

Consumer Value Proposition 2C15: Theft of Gas

December 2019



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Legal Notice

This paper forms part of Wales & West Utilities Limited Regulatory Business Plan. Your attention is specifically drawn to the legal notice relating to the whole of the Business Plan, set out on the inside cover of The WWU Business Plan. This is applicable in full to this paper, as though set out in full here.

Overview of Consumer Value Proposition

Commitment name

Recovering Costs from Theft of Gas

Description

Ofgem has highlighted the need to tackle gas theft. This has a substantial impact on the safety of end-customers whilst annually resulting in additional costs amounting to £500 million. As a GDN, WWU has the obligation to protect its customers and gas connections from the effects of meter and connection tampering.

The Theft of Gas initiative consists of two projects:

- WWU aims to recover an average minimum of £500,000 per annum over RIIO-GD2 in lost costs due to theft of gas. Money recovered up to £250,000 will be fully returned to customers in the form of lower future gas bills. Recovered costs above this value will be shared 50:50 between customers and WWU.
- Additionally, WWU pledge to protect vulnerable and low-income homes by helping those customers in need to register with a gas supplier. Customers who are registered with a gas supplier will no longer commit gas theft in the future, lowering the overall cost of future gas bills to all customers.

The beneficiaries of this initiative are all of WWU's end-customers.

Summary of CVP

Costs and Benefits over RIIO-GD2

Commitment	Cost	Financial Benefit	Social Benefit	Net Present Value	Net Benefit per £ spent
Theft of Gas	£250,000	£2,341,120	£0	£1,587,802	£7.16

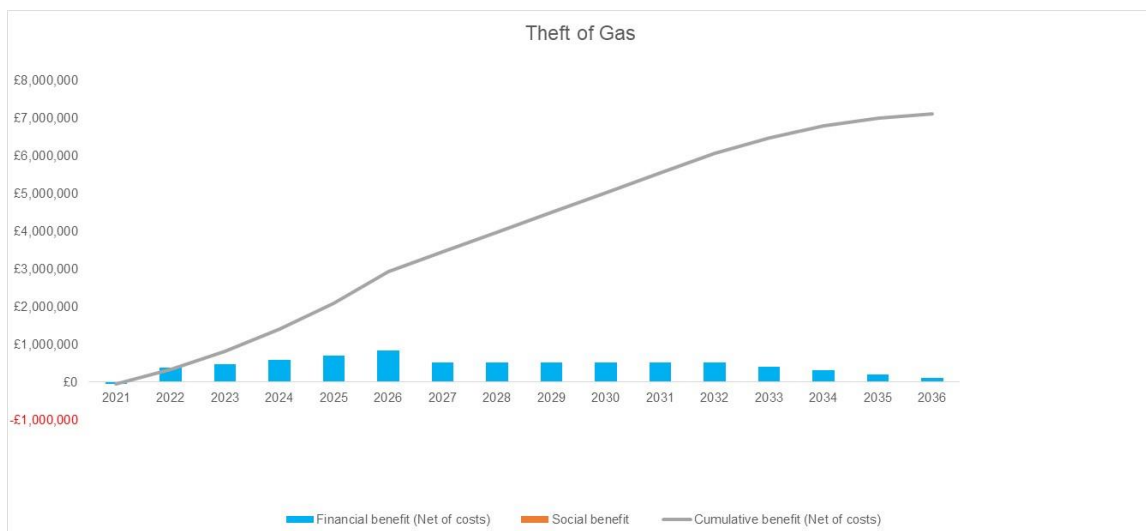
Net present value of costs and benefits over RIIO-GD3

Commitment	Net Present Value
Theft of Gas	£1,894,230

Net present value of costs and benefits beyond RIIO-GD3

Commitment	Net Present Value
Theft of Gas	£1,101,101

Cashflow profile



Summary of CBA inputs

	Name	Description	Value (£)	Source ¹	Probability	Source for probability
Costs						
Cost	Additional FTE	WWU will invest an additional £50,000 per annum into dedicated resources within the back office to continue proactive theft of gas work	£50,000	WWU estimate	N/A	N/A
Benefits						
Financial	Back billing of customers resulting in lower bills for end-customers	The proportion of recovered income will be shared with the customers in form of lower gas bills	£325,000	WWU estimate	N/A	N/A
	Registration of domestic customers	By properly registering domestic customers, end-customers will also continue benefiting in future years due to no longer funding those properties.	£572	UK Power ²	N/A	N/A
	Registration of commercial customers	By properly registering commercial customers, end-customers will also continue benefiting in future years due to no longer funding those properties.	£1,502	UK Power ³	N/A	N/A

¹ Further information on sources is provided in the Cost Benefit Analysis details section

² https://www.ukpower.co.uk/home_energy/average-energy-bill

³ <https://www.ukpower.co.uk/business-energy/average-business-energy-bills>

Cost Benefit Analysis details

Costs

	Name	2021	2022	2023	2024	2025
Financial costs	Additional FTE	£50,000	£50,000	£50,000	£50,000	£50,000
	Costs per annum	£50,000	£50,000	£50,000	£50,000	£50,000

- WWU will hire additional FTE at £50,000 per year cost to further implement a proactive approach to theft of gas. Total cost for the additional FTE for the RIIO-GD2 period will be £250,000.
- This cost has been included in our base Totex for GD2.

Benefits

	Name	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036
Financial	Back billing of customers resulting in lower bills for end-customers	-	£325,000	£325,000	£325,000	£325,000	£325,000	-	-	-	-	-	-	-	-	-	-
	Registration of domestic customers	-	£80,080	£160,160	£240,240	£320,320	£400,400	£400,400	£400,400	£400,400	£400,400	£400,400	£400,400	£320,320	£240,240	£160,160	£80,080
	Registration of commercial customers	-	£24,032	£48,064	£72,096	£96,128	£120,160	£120,160	£120,160	£120,160	£120,160	£120,160	£120,160	£96,128	£72,096	£48,064	£24,032
Financial benefits per annum		-	£429,112	£533,224	£637,336	£741,448	£845,560	£520,560	£520,560	£520,560	£520,560	£520,560	£520,560	£416,448	£312,336	£208,224	£104,112

- **Back-billing**

- WWU expects to be able to recover a minimum of £500,000 per year in back-billing or £2.5 million over RIIO-GD2. Money recovered up to £250,000 will be fully returned to customers in the form of lower future gas bills.
 - As detailed in WWU's paper on theft of gas, approximately 90% of what is currently recovered as part of the initiative is down to proactive work undertaken. This is what has been valued as part of this CVP.
 - Over the past five years, WWU have only recovered £50k per annum through reactive works. Therefore, £250,000 less £50,000 results in estimated benefits of £200,000 to customers due to proactive works.
 - Further, everything above the £250,000 will be shared 50:50 between customers and WWU.
 - As such, this additional benefit to customers above minimum requirements of £125,000 per year ($£250,000 \times 50\%$)
 - This results in a total benefit of £325,000 per year ($£200,000 + £125,000$) over the entire RIIO-GD2 period
- Customers will start benefiting from the back-billing from the second year of RIIO-GD2 (2022) onwards, meaning the benefits will extend into RIIO-GD3 period.
- Apart from back-billing, we will help households and businesses which haven't been registered with a gas supplier yet, to properly register.
- By registering them, the rest of the customers will not have to compensate for the 'stolen gas', therefore their gas bills will be lower.
 - WWU assumes that the benefit will last as long as registered customers remain in the same property, meaning the benefits from customers registered in 2025 will extend to 2036. The details behind this assumption are provided below.
- Based on data from the Ministry of Housing, Communities and Local Government, the average length of tenancy has been calculated as 10.9 years;
 - Average length of tenancy in private rented sector is 3.9 years⁴
 - Average length of tenancy in owner occupier sector is 17.5 years⁵
 - Average length of tenancy in the social sector is 11.3 years⁶
 - Therefore, $(3.9 + 17.5 + 11.3) / 3 = 10.9$ years
- For the modelling purpose we calculated with a more conservative number of 10 years.
- **Domestic customers registration:**
 - WWU estimates 140 successful household registrations each year over RIIO-GD2 period
 - The average annual household gas bill in the UK is £572⁷
 - Customers will benefit from a total of £4,404,400 over the period of 15 years
 - Assuming average tenancy of 10 years, customers registered in year 2021 will stay registered for the next 10 years

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https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/721556/PRS_Longer_Tenancies_Consultation.pdf

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⁷ https://www.ukpower.co.uk/home_energy/average-energy-bill

- After the year 2032 we assume the customers registered in year one will change property and stop receiving benefits from the initiative.
- Therefore, the overall benefits will start declining as fewer customers receive benefits in later years, finally ending in 2036.
- **Business customers registration:**
 - WWU estimates 16 successful business customers register with suppliers each year over the RIIO-GD2 period
 - The average annual commercial gas bill is £1,502⁸
 - Customers will benefit from a total of £1,321,760 over the period of 15 years
 - As per domestic customer registration, an average tenancy of 10 years has been assumed for businesses
- Combined, the benefits amount to £2,541,120 during the RIIO-GD2 period and a total of £7,601,160 over 15 years.

⁸ <https://www.ukpower.co.uk/business-energy/average-business-energy-bills>