

Harpal Bansal
Smarter Markets
Ofgem
9 Millbank,
London
SW1P 3GE

31 May 2012

Dear Harpal

Tackling gas theft: the way forward

EDF Energy is one of the UK's largest energy companies with activities throughout the energy chain. Our interests include nuclear, coal and gas-fired electricity generation, renewables, combined heat and power plants, and energy supply to end users. We have over five million electricity and gas customer accounts in the UK, including residential and business users.

The key points of our response are:

- We are supportive of Ofgem's proposal to direct implementation of the Theft Risk Assessment Service, provided that a cost effective solution can be developed.
- We remain concerned that that the cost of procuring and providing the service could outweigh the benefits received and monies recovered from offenders.
- The cost of any theft detection scheme must be demonstrably less than the cost of the associated theft that is identified; otherwise costs to consumers will increase.
- The rollout of smart meters will have a significant impact on theft detection. This will need to be taken into account when setting theft targets.
- If similar theft arrangements are also to be introduced to electricity in the future then it may be beneficial to align changes to minimise implementation costs and disruption to the industry.

Our detailed responses are set out in the attachment to this letter. Should you wish to discuss any of the issues raised in our response or have any queries, please contact my colleague Dan Simons on 07875 113701, or myself.

I confirm that this letter and its attachment may be published on Ofgem's website.

Yours sincerely,



Paul Delamare
Head of Downstream Policy and Regulation

Attachment

Tackling gas theft: the way forward:

EDF Energy's response to Ofgem questions

Consultation Questions 2 to 4

CHAPTER: Four

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

EDF Energy is supportive of the Ofgem proposal to direct implementation of the Theft Risk Assessment Service provided that a cost effective solution can be developed.

While we recognise the potential benefit of a central service to profile the risk of theft, we remain concerned that that the cost of procuring and providing the service could outweigh the benefits received and monies recovered from offenders.

The estimated costs for development and ongoing operation of the TRAS detailed in the Ofgem "Tackling gas theft: Final impact assessment" paper are significant and will add a sizeable sum to the overall costs to suppliers to detect and investigate theft. Consequently, there is a risk that these costs will be passed on to honest customers in the event that increased levels of theft are not detected. Therefore, it is imperative that any solution delivered to tackle gas theft is proportionate to the issue.

There are also a number of additional issues that would need to be overcome in relation to governance arrangements and data privacy before the TRAS could be implemented.

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?

While we agree that in general the proposed services to be provided by the TRAS are sensible, we are concerned as to whether the objective detailed in Part C 5 of the Directive would be achievable.

In particular, the obligation to ensure that "any Customer that undertakes Theft of Gas will have a reasonable chance of being detected, regardless of which Gas Supplier supplies them".

It is difficult to understand how this could ever be measured. For example, the TRAS could carry out analysis of consumption data and could detect certain obvious theft patterns but not others. How would suppliers or Ofgem ever be able to measure what level of success is being achieved in this instance?

b) The Theft Target?

We agree that the TRAS would likely be best placed to establish and maintain the Theft Target. We also note that the TRAS would need to take into account other industry initiatives such as the roll out strategy for Smart Metering when establishing the Theft Target Methodology.

For example, the Smart Metering programme will mean that suppliers will soon have an obligation to visit every domestic premise in Great Britain. These site visits are likely to lead to a significant increase in the number of theft incidents identified. The rollout of Smart Metering is also likely to act as a deterrent for customers committing theft offences as consumers become more aware of suppliers obligations to visit customer premises.

The TRAS should also be sufficiently flexible to cater for changes to the manner in which theft occurs as well as new methods of theft identification. An example of this would be meter tampering alerts on Smart Meters which could act as a preventative measure whereas most of the tools initially at the disposal of the TRAS would be largely reactive (data analysis, third party referrals etc) .

c) The governance of the Theft Risk Assessment Service?

It is not immediately clear what the governance arrangements would be for the TRAS, however, there could be a potential issue with non-domestic participation in the Supply Point Administration Agreement (SPAA) if this is the governance mechanism selected to procure and govern the service.

d) The appointment and operation arrangements of the Theft Risk Assessment Service?

We are satisfied with the majority of the drafting for appointment and operation of the TRAS. However, we have a concern that the Directive is not clear on certain arrangements.

In particular, Directive 31(b) includes a requirement for suppliers to be able to terminate the contract with the TRAS provider in the event it is 'inappropriate' for the provider to continue to operate the services outlined in directives 8, 9 and 10. However, it is not clear from the requirement what would be considered 'inappropriate'.

It is also not clear what would happen in the event that an 'appropriate' theft target could not be set (i.e. the cost of running the scheme outweighs the potential benefits to industry and customers). If it was no longer possible to set an appropriate theft target (D10), it would seem that suppliers would still be obliged under the Directive to set up or obtain the services of another TRAS provider (i.e. the Directive would still be operational and binding on suppliers). However, this requirement would seem redundant if theft of gas had been reduced such that it was no longer economical to maintain a TRAS.

e) The reporting requirements for the Theft Risk Assessment Service?

We agree that the TRAS should be subject to a robust performance assurance framework and are satisfied that the current drafting of the proposed Direction meets this objective.

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

While we believe that it would be possible to implement the Theft Risk Assessment Service by 31 December 2013, we note that Ofgem is also intending to consult on electricity theft later this year.

Assuming that similar reforms and licence obligations are likely to be required in the electricity market as those proposed in gas, we believe it would make sense to align any changes between the two in order to minimise implementation costs and any consequential system development that will be required.

EDF Energy
May 2012