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for energy consumers

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Date: 29 July 2013

Dear Paul

Request for direction regarding pass-through of Theft Investigation Costs for 2012/13

Thank you for your letter of 17 June 2013 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 2012/13. 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 2012/13.

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. As part of this we highlighted the role which gas transporters can play in tackling theft in the course of conveyance³, particularly where no supplier is responsible.

Gas transporters have an obligation to carry out their own investigations which can reveal cases of theft and they can attempt to recover the value of the gas taken. In these circumstances the conditions allow gas transporters to recover their investigation costs.

We have also been working with industry to tackle the root causes for unregistered sites. Uniform Network Code (UNC) modification 0410⁴ aims to introduce financial incentives on parties to prevent unregistered sites and resolve them once identified. UNC modification 410A would introduce a process for resolving unregistered sites once identified. We understand that there are ongoing discussions around these modifications and other work

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

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

³ This is defined as gas taken upstream of the Emergency Control Valve (ECV) downstream of the ECV is the responsibility of suppliers.

⁴ <http://www.gasgovernance.co.uk/0410>

to identify gas theft, and we would strongly encourage your continued efforts in this process.

The relevant obligations on Gas Transporters

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 network and are pleased that you have successfully managed to recover money in two of your distribution networks, West Midlands and North West. The work that you have carried out will benefit consumers in these 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 two of your distribution networks. These amount to:

West Midlands distribution network	£17,610.14
North West distribution network	£79,588.60

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 amounts recovered from successful investigations minus the investigation costs for the formula year 2012-13 through term (MP_t), as set out above. We believe that consumers will benefit both from recovered amounts and ultimately a reduction in gas theft while also ensuring that gas transporters are able to cover their investigation costs.

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 2012/13 to pass through the sums set out above.

For the avoidance of doubt, this direction applies to the formula year 2012/13 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

A handwritten signature in black ink, appearing to read 'H Nixon', is enclosed in a light grey rectangular box.

Hannah Nixon
Senior Partner
Smarter Grids and Governance: Distribution

Duly authorised on behalf of the Authority

29 July 2013