) investigation of suspected Theft of Gas; and
 - (iii) prevention of Theft of Gas.
4. The licensee must take (and ensure that any Representative takes) all reasonable steps:
 - a. to secure the achievement of the Purpose; and
 - b. to avoid doing anything which jeopardises its ability to achieve the Purpose.

PART C: THE THEFT RISK ASSESMENT SERVICE (TRAS)

5. The objective of the TRAS is to develop, maintain and operate an arrangement in a consistent manner across all Gas Suppliers, such that any Customer that undertakes Theft of Gas will have a reasonable chance of being detected, regardless of which Gas Supplier supplies them.
6. The TRAS is to carry on its activities in a manner that is most likely to facilitate:
 - a. the development, operation and maintenance of an efficient, economical and coordinated Theft Arrangement;
 - b. effective competition between Gas Suppliers;
 - c. protection of information and security of information and systems; and
 - d. efficient and transparent administration and implementation of TRAS.
7. The TRAS must take all reasonable steps to:
 - a. secure the achievement of the objectives under paragraph 5; and
 - b. avoid doing anything which jeopardises its ability to achieve the objectives under paragraph 5.
8. The TRAS must:
 - a. identify, collect, scrutinise and evaluate Relevant Information to profile the risk of Unrecorded Gas, and in particular Theft of Gas, at all individual premises where gas is conveyed through pipes by a Gas Transporter;

- b. provide all Relevant Information in respect of a premises that the Relevant Supplier may reasonably require to:
 - i. determine which premises to investigate for suspected Theft of Gas, and
 - ii. to facilitate that investigation of Theft of Gas
 - c. on notice from the Relevant Gas Supplier that a person has, or may have, taken a supply of gas in the course of conveyance, provide all Relevant Information to the Relevant Gas Transporter that the Relevant Gas Transporter may reasonably require to facilitate the Relevant Gas Transporter in fulfilling its obligations under standard licence condition 7 of the Gas Transporters Licence;
 - d. at the reasonable request of the Relevant Gas Transporter, provide such Relevant Information and services that the Relevant Gas Transporter may reasonably require to support the reduction of gas taken in the course of conveyance; and
 - e. at the reasonable request of the Relevant Supplier and/or Relevant Gas Transporter, provide such Relevant Information that the Relevant Supplier and/or Relevant Gas Transporter may reasonably require to support criminal prosecution.
9. The TRAS must provide the Relevant Information defined in paragraph 8(b) in a manner that is most likely to facilitate the achievement of the Theft Target;

Theft Target

10. The TRAS must establish and maintain an appropriate target amount of Theft of Gas to be detected per year (the "Theft Target").
11. The Theft Target is:
- a. a target for the detection of Theft of Gas by all Gas Suppliers; and
 - b. if detected each year it is likely to achieve an overall benefit to Customers.
12. The TRAS must establish the Theft Target within one year of the commencement of provision of service defined in paragraph 8.
13. The TRAS must review the Theft Target at least once every two years. When reviewing the Theft Target, the TRAS must take all reasonable steps to ensure that any revised Theft Target will achieve additional overall benefits for Customers when compared to the existing Theft Target.
14. The TRAS must develop and maintain a methodology, having regard to all the information available, to establish the Theft Target (the "Theft Target Methodology").
15. Before establishing the Theft Target Methodology, the TRAS must consult:
- a. the Authority;
 - b. the Consumer Council;
 - c. all Gas Suppliers;
 - d. all Gas Transporters; and
 - e. such other person as the TRAS considers appropriate.

16. The TRAS must duly consider any representations which are made.
17. The Theft Target Methodology is required to be a complete and documented explanation, presented in a coherent and consistent manner, of the methods, principles, and assumptions that apply for the purpose of determining the Theft Target.
18. A report setting out the Theft Target Methodology must be:
 - a. provided to the Authority;
 - b. provided to any person who asks for it; and
 - c. published on a website.
19. In complying with the requirements of paragraph 17, the Licensee must have due regard to the need for excluding from the report, so far as is practicable, any matter that relates to the affairs of a person if the publication of that matter would or might seriously and prejudicially affect his interests.

Governance of TRAS

20. The Licensee must take all reasonable steps to develop, maintain and operate a TRAS, in accordance with this Direction.
21. The Licensee must not carry on any activity, or any combination of activities in a manner that prejudices or impairs, or would be likely to prejudice or impair, the TRAS in carrying on its activities at all times in accordance with the objective under paragraph 5 of this Direction.
22. The Licensee must ensure that effective change control arrangements are in place for Gas Suppliers to seek amendment to the rules for the operation of the TRAS

Access and use of data

23. The TRAS must:
 - a. ensure the protection of information and the security of the information and systems in the operation of the TRAS;
 - b. maintain, prepare and publish a Compliance Statement stating how the TRAS will comply with the requirements in paragraph 23(a); and
 - c. maintain, prepare and publish a Privacy Impact Assessment for the purpose of assessing compliance with the Data Protection Act 1998. The Privacy Impact Assessment must be consistent with the best industry practice as recommended from time to time by the Information Commissioner's Office (or a successor body).
24. For the avoidance of doubt, the Licensee is not required to undertake any activity required by this Direction, where within the Licensee's reasonable view, it would cause the Licensee to act in a manner that is not in compliance with the Data Protection Act 1998.

Specific requirements to provide information

25. The Licensee must take (and ensure that any Representative takes) all reasonable steps to provide all Relevant Information to the TRAS that the TRAS may reasonably require to profile the risk of Unrecorded Gas, and in particular Theft of Gas, at all premises where gas is conveyed through pipes by a Gas Transporter.
26. The Licensee must inform the TRAS within a reasonable timeframe of the outcome of any investigation that it undertakes for Theft of Gas.

Appointment and Operation of TRAS

27. The TRAS shall commence the provision of the services defined in paragraph 8 in accordance with this Direction by 31 December 2013.
28. The TRAS must:
 - a. be appointed on a competitive basis and be consistent with best industry practice relating to the procurement and management of a service;
 - b. be appointed for a maximum term of five years;
 - c. be appointed from suitable organisations in a manner that:
 - i. secures value for money in terms of the combination of quality and cost over the lifetime of the contract;
 - ii. delivers the required goods, services or works to appropriate standards according to the needs of service users; and
 - iii. incorporates (at a cost that is not disproportionate to any associated benefit) sufficient flexibility to adapt to Gas Supplier requirements over the duration of the contract.
 - d. not at any time hold or acquire investments by way of shares, securities, or associated rights of any kind in any licensed Gas Supplier (or any Affiliates or Related Undertaking of such person) and/or licensed Gas Transporter (or any Affiliates or Related Undertaking of such person).
29. The Licensee must take all reasonable steps to ensure that it does not derive a competitive advantage:
 - a. when appointing the TRAS; and
 - b. in the operation of the TRAS.
30. The Licensee must ensure that the contractual arrangement with the TRAS enables the Licensee to implement such practices and procedures in respect of contract management and contract performance as are necessary to ensure that the Licensee can at all times fulfil the requirements of this Direction and its Licence.
31. In particular, without limiting the general effect of paragraph 30, the contractual arrangement with TRAS:
 - a. must provide for the Licensee:
 - i. to obtain any information that it may require from the TRAS, in such format and at such time as may be specified, for the purpose of enabling the Licensee to fulfil the requirements of this Direction and its Licence, and

- ii. to disclose such information to any third party where it considers that doing so is necessary to promote that purpose;
- b. must provide for the termination of the contractual arrangement with the TRAS provider where it is inappropriate for the TRAS provider to continue to provide the services defined in paragraph 8, 9 and 10;
- c. must set out the agreed Quality of Service Information; and
- d. must provide for the services defined in paragraph 8, 9 and 10.

No abuse of the TRAS' position

32. The Licensee must take all reasonable steps to ensure that the TRAS at all times manages and operates its services in a way that is calculated to ensure that it does not restrict, prevent, or distort competition in the provision of, or in any of the markets for the provision of services defined in paragraph 8.
33. The Licensee must take all reasonable steps to ensure that the TRAS at all times carries on its activities in a manner that does not give any cross-subsidy to, or receive any cross-subsidy from, any Affiliate or Related Undertaking of the TRAS.
34. The Licensee must take all reasonable steps to ensure that the TRAS does not:
- a. unduly prefer itself or any Affiliate or Related Undertaking over any person or any class or description of persons; or
 - b. unduly discriminate between any person or any class or description of persons.

Clearly document rules of operation

35. The rules for the operation of the TRAS must be clearly documented and available to Gas Suppliers.

Reporting

36. The TRAS must:
- a. prepare management information reports. The management information reports must include information and evaluation in respect of improvements to the arrangements for detecting Theft of Gas such as trend data, levels and causes of Theft of Gas and other relevant information on sources of Unrecorded Gas; and
 - b. prepare performance assurance reports.
37. The performance assurance reports referred to in paragraph 36 must:
- a. include a complete statement of how the TRAS is meeting the objective under paragraph 5 and the requirements of this Direction;
 - b. include a complete statement of the performance (both generally and in detail) of the TRAS in providing the services defined in paragraph 8 and 9 during the year; and
 - c. set out in appropriate detail appropriate performance measures with respect compliance of the TRAS with the Quality of Service Information.
38. The Licensee must develop and maintain Quality of Service Information in such manner as will enable the Licensee to monitor on a continuing basis the quality


and efficiency with which the TRAS services are provided.

39. The TRAS must produce the reports required in paragraph 36 at least once a year.
40. The reports required in paragraph 36, must be prepared by a person who is fully independent of the interests of the TRAS, the Gas Suppliers and the Gas Transporters.
41. A copy of the reports referred to in paragraph 36 must be provided to the Authority.

PART F: Implementation and Interpretation

42. This Direction shall have effect on and from XX.
43. Unless a contrary intention appears, any reference to terms in this Direction is to be read to have the same meaning given in the Gas Supply Licence.
44. In this Direction:

Affiliate	means, in relation to the Licensee, any Holding Company of the Licensee, any Subsidiary of the Licensee, or any Subsidiary of a Holding Company of the Licensee.
Compliance Statement	means a statement that sets out the practices, procedures, and systems by means of which the TRAS complies with its duties in relation to protection of information, the security of the information, and systems in the operation of TRAS.
Holding Company	means a holding company as defined in section 1159 of the Companies Act 2006.
Privacy Impact Assessment	means an assessment that sets out a process for evaluating the potential effects on privacy.
Relevant Information	means information in any form or medium, however conveyed or stored, and of any description, and includes any documents, accounts, estimates, returns, records, certificates, or reports, and data of any kind.
Related Undertaking	in relation to the Licensee, means any undertaking in which the



Tackling gas theft: the way forward

	Licensee has a participating interest within the meaning of section 421A of the Financial Services and Markets Act 2000.
Subsidiary	means a subsidiary as defined in section 1159 of the Companies Act 2006.
Quality of Service Information	means such specified information relating to quality and efficiency with which services are provided.
Unrecorded Gas	means gas that is not attributed directly to a Relevant Gas Shipper as a result of Customer's consumption.

45. This Direction constitutes notice pursuant to section 34 of the Act.

Appendix 5: Glossary

A

Annual Quantity (AQ)

The sum (measured in kWh or therms) of the annual consumption of all meters on a site. AQs are based on historical usage from previous years.

Allocation of Unidentified Gas Expert (AUGE)

An independent expert to determine a methodology for the allocation of unaccounted for gas, appointed under the terms of UNC Modification Proposal 229.

AQ Review

A review of the User's determination of the AQ in respect of a Supply Meter Point.

C

Central Revenue Protection Unit (CRPU)

The CRPU is part of the Enhanced SETS proposal. The role of the CRPU would be to enter the gas market to offer services to suppliers to help them respond to the incentive scheme set up under SETS.

Customers

Parties who have a contract with a supplier to take gas at a Supply Point.

D

Daily Metered (DM) Supply Points

Supply points that have annual gas consumption greater than 58,600,000KWh. DM Supply Points are equipped with mandatory telemeter equipment, such as a datalogger. Any supply point which is directly connected to the National Transmission System will also be daily metered.

Distribution Connection and Use of System Agreement (DCUSA)

A multi-party contract between the licensed electricity distributors, suppliers and generators of Great Britain. It is concerned with the use of the electricity distribution systems to transport electricity to or from connections to them.

E

Emergency Control Valve (ECV)

A valve which limits the supply of gas to an individual Supply Point.

Enhanced SETS

Enhanced SETS builds on the SETS proposal to increase theft detection. In addition to a code of practice on theft investigations it would add the RPACA and may also add the CRPU.

G

Gas Distribution Network (GDN)

A network through which gas is taken from the high pressure transmission system and distributed through low pressure networks of pipes to industrial complexes, offices and homes. There are eight GDNs in Britain, each covering a separate geographical region.

Gas Transporters (GTs)

Holders of a licence to operate a system to convey gas granted under section 7 paragraph 4 of the Gas Act 1986 as amended.

I

Independent Gas Transporter (IGT)

An operator of a small local gas network, most of which are being built to serve new housing. IGTs may levy transportation charges on shippers.

L

Larger Supply Point (LSP)

A supply point with an annual consumption greater than 73,200kWh (2,500 therms).

N

National Revenue Protection Service (NRPS)

Proposal to increase theft detection by establishing a central database to profile theft risk at each supply point. It would require the highest risk cases to be investigated by suppliers.


R

Revenue Protection Activity Co-ordination Agent (RPACA)

The RPACA is part of the Enhanced SETS proposal. It would provide services (such as management information and a telephone tip-off line) that may not be provided to the same extent in a competitive market.

S

Supplier Energy Theft Scheme (SETS)



Tackling gas theft: the way forward

A proposal to increase theft detection by introducing incentives on shippers. It would be implemented through either UNC277 or UNC346.

Supply Point Administration Agreement (SPAA)

A multi-party agreement to which all domestic gas suppliers and all gas transporters are required by their licences to accede. It sets out the inter-operational arrangements between gas suppliers and transporters in the GB retail market.

Shipper

An agent who arranges for the conveyance of gas over the distribution network to final consumers. Shippers pay transportation charges to the relevant gas transporter and are holders of a licence given under Section 7A (2) of the Gas Act 1986 as amended.

Smaller Supply Point (SSP)

An SSP is a supply point with an annual consumption of less than 73,200kWh (2,500 therms).

Supplier

Holders of a licence to supply gas given under Section 7A (1) of the Gas Act 1986 as amended or a person excepted from the requirement to hold a licence by virtue of paragraph 5 of schedule 2A of the Act.

Supply Meter Point (SP)

A point at which consumers take gas off the gas transporter's network.

T

Theft of gas

Describes a number of offences under schedule 2B of the Gas Act 1986 where a consumer prevents a meter from correctly registering the amount of gas supplied, has damaged equipment or reconnects the supply without the relevant permission.

U

Unaccounted for Gas

Gas which is offtaken from a gas transporter's network without being charged to any one shipper.

Uniform Network Code (UNC)

The contractual framework for the NTS, GDNs and shipper.

X

xoserve

A joint venture delivering transportation transactional services, owned by the five large gas transporters and the transmission operator.

Appendix 6: Feedback Questionnaire

1.1. Ofgem considers that consultation is at the heart of good policy development. We are keen to consider any comments or complaints about the manner in which this consultation has been conducted. We would be keen to get your answers to the following questions:

1. Do you have any comments about the overall process, which was adopted for this consultation?
2. Do you have any comments about the overall tone and content of the report?
3. Was the report easy to read and understand, could it have been better written?
4. To what extent did the report's conclusions provide a balanced view?
5. To what extent did the report make reasoned recommendations for improvement?
6. Do you have any further comments?

1.2. Please send your comments to:

Andrew MacFaul
Consultation Co-ordinator
Ofgem
9 Millbank
London
SW1P 3GE
andrew.macfaul@ofgem.gov.uk