

All Electricity supply licensees

Direct Dial: 020 7901 7196

Email: chiara.redaelli@ofgem.gov.uk

Date: 7 May 2014

Dear colleagues,

This letter sets out our decision on proposed modifications to the electricity supply standard licence conditions (SLCs) under Section 11A(2) of the Electricity Act 1989, as well as our intention to publish a Direction to require electricity suppliers to implement the Theft Risk Assessment Service (TRAS). It follows our final policy proposals to tackle electricity theft as set out in our March 2014 decision document "Tackling electricity theft – the way forward"¹. Our key decisions are:

- To introduce a new SLC (SLC 12.A – Matters relating to theft of electricity) to strengthen the obligations on suppliers to investigate, detect and prevent electricity theft. The effect of the modification is to ensure that suppliers make reasonable efforts to tackle theft and protect consumers' interests in undertaking this activity.
- Pursuant to this condition, to issue a Direction to electricity suppliers to implement, by 29 February 2016, a central service to assess the risk of energy theft at consumer premises and so help target theft investigations.

Tackling electricity theft – new requirements for electricity suppliers

Theft of electricity increases prices for customers and reduces safety. It leads to misallocation of costs among suppliers, which can distort competition and hamper the efficient functioning of the market. It also has links to organised crime, in particular cannabis cultivation.

We consider that existing statutory duties, licence conditions and industry code requirements are insufficient to ensure that electricity suppliers or Distribution Network Operators (DNOs) undertake sufficient activity to detect and deter electricity theft and protect honest consumers from harm arising from theft.

Our role in this context is to facilitate the development of effective arrangements to tackle energy theft. In July 2013 we consulted on proposals to develop new arrangements for tackling electricity theft that mirrored the regulatory framework implemented in the gas sector in 2013. In March 2014 we published our decision on the way forward and our Statutory Consultation on modifications to the electricity supply licence.

In our Decision document we also sought views on the drafting of the proposed electricity supply SLC and the TRAS Direction.

¹ See "Tackling electricity theft – the way forward" on Ofgem's website:
<https://www.ofgem.gov.uk/ofgem-publications/86504/electricitytheft-decisionfinalv1.pdf>

We received 10 responses and they were all generally supportive of our drafting of both the SLC and the TRAS Direction. Some respondents noted that it would be best to align the electricity and gas SLCs to ensure consistency in the treatment of vulnerable consumers across both fuels; others raised concerns over the proposed implementation date of the TRAS. We provide a summary of representations in the sections below of this letter.

Summary of responses and our decisions

Question 1: Do you agree with the drafting of our licence condition on:

- a) the objective for tackling theft of electricity**
- b) the Theft Arrangement**
- c) our proposed standards for theft investigations?**

All respondents generally agreed with the drafting. The majority, however, suggested that it would be important that the electricity theft SLC mirrors the equivalent gas theft SLC 12.A. This will ensure a uniform regime across both electricity and gas. To this extent, they suggested that the two SLCs have the same wording to describe the approach to tackling theft by customers in vulnerable situations. They noted that this would ensure a consistent message to consumers and suppliers in relation to tackling energy theft.

We think that the wording in the two licences, albeit different, conveys the same message. We agree, however, that using the same wording will help avoid confusion.

For this reason, **we have amended the electricity theft SLC to mirror the equivalent gas theft SLC 12.A.** To this extent, we deleted the following words [*in a vulnerable situation, such as customers*] in provision 12.A.1.b(ii).

We reiterate, however, that in cases of electricity theft, vulnerability should be assessed in the context of the potential implications of being disconnected from electricity supply. This is the approach set out in our Consumer Vulnerability Strategy.

One respondent noted that safety is not mentioned in the licence condition. SLC includes provisions (see 12.A.3) to report to the DNO any damage or interference, or any incident that the supplier believes has been caused by a criminal act in a way that would facilitate investigation and resolution of any safety concerns. We therefore consider that the existing drafting is appropriate and have made no further changes to the draft SLC.

Question 2: Do you agree with our proposal to direct the implementation of the TRAS?

All respondents agreed with our proposal to direct the implementation of the TRAS.

Question 3: Do you agree with our proposed requirements for the TRAS and the related drafting of the direction?

All respondents agreed with our proposed requirements for the TRAS. One respondent noted that, in order to minimise the costs of running this service, it would be necessary to scope out the detailed requirements and avoid adding requirements that are not necessary. We agree that the TRAS should be implemented and operated in the most efficient manner and that therefore careful consideration should be given to the information requirements necessary to carry out its activities.

To this end, we agree with the respondent who suggested that a phased approach to the introduction of a TRAS should be taken. We expect that this should be reflected in the procurement specification to be developed by industry parties. Consideration should be given to those activities of a TRAS that can be established quickly, at low cost to provide for early realisation of benefits of a more active approach on tackling theft. Such a staged approach would allow for initial services to commence while potential more data-intensive services were put in place. A phased approach would also mitigate against any delays that might be incurred in scoping out more fully the information requirements for the TRAS.

Question 4: Do you agree that we should require the TRAS to be *implemented* by 31 March 2015?

Most respondents expressed concerns regarding the proposed implementation date of the TRAS. A joint SPAA and DCUSA² working group has developed a detailed project plan to deliver a dual fuel TRAS and this plan suggested that it may take around a year (until May 2015) to award a contract for the TRAS. Up to 9 further months may be then required before the service is fully implemented (ie February 2016).

We would have preferred the implementation of a dual fuel TRAS within a shorter timeframe, we consider that the project plan proposed by the joint working group and subsequently endorsed by the SPAA EC and DCUSA panel is robust and contains a reasonable set of assumptions.

Given the above, the TRAS Direction will **require electricity suppliers to *implement* the service by 29 February 2016**. We urge industry parties to swiftly progress work to procure the TRAS by end May 2015, with baseline services starting as soon as possible thereafter. We expect parties to inform the Authority on progress on a regular basis.

A respondent noted that the overall timescale could be shortened should the TRAS be implemented in phases, ie by implementing baseline services first and allowing more time for the service provider to implement additional services which may require, for example, bespoke IT systems to be developed.

As noted above, we support a phased approach to implementing the TRAS, subject to the TRAS providing good quality baseline services at the earliest stage possible and full suite of services by end February 2016 at the latest. We encourage industry to thoroughly assess the most effective way to implement the TRAS in a timely manner.

Whilst the TRAS is expected to provide powerful support to licensees, it is only one tool with which to tackle electricity theft. Until it is available, licensees should continue their efforts and use all other reasonable means to identify, investigate and prevent theft.

In our March 2014 Decision document, we also set out a number of other proposals to add impetus to the parallel process of industry-led reform in this area. In particular, we set out principles for an incentive scheme for electricity suppliers and support for other complementary measures to improve the arrangements for tackling electricity theft. We urge parties to implement these measures as early as possible to deliver benefits for consumers.

Notice

The changes to the electricity supply licence will have effect on and from **3 July 2014**. The Notice and new SLC12.A are attached to this letter.

Once the licence condition comes into effect, we intend to issue the associated Direction. We expect this to be as soon as possible after 3 July 2014. We will at the same time issue a revision to the Direction issued to gas supply licensees on 7 January 2013, ensuring that the two Directions are aligned in facilitation of a dual fuel TRAS.

If you would like to discuss any aspects of this letter, please contact Chiara Redaelli on 020 7901 7196 or chiara.redaelli@ofgem.gov.uk.

Yours sincerely,

Rob Church

Associate Partner – Smart Metering and Smarter Markets

² SPAA is the Supply Point Administration Agreement and DCUSA is the Distribution Connection and Use of System Agreement