

Modification proposal:	Uniform Network Code (UNC): Transparency of Theft Detection Performance (UNC399)		
Decision:	The Authority ¹ has decided to accept this proposal		
Target audience:	The Joint Office, Parties to the UNC and other interested parties		
Date of publication:	22 May 2012	Implementation Date:	To be confirmed by the Joint Office

Background to the modification proposal

Theft of gas has a material impact on customers in terms of cost and safety. It also leads to a misallocation of costs among shippers and suppliers, which can distort competition and the efficient functioning of the market. Improving the arrangements to detect and prevent theft should, in particular, improve safety and reduce the costs to consumers associated with the value of stolen gas.

The gas transporters' agent, Xoserve, sends shippers a monthly report on the activity of gas suppliers (via their shipper) and gas transporters in tackling suspected gas theft. This information is provided without identifying the shippers involved. The report also aggregates gas transporter activity into a single line item.

The reported data consists of, amongst other things²:

- the number of suspected theft cases reported to shippers and gas transporters by Xoserve;
- the number of cases cleared by suppliers (via their shipper) and gas transporters (ie reported to Xoserve) that theft has or has not been identified during the reporting month;
- the kWh estimated to have been illegally taken;
- the number of cases still outstanding at the end of each reporting month; and
- the number of cases that have not been reported as completed within 80 days of the initial notification.³

There is no obligation on gas transporters (via Xoserve or otherwise) to provide this information to the market or to publish it in a specified format. The monthly report, with additional information on the identity of shippers is provided to Ofgem on a discretionary basis.

In March 2012, Ofgem published proposals⁴ to improve the arrangements for tackling gas theft. Among other things, we set out our intention to continue to provide support for the industry work on developing a code of practice on theft investigations under the Supply Point Administration Agreement (SPAA). It is currently envisaged that the code of practice will set out reporting requirements for suppliers and gas transporters. It is anticipated that these reporting requirements will include information to enable monitoring of compliance against the key requirements of the code on a monthly basis and information to facilitate a yearly report to Ofgem on overall industry performance in tackling gas theft. In addition, we envisage that the proposals for a Theft Risk Assessment Service (TRAS) and an incentive scheme would require information on

¹ The terms 'the Authority', 'Ofgem' and 'we' are used interchangeably in this document. Ofgem is the Office of the Gas and Electricity Markets Authority.

² A full list of data items included in the reports is contained in the Final Modification Report (FMR).

³ If a shipper or gas transporter has not responded to notification of a suspected theft case from Xoserve within 80 days to confirm that theft has, or has not been found, this is recorded by Xoserve and no further monitoring takes place.

⁴ For more details see "[Tackling gas theft: the way forward](#)". These proposals included a new licence condition on gas suppliers, an incentive scheme, a Theft Risk Assessment Service (TRAS) to provide information to suppliers to help them in theft investigations and a range of additional supporting measures including a code of practice on theft investigations.

supplier performance in theft detection to facilitate these arrangements. However, it is not clear at this stage whether there would be benefits, in respect of the TRAS or the incentive, in the publication of information in a non-anonymous format.

The modification proposal

UNC399 was raised by British Gas (“the proposer”) on 2 September 2011. It seeks to require gas transporters to publish the existing monthly statistics on the theft detection performance of shippers and gas transporters. In addition, gas transporters will be required to provide information on the amount of revenue recovered from customers where theft has been detected. The report would include information on individual shipper and individual gas transporter performance. As such, the information reported would not be anonymous.

UNC Panel⁵ recommendation

At the Modification Panel meeting held on 15 March 2012, the Panel did not recommend implementation of the proposal, voting nine to one against it. The views of the Panel are set out in full in the Final Modification Report (FMR) dated 16 April 2012.

The Authority’s decision

The Authority has considered the issues raised by the modification proposal and the FMR. The Authority has considered and taken into account the responses to the Joint Office’s consultation on the modification proposal attached to the FMR.⁶ The Authority has concluded that:

1. implementation of the modification proposal will better facilitate the achievement of the Relevant Objectives of the UNC⁷; and
2. directing that the modification be made is consistent with the Authority’s principal objective and statutory duties.⁸

Reasons for the Authority’s decision

We note that the main arguments made in relation to the proposal were against UNC Relevant Objectives (c) and (d). We have set out our views in relation to these objectives below. In addition, we have assessed the proposal against UNC Relevant Objective (a). We consider that the proposal is neutral when assessed against the remaining Relevant Objectives. We have therefore not considered these further.

Relevant Objective (c) ‘Efficient discharge of the licensee’s obligations’

The proposer argued that UNC399 would provide the market with greater transparency on individual gas transporter theft detection performance, which in turn will enable market participants and others to identify best practice and poor performance. This in turn would facilitate improvements in the way in which theft in conveyance is detected, thus improving gas transporters’ ability to comply with their obligations under Standard Licence Condition (SLC) 7 of the Gas Transporters Licence.

⁵ The UNC Panel is established and constituted from time to time pursuant to and in accordance with the UNC Modification Rules.

⁶ UNC modification proposals, modification reports and representations can be viewed on the Joint Office of gas transporters website at www.gasgovernance.co.uk

⁷ As set out in Standard Special Condition A11(1) of the gas transporters Licence: <http://epr.ofgem.gov.uk/Pages/EPRIInformation.aspx?doc=http%3a%2f%2fepr.ofgem.gov.uk%2fEPRIFiles%2fStandard+Special+Condition+PART+A+-+Consolidated+-+Current+Version.pdf>

⁸ The Authority’s statutory duties are wider than matters which the Panel must take into consideration and are detailed mainly in the Gas Act 1986.

Some respondents to the modification consultation argued that there was no evidence to support the view that removing anonymity would result in increased detection of theft and that the modification did not consider how best practice would be shared and improvements achieved.

We note that gas transporters are required to investigate theft in conveyance under the provisions of their licences and to seek to recover charges from consumers when they identify theft. Information on the individual performance of gas transporters is not provided to the industry or to Ofgem as a matter of course. We therefore consider that providing disaggregated data for gas transporters and removing anonymity from the monthly report will help enable and encourage gas transporters to benchmark their performance against each other and respond to this information. This will assist when seeking to understand where performance could be improved and in identifying and quantifying performance gaps and defining and implementing leading practices.

Other respondents considered that the current processes prevent proper scrutiny of theft assumptions within the shrinkage⁹ model. We consider that providing disaggregated data on gas transporter activity in tackling gas theft may help industry parties to assess the validity of theft assumptions in the shrinkage methodology.¹⁰

For the reasons set out above, we consider that reporting on gas transporters individually and removing anonymity will enable gas transporters to better meet their obligations on tackling theft in conveyance under SLC7 and would better facilitate the achievement of this Relevant Objective.

Relevant Objective (d) 'Securing of effective competition between relevant shippers and between relevant suppliers'

Transparency and benchmarking

The proposer argued that removing anonymity from the relevant reports would allow shippers to better scrutinise their performance against similar shippers and improve benchmarking. It also argued that improving transparency by formalising publication of the existing reports and removing anonymity would incentivise theft detection in the future by allowing parties to hold market participants accountable for their performance in theft detection. The proposer considered that any subsequent improvement in performance could reduce the cost of theft socialised in the market. This in turn would improve the accuracy of cost allocation in the market and help promote more effective competition.

Some respondents considered that benchmarking would add little value and may be misleading due to the potential differences in the prevalence of theft across shipper portfolios. Other respondents considered that benchmarking may suggest poor performance where this was not the case and adversely impact on shippers' reputations.

We note that removing anonymity will provide information that could be used to help benchmark performance against similar parties in the market. For example the number of suspected cases of theft that shippers are presented with by Xoserve and the outcome of these investigations (ie whether theft was identified). It will also provide information on a supplier's relative performance in addressing theft for example in responding to notification of suspected theft within 80 days.

⁹ Shrinkage gas is gas lost from the network through leakage, theft or own use gas.

¹⁰ See Gas Distribution Price Control Review Final Proposals

: <http://www.ofgem.gov.uk/Networks/GasDistr/GDPCR7-13/Documents1/final%20proposals.pdf>

We consider that making this data available is likely to encourage shippers and gas transporters to respond or respond more quickly to instances where they are notified of a suspected theft and may provide useful information on the outcome of theft investigations across the market. As a result improved overall theft detection and/or improvements in the time taken to conduct theft investigations -where theft is detected- we consider that this is likely to improve cost allocation between suppliers and shippers and hence promote competition.

We recognise that different parties may have differences in the amount of theft occurring within their portfolios. This may impact on issues such as the overall number of suspected cases of theft that are notified to them by Xoserve. This could lead to misleading conclusions being drawn. To mitigate this risk, we consider that a guidance note could helpfully be published alongside the relevant reports such that it was clear for example that the absolute number of suspected thefts notified to a shipper was not necessarily an indicator of a party's efforts in tackling gas theft.

Interpretation of reports

Some respondents were concerned about a lack of consistency in the interpretation of certain data definitions in the monthly report which could lead to misinterpretation of the data and incorrect conclusions being drawn about a party's performance.

We recognise these concerns. However, we note that some clarity has been included in the FMR on the definitions of individual data items. If needed, further clarity could, for example, be provided informally by Xoserve or formally through a further modification proposal to the UNC. We also consider that improving transparency in theft reporting is likely to incentivise parties to resolve any misunderstanding and disputes over how these reporting requirements should be interpreted more quickly than is currently the case.

Data access

One respondent expressed concern on how data made available within the reports would be used, and by whom. It also noted that there were no restrictions on the passing of information to other parties eg by shippers and gas transporters in receipt of the report.

Xoserve has indicated that, if UNC399 were to be approved, it would continue to send the report to the same distribution list of individuals provided to it by the shippers. We recognise that, whilst the publication of the reports will be sent to those on the distribution list, there will not be any further controls on how this data could be used by the parties in receipt of the report.

As the proposal aims to provide better information on parties' performance, the potential benefits that we have outlined above and the type of data included in the report, we do not consider that additional restrictions on data access are required at this stage.

For the reasons set out above, we consider that this modification proposal is likely to better facilitate the achievement of this Relevant Objective.

Relevant Objective (a) 'Efficient and economic operation of the pipeline system'

As noted above, we consider that the increased transparency is likely to improve accountability and increase theft detection and prevention. Parties may also seek to benchmark their performance with other similar market participants and address the reasons for any differences.

Where the proposed modification leads to more theft being detected and prevented, we consider that this will reduce instances of unsafe interference in the pipeline system, for

example caused by gas leaks, explosions or unidentified gas theft, and the associated costs. We therefore consider that this would better facilitate the efficient and economic operation of the pipeline system.

Further issues

UNC387: One respondent noted Ofgem's recent rejection of UNC387¹¹ and sought to draw out the similarities in principle between the two modifications. We were concerned that the proposal provided transparency only on part of a wider process related to the updating of AQ data. By itself, this could be capable of misinterpretation. We also noted respondents' concerns that the removal of anonymity in these reports could release commercially sensitive information and we expressed disappointment that this had not been given further consideration in developing the proposals.

In relation to UNC399, we consider that the potential benefits of the proposal outweigh the potential concerns on access to and misinterpretation of the data. Our view is that the intention of the proposal is to provide transparency on performance to help facilitate benchmarking and encourage improvements in performance. In this context, we consider that it is likely to improve theft detection and the safety and allocation of costs for consumers.

Auto closure of theft cases: Whilst not directly covered by UNC399, we remain concerned that Xoserve's monitoring of shipper and gas transporter performance in responding to suspected cases of theft stops at 80-days. We would welcome improvements here to monitor suspected theft cases to their conclusion, ie; where a response has not been received within 80-days. This would improve understanding on whether there is a body of suspected cases of theft that are notified to suppliers and Gas Transporters that are simply not investigated.

Role of Gas Theft Code of Practice: Some respondents considered that the work being undertaken under the Supply Point Administration Agreement¹² (the SPAA) to introduce a new gas theft code of practice was a more appropriate vehicle for discussions on theft reporting. We consider that this may be the case in the medium term. However, this code of practice is not expected to be in place until the end of 2012 at the earliest. We also note that non-domestic suppliers are not currently parties to SPAA, although this is under discussion. We therefore consider that there may be merit in revisiting the UNC399 reporting requirements in the future once appropriate alternative arrangements for reporting are in place.¹³

Decision notice

In accordance with Standard Special Condition A11 of the Gas Transporters Licence, the Authority hereby directs that modification proposal UNC399 '*Transparency of Theft Detection Performance*' be made.

Colin Sausman

Partner, Smarter Markets

Signed on behalf of the Authority and authorised for that purpose

¹¹ In March 2012, we rejected UNC387. For Ofgem's decision letter see: <http://www.gasgovernance.co.uk/sites/default/files/UNC387.pdf>

¹² The SPAA is a multi-party agreement to which all domestic gas suppliers and all gas transporters are required by their licences to accede. It sets out the inter-operational arrangements between gas suppliers and transporters in the GB retail market.

¹³ The arrangements being put in place by UNC399 could be revisited by a further modification proposal once other, alternative arrangements for monitoring performance were in place, for example to support a new incentive scheme or the operation of the TRAS.