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Date : 7 January 2011

Dear Bob,

**Modification Proposals:
0277 - Creation of Incentives for the Detection of Theft of Gas (Supplier Energy Theft Scheme) and
0346 - An Alternative to the Supplier Energy Theft Scheme Based on Throughput**

Thank you for providing Scottish and Southern Energy plc (SSE) with the opportunity to comment on the above consultations.

SSE is not supportive of Proposal 0277 or Proposal 0346

Both modifications describe incentive schemes to be placed on shippers, one based on the numbers of instances of theft and the other based on gas throughput estimated to have been stolen.

SSE believes that increased levels of theft detection would be beneficial to the Industry in terms of safety and in relieving the cost burden to consumers who are legitimately paying for the gas they have consumed. This is not challenged.

SSE does challenge the appropriateness of the incentives schemes described in these modifications over any other incentive schemes that might be implemented.

We make the following points:

The incentive is being placed on shippers, with the expectation that they will manage it through their suppliers.

We know that supplier portfolios are geographically biased and that geographical pockets of certain theft mechanisms have also been identified. An important assumption for these modifications is that theft instances are distributed evenly across all supplier portfolios. We believe that this is not the case. We believe that as this assumption is fundamental to this scheme, that the assumption should be tested.

If everyone in the scheme invests and detects theft exactly in proportion then this would be a fair and equitable outcome for the scheme. However each supplier will be unable to predict it's spend as it will always be dependant on the level of spend of its competitors and their success in detecting theft. This means that the investment for the industry is not capped and could spiral. These costs will eventually find their way to legitimate consumers.

The overall purpose of these incentive schemes is to increase the levels of theft detected. However these schemes may lead to perverse incentives which could be potentially damaging to the Industry. For example with the evolution in metering technology the Industry can expect thieves to identify new mechanisms to tamper with meters. If identified by a supplier, the scheme could incentivise that supplier to retain that information rather than to share that information with competitors, likewise any innovation which leads to greater theft detection. Incentives to inflate stolen throughput estimates or to label or define consumers who benefit from meter tampering, who have no knowledge of the theft, as thieves may also be created. These aspects have not been properly considered.

We believe that theft incentives should be determined through wider and more thorough Industry discussion before being implemented through the appropriate Industry fora, rather than individual shipper / suppliers determining incentives through UNC modifications. For this reason SSE will be providing a more detailed and extensive response to Ofgem's Impact Assessment on energy theft, scheduled for quarter 1 this year.

Please do not hesitate to give me a call if you wish to discuss this further.

Yours sincerely

Anne Jackson
Retail Gas Business Manager
(via email)