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17th April 2014

Dear Jacob,

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

Wales & West Utilities Limited (WWU) is a licensed Gas Distribution Network (GDN) providing Gas Transportation services for all major shippers in the UK. We cover 1/6th of the UK land mass and transport gas to over 2.4 million supply points.

We welcome the opportunity to respond to this important consultation on the incentive arrangements associated with theft of gas activity for gas networks. For the avoidance of doubt, this response can be published in full.

Executive summary

Theft of gas can cause serious safety issues and increase energy costs for all other legitimate gas customers. We are working hard to prevent, detect and resolve theft of gas issues within our geography. We are fully engaged within the Industry Shipperless and Unregistered Supply working group and working hard with suppliers and other gas networks to tackle unregistered supply points and theft of gas issues.

We welcome the recognition from Ofgem of the lack of direct funding for network theft activities; and also the attempt to better incentivise networks to undertake more work on theft. Unfortunately we do not think the incentive proposals within the consultation will better incentivise network theft activities.

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

We welcome the attempt by Ofgem to better incentivise GDNs to investigate theft but we do not think the consultation proposal incentivises GDNs in comparison to the existing arrangements. We propose an alternative incentive mechanism in response to question 2. We therefore do not support the Ofgem incentive proposal within this consultation.

The following issues underpin our support for the existing mechanism:

The use of the totex incentive mechanism to incentivise network theft activity:

We support the use of the "totex incentive mechanism" (TIM) within the RIIO framework but it is inappropriate to use it in relation to the theft of gas activity. The TIM is in place to encourage networks to deliver RIIO defined Outputs at a lower cost compared to up-front allowances. If networks can deliver Outputs at a lower cost than the allowance, they keep

24 hour gas escape number
Rhif 24 awr os bydd nwy yn gollwng

0800 111 999*

*calls will be recorded and may be monitored
caiff galwadau eu recordio a gellir eu monitro

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circa 65% of the benefit. Conversely, if we overspend the networks fund circa 65% of the overspend.

Ofgem acknowledge the absence of an up-front cost allowance for gas networks to tackle the growing theft of gas issues. The Outcome that we all want is more detection and prevention of theft which requires the networks to do more to tackle the growing theft issues. The use of the TIM obliges the networks to fund circa 65% of the additional work, and the more work we undertake, the more cost we will incur, which does not appear to support the desired outcome. We acknowledge the point that networks will be able to “offset” any income generated from the collection of theft of gas successfully billed but in many instances we are unable to collect revenues - a point also acknowledged by Ofgem in the consultation.

In summary, it is likely that the use of the totex incentive mechanism will increase the cost to networks for delivering additional valued theft activities.

Additional Risk in comparison to existing arrangements

The incentive proposal using the TIM potentially adds additional cost risk to the networks and this is actually acknowledged within the consultation:

“We acknowledge that there is a risk with this proposal that GDNs’ costs may not be fully recovered if total investigation costs outweigh the total amount of money recovered in a given year. However, as the TIM is symmetrical these arrangements will also work in favour of the GDNs if the amount recovered is more than the GDNs’ costs.”

The current licence obligation on gas transporters in relation to gas theft is set out in Standard Licence Condition 7. The obligation states that gas transporters must investigate cases of theft and, subject to the outcome of the investigation, use reasonable endeavours to recover the value of gas taken. On a case by case basis, the GDN can retain its investigation and recovery costs from any money successfully recovered as a result of their investigation.

In summary, the existing arrangements allow us to pass through additional unfunded costs where we have successfully collected income from a theft. In cases where we resolve the theft but do not collect income our costs are funded by the TIM. These existing arrangements better incentive network theft activity in comparison to the Ofgem proposal.

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

The desired outcome is to promote additional theft prevention, detection and resolution by networks. Given the acknowledgement of the lack of upfront allowances for this activity, we would suggest 100% funding of network costs, subject to an efficiency test and demonstration of “Output” delivered. The Output delivered could be measured by number of investigations undertaken and resolved. Our objective is not to generate any gain from the incentive mechanism but simply to promote more work to tackle this growing issue. This proposed mechanic would demonstrate delivery of an output and keep the networks neutral to the outcome. The proposal also removes “the collection of income” as the trigger for network funding.

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

We are currently in the process of reviewing our internal and industry information in relation to theft investigations as the current industry processes are fragmented. We are working with other networks, Xoserve and suppliers through the industry Shipperless and Unregistered working group to update reporting in light of the new theft of gas code of practice.

Question 4: Would the information we have set out above be sufficient to monitor the operation of the proposed new arrangements?

We agree the information set out within the consultation would be sufficient to monitor theft of Gas activity. The information would also support the alternative incentive arrangement proposed by WWU in this paper.

Please note our response to question 3 where we highlight that further work is required to deliver complete and accurate industry information. We will take forward this work through the relevant industry forums.

Should you wish to discuss any aspect of this response, please contact Steven.J.Edwards@wwutilities.co.uk.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'S.J. Edwards', with a long horizontal flourish extending to the right.

Steve Edwards
Head of Regulation and Commercial
Wales & West Utilities