

**Minutes Development Work Group 0277  
Creation of Incentives for the Detection of Theft of Gas  
(Supplier Energy Theft Scheme)**

**Tuesday 19 January 2010**

**Ofgem, 9 Millbank, London SW1P 3GE**

**Attendees**

Bob Fletcher (Chair)	BF Joint Office
Tim Davis (Secretary)	TD Joint Office
Andrew Wallace	AW Ofgem
Anne Jackson	AJ SSE
Chris Hill	CH RWE npower
Dave Watson	DW British Gas
Gareth Evans	GE Waters Wye Associates
Lorraine McGregor	LM Scottish Power
Phil Lucas	PL National Grid Distribution
Richard Street	RS Corona Energy
Simon Trivella	ST Wales & West Utilities
Steve Mullinganie	SM Gazprom

**1. Introduction**

BF welcomed all to the first Group meeting

**2. Outline of Proposal**

DW briefly outlined the Proposal that had been discussed previously at Review Group 0245 meetings. The Proposal sought to create a revenue neutral incentive scheme (Supplier Energy Theft Scheme), managed by xoserve. All Shippers would pay into the scheme and rules would specify how payments would be made to Shippers. The Proposal also included phased windfall protection for shippers, which cap the potential benefits for British Gas for the first two years.

**3. Consider Terms of Reference**

The draft Terms of Reference (ToR) provided by DW were considered.

SM asked about the auditing of claims, which could be quite valuable – it was not clear that xoserve would be willing to act in a policing as well as administrative role. DW agreed that this should be considered, and was included for consideration in the proposed Terms of Reference.

CB questioned how theft is defined and treated, and suggested that a single definition which all parties would use needed to be included as part of the Proposal. DW agreed that standardisation is an important step, and had been considered within Review Group 0245. This standardisation would also need to be considered for Proposal 0274. AW indicated that Ofgem hope to issue a letter giving an interpretation of the Gas and Electricity Act and what the law allows Suppliers to do in terms of disconnection – this may be useful to the Group when looking for definitions. PL asked if the Ofgem note would include Transporters, and AW agreed to consider this.

PL emphasised that, to be a UNC issue, references in the Proposal and Terms of Reference to Suppliers should be to Shippers. DW agreed to revisit the Proposal in this respect. CH questioned why it was appropriate for the scheme to apply to all Shippers when some had no supply points and so should not be impacted. It was agreed that the scheme would need to be targeted on those actually supplying gas.

RS suggested that consideration of anticipated behaviours as a result of implementation of the scheme should be part of the Terms of Reference. DW suggested likely responses should be set out in the consultation process rather than being debated in the development process.

CH asked why the suggested values of the scheme had moved during the time that it had been mooted. DW said this was through the process of writing the Proposal and now reflected the costs presently incurred by British Gas, scaled to match the whole market. Values provided during Review Group 0245 were provided as examples and not based on actual figures.

GE asked about the two year windfall avoidance measures and how this would impact British Gas behaviours. DW explained that the RbD impact meant that there was no possibility of British Gas scaling back their effort to identify and pursue theft.

CB suggested that an element of volume should be included in the Proposal as well as theft numbers since loss of gas from larger sites could be significant. CH was concerned there could be an incentive to overstate the volume stolen. DW indicated that he had considered volume as a metric, but had concluded that this was largely a safety issue and so meter points was a suitable measure.

**Action DG0277/001: Joint Office to amend and publish draft Terms of Reference in light of discussions**

#### **4. Development Group Process**

DW suggested considering at the next meeting the evidence of theft which would be taken as acceptable under the proposed scheme – for example, digital photos etc.. SM suggested two outcomes should drive payment – the customer accepting the case and the Courts finding somebody guilty. He was unclear whether alternatives to these two fundamental pieces of evidence were being contemplated, and suggested the scheme should be kept simple, avoiding doubt about which incidents did or did not qualify as theft. DW suggested that the appropriate evidence to prove theft should be the same as the evidence to justify payment under the scheme, and this was what he felt needed developing at the next meeting. AW suggested that the issues to be raised in Ofgem's forthcoming letter might help to identify the evidence that would be sufficient to justify action against a customer and consequently would be sufficient to justify payment under any incentive scheme.

Concerns were raised about the nature of the acceptable evidence but also whether inappropriate incentives would be generated through the proposed incentive scheme. DW did not believe the incentive was significantly different to that under 0274 and that the burden of proof for a claim under the scheme should be the same as that for a prosecution. Others argued that 0274 had different incentives and, through the NRPS, would apply equally to all rather than being dependent on different interpretations as to what did or did not count as theft. LM emphasised that the payment under the incentive scheme may not reflect effort and so could be inappropriate, in contrast to the NRPS.

DW accepted that it was a fundamental assumption behind the SETS Proposal that theft is homogenous, and that was not an element of the Proposal that he would expect to change during the development process. If other parties wished to oppose the SETS on these grounds, they could do so when responding to the Proposal during consultation. DW volunteered to provide geographic evidence on theft from the British Gas portfolio if that would be helpful in demonstrating homogeneity and would welcome information

being put forward by others. He would also be willing to consider other transitional measures for the introduction of SETS if others wished to put an alternative forward.

**Action DG0277/002: British Gas to provide geographic evidence on theft from their portfolio.**

GE said that the risk of theft was different for LSP as opposed to SSP sites and the underlying assumption of homogeneity was therefore potentially flawed. RS agreed that this linked to the behaviours that the Proposal was likely to drive which may differ between classes of Supplier. DW emphasised that the proposal was designed to incentivise theft detection that he would not expect to vary significantly, with the subsequent actions taken by each party remaining within their own ambit. AJ argued that other incentives could arise, such as over-zealous theft detection. DW suggested this would be covered by the controls around the level of evidence that he hoped the Group would debate and it was agreed that the whole gambit of incentives and controls should be considered as part of the development process.

There was some debate about the rights to disconnect when it can be demonstrated that theft has occurred and whether application to a Magistrate is required, or if disconnection can be pursued through Transporter powers as a safety issue. It was agreed that this should be considered and clarified during the next meeting.

It was agreed that approval of the Terms of Reference should also be considered at the next meeting.

**5. Diary Planning for Development Group**

The next meeting will take place, following the meeting of Development Group 0274:  
Friday 12 February 2010, 13:00, ENA, 52 Horseferry Road, London, SW1P 2AF

**6. AOB**

None raised.

**ACTION LOG - Development Group 0274: 10 December 2009**

<b>Action Ref</b>	<b>Meeting Date</b>	<b>Minute Ref</b>	<b>Action</b>	<b>Owner</b>	<b>Status Update</b>
DG0277 001	19/01/2010	3.0	Joint Office to amend and publish draft Terms of Reference in light of discussions	Joint Office (BF)	
DG0277 002	19/01/2010	4.0	British Gas to provide geographic evidence on theft from their portfolio.	British Gas (DW)	