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By Email

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Dear Tim

Modification Proposal: 0277 Creation of Incentives for the Detection of Theft of Gas (Supplier Energy Theft Scheme)

Thank you for the opportunity to comment on this proposal. E.ON strongly opposes the introduction of a Supplier Incentive regime for the detection and investigation of the theft of Gas.

The proposer, drawing on the work undertaken in this area previously, has overemphasised statements from the final reports of the ERA/ENA workgroup and the UNC Review Proposal 0245 to advocate for the introduction of incentives on suppliers to investigate theft, however, neither the ERA/ENA work nor the UNC Modification 0245 concluded by fully endorsing the introduction of a SETS scheme.

The ERA/ENA work suggested that *"incentives MAY provide a more appropriate economic incentive"*¹ but went on to caveat that smaller parties would be disadvantaged by an incentive regime, and that there are major demographic differences between suppliers that would disadvantage suppliers with more of a rural customer base. While UNC Review Proposal 0245 concluded with a majority of supplier representatives' supporting the alternative recommendation of a National Revenue Protection Force² and only the proposer supporting the introduction of a supplier incentive scheme.

We firmly believe that this is the wrong model to improve the detection and investigation of the theft of gas. Currently, the cost of theft is borne equally by all

¹ The summary of recommendations page 3 of the ERA/ENA Report of the Theft Working Groups 2006

² <http://www.gasgovernance.co.uk/0245>

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supply points since the unbilled energy is allocated via the RbD mechanism on a supply point by supply point basis. The supplier who detects theft and seeks recovery of the unbilled energy and related costs has the ability to recover their direct costs from those consumers who evaded payment and where that proves to be impossible, those reasonable costs can be recovered via the Gas Transporters' Reasonable Endeavours Scheme which again socialises the costs of those investigations on a supply point by supply point basis by smearing this through transportation charges.

The proposal suggests that customers steal equally from all suppliers and therefore all suppliers have an equal opportunity to perform under the scheme rules and have the potential to therefore remain cash neutral (bar the administration costs). Both the ERA/ENA report and xoserve have undertaken investigations into the relationship between supplier and instances of theft by the customer and have confirmed that customers do not steal in proportion to a supplier's market share. Niche suppliers or those with demographics of a more rural population would be disadvantaged. This evidence confirms that a supplier's ability to find theft on their portfolio is not equal, which therefore means that such an incentive scheme would effectively distort competition. Such a distortion would effectively increase the costs for suppliers with niche portfolios or with more rural customer populations and not allow them the same opportunity to recoup their costs under the scheme.

Far from guaranteeing that this solution will deliver improvements in the amount of theft detected, all it guarantees to do is to increase the industry cost base for theft detection and investigations. No evidence was provided that demonstrated that the by placing incentives on suppliers that more theft would be found. The SETS scheme merely places a financial obligation on parties to contribute to a scheme to reward parties in terms of the amount of theft they find in a scheme year. The real failings in theft detections are not guaranteed to be addressed by a scheme which forces suppliers to compete against each other for a share of the fund, what is needed is a centralised approach to theft detection strategy, the setting of common standards in investigation work, the ability to work to keep one step ahead of such customer behaviour with advancing new technology, and a common stance in terms of remedial action and cost recovery.

No supplier can guarantee the level of effort they put into RP services will deliver a return equivalent to their market share and therefore cannot guarantee the return their payment into the incentive fund at the end of the scheme year. The results are all relative to the performance of other suppliers and not to the companies own performance. This therefore makes the investment in RP services unpredictable, and means that suppliers may have to consider the provision of their share of the SETS fund as a total loss and account for it accordingly, whereas the costs of theft are currently socialised through the reasonable endeavours scheme and RbD and borne equally by all customers - going forward this will lead

to a disparity of costs without the certainty that the basis for those cost are proportionate.

The burden of the theft is felt by the entire RbD community, not just by the current supplier from whom the customer is stealing, it is therefore incongruous that any one supplier should then benefit from finding that theft, in the same way that a consumer shouldn't benefit from theft.

The assertion by the proposer that xoserve's figures bear out a claim that they are the only supplier actively detecting theft doesn't recognise the different approaches that suppliers take in responding to the xoserve reports. During an xoserve workshop held during the mod group work, there was much debate about the classification of valid theft and it became clear that what constituted "valid theft" was interpreted quite differently by British Gas than the remaining suppliers. The xoserve statistics being used as evidence to support this proposal fail to take account of the number of instances where theft is suspected and reported to suppliers by the xoserve reports and yet is found to be something else entirely. Our own evidence based on xoserve's report for year 2008/2009 indicated that of the 356 cases reported to us as suspected meter tampering, in only 18% of cases was there actual theft occurring, the remaining 82% of cases were investigated and reported back as invalid reports.

The reliance on xoserve's figures to demonstrate a disparity in the efforts of suppliers in theft detections is therefore unreliable, and if anything, this strengthens the need to have a consistent approach to the detection and investigation of theft across all suppliers (an aspiration supported by Consumer Focus in view of the volume of complaints from consumers relating to theft investigation work), rather than pit supplier against supplier chasing an incentive target.

The issue of upstream theft appears to have been skimmed over. The proposer asserts that there will be an increase in the amount of upstream theft detected but does not require the transporters to be party to any incentive scheme. Surely if the Network Owners derive a benefit from the scheme, should they also not be captured by a similar requirement, particularly since they are the only party able to influence the recovery of the energy costs in such circumstances?

In terms of the advantages claimed for this proposal,

1. We do not believe that an incentive scheme will ensure that shippers will become more proactive in theft detection – particularly since this is a supplier activity not a shipping activity. Suppliers with niche portfolios may weigh the costs of their contribution to the scheme against the costs of resourcing additional RP services without a guarantee of finding any theft and so may choose to just forfeit their contribution and provide no

- additional RP services – the scheme does not mandate it.
2. Theft isn't from one supplier and therefore the customer doesn't steal from one supplier – they steal from all suppliers. The cost of the theft is socialised.
 3. The scheme is counter-intuitive on information sharing. Should a supplier have a financial incentive to find theft, sharing the information with other suppliers which could then lead to the finding theft on that other portfolios could lessen the value of supplier A's credits under the scheme by increasing the amount of theft found on supplier B's portfolio.
 4. While the implementation costs may be small the cost burden for the scheme will have an impact on customers. Those suppliers who lose under the scheme will have an increased cost base to pass onto customers. Additionally, if the proposer believes that there are many parties currently "doing nothing", not only is there an increased cost to the industry in terms of the value of the incentive pot, there is also the additional cost of RP services to consider. The costs for those services should be relative to the amount of theft occurring, not proportional to an incentive target.

We believe that this proposal distorts competition among suppliers, does not guarantee to improve theft detection rates, and increases the costs base for RP services and related activities to customers. It does not deliver improvements in terms of the strategy for future theft detection, it does not promote the sharing of information on best practices, nor does it deliver RP services in a cost effective manner for the industry.

We would prefer the industry to consider supporting an approach that has a common goal of eradicating theft by working together to ensure that customers cannot take advantage of the supplier boundaries, that aims to set strategies that maximise detection rates, and sets clear and consistent standards for the treatment of customers where meter tampering is suspected. We would prefer to see the costs of theft detection and investigation socialised in the same way that the costs of stolen energy is socialised, whilst at the same time ensuring that recoveries are also socialised. We believe a solution that requires the industry to work together will deliver more effectively as opposed to a solution that requires company to compete against company.

Yours sincerely



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