

John Bradley
UNC Panel Secretary
31 Homer Road
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Dear John

EDF Energy Response to UNC Modification Proposal 0231V: “Changes to the Reasonable Endeavours Scheme to better incentivise the detection of Theft”.

EDF Energy welcomes the opportunity to respond to this UNC Modification Proposal. We support implementation of modification proposal 0231V.

The Reasonable Endeavours Scheme produced by the Transporters is currently not widely published or transparent. This became particularly apparent during the development of Modification Proposal 0231V when several different versions of the scheme were produced and significant effort was required to locate and identify the most up to date version. It would therefore appear more appropriate to ensure that this scheme is located in a single location which can easily be viewed by the gas Shippers and Suppliers who wish to utilise this scheme. This should ensure that a single version is available. EDF Energy therefore supports this proposal to introduce the relevant elements of this scheme into the UNC.

We would also note that introducing this scheme into the UNC should help to ensure that this scheme remains up to date and fit for purpose. Introduction of this scheme into the UNC will enable future developments of the scheme through a UNC Modification Proposal whilst providing suitable governance as Ofgem would retain the right to approve or reject any modification to this. EDF Energy believes that this would be a simpler and more transparent process than requiring the Transporters to submit an updated methodology for approval.

Further this proposal seeks to update the capped values that Shippers can claim for under this scheme. We would note that Shippers would still only be able to claim for the actual costs that they have incurred and so this proposal will not lead to Shippers who utilise this process benefitting from compensation in excess of their costs. However EDF Energy believes that the current limits set within the scheme are too low. EDF Energy is a relatively large energy supplier and so benefits from economies of scale in revenue protection; however despite this benefit the current cap is below the costs that we would incur in detecting and investigating an instance of theft. EDF Energy has shared our costs in confidence with Ofgem to help them with their decision on this proposal. We also recognise that whilst we benefit from economies of scale in this matter, there are Shippers and Suppliers who will not share this benefit. We therefore believe that the proposed cap is appropriate to ensure that these companies are also recompensed for the costs that they incur, although we would note that we are not in a position to confirm this categorically.

A further benefit of increasing the cap to allow Shippers and Suppliers to cover their costs is that this will create a further incentive on Shippers to detect and investigate instances of theft, by ensuring that their costs are recovered, which would benefit the industry in general. Due to the current allocation mechanism for theft of gas, any instance when a Shipper detects a theft of gas results in a reduction in the total volume of gas theft. This reduction however is smeared across all SSP Shippers who currently fund this. However the Shipper that is undertaking correct and positive action faces the risk of covering the cost of this gas along with its internal costs that it is unable to recover from the customer for various reasons. This therefore creates a dis-incentive. By increasing the cap this dis-incentive is reduced and potentially removed. This should therefore further encourage Shippers to detect gas thefts and so reduce total gas theft volumes, resulting in decreased costs for the SSP market and consumers.

In addition to the particular points raised in the UNC Modification Proposal EDF Energy would make the following observations:

2. User Pays

EDF Energy agrees with the proposer that this is not a User Pays proposal. Through development of this proposal it was clear that xoserve would not be required to undertake any additional validation to that which is currently required. Therefore there will be no additional costs and so this is not a User Pays proposal.

As recognised by the proposal if there is an increase in claims under this scheme, then the cost of this will be recovered as a pass through item in Transportation charges.

3. Extent to which implementation of the proposed modification would better facilitate the relevant objectives:

Standard Special Condition A11.1 (c): so far as is consistent with sub-paragraphs (a) and (b), the efficient discharge of the licensee's obligations under this licence;

Standard Condition 7.6 requires the Transporters to operate a scheme as designated by the Authority to compensate Suppliers for the reasonable costs incurred in detecting and pursuing instances of gas illegally taken. Whilst EDF Energy recognises that the Gas Transporters are compliant with this Licence Condition we believe that implementation of this proposal will facilitate this further by making the scheme more widely available. We would also note that this would also appear to be aligned with the intent of the Licence Condition as it would appear odd to require the development and implementation of a scheme that is hard to locate.

6. The consequence of implementing the Modification Proposal on the level of contractual risk of each Transporter under the Code as modified by the Modification Proposal

Currently the Reasonable Endeavours Scheme is a requirement of Standard Condition 7 of the Gas Transporters Licence, and there are cross references within this Licence to the Scheme. There is therefore a risk that this proposal was implemented without a corresponding change to Standard Condition 7. This could expose the Transporters to the risk of dual Governance. EDF Energy therefore believes that implementation of this proposal is contingent on a corresponding change to Standard Condition 7; however we recognise that this is in the control of Ofgem.

I hope you find these comments useful, however please contact my colleague Stefan Leedham (Stefan.leedham@edfenergy.com, 020 3126 2312) should you wish to discuss these in further detail.

Yours sincerely

A handwritten signature in blue ink, appearing to read "Seb Eyre".

Dr. Sebastian Eyre
Energy Regulation, Energy Branch