

Harpal Bansal
Smarter Markets
9 Millbank
London
SW1P 3GE

SSE
Inveralmond House
200 Dunkeld Road
Perth
PH1 3AQ

4 May 2012
Steven.Findlay@sse.com
01738 516852

Dear Harpal,

Tackling gas theft: the way forward

SSE and SGN are pleased to provide comment on the above consultation. We welcome the ongoing engagement with Ofgem with regard to its proposals for tackling gas theft and have provided answers to the specific questions posed by Ofgem and comments on the proposed licence drafting in the attached annex.

As we have highlighted in our response to Ofgem's domestic Retail Market Review consultation¹ we remain concerned that Ofgem is proposing to implement 'Objective' based licence conditions. We do not believe that a broad scope licence condition is required as the detailed licence conditions within the consultation document state exactly what Ofgem expect in terms of gas theft investigations. This would appear unnecessary and duplicate the requirements within other licence conditions. Introducing an overarching objective and proposed licence conditions to support that objective would introduce the risk of double jeopardy when considered alongside each other. However, if Ofgem decides to go ahead and introduce these licence conditions, we believe that we would expect increased dialogue and co-operation between Ofgem and regulated companies under a principles based approach, and possibly even a two stage enforcement process. What we would not expect is a zero tolerance approach to compliance likely to result in a more adversarial relationship.

Ofgem has indicated it would prefer an incentive scheme to be introduced and has set out the main principles for such an incentive scheme within the consultation document. Ofgem has indicated that British Gas should be excluded from participating within the incentive scheme until other arrangements are in place. SSE believes that this arrangement could favour British Gas in that its exposure to any financial risk would be removed. SSE would suggest that British

¹ <http://www.ofgem.gov.uk/Markets/RetMkts/rmr/Documents1/RMR%20Domestic%20Consultation%20December%202011.pdf>

Gas should be included in the scheme from its inception however the financial impact of the scheme is removed until other arrangements are in place. This would ensure that all participants would be exposed to financial risk at the same time. This would also provide an opportunity for all participants to experience the scheme and understand the operational commitment required. Including British Gas, without the financial element, would increase the overall impact and efficiency of the scheme as participants would have an opportunity to determine what level of theft activity is required in order to benefit from the scheme after the financial element begins. The data obtained may also be used as supporting evidence for the 'Theft Target' and setting the financial incentive.

We are disappointed to note that Ofgem has not addressed the concerns raised by SSE in relation to the protection already available to domestic customers. We highlighted in our repose that SSE will do its utmost to ensure that a customer remains on supply and would never knowingly disconnect a vulnerable customer at any time of year. It is already in a supplier's interest to ensure that the charges for disconnection are recovered through whatever means possible. We are therefore disappointed that Ofgem still considers it necessary to regulate in this area.

With regard to gas transporters, it is important to recognise that any new process agreed in this area will likely result in a significant increase in costs for gas distribution networks (GDNs), particularly if a large increase in the number of site visits is required. Before commencing any such new process we would therefore require recognition from Ofgem that these costs if incurred efficiently could be logged and recovered at the next price control review.

The consultation states that GDNs are currently unable to recover the costs associated with investigating a case where it is subsequently found that no gas has been stolen. This is not how we interpret standard licence condition 7 (SC7) and we would welcome further discussion with Ofgem regarding this.

In addition, the issue of unregistered sites is industry wide, involving GDNs, Independent Gas Transporters, suppliers, shippers, developers and ultimately affecting customers. Unregistered sites have come about as a consequence of the fragmented connection process that currently exists which involves transactions between all of these parties. Significant work has been carried out over the past five years by a dedicated shipperless / unregistered working group. Recently, UNC Modification 410 has also been raised and is currently being developed. This work is ongoing, and should result in an appropriate resolution to this issue being reached. It would not be appropriate to consider introducing a licence obligation in this area at this stage as it is clear that this is a complex, industry-wide issue that is in the process of being dealt with. We look forward to continuing to work with the industry to develop proposals in this area to address the root cause of unregistered sites. However, it is important to recognise that any new process agreed in this area will likely result in a significant increase in costs for GDNs, particularly if a large number of site visits is required. It will be essential therefore that GDNs are able to adjust transportation revenue, as envisaged by SC7, to ensure they do not suffer any financial detriment nor acquire any financial gain as a result of these investigations.

In relation to Ofgem's proposals around electricity theft, SSE would advocate the streamlining of these proposals and any new proposals relating to electricity. It would be sensible to ensure we

have a coherent regime across the two sectors in order to ensure a consistent message to customers and the options open to suppliers as a result of energy theft.

In conclusion, whilst SSE is not opposed to intent of the licence condition we would recommend that Ofgem takes into consideration the issues raised within this consultation response prior to issuing a direction. We would welcome the opportunity for further dialogue with Ofgem to discuss any of the points raised.

Please call me if you have any questions.

Yours sincerely

Steven Findlay
Regulation

Annex

CHAPTER: Two

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?*

As we highlighted in our response above, we do not consider that it is appropriate to introduce an overarching Objective as well specific licence condition.

b) *Requirements to detect, prevent and investigate theft of gas?*

Yes, SSE agrees with this proposal and licence drafting.

c) *The Theft Arrangement?*

Yes, SSE agrees with this proposal and licence drafting.

d) *Standards for theft of gas investigations?*

SSE has some issues with the proposed licence drafting that we have attempted to highlight to Ofgem below.

We believe Ofgem should give consideration to the definition of vulnerability within the Theft Code of Practice. It currently defines a vulnerable customer as:

- *A consumer is vulnerable if they, or any member of their household, for reasons of age, health, disability or severe financial insecurity, are unable to safeguard their personal welfare or the personal welfare of other members of the household.*

This could potentially put suppliers in conflict with licence condition 12.B12(a) as 'Pensionable Age' is a defined term within the energy supply licence and the current licence drafting would require us to consider that a customer who is of 'Pensionable Age' is automatically vulnerable. Whilst we agree that these customers are more likely to be vulnerable, we do not consider it appropriate to determine that all customers over a certain age are vulnerable.

Also, we consider that licence condition 12B.12 would provide suppliers with no other alternative but to install a prepayment meter. Under licence condition 12.B12 suppliers will be required to determine whether a customer who has stolen gas is going to have difficulty in repaying the charges then we must offer the customer to repay the charges associated with theft and the ongoing use of gas through a prepayment meter.

We consider that the vast majority of customers who have resorted to stealing gas will inevitably be in a perilous financial situation and will leave suppliers with no other option but to install a prepayment meter where this is considered suitable. This could prove to actually encourage theft of gas as many customers will understand that that disconnection is almost impossible if they can prove a low income.

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

Yes, SSE agrees with this proposal and licence drafting.