

Rough Order of Magnitude (ROM) Analysis

for

Shipper Energy Theft Scheme
(CODE MODIFICATION PROPOSAL 0277 Creation of Incentives
for the Detection of Theft of Gas (Supplier Energy Theft Scheme))

Version 2.0

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Disclaimer:

This ROM Analysis has been prepared in good faith but by its very nature is only able to contain indicative information and estimates (including without limitation those of time, resource and cost) based on the circumstances known t at the time of its preparation. no representations of accuracy or completeness are included and any representations as may be implied are expressly excluded (except always for fraudulent misrepresentation).

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This ROM does not, and is not intended to; create any contractual or other legal obligation

Change driver / origin

Code Modification Proposal 0277 Creation of Incentives for the Detection of Theft of Gas (Supplier Energy Theft Scheme), proposes 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 shippers/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.

The analysis is based upon the Business Rules v1.6 received by xoserve on 15 September 2010.

See Appendix I for the SETS calculations assumed in the development costs

Analysis

Analysis has been based upon the business rules detailed below as provided by the proposer.

SETS Principles

- The value of the Scheme Fund will be determined at the start of the first Scheme Year and thereafter increased using RPI;
- Qualifying Shippers will have their contribution to the Scheme Fund calculated based on their market share as at the end of the Scheme Year;
- The Administrator of the Scheme would deduct any administration costs (including Auditor costs) from the recovered Fund prior to calculating Shipper credits;
- Qualifying Shippers will have their credits from the Scheme Fund calculated based on the number of their valid theft cases as a proportion of the aggregate valid theft cases for the Scheme Year;
- Qualifying Shippers will be invoiced a net position (i.e. contribution to the Fund less their entitled credits from the Fund);
- Credits will be submitted to Shippers up to the value of the invoiced debits which have been paid;

Summary of Business Rules & Processes

This is a summary of the Business Rules (v1.6) as provided within the ROM request.

The Scheme Year will operate from 00:00 hrs on 1st January to 23:59 hrs on 31st December;

1. The Scheme applies to all Supply Points, with the exception of DM Mandatory Supply Points;
2. Shipper reporting of instances of theft will utilise current processes;
3. A monthly report will be issued to all Shippers showing the number of valid offences recorded by that Shipper and the aggregate number of valid offences recorded by all Shippers;
4. Throughout the Scheme Year, an audit will be undertaken on a sample of theft detection claims;
5. To support the audit process, a detailed version of the monthly theft summary report will be issued to the Auditor for information / action;
6. The Scheme Administrator will be informed (*by who – tbc*) of the value of the Scheme Fund before the end of the Scheme Year;
7. Following the end of the Scheme Year, debits (for Provisional Assessment) for 'qualifying shippers' will be calculated to bill the total value of the Scheme Fund based on the Shipper's portfolio market share
8. Before calculating the credits (for Provisional Assessment), the Scheme Administrator and Auditor costs will be deducted from the total Fund and the balance of the Fund distributed among the qualifying Shippers based on:
 - the number of offences shown in the final monthly report
 - the Shippers portfolio market share
9. A 'qualifying shipper' is:

- a User who has been active in the market throughout the full Scheme Year; and
 - a User whose portfolio share is greater than zero percent to 4 decimal places, i.e. > 0.0000% after rounding.
10. The 'Provisional Assessment' of debits and credits (calculated above) will be communicated to each Shipper as soon as possible after the end of the Scheme Year;
 11. The Auditor will report to Network Owners and Shippers the results of the audit;
 12. Debits and credits (Final Assessment) will be re-calculated using the *error rate(s)* provided in the Auditor's year end report;
 13. Each Shipper will be sent an anonymised report setting out the Final Assessments;
 14. Network Owners will not be expected to settle credits until such time as sufficient debits have been paid; therefore debit invoices will be issued first;
 15. Credit invoices for all Shippers will be issued once a sufficient amount of the debits have been paid;
 16. UNCC will provide notice to the Scheme Administrator if a Scheme is not to be run for a given Scheme Year (i.e. a material event has rendered the outcome of the Scheme to be demonstrably inequitable), this should be made available prior to the Final Assessment calculation;
 17. For years 1 & 2 of the Scheme, the amount of credit available to BGT from the 'Fund' will be capped as per the 'Windfall Avoidance' Business Rule;

Business Options

- 1 – Cash collection and Shipper payments by all Distribution Networks;
- 2 – Cash collection and Shipper payments by xoserve;
- 3 – Cash Collection and Shipper payments by a single Distribution Network.

For all of the options, xoserve, in the role of Scheme Administrator, will: calculate each shipper's portfolio share, collate and issue all reports, calculate the Shipper's debits and credits

ROM Costs & Timescales

Note: ROM information is not based on any formal systems analysis and should be used with caution.

Estimated costs:

The solution will cost at least **£200k**, but probably not more than **£380k**

Note: The above costs apply to all 3 options, however, we are unable to provide xoserve costs to carry out the cash collection / delivery (option 2) without carrying out a detailed analysis. If costs are required for this option, it is recommended a DCA be initiated.

Ongoing operational costs will be at least **£40k**, but probably not more than **£80k** per annum

Estimated duration:

- The Analysis Phase, will take at least **11 weeks**, but probably not more than **16 weeks**
- Delivery; including detailed analysis, post implementation support; will take at least **24 weeks**, but probably not more than **35 weeks**

Timescale guidance:

- The *estimated duration*, above, is for xoserve to deliver the solution to support the Scheme Administrator role
- The timescales above do not include the Tender Process for the appointment of the Scheme Auditor
- The above timescales includes the 6-month lead time for UKLink Committee for a new charge type or invoice type

Assumptions

- Ongoing Operational Team costs assume xoserve is not the Auditor
- The process for logging/managing theft queries will continue using the prevailing theft reporting processes;
- Qualifying 'valid instances of theft' will be those that are closed down as 'valid' before the end of the Scheme Year, otherwise it will rollover into a subsequent Scheme Year;
- The definition of a 'valid instance of theft' will be captured in the 'Theft Code of Practice' document (tbc);
- Submission of the Scheme invoices will follow the existing Adhoc Invoice process;
- Invoice payment terms and conditions will be as per current Transportation invoices (UNC Section S);
- The existing Monthly Portfolio Snapshot Report will be modified to derive each Shipper's market share at Scheme Year end;
- The Scheme Administrator's costs will incorporate the Auditor's annual costs and the total value will be deducted from the Scheme Fund (In the first year, the Administrators costs will include appointment of an Auditor, if applicable);
- Auditor will invoice the Administrator annual charges, unless both roles fulfilled by the same organisation;
- The Scheme Administrator's costs are not recoverable until sufficient Funds are recovered following Invoicing;
- The Scheme Administrator calculates the value of the Scheme Fund as stipulated within the Business Rules;
- Credit invoices will continue to be issued until all Debits have been recovered;
- Invoice queries (not data) will follow existing query processes;
- It is assumed that the segregation of the revenue for SETS is no different to the segregation of the revenue for USRV sharing;

There will be no retrospective application of the Scheme Rules if Ofgem approval is not given in time for January 2011 implementation;

Concerns

- BGT have indicated that the preferred implementation date for the start of the Scheme should be 1st January 2011, however, Ofgem are not proposing to conduct the Regulatory Impact Assessment on the Theft issue until January 2011;
- Appointment of the Scheme Auditor may not be in place for a potential Scheme start of January 2011, this may affect the validity of the first Scheme Year;
- The Auditor costs may be paid by the Scheme Administrator during the Scheme Year, but cannot be recovered until sufficient payments have been made to the Scheme Fund;
- The Business Rules do not stipulate whether a Shipper is able to query / challenge any of the base data used to determine their share of the Scheme Fund (i.e. Auditor findings, portfolio share);
- Invoicing the [net] credit values will be graduated, driven by the amount of debits paid. However, this could prolong the invoicing process (requiring many invoice cycles throughout the year) increasing the Administrators costs;
- Whether the Scheme Fund will ever be reduced to zero each year, this could be impacted by roundings applied in charge calculation;
- Will any Scheme Funds not invoiced (as a result of charge calculation roundings) rollover to the following Scheme Year?
- The proposal allows for the Scheme to be set aside during the Scheme Year in the event of a large shipper termination. However, prior to the decision to set aside the Scheme, xoserve would have already incurred operational costs but would have no means of invoicing for those costs.
- Potential for challenge on interest earned by Scheme Fund
- More clarity will be required regarding Invoicing rules to design and build an appropriate business process

Impacts

xoserve:

Additional resources may be required in order to carry the Scheme Administrator role and/or Auditor role

Carrying out the cash collection/payment function for Option 2

Networks:

Carry out the Cash collection/payment function for Options 1 & 3

Shippers

Appendix 1 SETS calculation assumed in development costs

