



Andrew Wallace
Ofgem
9 Millbank
London
SW1P 3GE

30 April 2012

Dear Andrew,

Ref: Tackling gas theft: the way forward

As a supply licence holder and active participant in the Industrial and Commercial (I&C) market Corona Energy (CE) is hereby responding to the proposed supply licence changes proposed in your document “Tackling gas theft: the way forward” dated 26th March 2012.

While precise figures are unknown, the estimates of overall theft and unregistered gas demonstrated through the AUGÉ process are considerable and show a significant burden is placed on law abiding customers from energy thieves. Not only does theft create a financial burden on gas consumers but it also creates significant safety issues which can affect the general public.

CE supports the work done by the industry and Ofgem (including modification 208 raised by CE) to understand the root issues associated with theft and to develop a collective model to combat theft of gas. CE would like to take the opportunity to thank the Gas Forum for the excellent work it has done in this area and the consistent support from Ofgem to address this important issue.

Along with the vast majority of suppliers, CE has consistently supported the National Revenue Protection Scheme (NRPS) model proposed by Scottish and Southern and developed with industry support by eON. CE would like to express concern over the approach taken by Ofgem in setting aside this proposal and developing its own proposal. Ofgem’s decision to propose a materially different proposal, including new licence obligations, with little or no opportunity to understand the costs involved, is extremely concerning.

CE has repeatedly brought to Ofgem’s attention that the scale and pace of change within the energy industry is a barrier to small supplier engagement and asked that changes are proposed and managed in a manner that allows smaller independent suppliers the opportunity to engage positively on important issues like this.



CE has also requested that Ofgem take care to ensure that changes are proportionate and appropriate for smaller independent suppliers that are subject to the full pressures of the competitive market. CE accepts that the area of theft is an area that all suppliers need to be involved in resolving. It notes, however, that much of the licence text proposed relates to domestic customers and requests that these are placed in the domestic part of the licence.

The Consultation provides only a very short window for review, particularly bearing in mind the scale of change being proposed and the detailed licence changes and the attached impact assessment appears to have done little to consider the potential impact on small suppliers of the proposed changes.

It is important that Ofgem can fully understand the impact of its decisions on all market participants. At the time that this proposal was released small suppliers were already working on a number of information requests and consultations. This includes work on Smart Metering Implementation (SMIP), The Green Deal, Project Nexus, Review of Xoserve, Retail Market Review (RMR), Security of Supply SCR, Backbilling CoP, AUGÉ review, the Government consultation on licence breach redress scheme, the consultation on helping to mitigate network charging volatility and development of the new Price Control (RIIO) proposals.

Corona Energy is concerned that Ofgem has not allowed a greater period for consideration of the Consultation, given the scope of change proposed.

Proposed licence amendments

Ofgem is consulting on a new proposal including detailed licence amendments without allowing sufficient time for suppliers to consider the amendments in detail or the necessary detail for suppliers to understand the potential costs and benefits that this proposal creates. CE has been unable in the time provided to conclude a detailed review of the drafting of the licence conditions.

The consultation in October 2011 did not explore in any detail the impact of the proposed licence conditions and limits itself to asking one generic question about their impact. There are also significant changes between the drafting proposed in October and the final proposals set out in the March 2012 consultation. For example, it does not include any detail on the proposed Theft Direction, which sets out in considerable detail how the Theft Arrangement is expected to operate, expanding from one paragraph to several pages. In addition several formal licence changes (such as inclusion of the process in SPAA) is discussed in the consultation, but no licence changes drafting is proposed. CE therefore believe that the licence conditions proposed have not been subject to full consultation.

Considering the impact the licence conditions will have on supplier activities, CE would expect that the licence drafting is subject to detailed consideration, prior to it being formally proposed. CE note that this best practice has been seen in several other recent licence consultations (such as recent changes to the Gas Transporters licence updating revenue



drivers). It is therefore surprising that in this instance these material changes are not being fully debated or explored prior to being formally raised as statutory consultation changes.

CE would also like to note the tension between the excellent work Ofgem has undertaken to reduce the size and complexity of the licence conditions, the governments Red Tape Challenge and the lengthy, overly complex, specific licence conditions contained in the proposal.

CE reserve the right to provide more detailed comments on the specific drafting of the proposed licence conditions, once Ofgem has clarified how the TRAS proposal will operate, the costs involved and the nature of the governance regime.

Incentive Scheme

While CE agree that the Theft Risk Assessment Service (“TRAS”) should develop targets, and that these targets could later be used to develop appropriate incentives (the NRPS proposal noted the opportunity for a profit share model), CE do not support the introduction of an interim incentive scheme. As noted in previous responses, CE believe that any incentives should be developed by a central body following its implementation and in light of its experience of the market.

As noted in previous comments on the SETs proposal, a poorly developed scheme could create perverse incentives which could result in inappropriate behavior. It should also be recognised that in the non-domestic market, considerable effort is expended in the pre-contractual checks carried out on potential customers to minimise the risk on businesses.

CE’s own portfolio contains a high percentage of customers that are unlikely to be guilty of theft of gas including extremely price sensitive customers, public sector organisations and charities. CE is extremely concerned that these proposals could result in customers in the portfolios of suppliers with low levels of theft, providing a subsidy to those in suppliers with high levels of theft.

CE notes that nothing in the current proposals addresses the current lack of redistribution of theft energy recovered by the incumbent suppliers in the SSP market. This is a significant flaw in the proposal as it creates a windfall for SSP suppliers when they bill for found theft.

Costs & Benefits

As the proposals and implementation vehicle have materially changed since the approach set out previously, CE has concerns over the potential for costs to escalate. It should be noted that the current licence conditions do not limit or place any condition of reasonableness on the requests from the TRAS to the supplier.

CE is concerned that the IT costs associated with providing data to the TRAS could be significant. This is particularly the case if the TRAS does not consider the impact of proposals on supplier systems. By way of illustration, as part of the NRPS development it was proposed



that the NRPS would receive data from suppliers in different formats and would then standardize the information within its systems, in a similar way to the model utilized in the insurance market. In our view, this was an appropriate way to manage the collation of data.

While it would be positive if a similar approach is adopted by the TRAS this cannot currently be guaranteed as the proposal does not include any cost estimates or development approach.

Project Management

It is unclear how the development of the TRAS will proceed and to what extent the development will now be led by Ofgem. As you are aware the Gas Forum was developing the NRPS proposals however it is not clear to what extent it would be able to develop the TRAS.

SPAA

Whilst CE welcome proposals to revise the voting arrangements within the Supply Point Administration Agreement (“SPAA”) neither CE nor any of the other ICoSS members have been involved in the development of such proposals. Without a fair and proportionate voting regime, formal participation in the SPAA is not currently viable. It is imperative that the industry is given an opportunity to be involved in the development of the proposals around the voting arrangements.

If you would like further information or clarification of this letter please contact Richard Street on his mobile (07920 803271) or email (richard.street@coronaenergy.co.uk) and he will be happy to discuss this in more detail.

Many thanks,

Richard Street
Regulatory Affairs Manager - Corona Energy*

*please note that this letter will not be signed as it has been sent electronically