

Stage 02: Workgroup Report

0399:

Transparency of Theft Detection Performance

This Proposal will obligate the Network Owners to publish monthly statistics on the theft detection performance of Shippers and Network Owners.



The Workgroup recommends that this modification should now proceed to Consultation



Medium Impact:
Network Owners, Shippers.

What stage is this document in the process?



0399

Workgroup Report

15 November 2011

Version 0.1

Page 1 of 17

© 2011 all rights reserved

Contents

| | |
|------------------------------|-----------|
| 1 Summary | 3 |
| 2 Why Change? | 5 |
| 3 Solution | 6 |
| 4 Relevant Objectives | 7 |
| 5 Impacts and Costs | 9 |
| 6 Implementation | 12 |
| 7 The Case for Change | 13 |
| 8 Legal Text | 14 |
| 9 Recommendation | 15 |
| 10 Appendix One | 16 |

About this document:

The purpose of this report is make a recommendation to the Panel, to be held on XX XXXX 201X, on whether Modification 0399 is sufficiently developed to proceed to consultation and to submit any further recommendations in respect of the definition and assessment of this modification.



Any questions?

Contact:

Joint Office



enquiries@gasgo.vernance.co.uk



0121 623 2115

Proposer:

David Watson



dave.a.watson@centrica.com



07789 570501

Transporter:

Scotia Gas Networks

xoserve:



commercial.enquiries@xoserve.com

0399

Workgroup Report

15 November 2011

Version 0.1

Page 2 of 17

© 2011 all rights reserved

1 Summary

Is this a Self-Governance Modification?

The Modification Panel determined that this is not a self-governance modification.

Why Change?

Although the Network Owners, through their agent Xoserve, already publish some statistics on the number of theft detections reported to them by Shippers, the provision of that data is not codified in any way and thus is provided only at the discretion of the Network Owners.

In addition, there is currently no publicly shared data on the equivalent information related to Network Owner detections of theft in the course of conveyance. As a result, the industry is unable to hold Network Owners accountable for their performance in the same way as Shippers can be held accountable. This also inhibits Party's ability to assess the validity of theft assumptions in the Shrinkage methodology.

Solution

This proposal will obligate the Network Owners to publish monthly statistics on both Shipper and Network Owner theft detection performance.

This proposal will formalise the existing arrangements for Shipper theft detection performance and introduce a similar report for Network Owner theft detection performance.

None of the reports will be anonymous.

Impacts & Costs

This proposal will require the creation of a new report detailing Network Owner performance in detecting theft in the course of conveyance. This may require new data items to be collected about theft detection activities, collated and issued out. Precise costs are to be confirmed as part of the development process.

This report will also amend the existing Shipper theft of gas report such that it removes the current anonymity. This is not expected to lead to any additional cost.

Implementation

This Proposal should be implemented as soon as possible following a Panel decision to implement it.

The Case for Change

This change will provide more information about the theft detection performance of Shippers and Network Owners and therefore lead to more transparency and accountability of performance. It will also allow parties to benchmark their performance against parties with a similar portfolio, thereby enabling best practice to be identified and more theft to be detected.

This will both help the Network Owners meet their existing licence obligations in this area and help lead to a reduction in overall theft volumes, with consequential improvements to cost allocation and competition in the process.

Recommendations

0399
Workgroup Report

15 November 2011

Version 0.1

Page 3 of 17

© 2011 all rights reserved

[The Workgroup considers that the modification is sufficiently developed and should now proceed to consultation.]

0399
Workgroup Report

15 November 2011

Version 0.1

Page 4 of 17

© 2011 all rights reserved

2 Why Change?

Information regarding Shipper theft detection performance is currently published by the Network Owners agent, Xoserve. This is done outside of any obligation to do so, and theoretically could be stopped at any stage¹. The Workgroup consider that these reports add both transparency on Shipper activities, inform Shippers about the prevalence of theft and therefore inform theft detection strategies and also provide a baseline from which future reform of regulation in this area may be measured. They therefore see benefit in formalising this reporting so that its provision is guaranteed in future.

The Workgroup consider that these benefits would be equally valid were Xoserve to publish similar statistics for Network Owner theft detection performance. Although it is understood that there is some performance reporting between the Network Owners and Ofgem, the wider industry does have sight of this data. This means that Shippers do not see the impacts theft in the course of conveyance may be having on their revenues, nor visibility of the success Network Owner actions have on mitigating this loss. The lack of transparency regarding Network Owner theft detection activities prevents Shippers from understanding the amount of revenue recovered following detections and therefore the impact of Network Owner activities on the overall Shrinkage mechanism. It also prevents proper scrutiny of the theft assumptions within the Shrinkage model.

Finally it is believed that the current anonymity associated with the Shipper reports mentioned above restrict transparency and accountability of performance without good reason, and believe that the principle of transparency should be applied to all theft reports – Shipper and Network Owner alike.

¹ We wish to make clear that no indication has been provided by the Network Owners or their agent that they are considering ceasing this reporting.

3 Solution

This proposal will obligate the Network Owners, potentially through their agent Xoserve, to publish monthly theft of gas detection performance reports for both Shippers and Network Owners. These reports will not be anonymous.

A list of data items to be included in the reports are given below.

Data items common in both Shipper and Network Owner reports:

- Shipper Short Code / Network Owner Name.
- Number of cases received.
- Number of cases cleared.
- Number of cases still outstanding.
- Number of cases cleared as valid.
- Number of cases cleared as invalid.
- Number of cases cleared and KWh provided.
- Total KWh provided.
- Number of cases cleared – Shipper actioned.

Shipper report only:

- Total outstanding awaiting Shipper action.
- Number of cases outstanding at 80-days following receipt.
- % Cleared Cases Subject to 80-day Closures.
- % Cleared Shipper actioned.
- Number of cases sent to Shipper for action this month.
- Reasonable Endeavours Claims Received.
- Reasonable Endeavours Claims Cleared.
- Reasonable Endeavours Claims Rejected.
- Reasonable Endeavours Claims Accepted.

Network Owner report only:

- Number of cases cleared – GT actioned.
- Revenue recovered.

An explanation of these report headings is given in Appendix One (below).

4 Relevant Objectives

Implementation is expected to better facilitate the achievement of **Relevant Objectives c and d.**

Proposer's view of the benefits against the Code Relevant Objectives

| Description of Relevant Objective | Identified impact |
|--|-------------------|
| a) Efficient and economic operation of the pipe-line system. | None. |
| b) Coordinated, efficient and economic operation of (i) the combined pipe-line system, and/ or (ii) the pipe-line system of one or more other relevant gas transporters. | None. |
| c) Efficient discharge of the licensee's obligations. | Yes, see below. |
| d) Securing of effective competition: (i) between relevant shippers; (ii) between relevant suppliers; and/or (iii) between DN operators (who have entered into transportation arrangements with other relevant gas transporters) and relevant shippers. | Yes, see below. |
| e) Provision of reasonable economic incentives for relevant suppliers to secure that the domestic customer supply security standards... are satisfied as respects the availability of gas to their domestic customers. | None. |
| f) Promotion of efficiency in the implementation and administration of the Code | None. |

We consider this Proposal facilitates UNC Relevant Objectives (c) and (d). Our reasoning is given below.

c) Efficient discharge of the licensee's obligations

This modification proposal provide the market with greater transparency on individual Network Owner theft detection performance which in turn will better enable the market to identify best practice and poor performance. This in turn will facilitate improvements in the way in which theft in the course of conveyance is detected, thus improving the Network Owners' ability to comply with their obligations under Licence Condition 7.

d) Securing of effective competition:

(i) between relevant shippers;

(ii) between relevant suppliers; and/or

(iii) between DN operators (who have entered into transportation arrangements with other relevant gas transporters) and relevant shippers.

The information provided in the current Shipper theft of gas reports enables Shippers to benchmark their performance against similar Shippers and therefore make an assessment on how effective they are in terms of detecting theft. The formalisation of

the existing reports, and the added transparency this Proposal will bring, will ensure that this benefit will continue, facilitating theft detection in the future. This in turn will have a positive impact on Shipper's ability to detect theft, and thus reduce the cost of theft socialised in the market. This will have beneficial impact on the accuracy of cost allocation in the market, and therefore secure more effective competition.

Any improvement in the way in which theft in the course of conveyance is detected will lead to an increase in the amount of revenue recovered by Network Owners from those who steal, and therefore a decrease in the costs which Shippers are exposed to through Shrinkage or Reconciliation by Difference. This improved cost allocation will also help secure effective competition between Shippers.

5 Impacts and Costs

Consideration of Wider Industry Impacts

This Proposal will impact both Shippers and Network Owners.

Costs

| | |
|--|--|
| Indicative industry costs – User Pays | |
| Classification of the proposal as User Pays or not and justification for classification | |
| This proposal is User Pays as it will introduce new costs for the Network Owners. | |
| Identification of Users, proposed split of the recovery between Gas Transporters and Users for User Pays costs and justification | |
| The costs of removing the anonymity from the Shipper report will be met by Shippers. The cost of producing the new Network Owner report will be met by Network Owners. | |
| Proposed charge(s) for application of Users Pays charges to Shippers | |
| TBC | |
| Proposed charge for inclusion in ACS – to be completed upon receipt of cost estimate from Xoserve | |
| | |



Where can I find details of the UNC Standards of Service?

In the Revised FMR for Transco's Network Code Modification **0565 Transco Proposal for Revision of Network Code Standards of Service** at the following location:
www.gasgovernance.co.uk/sites/default/files/0565.zip

Impacts

| Impact on Transporters' Systems and Process | |
|---|--|
| Transporters' System/Process | Potential impact |
| UK Link | <ul style="list-style-type: none"> None. |
| Operational Processes | <ul style="list-style-type: none"> Transporters will be required to collate information related to their theft detection performance and then issue it out as a report. |
| User Pays implications | <ul style="list-style-type: none"> None. |

| Impact on Users | |
|--|---|
| Area of Users' business | Potential impact |
| Administrative and operational | <ul style="list-style-type: none"> None. |
| Development, capital and operating costs | <ul style="list-style-type: none"> None. |

| Impact on Users | |
|---|---------|
| Contractual risks | • None. |
| Legislative, regulatory and contractual obligations and relationships | • None. |

| Impact on Transporters | |
|---|------------------|
| Area of Transporters' business | Potential impact |
| System operation | • None. |
| Development, capital and operating costs | • None. |
| Recovery of costs | • None. |
| Price regulation | • None. |
| Contractual risks | • None. |
| Legislative, regulatory and contractual obligations and relationships | • None. |
| Standards of service | • None. |

| Impact on Code Administration | |
|-------------------------------|------------------|
| Area of Code Administration | Potential impact |
| Modification Rules | • None. |
| UNC Committees | • None. |
| General administration | • None. |

| Impact on Code | |
|----------------|------------------|
| Code section | Potential impact |
| | • |
| | • |

| Impact on UNC Related Documents and Other Referenced Documents | |
|--|------------------|
| Related Document | Potential impact |
| Network Entry Agreement (TPD I1.3) | • None. |
| Network Exit Agreement (Including Connected System Exit Points) (TPD J1.5.4) | • None. |
| Storage Connection Agreement (TPD R1.3.1) | • None. |

| Impact on UNC Related Documents and Other Referenced Documents | |
|--|---------|
| UK Link Manual (TPD U1.4) | • None. |
| Network Code Operations Reporting Manual (TPD V12) | • None. |
| Network Code Validation Rules (TPD V12) | • None. |
| ECQ Methodology (TPD V12) | • None. |
| Measurement Error Notification Guidelines (TPD V12) | • None. |
| Energy Balancing Credit Rules (TPD X2.1) | • None. |
| Uniform Network Code Standards of Service (Various) | • None. |

| Impact on Core Industry Documents and other documents | |
|---|------------------|
| Document | Potential impact |
| Safety Case or other document under Gas Safety (Management) Regulations | • None. |
| Gas Transporter Licence | • None. |

| Other Impacts | |
|--|------------------|
| Item impacted | Potential impact |
| Security of Supply | • None. |
| Operation of the Total System | • None. |
| Industry fragmentation | • None. |
| Terminal operators, consumers, connected system operators, suppliers, producers and other non code parties | • None. |

6 Implementation

The Workgroup have not provided a timescale for implementation of this modification (as referred to in 6.2.1 of the Modification Rules) as it is not required for the purposes of enabling the Authority or any persons, including but not limited to Users, Transporters, Third Party Participants and Non Code Parties to be aware of the potential benefits or constraints associated with such timing.

7 The Case for Change

In addition to that identified the above, the Workgroup have identified the following:

Advantages

1. Formalises the existing reports which are provided by the Network Owners "good will".
2. Provides transparency and accountability over Network Owner performance in managing theft in the course of conveyance.
3. Provides transparency and accountability over Shipper performance in detecting theft of gas.
4. Provides greater transparency over theft in the course of conveyance volumes, thus enabling more scrutiny of the assumptions within the Network Owner annual Shrinkage methodologies.

Disadvantages

1. None.

8 Legal Text

To be provided by Scotia Gas Networks.

0399

Workgroup Report

15 November 2011

Version 0.1

Page 14 of 17

© 2011 all rights reserved

9 Recommendation

The Workgroup invites the Panel to:

- AGREE that Modification 0xxx be submitted for consultation; and
- AGREE that Code Administrators should issue 0xxx Draft Modification Report for consultation with a close-out of XX XXXX 201X and submit results to the Panel to consider at its meeting on [Panel meeting date].

-

10 Appendix One

Data Definitions

Data items common in both Shipper and Network Owner reports:

- Shipper Short Code / Network Owner Name. The Shipper Short Code or Network Owner Name.
- Number of cases received. The number of TOG Contacts received by xoserve on Conquest during the reporting month.
- Number of cases cleared. The number of TOG Contacts that have closed on Conquest during the reporting month.
- Number of cases still outstanding. The number of TOG Contacts that remain open on Conquest at the end of the reporting month.
- Number of cases cleared as valid. The number of TOG Contacts that have closed on Conquest during the reporting month for which a theft of gas has been confirmed.
- Number of cases cleared as invalid. The number of TOG Contacts that have closed on Conquest during the reporting month for which a theft of gas has not been confirmed.
- Number of cases cleared and KWh provided. The number of TOG Contacts that have closed on Conquest during the reporting month for which the associated stolen energy has been provided or calculated.
- Total KWh provided. The total amount of energy which has been reported to have been stolen for the closed queries for that supplier in the reporting month.
- Number of cases cleared – Shipper actioned. The number of TOG Contacts that have closed on Conquest during the reporting month which have been investigated by the Supplier during the reporting month.

Shipper report only:

- Total outstanding awaiting Shipper action. The number of TOG Contacts that remain open on Conquest and which are awaiting a response from a supplier, at the end of the reporting month.
- % Cleared Cases Subject to 80-day Closures. A percentage of the total number of closed queries which have been subject to the 80-day auto-closure.

0399

Workgroup Report

15 November 2011

Version 0.1

Page 16 of 17

© 2011 all rights reserved

- Number of cases outstanding at 80-days following receipt. The number of TOG Contacts that have closed on Conquest during the reporting month because the supplier has not responded to a request for information after 80 days.
- % Cleared Shipper actioned. A percentage of the total number of TOG Contacts that have closed on Conquest which have been investigated by the Supplier during the reporting month.
- Number of cases sent to Shipper for action this month. The number of TOG Contacts that have been passed via Conquest to the Supplier for their investigation, during the reporting month.
- Reasonable Endeavours Claims Received. The number of Reasonable Endeavours claims that have been Received by xoserve in the reporting month.
- Reasonable Endeavours Claims Cleared. The number of Reasonable Endeavours claims that have been processed by xoserve in the reporting month.
- Reasonable Endeavours Claims Rejected. The number of Reasonable Endeavours claims that have been rejected by xoserve in the reporting month.
- Reasonable Endeavours Claims Accepted. The number of Reasonable Endeavours claims that have been invoiced by xoserve in the reporting month.

Network Owner report only:

- Number of cases cleared – GT actioned. The number of TOG Contacts that have closed on Conquest during the reporting month which have been investigated by the GT during the reporting month.
- Revenue recovered. The amount of revenue recovered following a theft detection under Licence Condition 7(2).