

0399:

Transparency of Theft Detection Performance

- 01 Proposal
- 02 Workgroup Report
- 03 Draft Modification Report
- 04 Final Modification Report

This Proposal will obligate the Network Owners to publish monthly statistics on the theft detection performance of Shippers and Network Owners.



Panel did not recommend implementation



Medium Impact:
Network Owners, Shippers.

Contents

| | | |
|----|------------------------|----|
| 1 | Summary | 3 |
| 2 | Why Change? | 4 |
| 3 | Solution | 5 |
| 4 | Relevant Objectives | 6 |
| 5 | Impacts and Costs | 9 |
| 6 | Implementation | 13 |
| 7 | The Case for Change | 13 |
| 8 | Legal Text | 14 |
| 9 | Consultation Responses | 18 |
| 10 | Panel Discussions | 21 |
| 11 | Recommendation | 22 |
| 12 | Appendix One | 23 |

About this document:

This document is a Final Modification Report, presented to the Panel on 15 March 2012. The Authority will consider the Panel's Recommendation and decide whether or not this change should be made.



Any questions?

Contact:

Joint Office



enquiries@gasgovernance.co.uk



0121 623 2115

Proposer:

David Watson



dave.a.watson@centrica.com



07789 570501

Transporter:

Scotia Gas Networks

xoserve:



commercial.enquiries@xoserve.com

0399

Final Modification Report

16 April 2012

Version 3.0

Page 2 of 24

© 2012 all rights reserved

1 Summary

Is this a Self-Governance Modification?

The Modification Panel determined that this is not a self-governance modification.

Why Change?

Although the Network Owners, through their agent Xoserve, already publish some statistics on the number of theft detections reported to them by Shippers, the provision of that data is not codified in any way and thus is provided only at the discretion of the Network Owners.

In addition, there is currently no publicly shared data on the equivalent information related to Network Owner detections of theft in the course of conveyance. As a result, the industry is unable to hold Network Owners accountable for their performance in the same way as Shippers can be held accountable. This also inhibits Party's ability to assess the validity of theft assumptions in the Shrinkage methodology.

Solution

This proposal will obligate the Network Owners to publish monthly statistics on both Shipper and Network Owner theft detection performance.

This proposal will formalise the existing arrangements for Shipper theft detection performance and introduce a similar report for Network Owner theft detection performance.

None of the reports will be anonymous.

Impacts & Costs

This modification will require the creation of a new report detailing Network Owner performance in detecting theft in the course of conveyance. This may require new data items to be collected about theft detection activities, collated and issued out. Precise costs are to be confirmed as part of the development process.

This report will also amend the existing Shipper theft of gas report such that it removes the current anonymity. This is not expected to lead to any additional cost.

Implementation

This modification should be implemented as soon as possible following a Panel decision to implement it.

The Case for Change

This change will provide more information about the theft detection performance of Shippers and Network Owners and therefore lead to more transparency and accountability of performance. It will also allow parties to benchmark their performance against parties with a similar portfolio, thereby enabling best practice to be identified and more theft to be detected.

This will both help the Network Owners meet their existing licence obligations in this area and help lead to a reduction in theft volumes, with consequential improvements to cost allocation and competition in the process.

2 Why Change?

Information regarding Shipper theft detection performance is currently published by the Network Owners agent, Xoserve. This is done outside of any obligation to do so, and theoretically could be stopped at any stage¹. The Workgroup consider that these reports add both transparency on Shipper activities, inform Shippers about the prevalence of theft and therefore inform theft detection strategies and also provide a baseline from which future reform of regulation in this area may be measured. They therefore see benefit in formalising this reporting so that its provision is guaranteed in future.

The Workgroup consider that these benefits would be equally valid were Xoserve to publish similar statistics for Network Owner theft detection performance. Although it is understood that there is some performance reporting between the Network Owners and Ofgem, the wider industry does have sight of this data. This means that Shippers do not see the impacts theft in the course of conveyance may be having on their revenues, nor visibility of the success Network Owner actions have on mitigating this loss. The lack of transparency regarding Network Owner theft detection activities prevents Shippers from understanding the amount of revenue recovered following detections and therefore the impact of Network Owner activities on the overall Shrinkage mechanism. It also prevents proper scrutiny of the theft assumptions within the Shrinkage model.

Finally it is believed that the current anonymity associated with the Shipper reports mentioned above restrict transparency and accountability of performance without good reason, and believe that the principle of transparency should be applied to all theft reports – Shipper and Network Owner alike.

¹ No indication has been provided by the Network Owners or their agent that they are considering ceasing this reporting.

3 Solution

This proposal will obligate the Network Owners, potentially through their agent Xoserve, to publish monthly theft of gas detection performance reports for both Shippers and Network Owners. These reports will not be anonymous.

A list of data items to be included in the reports are given below.

Data items common in both Shipper and Network Owner reports:

- Shipper Short Code / Network Owner Name.
- Number of cases received.
- Number of cases cleared.
- Number of cases still outstanding.
- Number of cases cleared as valid.
- Number of cases cleared as invalid.
- Number of cases cleared and KWh provided.
- Total KWh provided.
- Number of cases cleared – Shipper actioned.

Shipper report only:

- Total outstanding awaiting Shipper action.
- Number of cases outstanding at 80-days following receipt.
- % Cleared Cases Subject to 80-day Closures.
- % Cleared Shipper actioned.
- Number of cases sent to Shipper for action this month.
- Reasonable Endeavours Claims Received.
- Reasonable Endeavours Claims Cleared.
- Reasonable Endeavours Claims Rejected.
- Reasonable Endeavours Claims Accepted.

Network Owner report only:

- Number of cases cleared – GT actioned.
- Revenue recovered.

An explanation of these report headings is given in Appendix One (below).

4 Relevant Objectives

| Benefits against the Code Relevant Objectives | |
|--|-------------------|
| Description of Relevant Objective | Identified impact |
| a) Efficient and economic operation of the pipe-line system. | None. |
| b) Coordinated, efficient and economic operation of (i) the combined pipe-line system, and/ or (ii) the pipe-line system of one or more other relevant gas transporters. | None. |
| c) Efficient discharge of the licensee's obligations. | Yes, see below. |
| d) Securing of effective competition: (i) between relevant shippers; (ii) between relevant suppliers; and/or (iii) between DN operators (who have entered into transportation arrangements with other relevant gas transporters) and relevant shippers. | Yes, see below. |
| e) Provision of reasonable economic incentives for relevant suppliers to secure that the domestic customer supply security standards... are satisfied as respects the availability of gas to their domestic customers. | None. |
| f) Promotion of efficiency in the implementation and administration of the Code | None. |
| g) Compliance with the Regulation and any relevant legally binding decisions of the European Commission and/or the Agency for the Co-operation of Energy Regulators | None. |

c) Efficient discharge of the licensee's obligations

This modification would provide the market with greater transparency on individual Network Owner theft detection performance, which in turn will better enable the market to identify best practice and poor performance. This in turn will facilitate improvements in the way in which theft in the course of conveyance is detected, thus improving the Network Owners' ability to comply with their obligations under Licence Condition 7.

In its response, National Grid Distribution does not believe that it has been sufficiently demonstrated that greater transparency on the individual Network Owner's theft detection performance would better enable the market to identify best practice(s). Furthermore, National Grid Distribution argues that the forthcoming SPAA Theft of Gas Codes of Practice should be considered to be definitive in this regard.

ScottishPower notes that no evidence has been provided to support the view that removal of anonymity would result in an increased detection of theft. They observe that even if an improvement was witnessed, the modification does not consider how best practice would be shared and improvements achieved. As a consequence, they do not

0399

Final Modification Report

16 April 2012

Version 3.0

Page 6 of 24

© 2012 all rights reserved

believe that removal of anonymity alone would result in the efficient discharge of the licensees obligations and better facilitate relevant objective c).

d) Securing of effective competition:

(i) between relevant shippers;

(ii) between relevant suppliers; and/or

(iii) between DN operators (who have entered into transportation arrangements with other relevant gas transporters) and relevant shippers.

The Proposer considers the information provided in the current Shipper theft of gas reports enables Shippers to benchmark their performance against similar Shippers, and therefore make an assessment on how effective they are in terms of detecting theft. The formalisation of the existing reports, and the added transparency this modification will bring, will ensure that this benefit will continue by incentivising theft detection in the future, by improving transparency the industry will hold market participants accountable for their performance in theft detection. This in turn will have a positive impact on Shipper's performance in detecting theft, and thus reduce the cost of theft socialised in the market. This will have beneficial impact on the accuracy of cost allocation in the market, and therefore secure more effective competition.

Some Workgroup attendees considered benchmarking adds little value and may be misleading due to the differences in actual theft across Shipper portfolios. The increased transparency may not lead to an increase in the detection of theft, particularly as this information is currently available to Ofgem.

Some Workgroup attendees consider benchmarking may indicate poor performance, which may not be a true indicator of theft performance thus impugning Shippers reputations without their right of reply.

Some Workgroup attendees considered the transparency and accountability this modification should bring on Network Owner performance on the detection of theft in conveyance should incentivise theft detection by the Network Owner. Any increase in the amount of theft in the course of conveyance detected will lead to an increase in the amount of revenue recovered by Network Owners from those who steal, and therefore a decrease in absolute costs, which Shippers are exposed too. This improved cost allocation will also help secure effective competition between Shippers. However, some DNOs do not agree that additional reporting will improve Transporter theft detection.

National Grid Distribution and ScottishPower concur that benchmarking adds little value and that increased transparency may not necessarily lead to an increased detection of theft. National Grid Distribution add that they have a general concern around including obligations within the Uniform Network Code (UNC) and whether naming of organisations would actually incentivise improved theft detection performance. They also believe that misinterpretation of reported statistics could lead to assertions and counter claims relating to perceived poor performance.

SSE acknowledges that, whilst the modification could impact upon relevant objective d) Securing of effective competition, this may not be in a positive way. In a competitive market, participants are reluctant to reveal their success as this could potentially undermine their competitive edge. SSE remain concerned that the release of information could provide a platform for some forms of 'perverse incentive', particularly where financial reward is present – as may be the case if the SETS regime was introduced.

Scotia Gas Networks does not feel that this modification furthers relevant objective d), and specifically competition between shippers especially when existing reporting mechanisms are already in place.

ScottishPower argues that removal of anonymity may prove detrimental to competition with parties being unjustly accused of inaction by other shippers. As a consequence, they question whether relevant objective d) is furthered.

5 Impacts and Costs

Consideration of Wider Industry Impacts

The modification should be considered in respect of wider industry reforms of theft processes.

Costs

| |
|--|
| Indicative industry costs – User Pays |
| Classification of the proposal as User Pays or not and justification for classification |
| This proposal is User Pays as it will introduce new costs for the Network Owners. |
| Identification of Users, proposed split of the recovery between Gas Transporters and Users for User Pays costs and justification |
| The costs of removing anonymity from the Shipper report will be met by Shippers. The cost of producing the new Network Owner report will be met by Network Owners. Development costs are to be applied at the point of implementation - 50% to Transporters and 50% to Shippers. Ongoing costs: 50% of costs to Transporters and 50% of costs to Shippers, apportioned by LDZ supply point share at the date the report is produced, excluding CSEPs. |
| Proposed charge(s) for application of Users Pays charges to Shippers |
| In light of the low level of implementation costs, the Transporters do not intend amending the ACS to recover the costs associated with this modification. |
| Proposed charge for inclusion in ACS – to be completed upon receipt of cost estimate from Xoserve |
| Nil. The expected cost of implementation is between £1,000 and £4,000. |

Impacts



Where can I find details of the UNC Standards of Service?

In the Revised FMR for Transco's Network Code Modification

0565 Transco Proposal for Revision of Network Code Standards of Service at the

following location:

www.gasgovernance.co.uk/sites/default/files/0565.zip

| Impact on Transporters' Systems and Process | |
|---|--|
| Transporters' System/Process | Potential impact |
| UK Link | <ul style="list-style-type: none"> None. |
| Operational Processes | <ul style="list-style-type: none"> Transporters will be required to collate information related to their theft detection performance and then issue it as a report. |
| User Pays implications | <ul style="list-style-type: none"> See above. |

| Impact on Users | |
|---|---|
| Area of Users' business | Potential impact |
| Administrative and operational | <ul style="list-style-type: none"> None. |
| Development, capital and operating costs | <ul style="list-style-type: none"> May drive further investment in theft detection by poorly performing Users. |
| Contractual risks | <ul style="list-style-type: none"> None. |
| Legislative, regulatory and contractual obligations and relationships | <ul style="list-style-type: none"> None. |

| Impact on Transporters | |
|---|--|
| Area of Transporters' business | Potential impact |
| System operation | <ul style="list-style-type: none"> None. |
| Development, capital and operating costs | <ul style="list-style-type: none"> May drive further investment in theft detection by poorly performing Transporters. |
| Recovery of costs | <ul style="list-style-type: none"> None. |
| Price regulation | <ul style="list-style-type: none"> None. |
| Contractual risks | <ul style="list-style-type: none"> None. |
| Legislative, regulatory and contractual obligations and relationships | <ul style="list-style-type: none"> None. |
| Standards of service | <ul style="list-style-type: none"> None. |

| Impact on Code Administration | |
|-------------------------------|------------------|
| Area of Code Administration | Potential impact |
| | |

| Impact on Code Administration | |
|-------------------------------|---------|
| Modification Rules | • None. |
| UNC Committees | • None. |
| General administration | • None. |

| Impact on Code | |
|----------------|------------------|
| Code section | Potential impact |
| TPD Section V | • See Text |

| Impact on UNC Related Documents and Other Referenced Documents | |
|--|------------------|
| Related Document | Potential impact |
| Network Entry Agreement (TPD I1.3) | • None. |
| Network Exit Agreement (Including Connected System Exit Points) (TPD J1.5.4) | • None. |
| Storage Connection Agreement (TPD R1.3.1) | • None. |
| UK Link Manual (TPD U1.4) | • None. |
| Network Code Operations Reporting Manual (TPD V12) | • None. |
| Network Code Validation Rules (TPD V12) | • None. |
| ECQ Methodology (TPD V12) | • None. |
| Measurement Error Notification Guidelines (TPD V12) | • None. |
| Energy Balancing Credit Rules (TPD X2.1) | • None. |
| Uniform Network Code Standards of Service (Various) | • None. |

| Impact on Core Industry Documents and other documents | |
|---|------------------|
| Document | Potential impact |
| Safety Case or other document under Gas Safety (Management) Regulations | • None. |
| Gas Transporter Licence | • None. |

Other Impacts

| Item impacted | Potential impact |
|--|---|
| Security of Supply | <ul style="list-style-type: none"> <li data-bbox="517 226 635 253">• None. |
| Operation of the Total System | <ul style="list-style-type: none"> <li data-bbox="517 286 635 313">• None. |
| Industry fragmentation | <ul style="list-style-type: none"> <li data-bbox="517 376 635 403">• None. |
| Terminal operators, consumers, connected system operators, suppliers, producers and other non code parties | <ul style="list-style-type: none"> <li data-bbox="517 427 635 454">• None. |

6 Implementation

The Workgroup have not provided a timescale for implementation of this modification (as referred to in 6.2.1 of the Modification Rules) as it is not required for the purposes of enabling the Authority or any persons, including but not limited to Users, Transporters, Third Party Participants and Non Code Parties to be aware of the potential benefits or constraints associated with such timing. However, it would be desirable for implementation to occur as soon as possible after direction to implement.

7 The Case for Change

None in addition to that identified above.

8 Legal Text

The Text for this modification has been revised by Scotia Gas Networks and is provided (with commentary) below:

New Section 13 to be inserted into main body of TPD V:

13 THEFT OF GAS

13.1 Reporting

- 13.1.1 The Transporters shall publish a report (at the end of each reporting month) on theft of gas detection performance for Shippers containing the information referred to in Annex V-6 in respect of each Shipper (on an attributable basis) ("Shipper TOG Report").
- 13.1.2 The Transporters shall publish a report (at the end of each reporting month) on theft of gas detection performance for Transporters containing the information in Annex V-7 in respect of each Transporter (on an attributable basis) ("Transporter TOG Report").
- 13.1.3 For the purposes of this paragraph 13, "reporting month" shall mean each calendar month for which a report pursuant to paragraph 13.1.1 and 13.1.2 shall be published.

New Annexes V-6 and V-7 to be inserted into TPD V following the current Annexes 1-5:

Annex V-6

Shipper TOG Report Data

| Column | Data |
|--|--|
| Shipper Short Code / DNO Name | <u>The unique code which identifies each Shipper Licence or the DNO Name.</u> |
| Number of cases received | <u>The number of theft of gas cases received by the Transporter Agency during the reporting month.</u> |
| Number of cases cleared | <u>The number of theft of gas cases that have closed during the reporting month.</u> |
| Number of cases still outstanding | <u>The number of theft of gas cases that remain open at the end of the reporting month.</u> |

| | |
|---|--|
| <u>Number of cases cleared as valid</u> | <u>The number of theft of gas cases that have closed during the reporting month for which gas has been confirmed as being illegally taken.</u> |
| <u>Number of cases cleared as invalid</u> | <u>The number of theft of gas cases that have closed during the reporting month for which it has not been confirmed that gas was illegally taken.</u> |
| <u>Number of cases cleared and kWh provided</u> | <u>The number of theft of gas cases that have closed during the reporting month for which the kWh has been provided or calculated.</u> |
| <u>Total kWh provided</u> | <u>The total amount of kWh which has been reported to have been illegally taken for the closed cases for the Shipper in the reporting month.</u> |
| <u>Number of cases cleared – Shipper actioned</u> | <u>The number of theft of gas cases that have closed during the reporting month which have been investigated by the Shipper during the reporting month.</u> |
| <u>Total outstanding awaiting Shipper action</u> | <u>The number of theft of gas cases that remain open and which are awaiting a response from a Shipper at the end of the reporting month.</u> |
| <u>%Cleared Cases Subject to eighty (80) day Closures</u> | <u>The percentage of the total number of closed cases which have been subject to the eighty (80) day automatic closure.</u> |
| <u>Number of cases outstanding at eighty (80) days following receipt</u> | <u>The number of theft of gas cases that have closed during the reporting month because the Shipper has not responded to a request for information after eighty (80) days.</u> |
| <u>%Cleared Shipper actioned</u> | <u>The percentage of the total number of theft of gas cases that have closed which have been investigated by the Shipper during the reporting month.</u> |
| <u>Number of cases sent to Shipper for action</u> | <u>The number of theft of gas cases that have been passed to the Shipper for its investigation during the reporting month.</u> |
| <u>Reasonable Endeavours Claims Received</u> | <u>The number of reasonable endeavours claims that have been received by the Transporter Agency in the reporting month.</u> |
| <u>Reasonable Endeavours Claims Cleared.</u> | <u>The number of reasonable endeavours claims that have been processed by Transporter Agency in the reporting month.</u> |

| | |
|---|--|
| <u>Reasonable Endeavours Claims Rejected</u> | The number of reasonable endeavours claims that have been rejected by Transporter Agency in the reporting month. |
| <u>Reasonable Endeavours Claims Accepted</u> | The number of reasonable endeavours claims that have been invoiced by Transporter Agency in the reporting month. |

Annex V-7

Transporter TOG Report Data

| <u>Column</u> | <u>Data</u> |
|--|--|
| <u>Shipper Short Code / DNO Name</u> | The unique code which identifies each Shipper Licence or the DNO Name. |
| <u>Number of cases received</u> | The number of theft of gas cases received by the Transporter Agency during the reporting month. |
| <u>Number of cases cleared</u> | The number of theft of gas cases that have closed during the reporting month. |
| <u>Number of cases still outstanding</u> | The number of theft of gas cases that remain open at the end of the reporting month. |
| <u>Number of cases cleared as valid</u> | The number of theft of gas cases that have closed during the reporting month for which a gas has been confirmed as being illegally taken. |
| <u>Number of cases cleared as invalid</u> | The number of theft of gas cases that have closed during the reporting month for which it has not been confirmed that gas was illegally taken. |
| <u>Number of cases cleared and kWh provided</u> | The number of theft of gas cases that have closed during the reporting month for which the kWh has been provided or calculated. |
| <u>Total kWh provided</u> | The total amount of kWh which has been reported to have been illegally taken for the closed cases for the DNO in the reporting month. |
| <u>Number of cases cleared – Shipper actioned</u> | The number of theft of gas cases that have closed during the reporting month which have been investigated by the Shipper during the reporting month. |

| | |
|--|---|
| <u>Number of cases cleared – DNO actioned</u> | <u>The number of theft of gas cases that have closed during the reporting month which have been investigated by the DNO.</u> |
| <u>Revenue recovered</u> | <u>The amount of revenue recovered following confirmation that gas has been illegally taken pursuant to DNO Licence Condition 7(2).</u> |

Comments on Legal Text Drafting for Annex V-6 and V-7 (not to be inserted in the legal text)

For the purposes of legal text clarification as to what the Shipper short code is has been included under the data section in line with the proposer’s intention for this.

For the purposes of legal text the term “cases” has been used instead of “Contacts” in order to ensure consistency with the Column headings.

Please note that for the purposes of legal text the means on which the Transporter Agency shall received TOG cases has been omitted as such means is likely to change from time to time.

Please note that a definition of reporting month has been included under paragraph 13 to confirm what period this relates to.

For the purposes of legal text, where theft of gas is confirmed it has been drafted to read as being confirmed as gas illegally taken. This terminology is in line with the Gas Act and therefore has been adapted in this text for these purposes.

In line with the proposer’s intent, “stolen energy” has been clarified to mean kWh which has been confirmed to have been illegally taken.

9 Consultation Responses

Representations were received from the following parties:

| Respondent | |
|-------------------------------------|--------------------------------|
| Company/Organisation Name | Support Implementation or not? |
| National Grid Distribution | Not in support |
| Northern Gas Networks | Not in support |
| RWE npower | Not in support |
| SSE | Not in support |
| Scotland & Southern Gas Networks | Not in support |
| ScottishPower Energy Management Ltd | Not in support |
| Wales & West Utilities | Support |

Of the 7 representations received 1 supported implementation and 6 were not in support.

Summary Comments

Whilst having sympathy with the principles behind the modification, National Grid Distribution remain concerned as to whether or not the relevant provisions are being captured under the most appropriate contractual framework, and suggest that the arrangements would be more appropriately contained within the Supply Point Administration Agreement (SPAA). Inclusion of the reporting provisions within the UNC could lead to dual governance when, and if, the SPAA includes a similar requirement.

Northern Gas Networks agrees with the principle of theft reporting, but is unable to support the modification due to a lack of development relating to specific data items within the report. Northern Gas Networks is also concerned about releasing information into the public domain, especially where people may not fully understand what the data represents - if misinterpreted it could have a reputational impact upon parties. Mindful of the ongoing SPAA best practice work in this area, Northern Gas Networks believes that proper development of theft reporting should take place in the appropriate forum, especially when decisions on modifications 0231, 0277 and 0346 may influence future reporting requirements.

RWE npower supports the intent of the modification, noting that Shippers do not see the impacts of theft in the course of conveyance; current processes prevent proper scrutiny of theft assumptions within the Shrinkage model; and any increase in the amount of theft in the course of conveyance detected would lead to an increase in the amount of revenue recovered by Network Owners and potentially result in a decrease in absolute costs. However, RWE npower question the benefit of removing anonymity from the reports as it has not been proved this would change behaviours, especially in light of the fact that other established techniques retain anonymity whilst remaining effective. RWE npower also question whether it would be possible to produce comparable statistics in light of the fact that parties may have different definitions for reporting items (i.e. customer

0399

Final Modification Report

16 April 2012

Version 3.0

Page 18 of 24

© 2012 all rights reserved

type both non-domestic and domestic, geographical location etc.). Benchmarking may not be possible as some information is deemed to be commercially sensitive.

SSE note that theft obligations rest with suppliers and transporters and that any reporting requirement should therefore be governed by the SPAA, in parallel with the proposed Theft Code of Practice, and not contained within the UNC. SSE argue that the details for the proposed report are being decided prematurely and, as a consequence, may not be appropriate for a future regime. Furthermore, SSE question whether revealing a shipper's name adds any benchmarking value, especially when statistics could be misleading and open to misinterpretation.

In supporting the ongoing industry work relating to theft, Scotia Gas Networks believes that there remain a number of unresolved issues with this modification, namely ongoing SPAA Code of Practice and NRPS/SETS work potentially means that this modification is premature and reporting requirements should only be considered once the other industry work is completed, thereby ensuring that any reporting mechanism is reflective of industry practice. Scotia Gas Networks is also of the view that the modification is underdeveloped, with more work necessary before the provisions are inserted into the UNC, and question whether the obligations would be better served under the auspices of SPAA governance.

ScottishPower believes there has been no evidence provided to support the modification's claim that more theft would be detected. Scottish Power notes that industry data previously provided by Xoserve (for modification 0277) and the ERA/ENA (Report of the Theft of Energy Working Groups – April 2006) revealed that certain geographical locations have a more prevalent theft problem. Given this, concerns remain about utilising theft reports for benchmarking activities, with potential for unjustified accusations and damage to reputations. Whilst supporting provision of additional reporting where there is a proven benefit, Scottish Power question whether this should be published freely and remain concerned about how the release of information would be controlled - the modification lacks assurances around how data made available within the reports would be used, and by whom, and how information to parties other than users would be restricted. ScottishPower recognises the potential impact that introduction of the SETS schemes may have on this modification and the potential for all parties to have visibility of each other's SETS targets and progress – providing a potential disincentive to investigate suspected cases of theft. Additionally, they recognise that some shippers and suppliers view their respective theft detection techniques as commercially sensitive matters as far as the SETS scheme is concerned, especially as sharing information for benchmarking could potentially increase their financial risk. Moving on, ScottishPower state that they:

".....understand that the proposer's intent is to improve theft detection performance across the industry and we welcome this. We do not believe that this modification alone will achieve this aim and indeed may have unintended consequences that are to the detriment of competition and the market more generally. There are however other proposals currently with Ofgem that may lead to improvements which would address the aim of increased theft detection performance. The National Revenue Protection Service (NRPS) will provide the principles of sharing best practice that the proposer seeks to achieve, as well as more extensive reporting, and is a more considered and structured proposal than this modification. The concerns described above can therefore be addressed and their effects mitigated by introducing the NRPS solution."

In supporting the modification, Wales & West Utilities believes that it provides for a consistent set of reporting data that will enhance the ability of all parties to validate

0399

Final Modification Report

16 April 2012

Version 3.0

Page 19 of 24

© 2012 all rights reserved

theft assumptions in the GDNs Shrinkage Methodology. Additionally, Wales & West Utilities sees the removal of anonymity from the reports as providing greater transparency of both GDN and Shipper performance, which may lead to improved working practices through the sharing of best practice principles.

10 Panel Discussions

The Panel Chair summarised that this modification seeks to introduce three changes:

- Obligating the DNs to publish monthly statistics on Shipper theft detection performance, thereby formalising current practice;
- Extending the monthly theft detection performance report coverage to include DN performance; and
- Removing anonymity from theft detection reports.

By increasing the available information, the intention of the modification is to support best practice in theft detection. To the extent that theft detection improves, the allocation of costs between UNC parties should be more cost-reflective and hence the securing of effective competition should be facilitated. However, Panel Members noted that no clear evidence had been provided regarding how this might be achieved in practice, nor how removal of anonymity might be expected to contribute to this. Members also noted that interpretation of the information may not be straightforward such that false conclusions may be drawn about Shipper and/or DN performance with respect to theft detection. This could lead to inappropriate damage to reputations, and hence the removal of anonymity could be regarded as detrimental to the securing of effective competition. Some Members added that full information is provided to Ofgem on Shipper performance, facilitating appropriate action being taken if deemed necessary, and that publishing DN information would not offer any clear benefits.

Some Panel Members felt that introducing an obligation to the UNC for the DNs to continue making available Shipper related theft detection information would ensure valuable information is made available, and so be consistent with efficient administration and implementation of the UNC. However, other Members argued that other theft related initiatives are being taken forward outside the UNC – through SPAA, for example – and introducing requirements into the UNC potentially creates fragmentation and the possibility of dual governance, such that implementation would not be consistent with efficient administration and implementation of the UNC. Some members noted that a cooperative approach to theft detection is being developed and is expected to deliver benefits through best practice rather than through ‘naming and shaming’, which would detract from positive initiatives to reduce theft.

Members then voted and with one vote in favour of implementation and nine against, the Panel did not determine to recommend implementation of Modification 0399.

11 Recommendation

Panel Recommendation

Having considered the 0399 Modification Report, the Panel recommends:

- that proposed Modification 0399 should not be made.

12 Appendix One

Data Definitions

Data items common in both Shipper and Network Owner reports:

- Shipper Short Code / Network Owner Name. The Shipper Short Code or Network Owner Name.
- Number of cases received. The number of TOG Contacts received by xoserve on Conquest during the reporting month.
- Number of cases cleared. The number of TOG Contacts that have closed on Conquest during the reporting month.
- Number of cases still outstanding. The number of TOG Contacts that remain open on Conquest at the end of the reporting month.
- Number of cases cleared as valid. The number of TOG Contacts that have closed on Conquest during the reporting month for which a theft of gas has been confirmed.
- Number of cases cleared as invalid. The number of TOG Contacts that have closed on Conquest during the reporting month for which a theft of gas has not been confirmed.
- Number of cases cleared and KWh provided. The number of TOG Contacts that have closed on Conquest during the reporting month for which the associated stolen energy has been provided or calculated.
- Total KWh provided. The total amount of energy which has been reported to have been stolen for the closed queries for that supplier in the reporting month.
- Number of cases cleared – Shipper actioned. The number of TOG Contacts that have closed on Conquest during the reporting month which have been investigated by the Supplier during the reporting month.

Shipper report only:

- Total outstanding awaiting Shipper action. The number of TOG Contacts that remain open on Conquest and which are awaiting a response from a supplier, at the end of the reporting month.
- % Cleared Cases Subject to 80-day Closures. A percentage of the total number of closed queries which have been subject to the 80-day auto-closure.

0399

Final Modification Report

16 April 2012

Version 3.0

Page 23 of 24

© 2012 all rights reserved

- Number of cases outstanding at 80-days following receipt. The number of TOG Contacts that have closed on Conquest during the reporting month because the supplier has not responded to a request for information after 80 days.
- % Cleared Shipper actioned. A percentage of the total number of TOG Contacts that have closed on Conquest which have been investigated by the Supplier during the reporting month.
- Number of cases sent to Shipper for action this month. The number of TOG Contacts that have been passed via Conquest to the Supplier for their investigation, during the reporting month.
- Reasonable Endeavours Claims Received. The number of Reasonable Endeavours claims that have been Received by xoserve in the reporting month.
- Reasonable Endeavours Claims Cleared. The number of Reasonable Endeavours claims that have been processed by xoserve in the reporting month.
- Reasonable Endeavours Claims Rejected. The number of Reasonable Endeavours claims that have been rejected by xoserve in the reporting month.
- Reasonable Endeavours Claims Accepted. The number of Reasonable Endeavours claims that have been invoiced by xoserve in the reporting month.

Network Owner report only:

- Number of cases cleared – GT actioned. The number of TOG Contacts that have closed on Conquest during the reporting month which have been investigated by the GT during the reporting month.
- Revenue recovered. The amount of revenue recovered following a theft detection under Licence Condition 7(2).