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Re: UNC Modification Proposals 0277 and 0346 (Creation of Incentives for the Detection of Theft of Gas (Supplier Energy Theft Scheme))

Dear Bob,

Thank you for the opportunity to comment upon these Modification Proposals. Wales & West Utilities Ltd (WWU) are **supportive** of the implementation of either of these Modification Proposals and would like to make the following comments (based on the headings of the revised Modification Proposal template).

All the following comments are applicable to both Modification Proposals.

Why change?

We agree with the Proposer that there are currently insufficient incentives on Suppliers to proactively detect cases of Theft of Gas (ToG) in relation to downstream theft at Supply Points within their ownership (i.e. where they are the Registered Supplier). The basis of these two Proposals is to financially 'reward' those Suppliers (albeit via obligations on the Registered Shipper) to detect a ToG in proportion to their own market share (Supply Point count or 'throughput').

There are currently other industry initiatives looking at ToG detection and potential incentives on parties to detect and report ToG. However, we do not believe at this stage that either of these Modification Proposals are alternatives to other industry initiatives and can be seen as complimentary.

Modification Proposal 0231V is currently subject to further consultation and, if directed for implementation by the Authority, would change the governance of the amounts payable by Transporters under the Reasonable Endeavours Schemes (RES), it would also increase the standard amounts that are currently paid. If either of these Modification Proposals were to

24 hour gas escape number
Rhif 24 awr os bydd nwy yn gollwng

0800 111 999*

*calls will be recorded and may be monitored
caiff galwadau eu recordio a gellir eu monitro

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be implemented it would not impact on the intent or operation of the Transporters' RES although it may lead to increased claims / payments.

There is also work being undertaken by the Gas Forum on the development of a National Revenue Protection Service (NRPS) and there is Modification Proposal 0274 (currently on hold) that would be required to implement any necessary changes to the UNC to facilitate such a service (e.g. for information provision). Whilst an NRPS is under development, and there are no guarantees that an NRPS will be created, these Modification Proposals should be evaluated in comparison to the current arrangements. If at a later date an NRPS does exist, and it is deemed that running both SETS and an NRPS creates a conflict in behaviour or process that is of general detriment to ToG detection, then the SETS scheme could be modified or ceased by way of a further Modification Proposal (and probably a suitable candidate for self-governance).

Solution

The proposed solution for both Modification Proposals is to reward or penalise Shippers based on their TOG detection levels in proportion to their own portfolio. The original Modification Proposal 0277 uses the basis of Supply Point count as a measure of market share whereas the pseudo alternative Modification Proposal 0346 uses 'throughput' as a proxy for market share.

We can see how either method could be justified although our initial thoughts are that the alternative Modification Proposal offers the more appropriate method of calculating target ToG detection volumes / market shares. This is based on the assumption that, although gas theft may not be carried out efficiently, it is likely to be in proportion to the Annual Quantity (AQ) at a Supply Point. For example, we would expect that ToG at a Supply Point that has an annual consumption of 200,000kWh is likely to account for more gas theft than a Supply Point that only consumes 20,000kWh per annum.

Both Proposals use the assumptions that ToG is prevalent across all consumer types in 'equal' proportions and across all Shipper portfolios and that this is not geographically skewed. We are not aware of any significant evidence to refute these assumptions.

We also believe that the windfall avoidance measures that are included in both Modification Proposals are appropriate and necessary and, along with ongoing performance reporting, should allow Shippers sufficient time to put in place the appropriate arrangements to 'perform' in proportion to their own market share. We also believe that the Proposals adequately deal with small portfolio Shippers where the share of ToG may not be significantly representative.

Legal Text

Draft suggested legal text has been provided separately for both Modification Proposals. The Transporters would welcome comments on the suggested text as part of the consultation process or separately if preferred (directly or via the Joint Office).

Impacts and Costs

A Rough Order of Magnitude (ROM) has been prepared by xoserve that is applicable to both Modification Proposals. With the Transporters proposing that the audit function forms part of the role of the Transporter Agency (xoserve) as scheme administrator the ongoing operational costs can be kept to a minimum. All development and operational costs are to be recovered from SETS eligible Shippers through User Pays Charges on the same basis as the market share is calculated in each Modification Proposal. We are fully supportive of this suggested cost recovery mechanism.

Implementation

We agree with the Proposer that implementation of this Modification Proposal could be achieved prior to full system development has been completed. However sufficient time would be required, following a direction to implement from the Authority, to ensure all parties were fully aware of the SETS processes and procedures.

The Case for Change

The Proposer has cited that implementation of either Modification Proposal will facilitate 4 of the relevant objectives within A11 of the transporter licence. We have made comments below against each of these relevant objectives.

Standard Special Condition A11.1 (c): so far as is consistent with subparagraphs (a) and (b), the efficient discharge of the licensee's obligations under this licence;

Whilst we agree with the majority of the advantages that the Proposer has identified we do not believe that implementation of either Modification Proposal is required to efficiently discharge any of the transporters' licence obligations. If either Modification Proposal resulted in the identification of more upstream theft then the Transporters would investigate each instance as required by licence condition SLC7.

Standard Special Condition A11.1 (d): so far as is consistent with subparagraphs (a) to (c) the 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;

We do agree with the Proposers assertion that implementation of either Modification Proposal may lead to a greater cost apportionment / allocation and a potential reduction in the amount unallocated energy. Any measures that deliver such benefits can be considered as increasing competition between Shippers / Suppliers and therefore will facilitate this relevant objective.

Standard Special Condition A11.1 (e): so far as is consistent with subparagraphs (a) to (d), the provision of reasonable economic incentives for relevant suppliers to secure that the domestic customer supply security standards (within the meaning of paragraph 4 of standard condition 32A (Security of Supply – Domestic Customers) of the standard conditions of Gas Suppliers’ licences) are satisfied as respects the availability of gas to their domestic customers;

Although we agree that ToG can distort information relating to gas offtaken from the transporters network (i.e. as gas is not recorded as being offtaken) we do not believe that this is of any material or significant detriment to the transporter planning processes and does not present a risk to security of supply. We therefore do not believe that the advantages associated with implementation of either Modification Proposal necessarily facilitate achievement of this relevant objective.

Standard Special Condition A11.1 (f): so far as is consistent with subparagraphs (a) to (e), the promotion of efficiency in the implementation and administration of the network code and/or the uniform network code.

Implementation of either Modification Proposal may increase the number of detected ToG incidents and this information may be used by an AUGE appointed in accordance with UNC TPD Section E 10.2. If this is the case then implementation may facilitate this relevant objective (dependent upon the work carried out by the AUGE and whether or how any such data is to be utilised).

In summary, we believe that the main potential benefit from implementation of this Modification Proposal could be the increased levels of detected ToG, the potential for a reduction in overall ToG levels, increased cost recovery and a reduction in unallocated energy. All, or any, of these factors could therefore result in an improvement in overall cost/energy allocation and will therefore facilitate Standard Special Condition A11.1(d)(i)&(ii) (with respect to competition between Shippers and Suppliers).

Recommendation

Based on the information provided within the Draft Modification Reports, and the comments made above, we would agree with the Proposer that either Modification Proposal 0277 or 0346 should be made. As we believe the market share definition contained within Modification Proposal 0346 is more appropriate than that within Modification Proposal 0277 we would recommend implementation of Modification Proposal 0346 over Modification Proposal 0277.



Hopefully these comments are helpful to the Modification Panel and to the Authority; please do not hesitate to contact me should you have any questions relating to this matter.

Yours sincerely

{By email}

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