

January 7th, 2011

Mr. Tim Davis
Joint Office of Gas Transporters
First Floor South
31 Homer Road
Solihull
West Midlands
B91 3LT

Response to Proposed UNC Modifications 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”

Dear Tim,

First Utility does not support either of the above Proposed UNC Modifications.

Although we support the reduction of theft and believe that this is a matter of high priority for the UK gas industry, we do not feel that the Proposed UNC Modifications address this issue in an appropriate manner.

The proposer’s argument appears to be based on the assumption that theft is directly correlated to throughput and market share, thus requiring an RPU spend by each gas supplier proportionate to the proposer’s based on either the number of meter points or the volume of gas supplied by each market participant (depending on which of the two modifications is implemented). We do not feel this assumption has yet been proved to be correct although the appointment of the AUGÉ in the near future should assist in providing a clearer view of the scale of the problem.

In addition we are uncertain that a purely financial incentive, as proposed by both modifications, will actually go any way towards addressing the root of the problem as it will merely punish those suppliers whose detection of theft is not proportionate with the proposer’s by either meter points or volume supplied and will not necessarily assist in establishing a view of the scale of theft at a national level. Instead it may potentially create a cross subsidy from those suppliers who have a proportionally lower level of theft to those who have a proportionally higher level of theft within their portfolios.

Although only smaller supply points are currently liable for the cost of RbD, larger supply points will bear a proportion of this cost in future, the level of which is to be determined by the AUGÉ. It could be argued that, although I&C suppliers make up the majority of gas supplied in this country by volume, they bear a lesser risk of theft than domestic suppliers due to the fact that they can refuse to supply potential I&C customers if they believe they are a risk from a credit point of view. It may also be worth pointing out that theft at large I&C sites is rare, due mainly to the fact that these sites tend to be daily metered and it would be quickly apparent if such theft was taking place. Therefore, linking a financial incentive to detect theft based on throughput, as proposed in UNC Modification 0346 may place a burden on I&C suppliers disproportionate to the levels of theft that they are



actually likely to experience. As First Utility is also an I&C supplier this is an issue of some concern to us from a competition point of view.

On reflection, First Utility prefers the National Revenue Protection Service proposed in UNC Modification 0274. This will provide an independent, third party view of theft levels across the industry which is likely to be of great benefit in conjunction with the work done by the AUGE. We do not share the proposer's view that the either of the Supplier Energy Theft Schemes proposed in these modifications is compatible with the National Revenue Protection Service.

Please do not hesitate to contact me if you have any questions or would like any further information.

Regards,

Chris

Chris Hill

Regulation

01926 328760
07776 137403