

Ofgem by email

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Dear Andrew

29 May 2012

Tackling Gas Theft: Final Proposals

Our ref. 120524_Gas theft

Thank you for the opportunity of to provide comments on Ofgem's final proposals for tackling gas theft. DONG Energy is a leading energy company operating in Northern Europe and headquartered in Denmark. It has a strong presence across the energy value chains and, through its recent acquisition of Shell Gas Direct, is a new entrant into the UK retail gas market.

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We have addressed the specific questions raised by Ofgem in an annex attached to this letter but would like to note the following:

DONG Energy support the principles behind Ofgem's proposals, in that gas theft has both a negative impact on consumers by raising overall cost of gas but also on efficient operation of the gas market. The final proposals put forward by Ofgem are reasonable however, we believe the Licence Obligations should be given time to take full effect before any incentive regime is implemented. Suppliers, particularly in the non-domestic market, have sufficient commercial incentives to deal with gas theft and the proposed Licence Obligations reinforce this.

The introduction of a Theft Risk Assessment Service (TRAS) is not DONG Energy's preferred option but it has the potential to meet Ofgem's objectives. The total costs of establishing the TRAS and its activities must be closely monitored and should not exceed the total loss to the consumer as calculated by Ofgem in its impact assessment.

Ofgem proposes the SPAA as the appropriate governance body for these arrangements. We note that non-domestic suppliers are not mandated to sign this agreement. Changes to the governance arrangements of the SPAA are a prerequisite to using this body as a vehicle for managing the TRAS.

The proposal for a Code of Practice is welcome, but we note that there are fundamental differences in the relationship between suppliers and customers between the Domestic and non-Domestic markets. These must not be

forgotten when the Code is being agreed and we remain concerned that the resulting Code may not be fit for purpose for either market.

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Please do not hesitate to contact me if you would like to discuss any of these points in more detail.

Yours sincerely



Danielle Lane
Head of Regulatory & Stakeholder Relations UK
DONG Energy

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?

DONG Energy supports the objective for tackling gas theft and agrees that the drafting reflects the proposals put forward by Ofgem. The drafting for the requirements to detect, prevent and investigate theft of gas, the Theft Arrangement and standards for theft of gas investigations is also consistent with the proposals.

The final proposals with respect to introducing a new relevant objective for the Supply Point Administration Agreement (SPAA) on tackling gas theft are reasonable. Currently non-domestic suppliers are not generally signatories to the SPAA and the governance arrangements reflect this. We welcome Ofgem's recognition that the introduction of a relevant objective for the SPAA on tackling gas theft can only happen after the governance arrangements are amended to give non-domestic suppliers an appropriate voice. Unless appropriate changes to the governance structures are made, full account of the interests of non-domestic suppliers will not be made.

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

The Theft Risk Assessment Service is not DONG Energy's preferred solution but the proposals set out in the document should provide for the aims and objectives Ofgem is seeking. One of our primary concerns are that it does not replicate the work now being carried out by AUGE and is not run at excessive cost to industry participants. Any new agency has the potential to increase the overall administrative and financial burden on industry participants that will ultimately be at the detriment to customers. Ofgem estimate that the economic impact of gas theft is approximately £6 per customer; the TRAS cost to the consumer should not exceed this or all benefit it brings will be lost.

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?

The drafting is reflective of the final proposals.

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

This is a challenging timetable given the detailed scope and design that must be undertaken and agreed ahead of any tender for appointment. However, it is one that could be met.