

Dora Guzeleva
Head of Networks Policy
Local Grids
Ofgem
9, Millbank
London
SW1P 3GE

Paul Rogers
Regulatory Frameworks Manager
Gas Distribution

paul.s.rogers@nationalgrid.com
Direct tel +44 (0)1926 655584
Direct fax +44 (0)1926 656520

www.nationalgrid.com

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

Dear Dora,

Thank you for the opportunity to respond to this consultation, which is made on behalf of National Grid Gas Distribution (NGGD). Having been actively involved in responding to stakeholder views on gas theft, NGGD is pleased that Ofgem has engaged on incentives for Gas Transporters to undertake investigations, as the current regulatory arrangements and obligations are mis-aligned.

NGGD believes that as a Gas Transporter (GT) it has two primary responsibilities relating to the illegal taking of gas which underpin the Standard Licence Condition 7 (SLC7) provisions to investigate suspected theft cases and use reasonable endeavours to recover the value of gas taken;

1. To keep gas consumers safe
2. To stop theft of gas taken 'in the course of conveyance'

Our opinion is that the GT's primary focus in relation to licence is the safety of consumers and the curtailment of gas theft. We believe that it is not a core transportation related skill or a principal role of the GT to seek to recover monies from consumers. Consequently we consider that GTs should be properly funded to perform the core activities described above regardless of any performance incentive. Although there may be an element of deterrence, we view the requirement to seek to recover money from end consumers as being separate to, and of secondary importance to the above safety related imperatives.

We agree with Ofgem that the current 'pass through' arrangements under SLC7 "*may not be adequate to encourage GDNs to be proactive in tackling theft*". We therefore believe Ofgem's proposed theft incentive represents a step in the right direction regarding potentially incentivising GTs to seek to recover costs of gas illegally taken from consumers. However, it is our opinion that the proposed measures are not an adequate substitute for a fully funded service commensurate with both the

express and implied terms of SLC7 and the broader public and consumer interest in tackling theft of gas. We have expanded on these views in our response to Ofgem's questions below.

Question 1:

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

NGGD believes the current provisions of SLC7 to be wholly inadequate in terms of funding or incentivising Gas Distribution Networks (GDNs) to tackle theft of gas 'in conveyance'. As Ofgem has identified, it is only possible for GDN's to 'pass through' investigation costs incurred where a theft is confirmed and the GDN has made 'reasonable endeavours' to recover from the relevant consumer the costs of gas illegally taken. This means that at best a GDN might recover its costs where sufficient funds have been paid by those taking gas illegally. For every other investigation, costs are largely unfunded which acts as a strong disincentive to pursue cases which may be complex, give rise to complaints and represent a risk to the safety of employees entering properties in adversarial circumstances.

Analysis of completed theft investigations received into our Theft of Gas team since August 2013 shows that 80% of investigations have resulted in either no theft being confirmed or no reasonable prospect of funds being recovered.

Reasons for closing jobs as 'no theft identified' or 'ineligible for reasonable endeavours' include the following list which is not exhaustive:

- Suspicion but insufficient evidence of theft (lack of meter reads)
- Spurious/incorrect allegations
- Extremely limited likelihood of recovery (tenant moved out, bankruptcy, etc.)
- Property renovations at time of visit – potential previous owner/tenant theft but not provable
- Service tamper which is unknown to current occupier and found not to be in use at the time of site visit
- Quantity of gas taken is extremely low (new tenant/owner, etc.) due to slight delay in registration

Consequently we welcome that Ofgem has recognised the inadequacy of the present GT licence provisions and is taking the opportunity to revisit the terms of SLC7.

However, Ofgem's proposal is likely to have a marginal effect on GDN theft activity, as it would incentivise the pursuit of larger commercial theft as the value of recoverable gas illegally taken is more likely to cover the cost of investigation. While this may have its merits, smaller commercial and domestic theft would remain problematic as the costs to pursue such cases will invariably outweigh any potential remuneration. When taking account of associated risks around complaints and safety of employees, it is unlikely GDNs would be willing to raise activity levels above those already seen.

In the interests of protecting consumers and keeping them safe, a more appropriate incentive would be for Ofgem to provide funding mechanisms that would allow GDNs to establish a professional revenue protection service that would be resourced and have the competence and capability to more efficiently pursue reported thefts. Our view is that this would be more effective and meet the

aspirations of gas shippers as well as better protecting those energy consumers who are currently bearing the cost of theft.

Question 2:

Do you have an alternative suggestion for incentive arrangements?

Notwithstanding our view of the need for an adequately funded regulatory approach, NGGD has previously informally shared its thoughts with Ofgem regarding an incentive framework based on Shrinkage. If Ofgem view incentives as the best mechanism to encourage theft investigation by GDNs then doing so through the Shrinkage incentive would be more effective in our view than the current proposal.

As indicated above we have misgivings regarding the suitability of the incentive for GDNs and in particular the likelihood of NGGD undertaking large numbers of 'abortive' theft investigations with no ability to recover costs. Experience has shown that many reported incidents result in no theft being detected or that it would be inappropriate to seek to recover monies from the consumer.

It is our opinion that over and above any proposed incentive it is essential that a form of full cost recovery provision be introduced to SLC7 to provide reassurance to GDNs that we are able to remain at least 'cost neutral' in respect of stopping gas theft and ensuring consumer safety. This would provide GDNs with greater confidence in devoting appropriate resources to the challenging matter of gas theft detection and investigation.

Question 3:

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

We have previously provided Ofgem with theft of gas investigation performance data relating to the 2012/13 period as follows.

2012/13 Network costs and revenues recovered

Network	Cost of gas recovered	Total investigation costs (closed jobs)	Recoverable investigation costs (closed jobs)
EoE	£0	£4,907	£0.00
NL	£0	£5,115	£0.00
WM	£21,504	£5,788	£3,894
NW	£80,000	£5,563	£411
Total	£101,504	£21,375	£4,305

The following table highlights our 2013/14 costs and monies recovered

2013/14 Network costs and revenues recovered

Network	Cost of gas recovered	Total investigation costs (closed jobs)	Recoverable investigation costs (closed jobs)
EoE	£0	£825	£0.00
NL	£9,097	£3,738	£1,117
WM	£20,892	£594	£0
NW	£4,652	£2,791	£500
Total	£34,642	£7,949	£1,617

Question 4:

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

We would be able to provide Ofgem with the proposed information other than item 3 “the cost of each investigation”. It is not practical or economic to provide this at a granular level given the complexity and impracticality of obtaining and collating the data and resultant excessive administration effort which would be required. However we would expect to be able to provide indicative data based on analysis of aggregated costs.

We have existing obligations to report all of the items identified by Ofgem through Uniform Network Code (UNC) and Supply Point Administration Agreement (SPAA) governance with the exception of “the cost of each investigation”.

We believe the information identified by Ofgem (excluding the cost of each investigation but including indicative aggregated costs) would be sufficient for monitoring purposes.

Additional Discussion Points

We note that you refer to the SPAA Theft Codes of Practice and express an opinion that it is unnecessary to include additional ‘consumer protection’ procedures within SLC7. We concur with this view. We believe SLC7 adequately sets out the responsibilities of the GDN at an appropriate level and that relevant process and procedural matters are properly addressed within the Codes of Practice.

We would like to point out a minor anomaly in your consultation:

You state on page 3 under ‘Gas Transporters Standard Licence Condition 7’ paragraph 2 first sentence: “*The current interpretation of the legal framework means that GDNs can only cover their costs when they are successful in recovering money for gas stolen as a result of their investigations*”.

We believe this is incorrect. GDNs are able to cover their costs where reasonable endeavours are made to recover money for gas stolen. It is not necessary to actually recover the money, only to have made a reasonable effort to do so.

If you would like to discuss any points made within this response, please contact Chris Warner, Network Code Manager on 07778 150668 or at chris.warner@nationalgrid.com

Yours sincerely,

Paul Rogers
Regulatory frameworks Manager