

**CODE MODIFICATION PROPOSAL No 0231**

**Changes to the Reasonable Endeavours Scheme to better incentivise  
the detection of Theft**

**Version 7.0**

**Date:** 07/10/2009

**Proposed Implementation Date:** TBC

**Urgency:** Non Urgent

**Proposer's preferred route through modification procedures and if applicable, justification for Urgency**

(see the criteria at [http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/11700\\_Urgency\\_Criteria.pdf](http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/11700_Urgency_Criteria.pdf))

**1 Nature and Purpose of Proposal (including consequence of non implementation)**

**Background**

At the end of August 2006 the Energy Retail Association (ERA) and the Energy Networks Association (ENA) jointly established a Workgroup to look at how participants in the Gas and Electricity markets might promote the detection, investigation and prevention of energy theft.

The Development Group produced a final proposals document in June 2007, which was submitted to Ofgem. As part of the Workgroup Groups' findings it was agreed that participants are not sufficiently commercially incentivised under the current regime to investigate, detect and prevent theft.

It was agreed that where there are arrangements in place to mitigate the costs of investigating theft, the process is burdensome and does not adequately cover the costs incurred by participants in investigating theft, and in some cases does not cover the administrative costs associated with making a claim.

In their document titled 'Theft of Electricity and Gas – Next Steps – 06/05' dated 17th January 2005, Ofgem stated that;

*"The principles behind the Reasonable Endeavours Scheme appear to be sound basis for these arrangements. Under the Reasonable Endeavours Scheme gas suppliers and GTs are currently able to recover gas charges and other defined costs where they have undertaken reasonable endeavours to recover these from the customer but have failed to do so."*

It is our belief that, while the current regime provides a sound basis, the level of compensation available to shippers through the Reasonable Endeavours Scheme is insufficient to incentivise increased Shipper activity to identify theft.

Furthermore, the current regime provides a perverse incentive whereby Shippers who are actively engaged in the detection of theft are exposed to the full cost of the Energy they notify as stolen, often with little chance of recovering these costs from the end user.

Whilst the Reasonable Endeavours Incentive Scheme offers Suppliers the opportunity to recover some of their costs in investigating theft, the level of compensation available does not provide sufficient incentive.

Furthermore, the Reasonable Endeavours Incentive Scheme is operated outside of the Uniform Network Code arrangements, which we believe contributes to a lack of understanding and clarity, on the part of Shippers, around the process.

## Proposal

The current process is administered by the Transporters agency outside of any formal Governance arrangements.

### 1. Governance

There are currently two different documents relating to the Reasonable Endeavours scheme which will be affected by this modification: the Reasonable Endeavours Allowances Scheme (otherwise known as the Designation, see Appendix Two for the current document) and the Reasonable Endeavours Scheme and Guidance (see Appendix Three for the current document).

This proposal ~~requires~~would bring the obligations existing in the Reasonable Endeavours Allowances Scheme, pages three to six inclusive in the attached Appendix Two, process as defined by claim value table contained within the current Designation Scheme produced by the Transporters under their licence and designated by Ofgem, ~~document into~~ be incorporated within the Uniform Network Code ~~as an appendix document~~, thus creating an appropriate governance framework in which it can continue to operate.

In addition, and in order to improve both the clarity and transparency of the Reasonable Endeavours Scheme, this proposal ~~will also move~~ requires a new UNC Related Document to be created. The content of this document would be the guidance contained within the Reasonable Endeavours Scheme Document, pages three and four in the attached Appendix Three, produced by Transporters within the Uniform Network Code [as an appendix related document]. For clarity, the guidelines contained at the end of this document, on pages five and six, will remain outside the Uniform Network Code, and hence will not be

subject to Uniform Network Code processes or governance.-

It is proposed the ~~Reasonable Endeavours Scheme~~ new UNC Related Document will only be amendable by the raising of a Modification Proposal and consequently the application of the Modification Rules.

## **2. Claim Levels**

The Reasonable Endeavours Scheme provides a sound framework, which if developed upon, could create a robust incentive mechanism.

However, it is widely accepted that that the current levels of compensation payable under the Reasonable Endeavours Scheme do not provide sufficient incentive upon all Shippers to detect theft.

Under the existing scheme, for some claim types, Shippers are able to make claims under the scheme to recover their actual costs without a limit to the value able to be claimed;- this proposal would not change this.

In order to provide adequate incentives, the level of compensation available to Shippers under each claim type has a 'capped' or fixed limit which ~~maximum value of £250 set, this level~~ would be extended to a maximum of £1000 in each case under this proposal.

The Scheme, in some circumstances, allows for Shipper to make claims under more than one claim type. This proposal would not change this and the combinations of claims allowed under the scheme per incident would remain as they are in the current arrangements.

For clarity this proposal does not amend or introduce an overall limit to the value of a claim.

Under the existing scheme, where a maximum claim value or 'capped limit' is set, the maximum value refers to claims for a specific charge type and does not set a limit for the overall claim value.

Where Shippers have incurred costs under multiple claim types, they are able to claim up to any capped value under each claim type with no overall limit set.

The existing scheme sets out which combinations of claim type can be used for a single incident. These 'valid claim combinations' would be replicated under this proposal.

The maximum permitted claim values are set out in a table within the present Scheme. It is therefore proposed that the UNC is amended such that this table, with the revised values, is incorporated within the UNC and becomes part of the scheme as included within the UNC. To illustrate what is envisaged by the Proposal, a ~~An~~ amended table is attached to this proposal as ~~a~~ Appendix One.

- 2 User Pays**
- a) Classification of the Proposal as User Pays or not and justification for classification**
- This proposal would not require User Pays arrangements. The recovery mechanism used by transporters for costs under this scheme are set out in the Transporter Licence.
- b) Identification of Users, proposed split of the recovery between Gas Transporters and Users for User Pays costs and justification**
- n/a
- c) Proposed charge(s) for application of Users Pays charges to Shippers**
- n/a
- d) Proposed charge for inclusion in ACS – to be completed upon receipt of cost estimate from xoserve**
- n/a
- 3 Basis upon which the Proposer considers that it will better facilitate the achievement of the Relevant Objectives, specified in Standard Special Condition A11.1 and 2 of the Gas Transporters Licence**
- By creating a robust incentive mechanism this proposal would better facilitate condition A11.1(d) as it would provide a more accurate energy allocation between Shippers, thus promoting competition.
- 4 Any further information (Optional), likely impact on systems, processes or procedures, Proposer's view on implementation timescales and suggested text**
- 5 Code Concerned, sections and paragraphs**
- a) Uniform Network Code
- b) Transportation Principal Document

**Section(s)** S

**Proposer's Representative**

~~Mitch Donnelly~~ David Watson (British Gas)

**Proposer**

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