

**Minutes Development Work Group 0277**  
**Creation of Incentives for the Detection of Theft of Gas**  
**(Supplier Energy Theft Scheme)**  
**10:00 Wednesday 01 September 2010**  
**Renewal Centre, Lode Lane, Solihull**

**Attendees**

Bob Fletcher (Chair)	BF	Joint Office
Cesar Coelho	CC	Ofgem
Chris Warner	CW	National Grid Distribution
Danielle King	DK	E.ON UK
David Watson	DW	British Gas
Joanna Ferguson	JF	Northern Gas Networks
Joel Martin	JM	Scotia Gas Networks
Jonathan Wisdom	JW	RWE Npower
Mark Woodward	MW	xoserve

**1. Introduction**

**1.1. Minutes from the previous meeting**

The minutes from the 30 June were approved.

**1.2. Review of actions from previous meeting**

**Action DG0277 009:** British Gas, xoserve and Transporters to finalise invoicing arrangements prior to xoserve being asked to prepare a ROM.

**Action Update:** DW confirmed meetings with Transporters and xoserve had been held to discuss raising a ROM. A number of issues had been identified and these are to be discussed today's meeting. **Carried Forward.**

**Action DG0277 010:** British Gas to amend the Business Rules in light of the discussion.

**Action Update:** DW confirmed that some amendments were made at the previous meeting, however further amendments may be required dependant on the above action. **Carried Forward.**

**Action DG0277 011:** All to provide comments on the draft Development Work Group Report published at [www.gasgovernance.co.uk/0277/210710](http://www.gasgovernance.co.uk/0277/210710).

**Action Update:** Comments received. **Complete.**

**Action DG0277 013:** Consideration to be given on the audit process and its administration costs.

**Action Update:** DW agreed that further consideration of the audit process was required. However, he thought further detail should be provided in the associated guidance notes. JM wished to understand how the Transporters would claim their expenses for managing the audit and if it is user pays, though he accepted this could be discussed at a later date. **Closed.**

**Action DG0277 014:** Provide Ofgem with more context and justification around the value of the scheme.

**Action Update:** DW confirmed he had met with Ofgem to discuss funding for SETS and the appropriate value of the 'industry pot'. He confirmed initial estimates were based on a scaled up version of British Gas RPU costs. Scheme operational costs still needed to be understood and were subject to the outcomes of the ROM. **Carried Forward.**

**Action DG0277 015:** Consideration to be given on the scheme funding and charging process.

**Action Update:** CW confirmed that a change to the ACS is likely. However, actual costs are not likely to be available until a ROM is undertaken, perhaps towards the end of September. **Carried Forward.**

## 2. Development Work Group Report

The Development Group discussed the draft business rules and a number of issues raised by Transporters and xoserve, as follows:

2.3 conflicts with rule 2.5. MW explained this rule should be determined on a closed theft of gas report and not a perceived report. DW was mindful that the scheme should allow the correction of errors and it should be possible to amend a valid report to an invalid report should further information become available. The group agreed rule 2.5 should be amended.

2.6 MW asked if the report produced by xoserve each should included the number of valid reports changed to invalid. It was agreed this would be useful, though reporting in general required further discussion.

2.18 CW asked who makes the decision to put the scheme on hold, is this xoserve or Transporters. DW advised this should be subject to a vote by the UNCC. JW asked if the vote has to be unanimous when it is already tested by the requirement to be a material event.

DW was still unsure about a majority vote and preferred a unanimous decision to prevent poor performers seeking to put the scheme on hold. There was a view that material event may need to be defined, though the group did not explore this in any detail and DW agreed to consider suitable drafting.

JM asked how the scheme would be set aside in such circumstances, how would costs be recovered and charges passed on. DW confirmed charges are not passed on until the end of the year and money is not likely to be held on account, any costs incurred by Transporters would need to be funded.

The Development Group considered the Proposal, Report and Review of Questions submitted by E.ON UK.

Questions:

1. DK introduced the concerns and points raised about the Proposal.
2. JM asked if it is more a case of providing an incentive rather than it is a commercial incentive that delivers benefits. DW was unconvinced, advising the proposal allows Shippers to choose whether to fully participate or pay their share and not choose the option to investigate reports.
3. Not comments were made.

4. DW agreed that theft is the underlying cause. However, there is no effective incentive to investigate theft currently. DK disputed this point advising each Shipper has commercial incentives. DW agreed to amend the point to reflect that theft is the underlying cause.

5. DW agreed to review the wording in the proposal.

6. DW agreed in part with the statement. However, rules had been provided by xoserve to clarify what is a valid theft. JM asked what defines an instance of theft, is it the person or property that is recorded. MW confirmed it's the instance of theft which is recorded and not the person or property.

7. DK explained that market research had show that straight geographical/portfolios splits are not accurate for defining levels of theft. DW confirmed that British Gas had reviewed there instances of theft and whether the population was low or high, the instances per thousand are similar wherever in the country the sample is taken. MW confirmed there are always hotspots in major cities due to their populations. There was a general discussion around credit checking and other options for vetting customers and if these were suitable methods. DW confirmed the proposal allows for small or specialist suppliers to be excluded from the scheme due to their smaller portfolios.

8. Agreed SETS referred to Suppliers though the intention is to place an obligation on Shippers and the title is an historic reference from previous reports.

9. DW agreed to consider when market shares should be identified for charging purposes and setting the value of the scheme and whether it is more appropriate to review on a monthly or annual basis.

10. DW agreed to the amendment.

11. DW agreed to consider moving this point to the introduction to ensure there is no linkage between UNC0274 and UNC0277 – they are both standalone.

12. DW considered this point is only correct if the current level of detected theft is the total number of thefts actually happening – this he doubted was the case. British Gas currently reports more than 80% of valid thefts to xoserve yet have a market share of 43% - this highlights that not all thefts are being reported or investigated by some Shippers. JW was unconvinced and considered it to be an opinion without evidence and is therefore misleading.

DW agreed to consider redrafting to expand on the point of a parties commercial choice to investigate or not depending on the circumstances surrounding each case. CC asked if it is possible to identify the potential number of additional thefts that may be detected with SETS.

13. DW advised a valid theft is defined in the Gas Act, Section 10 sched 2b. There was a discussion around identification of theft by one Shipper, which is a customer of another Shipper – who should get the credit. It was agreed that valid thefts should be reported through conquest. DW confirmed that Transporter will need to be able to demonstrate their costs and these should be reasonable. The £8.7m or value agreed at implementation would be fixed though subject to change through the modification process.

14. It was agreed the registered Shipper should receive the credit subject to them investigating the report. DW is to consider how the roll forward amounts would be

treated and whether British Gas could complete for roll forward values from year 2 or 3 – if at all? He will consider the capping rules and how market share could affect this level. DW agreed that British Gas faces an upper limit cap; it does not gain any protection from making a loss on the scheme for failure to perform.

The group consider what should happen if the scheme was in surplus at the end of a SETS year, where the money is held and what happens to the following year values.

**New Action DG0277 016:** All to consider how SETS surpluses would be managed and impacts on future years.

15. DK explained Suppliers already have incentives, this scheme does not provide the only incentive. DW advised that British Gas consider that for each £100 of energy stolen, currently at best £25 is recovered – this appears to demonstrate there are no suitable incentives currently. DW argued it would be difficult for any larger Supplier to prove their current portfolio is free from theft, therefore they should contribute to the scheme – their choice is not to provide an RPU, provide an RPU or contract a service provider to undertake the work for them.

JM asked if there is likely to be weighting in the scheme based on energy and not just numbers. JW asked if this was an option to be considered in the ROM. DW confirmed this had been considered in the past but it is difficult to confirm the accuracy of provided energy values therefore it had been disregarded as a suitable option. DW advised he would contact Colette Baldwin about 15.5 to discuss her concerns.

16. DW argued that the current process is unfair as British Gas customers pay a disproportionate amount compared to other Suppliers customers. SETS may increase costs in the short term but he believed it would have a long term benefit to the industry.

As discussed earlier, smaller or niche suppliers are likely by portfolio size to be excluded from the scheme.

17. DW considers there will be an associated benefit in the detection of upstream theft, though there are no plans to include this aspect within the scheme.

18. The Development Group considered the report at this time. JW felt that upstream theft should be included in overall report counts as the Shipper has expended resources and time to identify the situation. CC wished to see more evidence that investigations will yield more valid thefts. DW was of the opinion that numbers will increase from around 2000 to 4000 per year.

The Development Group report was amended to reflect the discussion and was to be republished on receipt of an amended proposal from DW.

**New Action DG0277 017:** Amend Proposal based on discussions and comments received

### 3. AOB

Non raised.

#### **4. Diary Planning for Development Group**

Friday 24 September 2010, 10:00, Teleconference

Friday 01 October 2010, 10:00, Teleconference

**ACTION LOG – Development Group 0277**

Action Ref	Meeting Date	Minute Ref	Action	Owner	Status Update
DG0277 009	29/04/2010	2.2	Finalise invoicing arrangements prior to xoserve being asked to prepare a ROM	British Gas (DW), xoserve (AJ) and Transporters	Carried Forward
DG0277 010	29/04/2010	2.2	Amend the Business Rules in light of the discussion	British Gas (DW)	Carried Forward
DG0277 011	29/04/2010	4	Provide comments on the draft Development Work Group Report published at <a href="http://www.gasgovernance.co.uk/0277/210710">www.gasgovernance.co.uk/0277/210710</a>	All	Completed
DG0277 013	30/06/2010	2	Consideration to be given on the audit process and its administration costs.	British Gas (DW)	Closed
DG0277 014	30/06/2010	2	DW to provide Ofgem with more context and justification around the value of the scheme.	British Gas (DW)	Carried Forward
DG0277 015	30/06/2010	2	Consideration to be given on the scheme funding and charging process.	British Gas (DW), xoserve (AJ)	Carried Forward
DG0277 016	01/09/2010	2	Consider how SETS surpluses would be managed and impacts on future years.	All	Pending
DG0277 017	01/09/2010	2	Amend Proposal based on discussions and comments received	British Gas (DW)	Pending