

Dear Mr. A Wallace,

**Re Open letter to Gas Distribution Networks on tackling unregistered sites**

British Gas welcomes the Ofgem open letter sent to Gas Distribution Networks on the 9<sup>th</sup> August 2013. We are especially pleased that you are seeking clarification for their commitment to tackle the impact of unregistered sites and are requesting they take steps to deliver material and measureable improvements within a reasonable timeframe.

As per the recent AUGE calculation, unregistered sites contribute £8m per annum to shipper unidentified gas. In addition unregistered consumers are potentially amassing large amounts of debt that they will subsequently be unable to pay. It also means the relationship between consumers and shippers is broken and high volumes of offtakes that are flowing gas are unmaintained. This creates a significant safety risk to consumers, the Distribution Network and the general public.

Whilst we believe there is commitment from the Distribution Networks to address unregistered sites, their actions to resolve them appear protracted. For example it has taken nearly a year for the Distribution Networks to send a letter to 1,000 unregistered sites<sup>1</sup>. A second example is the Transporter's lack of recovered theft revenues<sup>2</sup>. Since the Theft reports began in October 2012 Transporters have not recovered revenues from consumers.

British Gas supports Ofgem's two tiered approach to tackle future new and existing unregistered sites. The first being to better control the MRPN creation process including, better message labelling, ensuring new connections are locked, addressing the treatment of vulnerable customer at unregistered sites and the introduction of a risk based inspection approach.

The second approach is for Distribution Networks to tackle existing unregistered sites through the development of a robust plan, to reduce the number and materiality of those sites and to implement that plan within 12 months. Some Shippers have a wealth of experience in managing theft and shipperless sites and as joint initiatives generally deliver better results, we believe Distribution Network plans should be open to the gas industry for review and comment.

We are particularly interested in understanding how each Distribution Network plans to reduce the volume of unregistered sites, within reasonable timescales and how the work will be prioritised.

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<sup>1</sup> Xoserve Shipperless and Unregistered Report

<sup>2</sup> <http://www.gasgovernance.co.uk/theft/2013>

We believe the plans should include -

- Data cleansing
- Root cause analysis
- Desktop exercises
- Consumer lettering
- Site visits
- Disconnections
- Recovery of gas costs

Ofgem has requested that the Distribution Networks report back on their progress in August 2014 and periodically after that however we would like to see progress reported on a monthly basis to gain assurance that actions are occurring at the earliest opportunity and within the initial 12 month period.

We seek assurance from Ofgem that each Distribution Network plan will be performance monitored against pre-agreed milestones and that adequate measures will be taken to address poor performance. This is to ensure each plan delivers both a material reduction in the number of unregistered sites and to ensure unwarranted delays, such as the lettering exercise, are not repeated.

Notwithstanding the above we believe past behaviour by the Distribution Business is cultural and partly as a result of the regulatory framework they operate within. As you are aware Licence Condition 7 places obligations on Transporters to manage theft and unregistered sites. It also requires Distribution Networks to be cost neutral during this activity. This situation has created a paradox. The more unregistered sites the networks resolve the greater their costs and so this creates a disincentive for them to take action.

Suppliers also have obligations which result in adverse cost positions however this does not stop us from delivering benefits to consumers however we do have some sympathy with the perverse incentive placed on Distribution Networks. For the plans to deliver tangible results, commitment and adequate resource will be required by the Distribution Networks.

As part of this work we believe that the regulatory framework should be reviewed, resulting in better incentives on Distribution Networks. This would ensure an improvement on the current situation is achieved and that it is sustainable in the future. Whether this is through tough penalties for non-compliance and/or reward for curtailing the offtake of gas would be decided as part of the review.

We trust our views are helpful to you and look forward to receiving the output from this consultation.

In the mean time if you have any questions please do not hesitate to contact me.

Regards,

Andrew Margan  
07789 577327