

## **British Gas Response to –**

### **Consultation on our proposed incentive arrangements for Gas Distribution Networks on theft in the course of conveyance and unregistered sites**

#### **General comments**

British Gas supports the objective of encouraging Gas Distribution Networks to better manage theft in the course of conveyance and unregistered sites. However, the regulatory package (licence conditions and funding) accepted by GDNs as part of RIIO GD1 already obliges networks to investigate theft in conveyance and gas taken from unregistered sites and we are therefore concerned that this proposal simply represents a re-opening of the price control to provide additional funding to GDNs to comply with the licence conditions they have accepted as part of RIIO GD1.

Furthermore, we are concerned that the Totex proposal may only have a limited benefit, if any, in giving incentives to GDNs to better manage theft and unregistered sites.

Therefore, in line with the principles of the RIIO price control framework, we consider that any additional funding provided to GDNs must be accompanied by additional output requirements i.e. by placing stronger obligations on GDNs to take appropriate action to better manage theft and unregistered sites and requiring further improvements regarding theft and unregistered reporting.

#### **Ofgem questions and British Gas response**

##### **Question 1:**

Do you think that our proposal better incentivises GDNs to investigate theft than the existing arrangements?

Ofgem is proposing to relax SLC7, by allowing GDNs to offset costs recovered from consumers during theft or unregistered investigations. Using the Totex mechanism any residual or over recovery of monies the GDNs will retain c.63% and Users will receive c.37%. Should the Transporters costs not be fully recovered the Totex mechanism will in effect results in 37% of the shortfall will be funded by Users.

Ofgem's proposal would only have a positive incentive effect if it is assumed that the value recovered will be in excess of the costs. In such a scenario the proposal should encourage an increase in activity by GDNs. However, we have doubts about this assumption and from our own experience of Revenue Protection work, we rarely recover the full operational costs from consumers. We also note that GDNs share this experience as Ofgem state in their consultation "*Evidence from GDNs' current theft investigation activity suggests that they are only successfully able to recover money in the minority of cases.*"

Therefore, if, as the evidence suggests, the money recovered will be lower than the costs of investigation, then under the proposed arrangement the GDN will continue to stand to incur a net cost with any increase in activity. Whilst the proposal would reduce this net cost by 37%, since it will remain a net cost it seems unlikely to us that the proposal will result in any increase in activity, over and above the status quo. This means that, in effect, the proposal would simply provide additional funding to GDNs for no increase in theft activity.

Therefore on balance, we believe this proposal could only have a better incentive on GDNs to investigate theft if it is accompanied by increased output requirements and obligations. Without these, we believe that this proposal is unlikely to benefit customers and could easily bring additional costs without any increase in GDN activity.

**Question 2:**

Do you have an alternative suggestion for incentive arrangements?

We believe that GDNs require further obligations to undertake the work required to successfully manage theft and unregistered sites. These new obligations should include –

- An obligation to ensure that theft in conveyance and gas taken from unregistered sites is as low as reasonably practical.
- Contacting sites/consumers where theft/unregistered sites are possibly identified
- This should include desktop exercises to interrogate industry systems, lettering of consumers and telephone calls
- Failure of the consumer to respond to the GDN contact should result in a site visit
- Failure of a consumer to make contact with the GDNs or to obtain a supply contract with a supplier, the GDNs should obtain warrants to access the property
- During a theft or unregistered case if after adequate consideration the consumer fails to obtain a supply contract the offtake should be curtailed by the GDN
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With the above approach this will place additional obligations on the GDNs. We believe that the GDNs would need to fulfil the above criteria, before they are eligible for additional funding.

**Question 3:**

Are GDNs able to provide any historical information on your costs and recoveries in relation to theft investigations?

We believe the Transporters are able to provide the costs dealt with in SLC7 which are treated as 'k' items in price control terms, as they have to report on them to allow them to offset costs against allowed revenue.

**Question 4:**

Would the information we have set out above be sufficient to monitor the operation of the proposed new arrangements?

We believe improved GDN monitoring and reporting is required, as currently there is a lack of visibility regarding GDN theft and unregistered activity. We support Ofgem's proposal to introduce this reporting and we agree with the recommended data items.

Through our own shipperless and unregistered investigations and reporting we would recommend the additional information or clarification for the proposed data items.

**The number of suspected/reported incidences of theft**

- Clarification of the definition - should include cases where there is a suspicion and include percentage of all sites where theft has occurred

**The number of investigations carried out by the GDN's**

- Further clarity is required to include desk based, site visit or legal activity. What further take action was taken per site and over what time period before the investigation is fully completed

**The cost of each investigation**

- This aligns to above comment and therefore a definition of investigation is needed

**The amount of money recovered from successful cases**

- This should be broken down by site and aggregated

**The proportion of successful cases in relation to unsuccessful cases**

- We suggest industry parties need the numbers and not just the proportions of successful cases.

If you have any further questions, please do not hesitate to contact me directly.

Regards,

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