



Wednesday 30 May 2012
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Dear Harpal

Tackling Gas Theft Consultation

Further to your consultation on Tackling Gas Theft and our initial response submitted on April 30th, we have taken advantage of the additional time you've allowed to give our thought on the remainder of the consultation.

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

The Theft Risk Assessment Service - whilst many elements of the proposal are drawn from the work the industry undertook in the National Revenue Protection Service Workgroup, the details of the proposal need further development by the industry to fully understand what is being proposed by Ofgem and how it can be implemented.

We are concerned that the governance of the future arrangements is unclear, and although SPAA has been suggested as a home for these arrangements, I & C Suppliers are not party to the Supply Point Administration Agreement, and while discussions are ongoing in this area, it will make the delivery of the

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arrangements via SPAA difficult to achieve unless this barrier is removed. Similarly as this is an obligation on Suppliers, the UNC would not appear to be an appropriate vehicle to deliver these arrangements either. We would welcome Ofgem's thoughts on how they see these difficulties being overcome and how that might affect the timescales for delivery of the TRAS.

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?*

In putting together the proposed NRPS, many of the elements of the NRPS are now a feature of TRAS, and so we are comfortable with intended services that TRAS will deliver, at least the high level, the details of the service will only be clarified once the detailed business requirements are gathered and developed in conjunction with the intended service provider.

In respect of targets - we firmly believe that targets should be a feature of the TRAS service and that there should be appropriate monitoring of performance of both the TRAS service in the setting of the targets and of suppliers in their performance against those targets.

The governance arrangements would appear to be the weakest part of the proposal, it is not immediately clear that there is a single home in which these arrangements can be placed in which all parties impacted have a mechanism to engage in the governance of the rules of the TRAS. In looking at the NRPS proposals, Ofgem were clear that they didn't wish to see a new code introduced, however neither the UNC nor the SPAA meet the requirements of the licence condition

as things stand today.

In respect of the appointment and operation of the TRAS, we are pleased to see that the appointment is required by competitive tender and we feel that the contract period is appropriate. However, without a home for the governance arrangements, it's not clear who will carry out the procurement process.

The reporting requirements detailed in the proposed direction seem to be appropriate.

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

The timescales for implementation of TRAS are challenging. The proposals worked up by the NRPS group will need to be reviewed and considered against the proposals included in this consultation. The detailed business requirements will need to be gathered, the privacy impact assessment conducted and the procurement of the services by a competitive tender will need to be carried out.

Once those steps have been concluded, the service will need to be built and tested before it can be rolled out, and it may be necessary to undertake some pilot pieces of work before the solution can be rolled out fully.

We feel these are large and detailed pieces of work and it will be important to have stimulus to make it happen and to maintain momentum to ensure the development of TRAS isn't delayed. It would be helpful if an independent project manager were appointed to oversee the next stages of this work.

Finally in terms of the additional supporting measures outlined in the consultation document we agree that there is merit in developing some of these further:

The Code of Practice - this is well under way and we are supportive of the introduction of common standards that this will introduce on suppliers under the SPAA.

The 24 Hour Tip Line - we anticipated that this would be part of the NRPS as this was where risk was being assessed and it should probably form part of the TRAS.

Stolen Meters register - again an ancillary service which TRAS could provide which will help improve the intelligence within the data TRAS will analyse.

Best Practice Forum - We agree that investigators should share best practice in detecting theft of gas as theft is difficult to detect; however this may be incompatible with the requirements of any incentive scheme, since sharing information between parties investigating theft may affect the performance of parties competing for a share of a supplier incentive scheme. The UKRPA, the Gas Forum or even SPAA may be able to offer a forum for investigators to share experience and knowledge of new theft techniques and practices.

Removal of the Reasonable Endeavours Scheme - The NRPS proposals tried to find a way to socialise the costs of detection and investigation, since clearly thieves don't discriminate between suppliers when making the decision to steal and therefore, since theft isn't a competitive activity, and doesn't attract to all suppliers equally, some parties may find themselves disadvantaged in the level of theft on their portfolios which isn't relative to their competitive positions in the market. Reasonable Endeavours socialises the investigation costs where they cannot be recovered from the thief, and similarly the NRPS proposal looked to make the theft investigations self funding too, and therefore socialised, however nothing in these proposals addresses the inequality that may result from a supplier's inability to recover its investigation costs from the thief or that they may face a disproportionate level of costs relative to their market share. So, before removing this support mechanism, further consideration should be given to how to deal with the competitive disadvantage that theft investigation costs may present to certain parties.

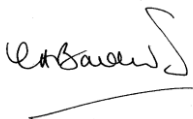
Finally, the question of incentive arrangements. We

ferverently believe that incentives at this stage of the process are not appropriate. Whilst we recognise the arguments put forward by Ofgem that suppliers haven't been adequately proactive in detecting theft we contend that is an historic position. Suppliers have been engaged in designing the Code of Practice which will come under SPAA governance and we have been looking at how we can implement new arrangements to improve the detection and investigation of gas theft, and suppliers actively encouraged Ofgem to include new provisions for detection and investigation under their supply licence.

At this stage there is no reliable data that identifies the level of gas theft to be detected and so to put financial incentives in place without reliable data on which to base them would be imprudent. Ofgem have included the requirements for targets to be set for TRAS within the licence conditions, and this will allow baseline data to be collected and appropriate levels of performance determined and measured. We would urge Ofgem to hold off implementing any proposals for incentive schemes until the new arrangements are delivered and more information is available to allow Ofgem to reconsider whether they believe the case for incentives remains, and of course any incentive scheme at that stage will be based on robust data.

We would assert that incentives shouldn't be considered until TRAS is delivered and there is at least one year's (but preferably two year's) worth of data on both the level of theft being discovered and investigated, and measurements of supplier's performance against any targets set. Incentives if required would then be universally applied to all suppliers operating in the market and would not be discriminatory.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Colette Baldwin', with a horizontal line underneath it.

Colette Baldwin
Regulation & Policy Executive

