

Memo

To: Review Group 0245 - Review of arrangements regarding the detection and investigation of Theft of Gas

Company:

Date 28th October 2009

From: Gareth Evans

SUBJECT: Principles on operation of cost recovery Single Revenue Protection Agency (RPA) for the Gas Industry.

This memo sets out a proposed model for how a Single Revenue Protection Agency will operate, in particular how revenue is recovered and redistributed to ensure a revenue neutral outcome (as far as possible) for all Users.

Current Theft of Gas Framework

At present the Gas Settlement process is composed of two parts, individual reconciliation by meter point for Larger Supply Points (some of whom are Daily Metered) with an aggregate mechanism used for Smaller Supply Points (RBD). This latter process assumes that all energy, including theft energy, not allocated to other sectors (LSPs and Shrinkage) is used by SSPs. The net impact of this process is that all Theft is assumed to be SSP consumption.

Current Handling of Theft

How any Theft subsequently identified is handled, depends on the site classification.

LSP sites

If an LSP site is discovered to have fraudulently acquired gas, it is likely that additional consumption will need to be credited to that site. Once the necessary additional gas use is determined, the additional consumption billed for that site for the appropriate period, up to the current cut-off point (which is 4-5 years prior, depending on the time it is raised). The registered Supplier will then be invoiced for that additional energy, with a corresponding credit to RbD Users.

SSP sites

Likewise if an SSP site is discovered to have fraudulently acquired gas, then again additional gas will need to be credited to that site. In this instance however, no attempt is made to apply stolen gas retrospectively to the Shipper; instead there is an expectation that the AQ should be adjusted by the Shipper to take into account past consumption, through the AQ appeals process.

Cost Recovery Principles

It is suggested that a Single RPA is appointed by the industry to handle Theft of Gas activities on behalf of the industry. This would include handling theft reporting, operating mechanisms to detect theft and investigating suspected consumers. Costs for such activity would be borne by the industry.

The Single RPA would attempt to recover money from customers who had stolen energy. Subject to legislative and practical considerations the Single RPA would also attempt to recover its own costs from the offending customer. Any costs not borne by the consumer would be borne by the industry.

It is also reasonable to suppose that the Agency should have some form of profit incentive, based around the amount of money recovered.

Reimbursement of Revenue

It is important to note that this cost recovery mechanism is intended to be revenue neutral. This will be the guiding principle when considering the appropriate framework for redistributing recovered revenue.

As we have detailed above how recovered revenue is handled, depends on the site classification, with LSP sites (and so the Shipper) being credited with the energy and so incurring a cost, with SSP sites not being credited. Any cost recovery mechanism will need to recognise this differing treatment.

Therefore the following principles should be followed when reimbursing recovered revenues:

RPA OPEX costs: Any recovered revenue to be kept by the Single RPA

Other Revenue:

- LSP sites: Any net revenue to be reimbursed to the relevant Shipper, up to the value of the additional energy/transportation credited to that Supplier for that site.
- SSP sites: Any net revenue to be reimbursed to the relevant Shippers in proportion to RbD market share.
- Additional Revenue: Any additional revenue will be allocated via an RbD.

Service Provision Flexibility

Some suppliers/shippers may wish to continue to perform certain parts of the Theft process in-house. Where it would not impact on the ability of the Single RPA to adequately perform its activities and subject to adequate safeguards it should be possible to allow flexibility in these arrangements.

Advantages/Disadvantages

Advantages

- Central Service provider can pool information so enhancing likelihood of theft detection and prosecution.
- Gives a strong message to Regulators and Government that the industry is actively tackling theft issues.
- Single dedicated agency will increase level of theft investigation across the industry and so enhance level of revenue recovered.
- Removes the fear of potential adverse publicity a Supplier may incur if acting unilaterally.
- Revenue neutral recovery mechanism ensures fair revenue allocation and all parties profit equally from theft detection so creating a positive environment for theft detection.

Disadvantages

- A Single RPA could demand monopolistic rents and will therefore require strict oversight. An oversight committee comprising Shippers should therefore be put in place to ensure appropriate management of the Single RPA.