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Dear Jacob,

Consultation on Ofgem's proposed incentive arrangements for Gas Distribution Networks on theft in the course of conveyance and unregistered sites.

Scotia Gas Networks (SGN) welcomes the opportunity to respond to Ofgem's consultation on incentive arrangements relating to the theft of gas and unregistered sites.

SGN is broadly supportive of Ofgem's policy objectives in this area and agrees that amendments to the current arrangements should be made. We consider Ofgem's current view offers the basis on which to develop these proposals further and outline how we think this could be achieved further in our response.

It is also important to recognise that, during the past year, gas distribution network (GDN) companies and Ofgem have discussed various options for incentivising the resolution of shipperless and unregistered sites. Several Uniform Network Code (UNC) modifications have been raised to resolve the ongoing issue of these sites. GDNs have now implemented a plan to address the highest priority portfolio of shipperless and unregistered sites that exist on Xoserve's database. This work is now fully underway and results are already being realised across our networks.

We have chosen to respond to each of the individual questions raised in Ofgem's consultation as set-out below.

Question 1: Do you think that Ofgem's proposal better incentivises GDNs to investigate theft than the existing arrangements?

SGN agrees Ofgem should appropriately incentivise GDNs to investigate theft as the current arrangements do not achieve this objective.

Under Standard Licence Condition 7 (SLC7), GDNs can only seek to recover their investigation costs where gas is ultimately found to be illegally taken and we attempt to invoice the end user for the gas taken. However, SGN has established that only a small percentage of sites will,

24 hour gas escape number 0800 111 999*
*Calls will be recorded and may be monitored



following investigation, be invoiced for gas that has been illegally taken.

There are various reasons why GDNs may not be able to seek to recover the cost of gas taken illegally. This includes locating the end user in cases of house/business moves and previous failings of industry parties where the customer has attempted to register their supply.

In some cases, SGN has also found that a supplier has been invoicing the end consumer (even where the shipper registration is missing) which has resulted in the GDN applying the terms of UNC Transportation Principle Document (TPD) Section G7.3.7 and charging the relevant shipper. In all of these instances, even where the unregistered site is resolved through registration or where the energy costs are recovered from the relevant shipper, GDNs will not be able to recover their costs under SLC7. It should be noted the same will apply under Ofgem's suggested proposals as GDNs will incur costs in resolving the sites and ensuring that the value of gas is returned to industry. However, as no monies are recovered from the end user, a GDN will not be incentivised by the proposed incentive.

Theft investigation and cost recovery is both time-consuming and, in certain cases, expensive while recovery of the value of gas taken from end users is difficult and rare. This means that recovery will rarely, if ever, outweigh costs and thus GDNs will not be appropriately incentivised through either the current arrangements under SLC7 or the proposal set-out in this consultation.

For these reasons we consider a review of SLC7 is required, but that Ofgem's proposal does not better incentivise GDNs to investigate theft than the existing arrangements.

Question 2: Do you have an alternative suggestion for incentive arrangements?

In principle, SGN supports Ofgem's current draft proposal that SLC7 be further amended to allow GDNs to retain a percentage of any of the value of gas recovered from the end user. However, Ofgem's proposal as it stands would unduly penalise GDNs and possibly prevent the recovery of costs incurred by a GDN.

To overcome this issue, SGN wishes to put forward an alternative proposal that Ofgem should only apply the cost recovery mechanism after a GDN has recovered all costs associated with theft cases, irrespective of whether a GDN is able to invoice for such costs. This would ensure GDNs are able to recover all of their costs, with the cost recovery mechanism only applied to monies recovered in addition to the costs incurred by a GDN.

Such a mechanism would need to set-out that GDNs retain a percentage of any money recovered from the consumer and preferably be treated as separate from any investigation costs we may seek to recover.

This combination of reasonable cost recovery and incentive would ensure that GDNs can recover costs both where the situation is resolved (i.e. disconnection or ensuring the site is registered) and also provide a financial incentive which would encourage GDNs to recover as much of the gas used from the end user as possible. This would incentivise the right behaviours to take action on all cases of theft.



Question 3: Are GDNs able to provide any historical information on costs and recoveries in relation to theft investigations?

SGN has previously supplied Ofgem with information on our theft of gas activities and investigations on a confidential basis. Should any further information be required, we would be happy to work with Ofgem in providing any further information to aid the development of policy in this area.

Question 4:

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

SGN consider the template proposed by Ofgem for future information requests is appropriate should an incentive arrangement be agreed. This should enable Ofgem to build a historical data set of theft and unregistered gas activity across the GDNs that will better inform decision making for RIIO-GD2.

SGN has dedicated a large amount of time and resource on this issue and we have solid processes in place. We recognise the ongoing reporting elements require further scrutiny, and this will be a focus for SGN throughout 2014.

There should be willingness by all industry participants to share this information and to work together in future to address this issue wherever the opportunity arises, and SGN supports such an approach.

If you should require any further information, or background to this, then please do not hesitate to contact either Erika Melen at erika.melen@sgn.co.uk or myself at paul.mitchell@sgn.co.uk .

Yours sincerely,

Paul Mitchell
Regulation Manager