

**Minutes Development Work Group 0277**  
**Creation of Incentives for the Detection of Theft of Gas**  
**(Supplier Energy Theft Scheme)**  
**Wednesday 13 October 2010**  
**via Teleconference**

**Attendees**

Bob Fletcher (Chair)	BF	Joint Office of Gas Transporters
Helen Cuin	HC	Joint Office of Gas Transporters
Alison Jennings	AJe	xoserve
Andrew Wallace	AW	Ofgem
Anne Jackson	AJa	SSE
Cesar Coelho	CC	Ofgem
Chris Warner	CW	National Grid Distribution
Colette Baldwin	CB	E.ON UK
David Watson	DW	British Gas
Joanna Ferguson	JF	Northern Gas Networks
Joel Martin	JM	Scotia Gas Networks
Mark Woodward	MW	xoserve
Phil Lucas	PL	National Grid Distribution
Sarah Blewer	SB	xoserve
Sasha Pearce	SP	RWE npower
Simon Trivella	ST	Wales & West Utilities
Tim Davis	TD	Joint Office

**1. Introduction**

**1.1. Minutes from the previous meeting**

The minutes from the previous meeting were approved.

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

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

**Action Update:** See item 2.2. **Complete.**

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

**Action Update:** DW provided a high level view to Ofgem, however the figures still need to be provided. **Carried Forward.**

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

**Action Update:** DW confirmed that the business rules have been amended in relation to windfall avoidance. See item 2.2. **Complete.**

**Action DG0277 018:** DW to contact Wales & West Utilities to seek an early view on legal text.

**Action Update:** ST confirmed not a view is not currently available. **Carried Forward.**

**Action DG0277 019:** DW to review the Proposal and relevant objectives and amend based on the comments received at the meeting.

**Action Update:** DW confirmed that the proposal would be amended following consideration of the Workstream Report. See item 2.2 and 2.3. **Carried Forward.**

## 2. Review Group Discussion

### 2.1. ROM

CW gave a brief overview of the initial ROM costs based on the business rules. He explained that these do not include costs considerations for an audit or the cash collection of Shipper payments.

The Development Costs were estimated between £220k - £380k.

The Operational Costs were estimated between £40k - £80k per annum

It was anticipated that the analysis would take between 11-16 weeks, with 24-25 weeks development.

DW was concerned with the costs for an invoicing facility and implementation timescales. He was minded to challenge the costs within the initial ROM and wished to understand the justification of these costs. AJe confirmed that the costs are in line with other similar changes, however she offered to meet with DW offline with the experts to go through these. CB was also concerned at the costs for an invoicing tool and wished to be involved in any cost discussion meetings. It was agreed to invite the relevant experts to the next meeting.

DW wanted to understand why the existing tools could not be utilised and wished to understand why this scale of change was required.

SP asked if the ROM was available for publication. ST explained that the ROM had been produced on a previous version of the business rules and Transporters would be concerned with publishing the ROM without first finalising the business rules.

**Action DG0277 020:** xoserve to provide a further breakdown of the ROM costs.

### 2.2. Business Rules

DW explained the recent amendments to the business rules following the last meeting and feedback provided.

A summary of the main areas and discussion are captured below:

2.1 Correction of Shippers from Suppliers.

2.2 DW had changed the start of the SETS year to start the month immediately following implementation. AW asked about the reference to 01 January in 2.2 and DW confirmed it should be amended. ST requested a reference to the Transporters implementing the modification following direction from Ofgem. TD asked for consideration to be given to the implementation wording for the provision of legal text.

2.3 DW explained a request had been made to future proof the reference to Conquest.

2.4 CB expressed concerned about a consistent approach by the suppliers. AJa expressed that Suppliers interpret theft differently. Some classify theft differently dependant on the circumstances at the site. DW explained that the Gas Act sets out

the test that Shippers would have to meet. He explained that an industry definition of theft might require Suppliers changing processes. He explained that theft classified under the Gas Act would be valid theft. CB was still concerned about the lack of consistency and that some Shippers will take a different approach to theft some taking a harder line than others – there were already concerns expressed by Consumer Focus at the lack of consistency. CB was concerned about the potential for different interpretations of valid theft for the conquest report. She was also concerned that the requirements in the Gas Act would not be sufficient for the audit process, as it can be interpreted differently. However, DW believed that the Gas Act defined what was valid theft and highlighted that Ofgem are reviewing the Gas Act definitions and may provide further guidance.

BF asked if there was a working group examining the general code of practice in this area. DW explained that a clean up exercise would need to involve a change to the code of practice. CB believed a reference needs to exist within the UNC to the Code of Practice. DW explained that the Shippers would need to comply with the code of practice.

SP highlighted that the code of practice is being considered and will be available for consideration through SPAA and DCUSA, she believed a reference needs to be included for definition of theft as found in the Gas Act.

DW believed that the Gas Act legislation, Code of Practice and guidelines should be sufficient for the audit. CB still believed that more guidance was required on what is valid and invalid theft for the scheme, due to the risk that a supplier may apply different approaches and there should be a consistent approach. DW suggested that valid theft should meet the tests set out in the Gas Act, with a definition in the code of practice.

2.7 DW explained how credits and debits would be calculated; the scheme will be based on market share of supply points or share of throughput, to incentivise correct behaviours. DW explained that further consideration on using throughput will be given at the next meeting.

AJe asked about the market share position, it was clarified that market share position at the end of the scheme year will be used for issuing credit and debits.

AJa asked about companies going bust and how this would affect market share, DW believed that as the timing of the occurrence would affect the opportunity to detect theft, the scheme would have to consider it was a material event and the scheme may need to be set aside for that year to avoid distortion.

2.8 Reworded in line with code terminology

2.9 DW confirmed that the scheme costs had been updated to reflect BGTs 2010 RPU budget, from £8.74m to £10.72m. He explained that these figures would be provided to Ofgem to justify the value of the scheme. CB asked what would happen in subsequent years for calculating the value of the scheme. DW suggested that the scheme value would have to be considered and amended via a modification if deemed necessary beyond RPI, although RPI would be used to increase the costs year on year.

DW explained that within the first 2 years British Gas would not be able to collect any additional monies from the scheme, he acknowledged that some concern had been expressed about this being windfall deferral and not windfall avoidance. DW believed it was not unreasonable to expect parties to establish an RPU within the first 2 years to enable all parties to compete for funding. DW believed that everybody would have the ability to equally compete for the same pot of money after 2 years as this is ample time for all parties to get up and running. BF asked about

capping the scheme, DW explained the complexities of capping and that this does not provide enough incentive on those not subject to windfall avoidance.

CB had concerns about theft being attributed to market share and if this was an accurate reflection of theft. This suggests that Shippers are exposed to the same risk of theft.

DW explained that the costs of operating a fully functional RPU will be connected to their market share, the more throughput the more likelihood of having theft. The scheme should sufficiently incentivise the detection of theft.

2.11 The appointment of the auditor was discussed and whether this ought to be the same as the RbD Audit appointment process. DW intended to change this for Transporters to select and impartial auditor and leave the scope of the audit to the Transporters. ST questioned if 2.11 and 2.13 should be deleted and only have 2.12. It was agreed to delete 2.11 and 2.13. SP suggested that the cost of the scheme needs to be kept to a reasonable level and it was agreed it should be set out in 2.11. CW asked about proportioning of the audit costs, he suggested that the costs should be reasonable. DW agreed to review the wording around this.

2.14 ST asked if Transporters are to provide a report of audit findings and asked to move away from using capitals when referring to the auditor and audit findings.

2.17 DW confirmed that changes had been made to this section at request of National Grid for clarity on when Transporters would be obligated to provide recalculations. AJe suggested a month with a one-month sweep up and asked about an end point to the scheme to avoid a constant sweep of credits and debits going out on a continual basis. DW confirmed questions were asked about not favouring shippers on payments, JF explained that the USRV process ensures against favouring, if the scheme is expecting 10% of cash coming in then only 90% of the credits will be provided on market share. If part payments are received i.e 90%, then 90% of debits will be issued. CB asked about the possibility of non-payment. DW explained that there are remedies under the code for non-payment.

It was acknowledged that the changes to the business rules would need to be considered for the conclusion of the ROM.

TD asked DW to consider the relevant objectives and whether these have been provided with enough evidence, DW agreed to reword the objectives to make these more explicit.

DW agreed to provide information to Ofgem with regards to the value of the scheme

### **2.3. Development Work Group Report**

The group considered the Proposal within the Development Work Group Report. DW explained the recent changes made. BF asked if the Modification Proposal could be amended to allow the provision of a Development Work Group Report.

### **3. AOB**

None raised.

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

04 November 2010, 10:00, Solihull venue to be confirmed

**ACTION LOG – Development Group 0277**

<b>Action Ref</b>	<b>Meeting Date</b>	<b>Minute Ref</b>	<b>Action</b>	<b>Owner</b>	<b>Status Update</b>
DG0277 010	29/04/2010	2.2	Amend the Business Rules in light of the discussion	British Gas (DW)	Complete
DG0277 014	30/06/2010	2.0	DW to provide Ofgem with more context and justification around the value of the scheme.	British Gas (DW)	Carried Forward
DG0277 016	01/09/2010	2.0	Consider how SETS surpluses would be managed and impacts on future years.	All	Complete
DG0277 018	24/09/10	2.0	Contact Wales & West Utilities to seek an early view on legal text.	British Gas (DW)	Carried Forward
DG0277 019	24/09/10	2.0	Review the Proposal and relevant objectives and amend based on the comments received at the meeting.	British Gas (DW)	Carried Forward
DG0277 020	13/10/10	2.1	xoserve to provide a further breakdown of the ROM costs.	xoserve	Pending