

Jacob Cane  
Ofgem  
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Dear Jacob,

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

Thank you for the opportunity to respond to your consultation. We have set out the answers to the specific question in appendix 1.

As a responsible Gas Transporter NGN believes we have a duty to investigate potential theft of gas incidents. Likewise we have a responsibility to ensure action is taken to reduce the number of shipperless and unregistered sites in existence, which would further minimise the risk of theft on our network.

As such, while we welcome the opportunity to discuss potential incentives surrounding theft of gas we believe that financial reward for investigating theft is not our key criteria and that this is what we should be doing as part of a responsible 'business as usual' approach to theft of gas.

Regardless of the economic incentive in place, NGN investigate every potential theft of gas and site safety is always our number one priority in doing so. Where we find evidence of theft of gas we ensure the site is safe and give the consumer the opportunity to register with a supplier. If they do not subsequently provide evidence of registration we disconnect them, although many of these are still being pursued.

With regards cost recovery, we believe this depends on the nature of the theft and have found that the complex nature of the thefts that fall under our responsibility as a Gas Transporter mean that it is often difficult to successfully pursue a theft to the extent that we reclaim money taking into account back office work and potential legal costs of pursuing someone through the courts.

We welcome the wider definition of theft in this case also including gas offtaken from an unregistered site where in the past it has been difficult to assess the intent of the consumer.

I hope you find these comments useful and please contact me should you require further information.

Yours sincerely,



Joanna Ferguson  
Network Code Manager

## Questions

### Question 1

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

Looking at NGNs 2013 SPAA Theft Code of Practice Report (Appendix 1), we believe that even if we managed to recover all assessed theft, which is unlikely, it would not be sufficient to cover the full costs incurred in theft investigations. Currently the operational costs associated with theft investigation is included in our overall operational costs, and if separately identified would be likely to be more than the £104k assessed theft in 2013.

Details of average activity on theft is included in Appendix 2. The costs of this has not yet been fully assessed, but NGN is currently reviewing all theft and unregistered operations with a view to improving our processes.

While we have seen increased activity in theft investigation in recent times, the number of proven GT thefts remains similar, meaning that increased investigation costs can not be recovered from the proceeds of proven cases. This can be seen in the following table.

	2006	2007	2008	2009	2010	2011	2012	2013
<b>GT Responsible Thefts - Investigated</b>	30	24	38	36	56	53	64	151
<b>GT Responsible Thefts - Confirmed</b>	8	10	13	9	21	18	23	22
<b>Shipper Responsible Thefts - Investigated</b>	510	370	473	776	738	682	762	998
<b>Shipper Responsible Thefts - Confirmed</b>	217	180	177	349	357	353	422	642

While the above seems to show that increased shipper theft activity has resulted in more valid theft being confirmed, this cannot be shown for the GT responsible thefts.

As you will have seen from our SPAA Theft of Gas Code of Practice Report, we invoiced nine consumers in 2013 for theft of gas and as yet we have been unsuccessful in recovering any monies. While we are always confident that our own processes can be further improved, we believe this underlines the difficulties Gas Transporters have in cost recovery of theft of gas, which you note in your consultation document.

It is in light of this we believe that further detail of the workings of a TOTEX incentive need to be considered to ensure that it can act in a positive manner.

We do not believe that the difficulty in recovering money successfully lies solely in our own processes but rather the inherently complex and varied nature of thefts that fall under Gas Transporter responsibility. Therefore an incentive scheme that assumes ease of collection of small amounts from consumers is likely to punish Transporters for failing to successfully recover money from enough incidents to more than cover investigation cost from all incidents would leave NGN in a worse financial position than the current arrangements.

Although as stated NGN investigate all potential thefts on our network that may fall under our responsibility, we also have concerns that the current proposals could over time act as a perverse incentive in creating an economic pressure on Transporters to pursue theft investigations that offer the quickest economic reward at the expense of more complex, higher risk thefts.

Currently sites are prioritised by risk insomuch as we investigate all of them, but the proposals put forward as part of this consultation would create a pecking order of sites, with straight-forward, high value sites at the top. The nature of gas theft could put the higher risk sites toward

the bottom of this list, as the higher risk theft site is often a smaller property, often urban and inner city with a higher density of population.

While we are confident all Gas Transporters approach theft in a similar fashion, we would have concerns about the potential for a perverse incentive to grow as a result of the proposals.

#### Question 2

*Do you have an alternative suggestion for incentive arrangements?*

NGN believes that incentives should be achievable but challenging, and importantly, not overly complex to manage. The increased activity seen in theft and unregistered has resulted in uncontrollable increases in some operational activities, which we endeavour incur in the most economic and efficient manner.

The current regime allows for cost recovery where reasonable endeavours have been made to pursue the recovery of gas stolen and this could be expanded to allow cost recovery for efficiently incurred investigations that cannot have income recovery pursued due to a variety of reasons. As noted above, it is not always possible to pursue the cost of gas stolen and would be uneconomic to artificially undertake this activity in order to trigger the ability to recover costs.

#### Question 3

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

Included are a number of appendices to this document we have provided some historical examples of theft investigations we have undertaken and data on our theft investigations.

1. SPAA Theft Code of Practice Report
2. Summary of average theft investigation activity
3. Case study of a 2013 incident

A copy of the response to Ofgem's December 2010 theft data is available on request which shows some further historic details.

#### Question 4

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

NGN is currently developing internal reporting for theft of gas as part of our Theft and Unregistered Steering Group. The data suggested in the proposal is consistent with existing industry reporting through the Uniform Network Code and SPAA, but it should be noted that without context many of these data items may prove to be misleading. Included in Appendix 1 is the commentary that NGN included to support the SPAA Theft Code of Practice Report submitted in February 2014. This type of commentary would be useful to support any statistics submitted as part of the regulatory reporting arrangements.

## Appendix 1: SPAA Theft Code of Practice Report

Meter Point Portfolio data		Please respond below
1	Number of live Meter Points at the end of the calendar year	2,515,950
2	Volume of gas transported across your network to end consumers during the calendar year (GWh)	74,500
Suspected Theft of Gas		Please respond below
3	Number of suspected incidents of Theft of Gas for which the Gas Transporter is responsible for investigating	151
4	Source of information on suspected Theft of Gas	
	· Supplier (including supplier's agent)	Yes
	· Own analysis	Yes
	· Tip-offs	Yes
	· Other	Yes
Investigation Activity		Please respond below
5	Number of Theft of Gas investigation visits to premises	148
6	Number of cases of suspected Theft of Gas identified after the ECV as part of a Theft of Gas investigation	Not recorded for 2013
7	Number of cases of suspected Theft of Gas identified before the ECV as part of a Theft of Gas investigation	Not recorded for 2013
Confirmed Theft of Gas		Please respond below
8	Number of cases of Theft of Gas identified before the ECV	17
9	· Estimate of the volume of gas theft by Consumers (kWh)	2,532,469
10	Estimate of the retail market value of the gas illegally taken (£)	103,916.56
11	Number of Consumers billed for Theft of Gas	9
12	Total amount of revenue recovered from Consumers during the year (£)	0
13	Number of Consumers Cut-Off or Disconnected for reasons of confirmed Theft of Gas;	14
14	Number of Vulnerable Customers Cut-Off or Disconnected	0
Additional Information		Please respond below
15	Number of warrants applied for (for reasons of Theft of Gas) during the year	0
16	Number of warrants granted (for reasons of Theft of Gas) during the year	0
17	Number of attempted convictions during the year	0
18	Number of successful criminal convictions during the year	0

Extract of commentary to support submission:

*The report template supplied to NGN by Electralink provided a Yes/No response to the source of ToG investigations. We believe the intent of the reporting requirements was for the total number of ToG investigations to be split by source. We have filled in the template as it was provided and Transporters have recently amended the way suspected theft of gas calls are handled to record the numbers associated with each source going forward.*

*The discrepancy in numbers between Sections 3 and 5 are due to theft investigations being carried over from December 2013 into January 2014. It is NGN policy to site visit all suspect theft of gas incidents.*

*As a Transporter we feel it is worth noting that we visit far more sites as part of suspected thefts than the report would suggest. This is because we are also involved in site visits for incidents that are subsequently assigned to the shipper for investigation as the responsible party.*

*For the reporting requirement 'Number of cases of Theft of Gas identified before the ECV' we believe the intention of the report is to identify the number of thefts where the Transporter is responsible for the investigation. This may include thefts identified after the ECV where the site is unregistered, and in its current form the SPAA CoP does not capture this. In the spirit of what information we believe the CoP is seeking to obtain we have included all thefts in 2013 that have fallen under our responsibility to investigate, including unregistered sites. We believe this gives a fuller picture of our investigations in conjunction with the other information requested and provided.*

## **Appendix 2: NGN Internal investigation time analysis**

### **Front line operations**

First Call Operative or 2 man team

Average time taken on an initial visit – 30 minutes

Average time taken on a return visit – 45-60 minutes

Average number of return visits – 0 for shipper-registered, 3 for unregistered

### **Back office activities**

Dispatch staff, theft administrator, credit control, legal

Average back-office time per straight forward incident – 4hrs

Average back-office time per straight forward incident – 8hrs

Additional time used to obtain consumer information to enable NGN to pursue of cost of gas stolen. Includes investigations, council Data Protection Act exemption applications, etc

### **Appendix 3: Case Study**

A recent incident involved a takeaway in a major city, where NGN liaised with the local council and the Health & Safety Executive, with whom the case originated. This incident involved over 30 hours of NGN employee time, spread over 13 front-line employees as well as a number of back office administrative, managerial and legal staff.

In liaising with the council, who took the consumer to court, we provided witness statements and notified the council we could provide employees for statements in court if necessary.

Despite the depth of our involvement in the case we knew early on that it was unlikely we would be able to recover any costs due to the number of parties pursuing the consumer and the fact that the takeaway was burnt down shortly after the service disconnected, which meant that we lacked sufficient contact details to pursue the consumer.

The final outcome of the case was that the guilty party was sentenced to four months in prison, suspended for 12 months. He was also ordered to complete 300 hours of community service, and ordered to pay £200 in costs along with an £80 victim surcharge.

This incident has cost NGN in the region of £10,000 so far in employee time but we have been left unable to recover any costs either incurred through our investigation or for the value of gas consumed.