



Making a positive difference
for energy consumers

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Dear Paul,

Decision to issue direction regarding pass-through of recovered money from theft investigations for 2014/15

Thank you for your letter of 1 June 2015 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 2014/15. 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 2014/15.

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

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.

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 networks and are pleased that you have successfully managed to recover money as a result of your investigations. 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 four of your distribution networks. These amount to:

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

East of England distribution network	£ -9,630.13
London distribution network	£ 95,590.37
North West distribution network	£ -16,834.16
West Midlands distribution network	£ 23,385.53

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_i) as set out in Special Condition 1C.

Our decision

We have examined your request in light of our principal objective and statutory duties. 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.

On this occasion, we have decided that, although you were not successful in recovering enough money to cover your investigation costs in the East of England and the North West, we will allow you to pass through the negative values resulting from investigation costs. Our decision is based on the potential future benefits of these investigations to customers. The investigations you conducted may have future benefits to customers including reducing future bills; discouraging future theft; improving public safety; and reducing unfair competition for commercial businesses (as commercial businesses that take gas illegally are able to unfairly compete with those businesses that do pay their energy bills).

We have therefore decided it is appropriate for you to pass through the referenced amounts specified above for the formula year 2014/15. 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_i) term for the formula year 2014/15 to pass through the sums set out above for the four listed distribution networks.

For the avoidance of doubt, this direction applies to the formula year 2014/15 only. Any future requests for a direction will be judged on the merits of the application at the time of the request.

The information 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,



Paul Branston
Associate Partner, Gas Networks