

MOD0277

Creation of Incentives for the Detection of Theft of Gas (Supplier Energy Theft Scheme) - Strawman Process and Business Rules

1 INTRODUCTION

1.1 This document has been drafted to support the development of [Modification Proposal 0277](#). It does not form part of the Proposal itself, but the output from the discussion around it may be used to add more detail to the Proposal once it is formally raised.

2 BUSINESS RULES

The following business rules have been drafted to help set out the potential operation of the proposed SETS scheme.

2.1 The "Scheme Year" (the annual period within which the scheme operates) will commence at 0.00am 1st January and end at 23.59 31st December each year. [This will allow payments and finances to be accounted for within a Financial Year, but may be better to be Financial Year. DW will speak to his accounts team about this.]

2.2 Shippers will report (but may subsequently withdraw) any confirmed interference downstream of the ECV (definitions from Gas Act to be incorporated) to the Network Owners (expected to be through their agent, xoserve, using the current Theft of Gas form within Conquest), and will warrant that the reported interference should be recorded within the SETS. Introduction of the SETS will not change the data that must be submitted with each reported interference, nor will it introduce any obligations on the Network Owners or their agent to validate that data on receipt.

2.3 The Network Owners (or their agent on their behalf) will log each reported interference which qualifies as being within the SETS against the reporting Shipper, and reported interference will be applied to each Scheme Year based on the date on which the report is received. [AJ will check whether any filtering is necessary or if all reports will automatically be within scope of the scheme.]

2.4 A report will be issued to each Shipper by the Network Owners (or their agent on their behalf) each month which shows the number of interference reports recorded by that Shipper and the aggregate number of interference reports by all Shippers in the Scheme Year to date.

2.5 Credits and debits from the Scheme Year will be calculated based on the number of interference reports shown in the monthly report for final month of each Scheme Year and market share (based on number of non DM supply points) as on the [date to be defined]. [SM agreed to clarify when monthly market share is produced at present as there would be a benefit in using consistent data that is already provided to Shippers]. This will be done from the following formula:

$$(X*(STD / TTD)) - (X*SMS)$$

except where SMS equals zero (to four decimal places) in which case no credit or debit will be applied.

Where
X is the total value of the scheme, less Network Owner / agent and Auditor expenses [increased in line with the percentage change in RPI between the index published for June in the Scheme Year and June in the previous year].

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STD is the number of valid interference reports by the Shipper.

TTD is the total number of valid interference reports in the scheme year.

SMS is the Supply Point market share (excluding DM sites [but, for the avoidance of doubt, not excluding DME]) as at [date] of the Shipper expressed to [four] decimal places.

These credits and debits (the Provisional Assessment) for each Shipper will be communicated to that Shipper by the Network Owner (or their agent).

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2.6 A "Qualifying Shipper" is a User who has been active in the market throughout the Scheme Year, i.e. all Shippers who have not ceased nor started trading during the Scheme Year. This will ensure that those entering or leaving the market during a Scheme Year are not unfairly disadvantaged.

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2.7 During the first quarter of the subsequent year, an audit report will be completed on a sample of the interference reported by Shippers in the previous Scheme Year. Specifically the Auditor will have the power to select a sample of interference reported during the previous Scheme Year, and assess in each case within the selected sample whether there is sufficient evidence held by that Shipper to demonstrate that [a relevant offence took place under the Gas Act (1986)]. The Auditor will be required to report its findings to the Shipper being audited, who shall have a right to challenge the audit opinion.

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2.8 An Auditor will be appointed by the Transporters (or their Agent on their behalf) [using a process based on the RbD auditor appointment, to be defined]. The costs of the Auditor must be proportionate to the value of the scheme and will be met from the scheme fund.

2.9 The Auditor will prepare a report for the Network Owners and Shippers (plus relevant Auditors in subsequent years) which details their findings, including an opinion as to whether each claim within the sample audited was valid or not. A version of this report which contains no confidential or commercially sensitive information will be made publicly available.

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2.10 Upon receipt of final audit reports covering all relevant Users, the Network Owners will recalculate each Shippers' Provisional Assessment such that an amount of theft detections submitted within the Scheme Year proportional to the amount of theft detections found to have been made erroneously during the audit are discounted. This will use the following formula [all definitions to match those in earlier formula]:

$$(X*((STD*SER) / (TTD*TER)) - (X*SMS))$$

Where

X is the total value of the scheme, less Network Owner / agent and Auditor expenses.

STD is the volume of theft detections claimed by the Shipper.

SER is the error rate for that Shipper during the audit expressed as a decimal.

TTD is the total volume of theft detections in the scheme year.

TER is the total error rate for the market during the audit expressed as a decimal.

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SMS is the Supply Point market share of the Shipper expressed as a decimal

2.11 A working example of the correction described in paragraph 2.9 is given below:

- Shipper A's total theft detections claimed within the Scheme Year = 1500.
- Audit sample was 100, of which 5 did not have sufficient evidence to demonstrate an offence under the Gas Act (1986). Failure rate of 5%.
- The Provisional Assessment made by the Network Owner or their agent should now be amended such that the total amount of theft detections claimed by Shipper A is reduced by 5%, to 1425.
- The figure of 1425 is then used to compare the Shipper's relative performance in relation to theft detections.

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2.12 Following the recalculation described in paragraphs 2.10 and 2.11, the Network Owners will calculate a final set of credits and debits for each Shipper (the Final Assessment), and issue an anonymised report to each Shipper setting out the Final Assessments. Each Shipper will be told who they are within the anonymised report and will receive an appropriate invoice.

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2.13 [The SETS may be set aside in any given year should the UNCC so determine by Panel Majority in light of a material event, such as Supplier of Last Resort being invoked for a significant portfolio towards the end of a scheme year, which, in the view of the UNCC, means that the outcome of the scheme would be demonstrably inequitable.]

AJ asked whether the intention was to have a single invoice or network specific invoices. DW confirmed that the intent was for a single scheme. However, it was recognised that determining which network should issue an invoice on behalf of the others, or if networks should invoice separately, would need to be considered. xoserve could invoice in their own name, but this would not be normal UNC practice and may not be practical as part of a UNC scheme. SM suggested writing the rules such that the Scheme Administrator would always be in credit and only disburse funds after collecting them, thereby avoiding cash flow issues. DW agreed to look, with xoserve and the Transporters, at the options for the flow of funds and invoicing arrangements for inclusion as additional business rules. Shippers' aspiration is to receive a single invoice at the end of the Scheme Year, but if that could not be readily achieved, receiving an invoice from each Network would be acceptable.

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