

Paul Rogers
Regulatory Frameworks Manager
Gas Distribution
National Grid
Warwick Technology Park
Gallows Hill
Warwick
CV34 6DA

Direct Dial: 020 7901 1851
Email: dora.guzeleva@ofgem.gov.uk

Date: 10 July 2014

Dear Paul,

Decision to issue direction regarding pass-through of recovered money from theft investigations for 2013/14

Thank you for your letter of 2 May 2014 requesting a direction from the Gas and Electricity Markets Authority (the "Authority"¹) to pass through the revenue that National Grid Gas Plc (in respect of its distribution networks) (NGG) recovered from gas theft investigations undertaken in 2013/14. This letter sets out our decision to issue a direction to NGG to use the miscellaneous pass-through term (MP_t) contained in Special Condition 1C (Distribution Network allowed pass-through items) of the Gas Transporter licence (the "licence") for this purpose for formula year 2013/14.

The direction is attached to this letter. Below we set out the background to this request and the reasons for our decision.

Background

We are committed to encouraging industry to tackle gas theft. In October 2012 we published new requirements for gas suppliers² which aim to incentivise suppliers to reduce theft where they have a responsibility to investigate.

Gas transporters have an obligation to carry out their own investigations which can reveal cases of theft and attempt to recover the value of the gas taken. This covers gas theft in conveyance and unregistered sites.

We have also been working with industry to tackle the root causes for unregistered sites. For example, Uniform Network Code (UNC) modification 410A introduced a process for resolving unregistered sites once identified.

The relevant obligations on Gas Transporters

Currently, Standard Condition 7 of the licence sets out obligations on gas transporters relating to gas illegally taken. Paragraphs 1 and 2 of this condition requires NGG to investigate theft of gas in the course of conveyance and, subject to the outcome of such investigation, use reasonable endeavours to recover the value of the gas taken.

¹ In this document the terms the "Authority" and "we" are used interchangeably.

² [Tackling Gas Theft: New requirements for gas suppliers.](#)

Paragraph 3 of Standard Condition 7 states that NGG should suffer no financial detriment and acquire no financial benefit as a result of compliance with paragraph 1.

We welcome the work you have undertaken to investigate gas theft on your network and are pleased that you have successfully managed to recover money in three of your distribution networks, London, West Midlands and North West. The work that you have carried out will benefit consumers in these licence areas.

Your request

Pursuant to paragraph 3 of Standard Condition 7 you have submitted to us the amounts recovered from successful investigations, minus the costs of conducting these investigations, for three of your distribution networks. These amount to:

London distribution network	£ 7,979.79
West Midlands distribution network	£ 20,892.85
North West distribution network	£ 4,152.67

These values will be deducted from the allowed revenue for each distribution network. As a result consumers in these areas will benefit from reduced charges.

As you point out, currently there is no specific pass-through term within your licence which allows you to pass through the amount recovered (minus the costs) from your investigations. In the absence of any specific term you have requested to use the miscellaneous pass-through term (MP_t) as set out in Special Condition 1C.

Our decision

We have examined your request in light of our principal objective and statutory duties and agree that it is appropriate for you to pass through the referenced amounts specified above for the formula year 2013-14 through term (MP_t). Our decision is based on Paragraph 3 of Standard Condition 7 of the licence which states that you should suffer no financial detriment, and acquire no financial benefit, as a result of compliance with paragraph 1 of that condition. We also believe that consumers will benefit both from receiving these amounts and a reduction in gas theft.

As set out in the Appendix to this letter and in accordance with the provisions of Special Condition 1C, we therefore direct you to utilise the (MP_t) term for the formula year 2013/14 to pass through the sums set out above.

For the avoidance of doubt, this direction applies to the formula year 2013/14 only. Any future requests for a direction will be judged on the merits of the application at the time of the request.

The figures you have provided on the work undertaken by NGG show that there are clear benefits to consumers of gas transporters taking a proactive approach to investigations of theft and unregistered sites. We will continue to work closely with industry on the arrangements for future years and will discuss these arrangements in due course.

This letter constitutes notice for the purposes of section 38A of the Gas Act 1986.

Yours Sincerely,



Dora Guzeleva,
Head of Networks Policy: Local Grids