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Ofgem
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Dear Andrew,

Tackling gas theft: the way forward

Thank you for the opportunity to comment on these proposals.

We welcome the initiatives outlined by Ofgem in the 'Tackling Gas Theft' document to increase the number of investigations into suspected incidences of gas theft via the Theft Arrangement.

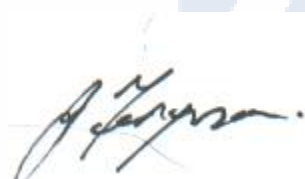
We are supportive of the planned SPAA Code of Practice to cover theft of gas investigations and have played a full role in its ongoing development. However, we do not believe a new relevant objective for the SPAA will be necessary if the proposed SPAA Code of Practice is implemented as it may duplicate what parties have already signed up to through the Code of Practice.

Furthermore we are disappointed at the decision not to look at the funding available to Transporters that would allow us to claim back the cost of suspected gas theft investigations where no gas is found to have been taken. If the gas target that Ofgem sets out in the document is successful then we would be expected to undertake far more investigations than is currently the case, some of which will inevitably turn out to not theft related, which will come as an additional cost to our business. This is currently not included within our RIIO-GD1 April 2012 business plan submission given the uncertainty at this current time.

Nonetheless we acknowledge Ofgem's concerns about the lack of progress made in recent years to deal with unregistered sites. We have announced at March's Distribution Workgroup our intention to develop a Modification Proposal concerning gas offtaken at unregistered sites following new connections. Furthermore we are active in the Shipperless and Unregistered Sites and MPRN Workgroups and are hopeful that concrete policies will be forthcoming from these groups shortly.

Please do not hesitate to get in touch with myself or Alex Ross if you wish to discuss any aspect of our response.

Yours sincerely



Joanna Ferguson
Network Code Manager

APPENDIX

Enhancing supplier obligations

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?

Response: NGN is supportive of Ofgem's proposed objective for suppliers to take reasonable steps to detect, prevent and investigate suspected theft of gas incidents, while taking into account the potential vulnerability of the customer.

As laid out in our response to Chapter 4 below, we are also supportive of the Theft Arrangement, which will amend the Gas Supply Licence to obligate licensees to adhere to the objective.

- d) Standards for theft of gas investigations?

Response: As planned signatories to the Supply Point Administration Agreement (SPAA) Theft of Gas Code of Practice that is currently being developed we support the proposals for across-the-board standards for theft of gas investigations. This will ensure a consistent approach can be taken by all relevant parties, which will help ensure the accuracy and reliability of any related figures published in relation to theft of gas investigations.

It will also help clarify the proper behaviour regarding treatment of vulnerable customers, which has been a contentious issue in circumstances where a customer is both vulnerable and a repeat gas theft offender.

By establishing clear lines between obligations and best practise within the Code of Practice it will allow parties the freedom to establish their own theft investigation procedures without being too prescriptive.

- e) Introducing a new relevant objective for the Supply Point Administration Agreement on tackling gas theft?

Response: We support Ofgem's broader approach of encouraging voluntary solutions while using licence and legislation amendments as a last resort, for instance on issues relating to unregistered sites. We do not believe that a new relevant Objective for the SPAA on tackling gas theft will be necessary if the proposed SPAA Code of Practice is implemented. If all suppliers and Transporters are signed up to the Code of Practice then a new relevant objective will be unnecessarily burdensome and may simply duplicate what parties have already signed up to through the Code of Practice.

Ofgem proposals to improve theft detection

Question 2: Do you agree with our proposals to direct the implementation of the Theft Risk Assessment Service? (Page 23 PDF)

Response: We are supportive of the proposals to direct the implementation of the Theft Risk Assessment Service (TRAS), which will help ensure a consistency in theft investigations across all parties, although we do have concerns about the nature of the Theft Target that the TRAS will establish, as detailed below.

C.8d of the draft direction for the TRAS states that the supplier must respond to a reasonable request from the Transporter with information to aid the Transporter in its investigations. This stipulation already exists as part of SLC17 (Mandatory exchange of information) of the Gas Supply Licence and as such will not be a new obligation on the supplier. This is explicitly referred to in the proposed SPAA Code of Practice and we feel it may be worth clarifying this in the draft direction.

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? (Page 24 PDF)

Response: We are supportive of robust audits of the TRAS given the importance of its output for efficient and consistent investigations into suspected theft of gas. While we are supportive of supplier performance being published we have concerns about data being published without sufficient development or explanation that may present a misleading picture of the gas industry.

These concerns extend to the proposed SPAA Code of Practise, which is currently considering what elements of Modification Proposal 0399, Transparency of Theft Detection Performance could be utilised within the Code of Practise.

We have also highlighted similar concerns regarding undeveloped data being put in the public domain in our representation for Modification Proposal 0399¹.

b) The Theft Target?

Response: NGN is supportive in principle of a theft target to incentivise the investigation of suspected incidences of gas. However we do have concerns that the success of such a target may lead to parties failing the target over the longer term if there is insufficient flexibility in the target.

We believe that the thrust behind this consultation is of the importance that parties should be strongly proactive in acting to prevent or investigate suspected thefts of gas rather than adhering to a strict target.

A significant increase in the number of suspected theft investigations would hopefully cause the number of actual thefts to decrease over time, and therefore we expect the target would need to be reduced accordingly over time. If successful investigations increased but the number of thefts did not fall then it would constitute a failure to prevent gas theft and the Authority and licensees would need to be proactive in reviewing the suitability of the mechanisms in place to prevent and discourage gas theft.

Therefore we are supportive of the target being reviewed every two years to confirm it is set to an appropriate level.

d) The governance of the Theft Risk Assessment Service?

Response: We are supportive of the TRAS being a supplier governed activity. We also support Ofgem's proposals for non-domestic parties to become signatories to SPAA.

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

Response: We are supportive of the rules laid out in the draft direction concerning the appointment and operational arrangements of the TRAS and support the central service provider model outlined.

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

Response: We support the reporting requirements for the TRAS as laid out in the draft directive. However, we would expect a minimum quarterly compiling of the necessary data send to individual parties to better enable benchmarking of performance, although we are happy for the data to be published annually.

¹ <http://www.gasgovernance.co.uk/sites/default/files/Representation%20-Northern%20Gas%20Networks%200399.pdf>

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

Response: NGN supports the implementation timeline set out by Ofgem in the consultation document. We believe that 31 December 2013 allows sufficient time to implement the Theft Risk Assessment Service and address any issues that may arise in the process of implementation.

Impacts on gas transporters

4.33 – Gas Transporter requirement to investigate suspected theft upstream of ECV.

Response: NGN takes our obligation with regard Special Licence Condition (SLC) 7 seriously and are currently conducting a root and branch review of our internal processes, from back office procedures through to the on-site First Call Operatives (FCOs) to ensure that our investigations are carried out to the highest standards. Specifically this review is looking at updating guideline documentation on gas theft in light of the SPAA Code of Practice on gas theft, which we have played a full part in the development of. This will be briefed out to all staff in NGN who might investigate a suspected theft in the course of their duties as well as all staff who administer documentation concerning suspected theft either internally or externally, e.g. liaising with Xoserve.

4.34 – Increased supplier activity is likely to lead to increased activity for Transporters

Response: We agree with the expectation that increased investigation activity will be likely to lead to identifying more cases of suspected gas theft that fall under Transporter responsibilities and have anticipated this during our involvement with the development of the SPAA Code of Practice, which will help create a single set of standards across the industry for investigating suspected gas theft.

Nonetheless we still have concerns about our ability to recover costs for investigating suspected thefts in instances where no theft is confirmed given the anticipation that there will be an increase in such occurrences.

4.35 – Transporters signing up for the Code of Practice

Response: As mentioned above NGN has played a full role in the development of the SPAA Code of Practice.

4.36-4.39 – Transporter funding

Response: NGN is disappointed that Transporter funding arrangements will not be amended in light of the anticipated rise in theft investigations we will have to undertake but acknowledge Ofgem's concern over the lack of progress surrounding the high number of unregistered sites.

In light of this we were fully supportive of National Grid's UNC Modification Proposal 0369², which was rejected for implementation and is currently being reworked for resubmission to address the concerns raised by Ofgem.

We were keen to see the principles behind Modification Proposal 0369 established before coming forward with our own proposals in the unregistered sites arena. However, Modification Proposal 0410³ has prompted us to speed development of our own Modification Proposal that will deal with unregistered sites in similar circumstances. We aim to present

² <http://www.gasgovernance.co.uk/0369> - Re-establishment of Supply Meter Points – measures to address shipperless sites

³ <http://www.gasgovernance.co.uk/0410> - Responsibility for gas off-taken at Unregistered Sites following New Network Connections

this proposal to either the May UNC Modification Panel and it will centre on the Meter Fix Date as the focal point for the proposal.

NGN has been attending the Shipperless and Unregistered Sites workgroup chaired by Xoserve, along with the MPRN Creation workgroup, with the aim of generating proposals to reduce the number of shipperless and unregistered sites that are being created or that are currently in existence. We are hoping to see some concrete proposals emerge from these groups shortly. We are optimistic that a best practice document looking at different triggers for MPRN creation will be forthcoming shortly and we remain hopeful that measures can be agreed to reduce the number of shipperless and unregistered sites can be put forward by the workgroups.

4.40 – RIIIO – Unregistered Sites

Response: In light of the ongoing efforts outlined above to deal with shipperless and unregistered sites we would reiterate our belief that it would be inappropriate to place additional obligations on GDNs through a licence condition concerning unregistered sites without first addressing the shortcomings of shipper obligations and incentives, e.g. shippers not actively confirming the site on the Supply Point Register.

As part of the development to our counter-proposal to Modification 0410 we are looking at ways to improve reporting to help deal with unregistered sites, for instance through Connections and Disconnections (C&D) reporting. We have been open with shippers about our desire to improve reporting procedures and are looking forward to working with relevant parties over the development of the Modification Proposal to do this. With that in mind we do not believe it is appropriate to place additional obligations on GDNs with such work ongoing.