

Draft Terms of Reference
UNC Modification Reference Number 0277
“Creation of Incentives for the Detection of Theft of Gas
(Supplier Energy Theft Scheme)”
version 1

Purpose

This Development proposal seeks to establish the creation of incentives for the detection of Theft of Gas.

Background

There are no current obligations on suppliers to detect theft of gas. The current lack of incentives to detect theft give rise to three significant issues:

1. Theft of gas is dangerous and presents a real risk to both the integrity of the network and the safety of consumers. Gas meters have inherent safety features built within them and tampering or bypassing these is inherently dangerous.
2. Theft of gas costs currently *all* consumers money. The current settlement arrangements mean that unaccounted gas, including theft, is paid for by all shippers in accordance with the rules on Resolution by Difference (RbD).
3. It is also believed that where theft occurs, gas is not used efficiently. Thieves are not influenced by price signals or carbon reduction motives, and energy is user inefficiently. This means that where theft occurs damage is being done to the long-term ability of the energy industry to manage and reduce energy consumption, damaging the industry's attempts to meet carbon reduction targets.

The Proposal

The modification proposal will aim to introduce the Supplier Energy Theft Scheme (SETS) incentives recommended as a solution initially by the ENA and ERA in April 2006 and then again by UNC Review Group 0245 in its November 2009 report. This scheme will incentivise suppliers to detect theft by ensuring that it costs money to do nothing, introducing the principle of competition in the Revenue Protection Market and rewarding those who do most to reduce theft with financial benefits.

This incentive scheme will obligate all suppliers of relevant supply points to pay in to a centrally managed fund based on their share of meter points. The fund will then be redistributed annually on the basis of how much theft each supplier detected relative to their competitors.

This will provide an incentive on suppliers to invest in theft detection activities, leading to an increase in the amount of theft detected across the industry.

Principles

- The scheme operates annually, opening on D1.

- Theft detections, along with the necessary evidence, are reported to the Administrator of the scheme.
- Interim reports showing the number of theft detections to date are issued once each quarter by the Administrator to aid transparency.
- On D365 the scheme closes before restarting the following day.
- Market share measurements are taken by the Administrator of the scheme at the end of D365.
- Theft detections as a proportion of the total measured for each supplier at the end of D365.
- Credits and debits for each supplier are then calculated and redistributed as follows:

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

Where

X is the total value of the scheme

STD is the volume of theft detections by the supplier.

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

SMS is the market share of the supplier expressed as a decimal

Scope

Daily Metered, including Daily Metered (Elective), sites will be excluded from the SETS solution as it is considered that they are sufficiently scrutinised. All other supply points will be in scope for this change.

Governance

The SETS will form part of a new section within the UNC. This will aid transparency for all parties and will ensure that it is subject to the normal UNC change processes and governance.

This proposal would make the Transporter's Agent the Administrator of this scheme. They already receive all reports of theft on behalf of all Transporters and this would therefore prevent duplication of effort. It is recognised that this role will incur a cost for the Administrator, and is therefore proposed that those costs be agreed and then deducted from the overall SETS fund each year, such that it is entirely revenue neutral for the Transporter's Agent.

In order to validate theft detections submitted to the Administrator Suppliers must collect an agreed minimum level of evidence

Value of the Scheme

In order to properly incentivise theft detection, the cost to each party must be at least the cost of providing a Revenue Protection Service. Although this may differ slightly from party to party, this proposal British Gas propose that the overall value of the scheme is £8.74m¹ per annum. This is based on British Gas' current annual spend on

¹ Precise calculation based on annual British Gas Revenue Protection budget of £3.854m pro-rated up on the basis that British Gas has approximately 44.1% of NDM market share (source: Xoserve). Value of scheme is rounded to nearest £10k for simplicity.

Revenue Protection activities in the gas market, pro-rated up to represent relative spending required across the eligible supply points.

Evidence of Theft

In order to prevent gaming of the system an agreed level of evidence will need to be collected by the supplier for each theft detection.

Implementation and Windfall Avoidance

Review Group 0245 recognised that some parties are more advanced in terms of theft of gas detection processes than others, and that consideration of this should be given in the implementation plan for a SETS scheme so as to avoid any windfall payment to those parties in the first two years. This will allow each supplier to compete on a level footing throughout the scheme.

British Gas therefore volunteer that under this proposal there will be a phased implementation of the SETS scheme for British Gas (only), such that they only compete for a capped amount of the SETS fund in the first two years. Any amount of revenue which British Gas forgoes as a result of this measure will roll forward in to the scheme fund for the subsequent year, for all parties to compete for. This ensures that any potential windfall that may have flowed to British Gas under a SETS scheme without this measure, as a result of their initial investment position, will be forgone in the interests of allowing all to compete for incentive funding equally.

Scope and Deliverables

Within the context of the SETS proposal (above), the Group is asked to:

- Consider whether the annual value of the scheme in the proposal is appropriate, and if not, what it should be.
- Consider how theft detections should be substantiated so as to prevent gaming e.g. evidence required to prove energy has been stolen.
- Consider whether windfall avoidance measures are required, and if so, what they should be and how they should be implemented.
- Clear categorisation of theft and what situations can be defined as theft.
- Identify incentives and likely controls, which may arise if this Modification Proposal is implemented.
- Consider if there are any mechanisms, which could be included in the scheme to reflect the ongoing level of theft detection and therefore level of investment required.

A Development Work Group Report will be produced containing the findings of the group in respect of the work identified above.

Limits

The Development Work Group will consider changes required to the following:

- Uniform Network Code

The Development Work Group in its initial phase will not concern itself with:

- Detailed changes required to processes and procedures
- Detailed changes required to existing systems
- Development of detailed business rules

Composition

The Development Work Group will encompass representation from all relevant areas, including consumer representatives.

A Development Group meeting will be quorate provided at least 2 Transporter and 2 User representatives are present.

Information Sources

- Uniform Network Code – Sections (to be identified).
- GT, Shipper and Supplier Licences.
- Gas Act.
- Various Industry legislation as appropriate – may include reference to:
 - Gas Safety (Installation & Use) Regulations.
 - Gas Safety (Management) Regulations.
 - Industry Codes of Practice as relevant.

Timetable

It is proposed that a total period of 3 months be allowed to conclude this review.

- Frequency of meetings – monthly. The frequency of meetings will be subject to review and potential change by the Development Work Group.
- Meetings will be administered by the Joint Office and conducted in accordance with the Chairman's Guidelines.