
Theft of Electricity and Gas: Discussion Document

A Response by Centrica

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Document ref : theft review 2004
Version No : 1.0
Status : Final
Issuing Authority : Group Regulatory Affairs
Date Issued : 09/07/2004

1 EXECUTIVE SUMMARY

- We welcome Ofgem's review of theft of gas and electricity. We believe that more could be done to incentivise the industry to actively detect and prevent theft;
- The UKRPA data suggests that there is a significant gap in the level of estimated theft and the level of theft actually being found. International experience suggests that the level of potential theft identified by UKPRA is not unreasonable;
- We believe that the industry charging arrangements in support of theft are deficient;
- Recharging methods in the Netherlands suggest a better deterrent to theft e.g. fines on customers. More research should be undertaken to learn from international experiences with regard to potential sanctions;
- Police can be reluctant to prosecute reported theft. Consideration should be given to how this can be improved given the extensive evidence that can be required to support a successful prosecution;
- Centrica believes that further action needs to be taken to improve the DNO and Transco incentives to detect theft at a network level;
- IGTs (Independent Gas Transporters) and IDNOs (Independent DNOs) currently have no obligations to detect theft on their networks and again this needs to be addressed, every relevant party in the industry should have some obligation to detect and prevent theft;
- Theft, where it occurs should be correctly apportioned between the domestic and non-domestic markets in both gas and electricity;
- Centrica believes that bypasses are still being performed and are not being efficiently closed down and this process needs close scrutiny;
- Centrica believes that the current market for Revenue Protection (RP), with the correct regulatory and commercial conditions, is capable of growth and we would like to see more providers of RP services entering the market;
- We do not think that any industry party should be obliged to offer RP services (although they should be required to prevent and detect theft). We believe with the right conditions these services will develop of their own accord. Some networks continue to charge through DUoS for such services and these should be removed;
- We believe working group(s) should be convened to agree appropriate incentives and market arrangements that would improve theft detection rates.

2 INTRODUCTION AND GENERAL COMMENTS

Centrica welcomes the opportunity to comment on Ofgem's recent discussion paper: Theft of electricity and gas – Discussion Document. Centrica is the parent company of British Gas (domestic retail), Centrica Business Services (British Gas non-domestic retail) and Electricity Direct and this response incorporates all the views of those licence holders.

As one of the UK's largest energy suppliers, it is Centrica's view that theft of energy is an important issue for the whole industry to address. We are concerned about the potential affects to the safety and well being of all our customers, notwithstanding the financial value at stake, especially given the suggested level of unclaimed 'losses' that the industry is exposed to.

We agree it is important to improve incentives, in order to effectively encourage greater industry focus on the proactive detection of theft, and agree with Ofgem, that this should not necessarily be via increased regulation. Indeed, there are already obligations laid down across licence holders requiring them generally to prevent and detect theft, but what is now required is the right market environment that enables better theft detection through innovative methods, that are able to flex and modify detection and investigative approaches in line with a dynamic competitive supply market place.

Currently suppliers who actively detect theft may be commercially worse off. Financially there is little incentive to actively search for theft and in a fully competitive supply market, where 100's of thousands of customers are transferring supplier annually, the potential for theft to go unnoticed is significant. Furthermore, we believe that this will potentially be exacerbated, as market fragmentation increases with metering competition and the selling of LDZ's (Local Distribution Zones). We therefore support the need to review the current arrangements to ensure that the correct financial and market incentives are put in place.

As we know, theft increases prices for all honest customers, regardless of their income, increasing energy bills can be the difference between fuel poverty or fuel affordability for some customers.

Moreover, we agree with Ofgem's safety concerns in Section 2.7. Tampering with both gas and electricity supplies is extremely dangerous and not only to the person tampering with the supply but also to their neighbours and local community. Indeed most Revenue Protection (RP) Officers see this as their primary responsibility over and above recovery of revenue. However, the industry requires stronger deterrents on customers that are stealing energy – currently customers are exposed to some admin and the actual cost of the energy they have stolen (disconnection is not always a deterrent for these customers!)

The value of potential theft provided by the UKRPA (UK Revenue Protection Association) and published in Ofgem's document in sections 2.5 and 2.6 is of concern, especially given the relatively low level of actual detection cases presented at the seminar on 7th June 2004. The data suggests that currently the industry is identifying around £1m theft of gas annually and £22m electricity annually. The UKRPA data suggest that theft is potentially in the region of £40m for gas and £200m-£300m for electricity, and appears to be corroborated by data we have received for the Netherlands, indicating that the estimated theft of electricity there is around £125m annually (this is in line per head of population with the figures estimated by the UKRPA). (See Appendix B).

It seems unlikely that theft levels decreased after the introduction of competition although there was suggestion at the seminar on June 7th that tip offs are becoming more accurate due to increased education within the meter reading community. Certainly since competition began, it is more difficult to use traditional methods of detecting theft, such as customer usage profiles, and customers may well be 'leap frogging' from supplier to supplier in order to avoid detection. Targeting known areas is also more difficult as suppliers can only enter the homes of their existing customers.

We agree with Ofgem that the industry requires an approach that encourages theft detection that is independent of any one supplier or network. This needs to be underpinned with credible incentives so that theft is identified quickly and accurately recorded as described in Section 2.21 of Ofgem's document.

To assist with interpreting this response, it is worth stating upfront that we agree with Ofgem's definition of theft as described in 2.1 and generally where 'theft' is used in this document it covers abstraction of electricity as well as theft of gas although we note the physical differences between the two fuels and the need for different terminology.

Following our previous submission on levels of theft and costs of investigation between 2000 and 2003, it is hoped that this additional response will help further inform where Centrica believes action should be taken. Responses to Ofgem's specific questions are set out in Appendix A. We agree for this response to be placed on Ofgem's website and are keen to be involved in any further debates or working groups considered necessary to investigate and resolve the current issues and to put in place a simple and effective mechanism which all industry parties can agree to.

2.1 ELECTRICITY

2.1.1 Charging for theft and other unaccounted for electricity

Section 5.3 and 5.4 of Ofgem's paper sets out the charging methodology used in the electricity industry and an explanation of how theft is paid for and by whom. Centrica believe that any incentive based detection of theft should consider both domestic and non-domestic markets. For example, customers making illegal connections to street furniture and other parts of the network could be either the equivalent of HH or NHH customers. Centrica has energy operations in both North America and Belgium as well as strong links to other European countries. In researching how these countries deal with theft of energy, it appeared that currently the most widely discussed and hotly debated topic is the increasing numbers of theft incidents found at 'grow houses'. In many cases these are industrial/commercial premises that have been converted into 24 hour greenhouses for cannabis production. While these cases may be relatively few in number, they are of a much greater volume than domestic cases. Whilst Centrica is not suggesting that 'grow houses' are prevalent in the UK, it is nonetheless indicative of a thriving theft community within a non-domestic market which is applicable, albeit in different forms within the UK.

2.1.2 Bypasses

Another concern is where bypasses are put in place. We believe this is happening at both domestic and non-domestic sites, including at large I&C sites potentially put in place by the DNO. These can be forgotten or it may be assumed that work to fit or fix a meter will take place at a later date. Sites can remain in this state for weeks, months or even years during which time the costs of the energy used can be substantial. It is essential that robust processes are put in place to minimise any delay in ensuring that meters are correctly fitted. Incentives should be placed on either those parties who are responsible for setting them up or those who are responsible for ensuring any further work needed is completed quickly.

2.1.3 Charging mechanism

Section 5.5 of Ofgem's paper deals with the readjustment of GSP Correction Factor (GCF) when stolen units are entered into settlement. This readjustment seems to disadvantage suppliers who proactively detect theft of energy; by paying for their customers usage, a supplier reduces the overall smear for all suppliers yet increases their cumulative units which is used to apportion the smear of 'lost' energy for the next reconciliation period. Therefore, a proactive supplier does not wholly benefit from the reduced smear charge.

2.1.4 DNO incentives

Section 5.8 of Ofgem's paper describes how DNOs would recover money if theft from the network was identified and recorded rather than if it were not, yet no DNO has published a mechanism (as described in Section 3.14) for the purposes of billing a customer where theft is found on the network. This would appear to indicate it is cheaper for DNO's to do nothing than to identify, investigate and bill customers who steal from the network.

Centrica would welcome the publication by DNOs of schemes under Schedule 6, paragraph 4 of the Electricity Act 1989 (as described in Section 3.14 of Ofgem's document) setting out how DNOs would recover the cost of theft where no valid contract is in place. Indeed, if no scheme is currently in place this raises the questions of how DNOs are currently billing customers for theft found on their networks such as customers making illegal connections to the network.

2.1.5 Provision of RP services

As Ofgem state, prior to 2001, all DNOs provided a RP (Revenue Protection) service under their DUoSA (Distribution Use of System Agreement), paid for by suppliers in their DUoS charge. But currently the situation in procurement of RP services is unclear as DNOs have had the obligation removed from their licence. As a result, some have chosen to continue, others have chosen not to, and the remainder are considering their position. Creating the right market conditions to encourage proactive detection is paramount. Since Ofgem are currently undergoing a Distribution Price Control Review we would seek assurances that all RP activity has been removed from DUoS, this will ensure the appropriate conditions for allowing development of competition in the RP services market and ensure that suppliers are not paying twice for a service they wish to procure from a third party provider.

2.1.6 Recovery of costs

Recovery of money from customers as discussed in Section 5.16 of the paper is indeed a problem for suppliers. Many customers do not pay the theft charges and normal debt recovery processes are used to recover as much as possible, but even in these cases only a proportion of costs billed are actually recovered and court procedures are often more costly to a supplier than the amount of money outstanding. Ofgem's comment about suppliers not being able to transfer debt on PPMs when the customer moves house is also well made and Centrica agrees that this adds additional risk to the recovery of debt. In addition, often debt put on a PPM is never paid as the customer bypasses the PPM (which is easier to tamper with than a credit meter) or ceases to use energy and hence negates the need to charge his PPM card and pay off any debt.

2.1.7 Industry Process

Confusion between the RP code of practice and the BSC mean it is not entirely clear who should be notifying the DC of the estimated amount stolen. The RP service is often in a better position to identify what appliances are in operation at the time the theft is found, it should therefore be the RP services' responsibility to provide an estimate of theft in all cases whether identified by the RP service or by the supplier. Centrica would like to see the two documents aligned to ensure the process is as clear as possible for all parties.

2.1.8 Must Reads

In Section 3.3 Ofgem state that supplies are required to inspect all NHH (non-half-hourly) meters for meter tampering at least once every two years where they are continuously the supplier for that metering point, but where customers move supplier frequently, then this could be longer than two years. Centrica believes that this gap can be addressed by the sharing of information between suppliers albeit this requires further investigation and development.

Customers who steal energy rarely voluntarily allow meter readers access to their premises; deploying intelligent metering technology and/or having independent investigative agencies may well be the answer. For example, Automated Meter Reading (AMR) (or potentially other emerging technologies) can provide a sensitive, accurate means of detecting theft, not reliant upon prior notice to a customer for a two yearly check, which also relies on the meter reader identifying the signs of theft and reporting suspect cases. There is also the possibility that meter readers who live within the local community may face retaliation if they report these incidents, a problem not experienced with AMR.

2.2 GAS

2.2.1 Charging for theft and other unaccounted for gas

As with electricity, theft of gas is pertinent to both domestic and non-domestic markets, and all unaccounted for consumption is paid for through RbD (i.e. the under 73,200kWh market). Suppliers to the over 73,200kWh market have no incentive, other than safety issues, to look for intentional theft, which is paid for by the under 73,200kWh market.

2.2.2 Bypasses

There are also known instances where bypasses have been put in place by the GT, with the assumption that other work is to take place at a later date these can be at large or small sites but those at large sites can use significant volumes of unrecorded gas for significant periods of time. Again, the over 73,200kWh market is immune to this cost and therefore these suppliers, nor the GT have no incentive to have robust processes in place to limit the length of time these situations exist.

2.2.3 Charging Mechanism

As in electricity, the basic principles of setting the right incentives is critical to creating the right market conditions to encourage theft detection by both under 73,200kWh suppliers and over 73,200kWh suppliers.

Centrica disagrees with Ofgem's comment in Section 6.17 that gas suppliers are incentivised to maximise revenue from customers who are stealing by detecting theft. Whilst it may be true for the under 73,200kWh market that no further charges are incurred for the units identified as stolen, they do decrease the RbD cost across all suppliers and increase their cumulative AQ for the next reconciliation period. Therefore a proactive supplier does not proportionately or exclusively benefit from detecting theft.

2.2.4 GT incentives

Ofgem summarises in Section 6.26 – 6.31 that GTs do not have strong incentives to detect theft. We agree and would also like to see this changed. Not only is theft directly from the network more dangerous but also difficult to detect and of a greater volume. Transco are exposed to a set percentage (0.03%) of throughput for theft, as part of shrinkage, and therefore have no incentive to find theft above and beyond that amount.

2.2.5 Provision of RP services

Whilst we do not believe that GTs should be required to offer RP services we would be keen to ensure they have the correct obligations and incentives to ensure they are detecting theft on the network, including shipperless sites where a valid supply contract is not in place.

2.2.6 Recovery of costs

As with electricity, costs are often difficult to recover and court proceedings generally cost more than the outstanding amount. Additionally the installation of PPMs, which is the standard method of recovering debt, is also prone to problems as described previously in the case of electricity.

2.2.7 Industry Processes

We would welcome the introduction of a Reasonable Endeavours Scheme for both IGTs and DNOs (and IDNOs) but only if it was made easier to use and easier to claim recovery of all reasonable costs rather than just a capped sum. We believe that the industry could come to an arrangement which would remove the potential for abuse, perhaps certified by

an independent agency that all the evidence necessary to prove theft has taken place but money cannot be recovered.

It is fair to say that some claims submitted are rejected on grounds that may not be within the suppliers control. For example, rejections for not complying with the Transco prescribed timeline or having a crime number. Domestic suppliers are obliged to offer a variety of payment methods and if the customer agrees then defaults on it we are likely to be outside the set timeline for reasonable endeavours but may not have collected any significant sums of money from the customer. Furthermore, we should consider how charging approaches for proven cases of theft might act as a deterrent.

The police are reluctant to accept theft cases for vacant properties, given the likely successful prosecution rate and this leads to suppliers being unable to secure a crime number. The 'thief' is unlikely to be caught, increasing their 'unsolved crime' figures. Unfortunately, particularly in the case where occupiers have absconded, this is typical of the case where we would submit a request for a 'Reasonable Endeavours' payment (the supplier is also unlikely to find the customer to obtain payment).

Whilst we appreciate that the Theft of Gas working group has attempted to make the process less onerous, we believe that the administration required to make a submission remains problematic with the difficulties far outweighing the benefits, especially when the benefit of £250 in the majority of cases does not always cover the cost of investigation.

2.2.8 Must Reads

The current issue with the gas Must Read and Inspect process is that not only are more accurate methods available – both to detect theft and to detect very small gas leaks – but the requirement to notify the customer and apply for a warrant can often give the customer enough time to remove at least some if not all evidence of theft. Condition 17 of the Gas and Electricity Suppliers Licence does not therefore provide the most effective mechanism to detect theft.

3 SUMMARY

As mentioned in Section 3 of this response the gap between what is estimated to be stolen and what the industry is actually detecting is a cause for concern. Developing market based incentives to identify theft could lead to innovation in the methods used to detect theft and this should increase the current levels of detection, hopefully to either somewhere near the estimate or at least to provide further evidence in order to reassess the estimate.

Whilst Centrica are active in the area of theft detection and prevention, it is our understanding that this may not be the case for all suppliers. This is not surprising considering the financial implications faced by suppliers. The alternative is for the current regime to remain without significant changes resulting in the need for Ofgem to monitor and police compliance with the current obligations. However, any subsequent investigation and enforcement action by Ofgem could be counter productive for the whole industry, suggesting that there are major detection problems resulting in loss of customer confidence in network safety. Any increase in the regulatory regime would require more administration, both for Ofgem and for suppliers and transporters and distributors,

potentially diverting money and resource which could otherwise be used to detect and investigate theft.

Therefore, it seems more appropriate for all parties to be involved in this review, to identify better incentive mechanisms through a change to the transportation and distribution charging mechanisms.

We need to agree how all industry parties can work together to exchange information and knowledge about known offenders and areas, perhaps via a national database (data protection approved) of customers where theft has been proven or even suspected to allow suppliers to monitor consumption in a more focussed manner. Patterns of theft are complex and spread across the whole country, potentially perpetrated by all classes of customers but there are often pockets where word of mouth has spread or certain individuals operating in a given area offer 'services' to reduce bills. These criminals are increasingly opportunistic, exploiting the competitive market. All parties need to rise to these challenges with increasing levels of sophistication. Market based Revenue Protection Services would develop intelligence and grow experience to respond to theft initiatives. Suppliers, DNOs, GTs and RP services working together could be more effective than working individually.

4 NEXT STEPS

Centrica would like to see a workgroup set up to look at possible incentive mechanisms on all parties to detect and prevent theft. We would like to see the industry working together for the benefit of all parties and customers. We look forward to Ofgem's recommendations in September and in the meantime would be more than happy to assist with any information we can provide and/or taking part in any discussions to help inform the debate.

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Appendix A – Centrica’s responses to specific Ofgem Questions

This appendix answers the specific questions posed by Ofgem in their discussion paper. Although many of these aspects are addressed more fully within the main body of this document.

Ofgem Question: Comments are invited on whether the responsibilities and incentives on electricity supplies and DNOs are correct or should be amended. If respondents consider that the responsibilities and incentives should be amended then views are requested on what changes should be made.

Centrica believes that the incentives need developing further to encourage innovation and the further development of a RP services market. The proactive detection of theft would be more active if allowed to develop on a more commercial footing. Key points as follows:

Sharing unaccounted for electricity across all markets

The industry should look at what kind of charging mechanisms can be introduced to allow the cost of unaccounted for electricity to be shared across the whole customer base not just the NHH market. Sharing the cost of theft across HH suppliers will also provide an incentive on them where there currently is none, to actively look for theft. The charging mechanisms should be changed so when units are identified and put back into settlement suppliers can reduce their own proportion of the charge.

Robust Processes

Robust processes and incentives on both suppliers and DNOs should be introduced to ensure bypasses are not fitted and that meter fix work is performed in a timely manner to ensure this type of losses are reduced.

RPCoP and BSc alignment

Centrica understands that because of the misalignment of the RP Code of Practice and the BSC confusion as to who should be notifying the DC of the additional units to be entered into settlement means that not all cases are being notified. The BSC and RPCoP should be aligned.

DNO incentives

Centrica believes that whilst DNOs may not be maximising their revenue they have little incentive to identify theft on the network. We believe that this is why no schemes under Schedule 6 of the Electricity Act have been put in place. DNOs should have an obligation to detect theft on their own network and should have a scheme as laid out in the Electricity Act to charge customers for theft where no contract is in place with a supplier.

Provision of RP Services

Centrica believes that DNOs may not have fully removed all RP costs from DUoS yet are either not providing a service or are providing a service in what is essentially a competitive market but suppliers are paying through a regulated costs. Ofgem should ensure and that

all RP costs have been removed from DUoS charge and a schedule of prices for RP services is available to allow competition in the market for RP services.

Ofgem Question: Comments are invited on whether the responsibilities and incentives on gas suppliers and GT's are correct or should be amended. If respondents consider that the responsibilities and incentives should be amended then views are requested on what changes should be made.

Sharing unaccounted for gas across all markets

Centrica believes that the incentives on suppliers are not incentives but are, in fact, disincentives. Currently all theft is paid for by the <73,200kWh market, so there is a positive incentive on the >73,200kWh market to do nothing. A charging mechanism should be introduced to allow the cost to be shared across the whole industry not just the <73,200kWh market. Centrica believes that once the units identified as being stolen are put back into settlement the AQ (at the AQ review) for that customer increases leading to a decrease in the overall RbD pot as well as an increase in the suppliers proportional cumulative AQ above other suppliers, leading to the supplier picking up a larger proportion of the RbD smearing in the next reconciliation period but reducing other suppliers costs where they may not be proactive in detecting theft.

GT incentives

Centrica believe there is currently no scheme in place for the transporter to bill customers who steal from the Network, (and as in electricity) GTs remain largely neutral to theft (or at least only pay 0.03% of total throughput, where if theft is more their bill does not increase) therefore there is no incentive on GTs to detect theft from their networks. Furthermore, we see no evidence that GT's actively check isolated sites which are shipperless to ensure there has been no illegal reconnection. The industry should work together to identify a suitable mechanism to incentivise GTs to detect theft and bill customers.

Ofgem Question: Specific comments are requested on the effectiveness of the reasonable endeavours and allowances schemes in place and the role of IGTs in providing a mechanism for suppliers to recoup costs from failed attempts to recover charges from customers.

Whilst the Reasonable Endeavours scheme is welcomed and has recently been reviewed to try and make it more user friendly, we believe it still does not go far enough to provide sufficient incentives on suppliers to detect theft. It is too complex, not widely communicated, overly administrative and extremely difficult to get a successful outcome.

Ofgem Question: Comments are requested as to whether respondents consider that there should be a requirement on GTs and/or DNOs to provide RP services for use by suppliers on their networks or whether this should be a supplier responsibility. In particular, it would be useful to understand any differences between gas and

electricity markets and in how the provision of RP services on IGTs, IDNOs and DNOs operating outside of their distribution services area should be treated.

We do not believe DNOs, IDNOs, GTs or IGTs should have an obligation to provide an RP service, however we do believe they should be investigating theft on their networks and therefore appropriate incentives should be applied. Suppliers should be given the freedom to procure their own arrangements from the developing RP Services market and therefore we would also like all RP costs removed from DUoS, to ensure that where suppliers choose to procure their service from a third party they are not paying twice. With regard to IGTs, IDNOs and DNOs operating outside their distribution services area, they should have the freedom to offer these services on a competitive basis to all suppliers.

Ofgem Question: Comments are requested here on whether there is value in having a RP Code of Practice in the electricity market and, if so, whether and how it should be reviewed and updated. Views are also requested on whether it is sufficient or appropriate to maintain compliance with the Code through the DUoS agreements or whether for example compliance should be voluntary or mandated through the licence.

As part of this review it would be helpful to review the RP Code of Practice and ensure it is in alignment with the outcome of this review. Centrica do not believe that compliance needs to be mandated through the licence as this will not best secure the main objective, which is to proactively investigate theft. Theft of energy is a problem for the whole industry and we believe all parties would be willing to sign up voluntarily, especially if the correct commercial incentives are put in place. For consideration the industry should ensure that smaller suppliers are aware of the code and the requirements within it, including the incentives put in place to ensure they are equally as active as larger suppliers in detecting and preventing theft.

Ofgem Question: Comments are requested on whether there is a continued need for the Theft of Gas Code of Practice and, if so, whether this should be reviewed and updated and, if so, who should carry out this review. Comments are also requested on whether adherence to the Theft of Gas Code of Practice should be voluntary or mandated, for example, under the standard conditions of the licences.

The theft of gas code of practice plays a useful role. As above we believe that once this review has taken place a review will be needed to bring the code of practice in line with any changes made, and that mandating compliance through the licence is not necessary but communication to smaller suppliers is important.

Ofgem Question: Ofgem believes that an appropriate and effective regime for the detection and prevention of theft should not require regulatory action as a matter of course to ensure its success. However, action may be required where it can be demonstrated that a particular party has not met its regulatory obligations. Comments are requested here on this approach, in particular, whether respondents consider that the current arrangements are sustainable or would require ongoing compliance enforcement by Ofgem to ensure parties meet their obligations.

If the current regime remains without significant changes than we believe Ofgem will inevitably be required to monitor and police compliance with the current obligations.

However, investigation and enforcement action by Ofgem against any supplier not complying with its obligation to detect theft would be a publicity disaster for the whole industry, potentially sending the message to those who steal that they can get away with it and to those honest customers who pay, sending a message that suppliers are not taking any action to protect them from incurring additional costs. Indeed, regulatory action will not best secure the main objective of developing a more proactive theft detection arrangement. Furthermore, any increase in the regulatory regime would require more administration, both for Ofgem and for suppliers and transporters and distributors, potentially diverting money and resource which could be used to detect and investigate theft into administration.

Ofgem Question: Are the current arrangements fit for purpose?

No, not as they currently stand, we have commented across a number of areas within this response where improvements should be targeted .

Ofgem Question: Is there merit in establishing principles to assist in the success of the arrangements for prevention and detection of theft and are the draft principles set out in Chapter 8 appropriate?

Any principles would form the terms of reference of a working group, the principles in Chapter 8 are an excellent starting place, although we believe that any solutions must also be simple and easy to work with as little administration as possible and that smaller suppliers, DNOs and GTs should be actively involved in the debate and kept up to date with the solutions to ensure they also take advantage of them and are active in theft detection. That said, with regard to principle 2, we do not agree it is necessary for there to be licence based safeguards to detect theft, since this will not secure the appropriate incentives to drive a proactive theft detection regime. Furthermore, an additional principle (5), incorporating a deterrent factor, should be included. For example, 'The arrangements should be such that they act as an effective deterrent to those customers that are considering theft of energy'

Ofgem Question: What can we improve?

We hope we have provided some ideas and answers to this question within this document and have recommended that an industry working party(s) be convened to develop a more robust set of arrangements.

Ofgem Question: What International experience can you share?

We have provided our international input as an appendix (B) at the end of this document.

Ofgem Question: What are your views on the cost and prevalence of theft of gas and electricity?

We believe from figures provided by our colleagues in the Netherlands that the estimates provided by the UKRPA are of the right order and that only a small proportion of the theft occurring in this country is being detected (see Appendix B).

Appendix A - International Figures

Canada

Background

- In 2002 alone, grow ops (cannabis production) are estimated to have cost Ontario nearly \$100 million. As much as 85 percent of these financial losses stem from the large amounts of electricity that grow house operators routinely steal from Ontario's electrical utilities.
- Statistics show that grow operators steal an average of between \$1,500 and \$2,000 of electricity per month to run their operations - that represents approximately 300 kWh per day or 10 times the average electricity consumption.
- Ottawa PUC (public Utilities Commissioner) hope to recover \$100,000 this year in respect of energy theft (Includes administration and repair charges). The energy portion will only be 60% of this value. On average they recover 25-50% of the estimated power that was lost.
- Hydro Vaughan also aggressively pursue energy theft to recover the amount stolen by bypass as well as to recover the associated repair and administrative costs.
- In Texas last year approximately 25% of customers that were disconnected for non-payment unlawfully reconnect themselves.

Regulatory framework - theft

- In Section 4.3.1 of the Distribution System Code (DSC), it states as follows: "A distributor shall use its discretion in taking action to mitigate unauthorized energy use. Upon identification of possible unauthorized energy use,, a distributor shall notify, if appropriate, Measurement Canada, the Electrical Safety Authority, police officials, retailers that service consumers affected by the unauthorized energy use or other entities.
- Section 4.3.3 of the DSC states as follows: "A distributor may recover from the parties responsible for the unauthorized energy use all costs incurred by the distributor arising from unauthorized energy use, including inspection and repair costs.
- LDCs (Local Distribution Company) are also proactive, they check transformers which serve 6-8 houses. If a particular transformer seems loud or hot due to increased load, they will check the meter of the house. If the meter reading seems low, i.e. inconsistent with other findings, they notify the authorities in order to further pursue their case.
- To detect energy theft, they also audit meter readings. If there is a >10% difference in the usage, despite seasonal changes, the utility will pursue a more detailed investigation (as outlined above).

- LDCs are also notified of energy theft from other citizens.
- A REP (Retail Electricity Provider) may, at any time, authorize disconnection of a customer's electric service without prior notice when service is connected without authority by a person who has not made application for service and when service is reconnected without authority after disconnection for non payment and generally where there is evidence of theft of service.
- The TDSP (Transmission Distribution Service Provider) has several tariffed discretionary service fees that they can charge in the event of theft of service including:
 - Broken Meter Seal Fee (for the AEP TDSP this is \$65) charged to the REP (who then passes the fee to the customer) any time there is an unauthorized breakage of the meter seal, regardless of whether it is for unauthorized reconnection of service, unauthorized access into the meter enclosure, or for reasons not identifiable. Additional charges for any cost of repairs or replacement of damaged facilities, installing protective equipment, or relocation of meter will also be charged if such costs are incurred.
 - Meter Tampering Fee -- this fee (in addition to the Broken Meter Seal Fee) will be charged to the REP (who then passes the fee to the customer) any time there is unauthorized access into the meter enclosure and there is evidence of current diversion, meter tampering, or other deliberate act(s) contributing to theft of service. The Meter Tampering Fee is based on the actual time required and is billing according to established hourly rates. In addition to the Meter Tampering Fee, charges will be assessed based on an estimate of the difference between meter readings during the estimated duration of the theft of service and what the meter should have actually registered. Also, charges for any cost of repairs or replacement of damaged facilities, missing or destroyed meter, installation of protective equipment, or relocation of meter will also be charged if such is required.

The Netherlands

Background

- Theft of energy is a **criminal offence** and also a **breach of contract** (more specifically, the terms and conditions of the supply and distribution contract).
- Theft of energy (mainly **electricity**) has been in the news quite a lot recently.
- Theft of electricity by **cannabis growers** seems to be the main problem.
- Theft of electricity costs the Dutch energy companies approximately **£125 million per year** (EUR 200 million). This is a careful estimate as only a proportion of theft is being detected. *[It is our understanding that this amount includes commodity and network charges].*

- There are approximately 7 million household customers (customers with a total maximum transmission value of 3*80 A) in The Netherlands.

Regulatory framework - theft

- The 3 big energy companies (who combine supply and distribution, although legally unbundled) are planning to set up a **industry platform** to detect theft of energy. A **prosecutor** especially assigned to theft of energy cases is one of their recommendations.
- In The Netherlands the **incentive** is on the **distribution business** and not on the supply business to detect theft of electricity. (Undetected theft is considered part of the network losses, which comes at the expense of the distribution business).
- The incentive is on the distribution business because: (1) the distribution business has the most information to detect theft, (2) the distribution business has a financial incentive to detect and prevent theft (via price control), and (3) distribution businesses can recover network losses through their network tariffs.
- With regard to detected theft, any payments by the customer to the network business for the (estimated) illegal consumption will be reflected in the network tariffs the year after.