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Dear Harpal,

### **Ofgem Consultation on Tackling Gas Theft**

The Gas Forum have been delighted to facilitate the development of new proposals to address the theft of gas, and in particular the designing of a new service that seeks to use a data driven and risk based approach to tackling gas theft detection. Gas Forum members welcome the introduction of the new measures which will lead to improved performance by the industry in theft prevention and detection.

We look forward to assisting in the further scoping of the Theft Risk Assessment Service (TRAS) and believe that the work the Gas Forum began will create a solid platform from which to take the work forward. We do have reservations that the timeline proposed by Ofgem in the draft licence condition will be challenging, given that the service differs from what was proposed by the Gas Forum NRPS Workgroup and that further work is needed. The Privacy Impact Assessment needs to be developed, the governance issues for the different industry participants currently remain unresolved and the costs of the service are not yet fully understood since the preliminary assessment of costs have been at quite a high level and were based on the NRPS proposals put forward by the Gas Forum workgroup. We would also like to see settlement adjustment included within the proposals in order to reduce the impact of theft on honest customers.

### Incentives

In terms of the suggested incentive requirement set out in Ofgem consultation response, members of the Gas Forum strongly object to the inclusion of a requirement for an incentive scheme. Evidence provided by xoserve and reviewed in both the 2005 work and 2011 work undertaken by the Gas Forum has established that the incidences of theft do not align to a supplier's market share, and therefore an incentive mechanism based on a market share funding baseline is inappropriate, and could be seen as giving an unfair advantage to those suppliers who have high levels of theft and penalising those who don't.

There is a risk that it may also conflict with the objective set out in the licence that all suppliers should cooperate to detect, investigate and prevent the theft of gas by creating perverse incentives:

1. To withhold intelligence or information on new techniques for detecting theft if it would affect a supplier's performance and reward under any incentive scheme.
2. It could lead to inefficient and disproportionate levels of spending on investigations such that detection of theft becomes more rewarding than theft prevention.

3. More seriously, the treatment of unrecorded gas being inappropriately labelled as theft resulting in customers being unfairly alleged to have being stealing gas.

Proving theft is often difficult and the proposal offers no guidance on what is to be recorded as “genuine theft” for the purpose of the scheme and how industry parties should manages cases where, for reasons beyond their control, there is uncertainty. The incentive proposals are not based on the volume of energy being stolen nor a requirement for the energy to be reinstated into Settlements, nor do they consider the correct allocation of Unrecorded Gas. Similarly the circumstances of “good reasons for not investigating suspected theft” would need to be made clear.

We firmly believe that the measures proposed provide sufficient incentive for suppliers to address gas theft and that the implementation of any incentive scheme in addition to these measures is unnecessary. Moreover, we believe that an audit regime will deliver the confidence that parties are performing in accordance with their licence requirement and if any financial inducement to improve performance is required then some form of performance assurance framework with financial consequences should be considered instead.

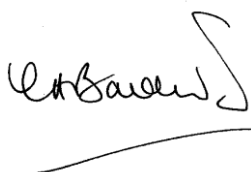
Finally, there has yet to be an assessment of the amount of gas being stolen that parties have confidence in. The AUGE has assessed “Theft and Other” as around £168m. Ofgem’s own consultations have suggested that theft is valued anywhere between £60m and £400m. These are quite different conclusions and so before any incentive regime is considered, it would seem sensible to have accurate baseline figures of the assessed amount of gas being stolen against which to set targets and introduce incentive arrangements. Your letter suggests that an incentive regime needs to be in place by the end of 2012, yet this is two years before the Theft Target will be set and it’s not clear how any incentive target can be set without more confidence in the true level of gas theft. It is also worth taking into consideration that the financial burden of any incentive regime which is ineffective or seriously flawed will fall on the honest customers who pay for their energy and fund the incentive regime rather than those who steal and do not.

#### Interaction with the AUGE

The role of the AUGE and TRAS seems to be overlapping in terms of the assessment of the volume of “Unrecorded Gas”, and we would welcome clarity in how these services will work together.

In conclusion, we would therefore encourage Ofgem to continue to support the work the industry has started, delay the introduction of any incentive proposal until the TRAS can provide reliable evidence of the scale of gas theft, and to take a leading role in bringing together the different strands of work and industry participants to ensure that what is developed delivers real value for customers and all affected parties.

Yours sincerely,



Colette Baldwin

Chair, Gas Forum Distribution Supplier Workgroup