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Dear Andrew

Reference number: 85/04 Theft of Electricity and Gas

The seminar on the 7th of June was welcome reassurance that industry are taking this issue seriously and are committed to making improvements to the current regime. We would have liked to have had some input from the Home Office as to how they see this issue and how they would like industry participants to interact with the police and the judiciary.

I attach detailed comments on the consultation paper.

However, the current arrangements may be characterised as 'reasonable endeavours' whereas the potential benefit to customers from vigorous activity in this area requires a more proactive approach. This could be achieved by an incentive scheme which gives back some of the benefit to customers of reduced losses to industry participants who are successful in tackling theft. The proposed industry workgroup will provide a forum for developing such a scheme and Powergen would welcome the opportunity to take an active role in it.

Please do not hesitate to contact me on 0870 419 1617 if you would like to discuss any of these issues further.

Yours sincerely

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Views Requested 85/04

Paragraph	Comment
7.5	We would like to see incentives which actively encourage suppliers to tackle this issue. The current settlement regime disincentivises suppliers to undertake theft investigation. Industry discussion needs to take place to decide how this issue can be overcome.
7.10	As above
7.11	<p>The Reasonable Endeavours Scheme is a good example of a scheme which could assist suppliers in taking an active approach to theft management. However it has proved to be complex to use and evidence provided by Transco at the seminar earlier this month demonstrated that few shippers are utilising this mechanism. Transco and shippers should undertake a review of the scheme and ensure that participants are able to actively use it. The scheme is one which if used effectively incentivises suppliers to investigate theft especially in cases where the tenant has left the premises prior to the theft being discovered.</p> <p>IGT's should offer a mirrored provision to that of Transco in order to ensure that shippers are not disadvantaged by undertaking theft investigations on IGT customers. This would follow other industry activity in ensuring that IGT's offer prima facie similar services to Transco.</p>
7.18	<p>Suppliers can act as the focal point for theft investigation and detection as they have the closest relationship to the customer out of all the participants involved in this area. However, they need to be supported in this by all industry participants. Revenue protection services provided by IDNO's, IGT's and distribution businesses operating outside of their distribution area should be governed by the same obligations as other industry participants.</p> <p>These bodies need to be able to provide adequate service provision to suppliers who are currently dependent on either host PES Revenue Protection services or specialist agency provision.</p>
7.23/7.26	There is value in having Revenue Protection Codes of Practice as they can act as a supporting mechanism to the licence condition. Codes of Practice are designed to be flexible and are easier to update to reflect industry change than amending Statute. Adherence to the codes should be voluntary with industry participants reaping the benefits of best practice.
7.36	Compliance monitoring can only ensure that a minimum standard is being achieved, whereas what is needed in this area is a more proactive approach. If the correct commercial incentive mechanisms are in place, Ofgem may still wish to monitor compliance, but it would be by exception and relatively little effort should be involved.

8.3 Principal 1	Agree with the following amendments. Customers who are taking an illegal supply of gas or electricity should face a high risk of being detected and <i>potentially</i> prosecuted. Measures taken against customers should be proportional.
Principal 2	Agree
Principal 3	Agree
Principal 4	Agree – the current arrangements are costly for suppliers and there is no guarantee within the current arrangements that this expenditure will be recouped from customers.
	Any additional activity in this area will need to ensure benefits to suppliers and to customers in terms of effective cost recovery and consequently no pass through charges to other consumers.
	Arrangements need to take into account the safety risks not just to the consumer involved in the activity but their neighbours and surrounding community.
	These amended principles could be enshrined within updated codes of practice to ensure that industry behaviour is reflective of the aims and objectives set out above.

10.5	<p>In the Hungarian energy market, non technical losses are managed by distribution businesses. Between 1995 and 1999 there was no specific resource applied to energy controlling activity and network losses were seen to rise significantly. In 1999 the Energy Controller's Organisation was established and network losses were seen to decrease and have continued to decrease since then.</p> <p>By taking a combined approach, encompassing meter reading, energy controlling and metering (network loss) functions, the distribution business are enabled to take a proactive approach to energy management. With regard to the level of theft as compared to other losses in the Hungarian market, metering failures and meter mounting deficiencies are found to involve tenfold more unbilled energy than illegal abstraction. I will be happy to provide further detailed information on our experience in the European energy market if required.</p>
10.6	<p>A holistic approach needs to be taken to this issue encompassing best practice across gas and electricity (within the UK and Europe) which takes into account the impact of the changing structure of both industries. With further fragmentation of the industry planned for the next ten years it is essential that the agreed structure for this activity is in place.</p>