

Mr Bob Fletcher  
Secretary, Modification Panel  
Joint Office of Gas Transporters  
51 Homer Road  
Solihull  
B91 3LT

2<sup>nd</sup> March 2012

Dear Bob

**RE: UNC Modification 0399 – “*Transparency of Theft Detection Performance*”.**

1. British Gas supports the implementation of Modification Proposal 0399 and believes that its implementation would increase the transparency, and thus accountability, associated with the detection of gas theft in the industry.
2. Theft of gas is a serious issue which places customer safety at risk and adds cost to energy bills. British Gas therefore welcomes the current focus on addressing it, however we note that none of the potential options for reform provide transparency about Shipper’s theft detection performance<sup>1</sup>. Neither do they provide any information about the theft detection performance of the Network Owners.
3. We believe such transparency will have important benefits for the industry; not only will it better enable the industry to hold those poor performers accountable for their actions, but it will also allow Shippers and Network Owners to benchmark their performance against other similar industry parties, better enabling them to assess the level of their own performance. These benefits are in turn likely to lead to consequential improvements in the overall level of thefts detected, and thus on the level of customer safety and a reduction in cost burden placed on bills.

*Transparency of Shipper performance*

4. Xoserve, as the Network Owner’s agent, already provide detailed information about the theft detection performance of all Shippers active in the market. These reports are valuable; they provide limited transparency about Shipper’s

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<sup>1</sup> MOD0277 and MOD0346 provide for regular reports which show how much theft a Shipper has detected as a proportion of the total.

theft detection performance and help inform Shipper's assumptions about the prevalence of theft in the market. As we move to a market where all Shippers are active in terms of theft detection, this latter advantage of the report will become much more important.

5. This report is currently provided at the goodwill of Xoserve however and is not an activity provided for by Code. It is therefore conceivable that, without codification, the reports may at any time be stopped and the benefits above lost. We consider that, even though Xoserve have stated this is not likely to happen in the near term, the risk can be easily mitigated by codifying the provision of these reports.
6. Furthermore, we consider that the reports can be improved upon by removing the anonymity which is currently provided to Shippers within them. There is no valid reason why Shippers should not be held accountable for their own theft detection performance; to do so only inhibits industry and Ofgem from ensuring that parties take the appropriate actions to protect customer safety and reduce the impact on customer bills that theft has.
7. The same also applies to Network Owners. Theft upstream of the meter constitutes just as much risk for customers, has the same impact on the customer bill as theft downstream of the meter and deprives Shippers and Suppliers of revenue they are rightfully due. Accountability of performance is therefore equally important. We argue that the transparency Modification Proposal 0399 brings will enable the industry and Ofgem to hold Network Owners accountable for their performance in this area for the benefit of all.
8. We also note that the lack of unanonymised data on Network Owner theft performance data prevents Shippers from properly assessing the accuracy of the annual Shrinkage methodologies. As Shrinkage costs are effectively passed through to customer bills, their accuracy is important in ensuring both fair competition between Shippers and a fair deal for customers. We argue that Modification Proposal 0399 will give Shippers an important tool with which to assess Shrinkage methodologies and engage in the annual consultation process. This in turn should improve the accuracy of Shrinkage costs, and thus facilitate more effective competition.
9. Removing anonymity from all reports will also enable parties to benchmark their performance, identify how they are performing in relation to other parties and redouble their efforts if required. It will also identify for the industry precisely who is operating best practice and thus better facilitate the sharing of information which will benefit all industry through improved theft detection performance. These benefits apply to Shippers and Network Owners alike.
10. British Gas is supportive of the wider review of theft of gas arrangements currently underway<sup>2</sup>, and believe this change compliments the range of options under consideration there. Under an incentive based model, the increased quality of information regarding theft detection performance will

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<sup>2</sup> The Ofgem Theft Impact Assessment

help Suppliers better compete for the incentive scheme funds. Under the National Revenue Protection Model (NRPS) the increased data will help the NRPS monitor and control Supplier behaviour in following up the leads it provides. In short, Modification 0399 has benefits both now and in the future.

11. We are aware that some parties have argued that this proposal should not form part of the UNC but should instead be placed within SPAA. We reject this argument however and point out that the notification of theft detections to Xoserve is a Shipper function and not a Supplier function. Similarly, the data Xoserve report is focussed on Shippers and not Suppliers. It is therefore logical to regulate a Shipper to Network Owner exchange of information in the contract between Shippers and Network Owners, i.e. the UNC.
12. We are also aware that some have argued in the development of this Proposal that the information provided within these reports may lead to inaccurate accusations being levelled at Parties who are underperforming against the rest of the industry for some other, entirely valid, reason. Again, we reject this argument entirely. We do not accept the premise that Shippers or Network Owners have underlying issues which prevent them from following up the leads they are provided with by Xoserve, nor do we accept that theft per capita varies between geographic regions. Even though we refute this argument, we note that even if it were it to be true, the availability of such data would allow a dialogue between the industry about why performance varied between Shippers, in itself creating valuable understanding which would better enable the industry to develop appropriate mechanisms for the detection of theft.
13. Finally, we are aware that some parties during the development of this Proposal have tried to argue that the information regarding theft detection performance is commercially sensitive or confidential. Again, we reject this line of argument; there is no data in any of these reports indicating the size or make up of a Parties portfolio, nor is there any financial or commercial information proposed. There is no reason why such information should not be shared.
14. Our assessment of how these Proposals meet or do not meet the Relevant Objectives of Code are set out below.

***(c) Efficient discharge of the licensee's obligations***

15. This Modification Proposal will give the market greater transparency over 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 enable 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.

***(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.***

16. The information provided in the current Shipper theft of gas reports has the potential to enable Shippers to benchmark their performance against similar organisations, 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 Proposal 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.
17. Furthermore, the transparency and accountability this Proposal will 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.
18. If you have any queries relating to this representation, please do not hesitate to telephone me on (07789) 570501.

Yours sincerely

David Watson  
Head of Market Design & New Markets, British Gas