

MOD0277 – Appendix One

Strawman Process and Business Rules

1 INTRODUCTION

- 1.1 This document has been drafted to support Modification Proposal 0277. It explains in more detail the process which will be used in order to operate the Supplier Energy Theft Scheme (SETS).

2 BUSINESS RULES

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

- 2.1 Offences which are in scope for submission under the Scheme are defined within the Gas Act (1986), Schedule 2B, clause 10. As part of the scheme, ~~Suppliers-Shippers~~ will have to warrant that have they clear evidence to prove (on the balance of probabilities) that a meter tampering offence has been committed which meets the definition under this clause. For the avoidance of doubt, the person guilty of an offence need not be present at a site for an offence to qualify under this Scheme.
- 2.2 The initial "Scheme Year" (the annual period within which the scheme operates) will commence at 0.00am on the first calendar day of the month immediately following the month in which Ofgem implement this MOD, and ~~1st January and end at 23.59 31st December each year one year later. The next Scheme Year will start immediately at the end of the initial Scheme Year with subsequent Scheme Years following in the same manner.~~
- 2.3 From the start of the scheme year, Shippers may report, but subsequently withdraw, anything they detect which meets the definition under the Gas Act (1986), Schedule 2B clause 10 to the Network Owners (expected to be through their agent xoserve, using the agreed communications method prevalent at that time¹, ~~current Theft of Gas form within Conquest~~).
- 2.4 The introduction of the SETS will not change the data that must be submitted with each reported offence, nor will it introduce any obligations on the Network Owners or their agent to validate that data on receipt.
- 2.5 The Network Owners (or their agent on their behalf) will log each reported and qualifying offence against the reporting Shipper, and reported offence will be applied to each Scheme Year based on the date on which the report is closed.
- 2.6 A report will be issued out to each Shipper by the Network Owners (or their agent on their behalf) after the end of each month which shows the number of valid offences recorded by that Shipper and the aggregate number of valid offences recorded by all Shippers in the Scheme Year to date.
- 2.7 Credits and debits from the Scheme Year will be calculated based on the number of offences shown in the monthly report for final month of each Scheme Year and the market share (based on number of qualifying supply points) as the end of the Scheme

¹ At the time of writing, this is currently done through a Conquest form.

Year. This avoids the issue which would be created were market share figures to be taken part way through a year in which a Shipper either entered or left the market, skewing the data before the date of that entry or exit. This will be done from the following formula:

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

except where SMS equals zero when calculated 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 RPI² between the index published for June in the Scheme Year and June in the previous year.

STD is the number of valid offences recorded by the Shipper.

TTD is the number of valid offences recorded in the Scheme Year.

SMS is the Supply Point market share (excluding sites which are deemed out of scope by the modification proposal) 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).

2.8 A “Qualifying Shipper” is a User who has been active in the market throughout the Scheme Year, i.e. excludes those Shippers who have acceded to the Code in the Scheme Year, or those who have discontinued their accession within the Scheme Year. 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.

2.9 ~~British Gas will be expected to submit theft detections to the Network Owners (or their agent) in the same way, and adhere to the same evidential standards as other Shippers, and will receive in full any financial returns they may be entitled to from the Scheme.~~ Any amount of money paid to British Gas³ in the first two Scheme Years shall not exceed which exceeds the amount which they are obliged to pay in to the Scheme as a result of their market share however and, shall be added to their funding requirement in the subsequent Scheme year such that they do not benefit from it. A worked example of this is given below.

2.10 Windfall Avoidance example.

- *In the Scheme Year 1, British Gas have a market share of 50%, and detect 75% of all theft. With a total Scheme value in Scheme Year 1 of £~~8.7410.062~~m, British Gas will be liable for £~~5.0314.37~~m of costs, but entitled to £~~7.5476.55~~m in benefit, equating to a total incentive payment of £2.~~51648~~m.*
- *In Scheme Year 2, British Gas again have a market share of 50%, and again detect 75% of all theft. The Scheme value in Scheme Year 2 will be*

² RPI figure to be taken from the prevailing figure published by the Office for National Statistics. [Link here.](#)

³ For the avoidance of doubt, this refers to Shipper Short Code “[BUS](#)”. [x]

£~~10.0628.74~~m (adjusted for inflation), plus an additional payment from British Gas of the £2.~~51618~~m incentive payment they received in Scheme Year 1; a total SETS fund of £1~~2.5789.92~~m.

- In total therefore, in Scheme Year 2, British Gas will be liable for the £~~5.0314.37~~m which their market share dictates they pay in to the Scheme in Year 2, plus the £2.~~51618~~m incentive payment they received in Scheme Year 1; a total of £~~7.5476.55~~m.
- At the end of Scheme Year 2, British Gas would be entitled to an incentive payment of £~~4.4038.19~~m (that being 75% of the total SETS fund) in Year 2 based on their share of the total SETS fund. This is a net incentive payment, over and above the amount of funding due from British Gas based on their market share ~~of £3.82m~~.
- This is process repeated with the £~~4.4033.82~~m at the start of Scheme Year 3, i.e. it is added to British Gas' funding requirement in that Scheme Year such that the total SETS fund will be £~~10.0628.74~~m (adjusted for two years worth of inflation) plus an extra payment of £~~4.4033.82~~; total of £1~~4.4652.56~~m.
- For the sake of clarity, as British Gas will be able to fully compete for the total SETS fund in Scheme Year 3, with no added funding requirement in Scheme Year 4, the total SETS Fund in Scheme Year 4 and subsequent years will be £~~10.0628.74~~m (adjusted for the appropriate amount of inflation).
- This ensures that (a) British Gas do not benefit from any incentive payments in the first two Scheme Years, and that (b) any money which they were entitled to is competed for by all other Shippers. In the third Scheme Year, there will be no Windfall Avoidance measures.

2.11 The Auditor will be appointed using the same process defined under Code for the appointment of an RbD Auditor.

2.112.12 Throughout the Scheme Year an ongoing audit will be completed on a sample of the theft detection claims made by each Shipper. Specifically the Auditor will have the power to select a sample of theft detections that Shipper has made during the 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), and ~~whethewhether~~ the Shipper in question adhered to the rules within any relevant Theft Code of Practice which may be in place at that time. The Auditor will be expected to be impartial and even handed at all times with their approach to Shippers.

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

2.132.14 The Auditor will prepare a report for relevant Network Owners and Shippers (plus relevant Auditors in subsequent years) which details their findings, including an opinion as to whether ~~the 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. The Auditor's report will be final.

2.142.15 Upon receipt of the 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:

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

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.

STD is the number of valid offences recorded by the Shipper.

SER is the percentage of offences for that Shipper which have been audited and found to be valid, expressed as a decimal.

TTD is the number of valid offences recorded in the Scheme Year.

TER is the percentage of offences in the whole market that Scheme Year which have been audited and found to be valid, expressed as a decimal.

SMS is the Supply Point market share (excluding sites which are deemed out of scope by the modification proposal) of the Shipper expressed to four decimal places.

2.152.16 A working example of the correction described above 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.*

2.162.17 Not less than one month ~~Faster~~ following the recalculation described in paragraphs 2.14 and 2.15 has been completed, 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 or credit note.

2.172.18 [It is expected that, for the ease of administering the process for issuing credits and debits, the Network Owners will divide up the responsibility for issuing credit notes and invoices].

2.182.19 Credits and debits under the scheme will be classified as Transportation Charges and as such settlement of each by a Shipper will be covered under Section S of the UNC.

2.192.20 The Network Owners will not be expected to settle credits until such time as sufficient debits have been paid, such that they are never in debit through the process of settlement. ~~Notwithstanding this, they shall pay out credits as and when they reasonably can rather than withhold all payment until all debits are settled.~~

2.202.21 If a Party believes that a material event has rendered the outcome of the scheme demonstrably inequitable, such as Supplier of Last Resort being invoked for a significant portfolio towards the end of a scheme year, they may propose to the UNCC that the scheme for that year be set aside in its entirety. Any decision of the UNCC to do so however must be both unanimous and made before the credits and debits are issued out by the Network Owners.

2.212.22 For the avoidance of doubt, although the period of time between the start of the Scheme Year and the settlement of credits and debits is [months], the next Scheme Year will still commence at 00:00am on 1st January. This will effectively mean that the processes for two years' Schemes will overlap slightly.

3 PROCESS MAP

