

## Siemens Energy Services response to Ofgem's Theft of Electricity and Gas Discussion Document

### Introduction

Siemens Energy Services Limited (SESL) is a competitive provider of a wide range of Metering and Data Collection services to the utilities industry covering Revenue Protection, Debt Recovery, Data Retrieval, Data Processing and Data Aggregation, Prepayment, Asset Provision, Asset Maintenance (Meter Work) and Asset Management.

SESL is a truly independent competitor in that no part of its parent structure has any corporate connection to any utility company. SESL receives no business from within its group structure. SESL is wholly owned by Siemens PLC, its turnover in the UK is about £100m and its headquarters are in Nottingham.

SESL is pleased at the action being taken to address the needs of the energy supply industry to effectively tackle theft and losses and seeks to provide services that are consistent with those industries needs.

SESL's Revenue Protection Service has 25 years experience of dealing with energy theft, providing services to UK DNO's and Suppliers. We manage approximately 6,000 cases of 'meter interference' per year.

### Siemens response to specific areas where comments are requested

#### 4.30. Comments are welcomed on the cost of theft of gas and electricity.

SESL does not dispute the UKRPA's estimate for electricity of between £220m and £330m however, as properly identified elsewhere in the discussion document, it is impossible to be anything like precise whilst non-technical losses can not be divorced from technical losses. Non technical losses will also include billing and metering errors.

Never has it been more necessary to quantify the true extent of loss due to 'tampering' yet never has it been so difficult. A certain level of indiscriminate inaccuracy has exacerbated this problem. For example, a Supplier will continue to pay settlements on estimated consumption for unoccupied premises unless, or until, valid meter readings are entered. It is only therefore the net loss figure that it is seen.

As regards the position concerning 'theft', this contains four elements, 1) the value of energy previously taken, 2) protected future revenue, 3) the costs in terms of damaged assets and 4) the costs of providing the service

SESL carried out some research approximately eight years ago, which showed that the average value of energy taken and protected per confirmed case of 'tampering' was £700. We deal with approximately 6,000 cases per annum, which equates to £4.2m. But this is only based on what we find. A view then has to be taken on how successful the operation is. Supposing that there is a one in ten chance of an energy 'thief' getting

caught our figure becomes £42m. We cover approximately one sixth of connection points in the UK so a figure of £250m could be argued.

Comment has been made on the apparent lower levels of gas theft, compared to electricity. SESL provides revenue protection services for both and would confirm this view. Whether this is due though to reality or an historically less proactive approach is open to conjecture. It is reasonable to assume that gas, being less essential than electricity, is not so likely to be stolen by the 'needy'. Much of the electricity theft that we deal with is on prepayment meters. The electricity prepayment arrangements offer a more controlled collection method than gas, thereby creating the climate for interference. Many of the bigger loss cases that we deal with, e.g. cannabis farms, are in remote areas where there is no mains gas available.

**7.5. Comments are invited on whether the responsibilities and incentives on electricity suppliers 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.**

It is SESL's view that there is presently an imbalance between responsibilities and incentives. DNO's (where they do it) are providing a 'service' to Suppliers who have little, or no commercial interest in it. It is generally only in those areas where there is a supportive DNO that the revenue protection operation remains buoyant and effective.

To deal with responsibilities first, most DNO's seem to fully honour theirs, due in part no doubt to the commercial by product benefit that many of them realise.

As for Suppliers, whilst they have (under License) the responsibility to effectively deter, detect and deal with 'theft' in reality it is extremely hard to set a valid performance level against which compliance can be measured.

The present settlement system, with cash effectively flowing based on meter readings, will never provide an incentive for Suppliers to declare losses, for the reasons expressed in the discussion document. There is a convincing argument to say that Suppliers should suffer a 'hit' when someone 'steals' off them, as in any other commercial activity. It's a risk that they should accept as part of doing business and invest as they choose to minimise the effect. Unfortunately this principle, however sound, will not work, as whilst Suppliers have control over meter agents, asset functionality, key information indicating possible anomalies and knowledge of the customer they will always be able to hide the effects and protect themselves from no more than a smearing effect.

One way in which Supplier's could protect themselves against the effects of 'theft' and meter interference is to enhance the responsibility of their meter agents to identify and report signs of interference. This practice should lead to enhanced standards, thereby increasing the chances of discovering theft and other anomalies, to the advantage of all consumers.

In areas where DNO's support revenue protection there has become an 'us and them' mentality where the Revenue Protection Units are trying to 'catch the Supplier' out on behalf of the DNO. Whilst this may enable effective revenue protection to continue in some areas, SESL believes this is hardly a proper and sound foundation on which the

industry should move forward. The solution is therefore to provide tangible incentives to Suppliers, combined with simple compulsory obligations supported by Ofgem.

### **Incentives for Electricity Suppliers**

SESL notes that the document does not seek to limit the meaning of 'incentives'. We will therefore pose a number of remedies for which the regulator could consider giving recognition to Suppliers

- Technical enhancements at the meter position to deter 'theft'.
- Increased Meter reading and inspection frequency
- Increased monitoring of customers prepayment vending habits and consumption patterns
- Inspect metering installations at the time of Change of Supplier and/or Change of Customer
- Complaints regarding Revenue Protection should be treated separately by the regulator from those relating to normal business – thereby not penalising a proactive supplier

### **Reputation**

Regardless of what tangible benefit Suppliers may get from Revenue Protection, SESL believes that it is not in any Suppliers long term interests to be part of an industry that is gaining an unwanted reputation for the poor manner with which it deals with preventing losses and those that steal off it.

### **'Insurance' Scheme**

Regardless of the impact of all or some of the above 'incentives' (if adopted), it remains SESL's view that some Suppliers will still not be sufficiently motivated to support proactive revenue protection. SESL therefore has considered a scheme that would be compulsory but would provide clear tangible benefits to Suppliers. This could radically change the manner in which this subject is dealt with but in SESL's belief may not be as difficult to implement as may first appear to be the case.

SESL has given more detailed thought to how such a scheme could operate and would wish to share these ideas with any work group that may be set up.

Having clear incentives for Suppliers should hopefully create the climate for more 'thieves' to be prosecuted, which is probably the best deterrent.

However, from a practitioners perspective, even if there should be sufficient change in attitude, incentives and / or regulatory pressure to encourage prosecutions we will still have problems in securing successful prosecutions, as a consequence of business separation is that information is held by different parties, therefore reducing the strength of the evidence trail. Increased communication between the parties is required and Suppliers need to be allowed to freely exchange information where an offence has occurred.

## Incentives for DNO's

### Financial:

SESL is frustrated and puzzled by the diverse views of DNO's towards non-technical losses, which includes theft. Paragraphs 5.8 and 5.18 of the Discussion Document give the view that Ofgem clearly believes that commercial incentives already exist for DNO's to support and fund proactive revenue protection. As this does not appear to be universally accepted by DNO's this indicates to SESL that Ofgem's loss control measures and 'penalties' placed on some DNO's are too lenient, or misunderstood.

SESL assumes that inconsistencies will be resolved and that regardless of what takes place in the Supplier community, DNO's will wish to be in a position to protect their own commercial interests, irrespective of whether they are providing a revenue protection service to others. Should they decide not to, then they will be left, under the present settlement formula, with their income being always exposed to the vigilance and practices of Suppliers and their agents. SESL would be astonished if DNO's were prepared to accept this risk.

### Safety:

DNO's have a responsibility for the safety of service terminations. 'Meter tampering' creates unsafe situations and whilst Suppliers also have a responsibility for maintaining meters in proper order, much interference takes place without the meter being touched and often without a meter being in situ, e.g. customer connects their supply directly to the mains following a de-energisation and meter removal.

It is SESL's view that in the event of a fatality or serious incident, e.g. fire caused by supply interference, that a DNO would not be excused from its safety responsibilities by quoting the 'Supplier Hub' principle. The Health and Safety Executive would expect a DNO to have taken all reasonable steps to ensure that its apparatus is regularly inspected and DNO's will be in a vulnerable position by relying on Suppliers to protect their interests.

DNO's seem to commonly accept that Supplier's have no incentive to carry out revenue protection work and that most 'theft' situations are discovered as a result of the activities of Revenue Protection units currently funded and supported by DNO's. Under the present arrangements, a DNO in order to discharge its safety obligations, will therefore (in SESL's opinion) need to operate a proactive revenue protection function to protect itself against the risk of costly claims and adverse publicity.

### Duty:

SESL believes that the vast majority of the population expects there to be in place effective 'theft' deterrents and sanctions. The scale of the problem and the very few prosecutions that result would alarm the great majority if made public knowledge. SESL believes therefore that there is an argument for proposing that utility Revenue Protection should be carried out as a community 'service' in the same way as maintaining supplies is, with agent's being properly funded to carry out this work, just as they are in the event of supply failures. Most people are prepared to pay a little extra if they know that their safety is being protected and that criminals are being caught.

**7.10. Comments are invited on whether the responsibilities and incentives on gas suppliers, shippers 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.**

SESL's experience in gas revenue protection is limited mainly to the period since 2000, however we have had the ideal opportunity, from our long standing expertise in electricity revenue protection, to compare the two disciplines and identify best practice.

The discussion document comments about the low level of suspect 'theft of gas' investigations and confirmed cases compared to electricity. Anecdotal evidence suggests that 'theft of gas' is as prevalent as 'abstraction of electricity'. If correct, then the problem of inactivity in electricity is but nothing compared to gas. It is SESL's view though that the level of gas 'theft' is less than electricity. *(Please see comments against Reference 4.30 'Cost of Theft')*

In SESL's experience most Suppliers see deterring 'theft of gas' and dealing with it as nothing more than a licence obligation. They'll do what they have to do and no more and seek to contract on that basis. It is SESL's view though that those with any sizeable share of the market do stand to gain by reducing losses. *(Further comment is made against the next Reference 7.11 concerning 'reasonable endeavours')*

Other than the above, SESL believes that the 'incentives' relating to electricity referred to in the previous section also relate to gas. An 'insurance' scheme could apply in the same way in principle.

**7.11. 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 attractive in principle, It is SESL's view that the 'reasonable endeavours' scheme does not go as far as creating the climate for proactive revenue protection to flourish.

Whilst there is a mechanism for a Supplier to be able to recover costs (to a fixed level), the lions share of the charges often relates to the value of gas 'stolen', which can't be recovered under the 'reasonable endeavours' scheme.

The claims process is seen as arduous, in particular the degree of evidence required to support a 'claim' is disproportionate to the potential benefits. The GT should accept the Suppliers claim in good faith, with audits being introduced to ensure that there is no abuse.

**7.18. 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 the gas and electricity markets and in how the provision of RP Services on IGTs, IDNOs and DNOs operating outside of their distribution services areas should be treated.**

SESL believes that the ideal scenario is one where there is consensus in the industry, that DNO's and Suppliers equally recognise the value of RP and they seek to procure those services as a joint industry group.

In this scenario the DNO, because of its geographic base would be best positioned to deliver the service, working in harmony with the independent meter agents operating in its area.

In addition to the 'failings' previously covered in the discussion document and this response, the effectiveness of RP is adversely affected by the 'hand-offs' that take place between the 'host' RP service and the Supplier. In SESL's experience, RP is most effective, in terms of optimising cash recovery opportunities and maintaining good customer relations, when managed by one end to end operation. SESL currently does this for one Supplier, whilst also providing the DNO RP service to all Suppliers within the distribution area. SESL believes that this model could be extended across the country and all Suppliers.

**7.23. 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 by licence.**

SESL believes that the RP Code of Practice served as a very useful tool to set the RP world up in 1998, however it does need updating. The RP Committee, representative as it was supposed to be of Distributors and Suppliers, would have been an ideal tool for initiating review and changes to RP arrangements, however Ofgem left the industry to organise the Committee itself and due to inertia (on the part of Suppliers and Distributors) and lack of funding only two meetings ever took place.

SESL does not know what view Ofgem will form at the end of this exercise, however SESL believes that Ofgem will not feel confident enough to allow the industry to sort itself out, not without some major changes to the settlements process, to make incentives very clear. There will therefore be a need for a level of regulatory 'enforcement' and an updated Code of Practice would appear to be the ideal prop to achieve this. In addition to DNO's and Suppliers, it is SESL's view that Elexon, Ofgem and the UKRPA should also be represented on the Committee.

SESL would welcome the opportunity to contribute towards drafting a revised Code of Practice, compliance with which should be mandated by licence..

**7.26. Comments are requested on whether there is a continued need for the Theft of Gas Code of Practice and, if so, whether it 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.**

SESL believes that there will be a continuing need for a Code of Practice and would welcome the opportunity to contribute towards drafting an updated version, compliance with which should be mandated by licence.



**7.36. 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 that parties meet their obligations.**

SESL believes that ultimately, incentives should be sufficient in their own right to ensure that Ofgem need hold no more than a watching brief on this subject. The trick is in finding the right mechanism for this to happen.

SESL does not believe that the current arrangements will deliver effective revenue protection. Even if the “detection and prevention of theft” issue is dealt with, attention still needs to be paid to the settlements process to ensure that when anomalies are identified, whether it be as a result of theft, fault or error, prompt and correct remedial action is taken. This, coupled with enforcement of the Code of Practice, as it was intended, should at least ensure a level of consistency, if not in itself a solution to the incentives dilemma.

The subject of non-technical losses (Revenue Protection) was not well served by the ‘1998’ process and SESL encourages Ofgem, having taken the step of initiating this discussion, not to stand back again. Doing nothing is only an option if the Supplier and Distribution community show a genuine desire to effectively work together, supported by actions.

## **Siemens response to additional areas of the discussion document**

### **1.5 Introduction**

It is not clear whether the request for “views on any other issues that respondents consider relevant” is solely limited to the Definition given in Section 2.

SESL believes that the same lack of incentives that handicap effective prevention, detection and recovery of losses due to ‘meter tampering’ have the same effect on other areas of unaccounted for energy. It is our view, from experience, that the losses caused by breakdowns in industry processes giving rise to unauthorised unmetered supplies, mismetered supplies, billing and accounting errors are at least as great as those caused as a result of criminal intent. SESL therefore strongly recommends that the remit of the discussion be broadened to cover all ‘non-technical’ losses.

### **2.8 Scale and impact of theft**

Whilst theft of energy may not cause “significant environmental impacts” the wastage caused by several thousand dishonest consumers ‘burning’ more power than they need should not be ignored. Environmental issues are in vogue and tackling the ‘theft’ problem from this (amongst others) angle should give the industry wide ranging political and public support

### **2.9 Scale and impact of theft**

SESL disputes the view that there are no specific social impacts associated with the current theft arrangements.

Little mention is made in the discussion document of the powerful deterrent effect that criminal prosecutions can have. The present arrangements for dealing with energy 'theft' do not sufficiently encourage prosecutions to be sought and supported. The result is that an increasing number of people will steal energy because there does not appear to be action taken against those that do. The industry exposes itself to justifiable accusations of acting irresponsibly and against social justice in this regard.

If left unchecked, it is possible in the long term that the proportion of customers effectively paying for all the nations energy becomes less and less, to the point where the situation becomes almost impossible to reverse. This will have potentially serious effects on changes to public attitudes (i.e. most people at present still believe 'meter tampering' is wrong) and investment issues.

### **3.3 Overview of current arrangements**

As the document states, where a customer changes Supplier the meter may not be inspected at least every two years. This is a worrying loophole in the process and SESL has dealt with many multiple Supplier 'tampering' cases. Suppliers should be required to ensure that meters are not only inspected every two years but on each change of Supplier and occupier. Further reference will be made to this under 'Incentives'.

#### **3.12 Overview of current arrangements**

SESL is pleased to see that Ofgem intends to clarify the anomaly in data provision, however from SESL's experience even when the RPS does provide a revised estimate of consumption to a Non Half Hourly Data Collector, this revision is not always entered in to settlement. It is possible therefore under the present arrangements for a Supplier to recover the full retail value of energy from its customer without paying the correct settlements charges. This process needs to be made simple and subject to audit, alternatively perhaps the industry should look for different methods rather than following the existing settlements route.

#### **3.16 Overview of current arrangements**

The position regarding Rights of Entry requires review. It is often the case that confirmation that electricity has been stolen and the means by which that has happened is not apparent until entry to the premises has been gained and the electric lines, plant and meter examined. It is not practical, nor do the courts see any sense, in obtaining two Warrants for one call. Failing revisions to statute, it is SESL's view that DNO's (and their agents) are best positioned to apply entry powers on behalf of all Suppliers, as well as themselves, within their area.

### **5.4 Settlement**

SESL is concerned that the assumption is made (see footnote) that the frequency of meter readings from Half Hourly sites "will ensure that meter read information on these



sites is accurate... and therefore should not be subject to GSP Group Correction.” SESL has found many instances where this is not the case and urges Ofgem, as previously mentioned, to include this area of concern in its review.

### 5.16 Incentive on Suppliers

In addition to the points mentioned, negotiations regarding repayment and liability for debts relating to meter interference carry a high risk of adverse customer reaction and formal complaint if not handled professionally. The additional cost of this and risk of incurring a poor ‘complaints’ score from the Regulator (regardless of the level of revenue protection activity) provides an additional disincentive on Suppliers.

#### Draft principles

##### 8.3. The draft principles proposed are:

**Principle 1: Customers who are taking an illegal supply of gas or electricity face a high risk of being detected and prosecuted. These customers should also face effective sanctions where theft is detected.**

Agreed but this is not met at present, certainly there is only a minuscule likelihood of prosecution.

**Principle 2: Commercial incentives on suppliers, GTs and DNOS should actively encourage the detection and prevention of theft of gas and electricity. Where appropriate commercial incentives cannot be put in place there should be effective regulatory safeguards in place.**

Agreed

**Principle 3: The arrangements should not require detailed monitoring as a matter of course or require regular Ofgem intervention to ensure compliance and their overall effectiveness.**

Agreed in theory but SESL doubts that the industry is capable at present of being left to operate in an effective manner in this work area. In particular, those industry participants who take tangible action to underwrite their responsibilities will expect Ofgem to support them with the threat of sanctions against those that don't

**Principle 4: The arrangements should be cost effective and should take into account the impact of theft on customers both in terms of cost and safety.**

SESL is not sure in what context ‘cost effective’ is meant. Competition and business separation has made it harder for the industry to recover the sums it is owed by those who have used energy without paying for it. ‘Cost effectiveness’ should therefore be measured in terms of the overall picture, i.e. net effect on non-technical losses.

## Options for moving forward

Siemens Energy Services Ltd (SESL) believes that the same lack of incentives that handicap effective prevention, detection and recovery of losses due to 'meter tampering' have the same effect on other areas of unaccounted for energy. It is our view, from experience, that the losses caused by breakdowns in industry processes giving rise to unauthorised unmetered supplies, mismetered supplies, billing and accounting errors are at least as great as those caused as a result of criminal intent. SESL therefore strongly recommends that the remit of the discussion be broadened to cover all 'non-technical' losses.

### Background Information

SESL are a Service Provider for Metering Services, Revenue Protection and Debt Collection and due to the personnel employed have 25 years experience with electricity theft or illegal abstraction as it is called.

In 1979/80 there was very little action taken when electricity was abstracted, there were many discrepancies between the value of electricity distributed and the total going through the meters. The extent of these discrepancies became a concern for Chief Executives and a nationwide drive to tackle the problem was launched including a policy of prosecuting offenders.

Revenue Protection (RP) is here to safe guard the income and integrity of the industry and remove the 'soft touch' name that the industry is getting. The chances of someone being prosecuted within our industry today are probably no more than 1 in 100. RP is seen as too complicated, there seem to be lots of reasons not to complete this work, suppliers appear not to want to get involved with the detail. This obsession with detail and exceptions prevents progress in dealing with the vast majority of work that relates to energy 'theft' at a single metering point.

The disciplines required for Revenue Protection are the same for Gas and Electricity but the respective industries implement different processes and standards. With an emerging energy market it makes sense for all utility sectors to work together. Energy retailers stand to gain or lose in the same proportion and should not be competing in regard to tackling theft.

However the management of theft needs to be tackled from two perspectives. There needs to be an emphasis on 'deterrent' as well as 'detection'. Incentives are required to deter as well as detect or prevent.

Due to the open energy market and competition in metering it has become harder to keep the evidence trail together but it is still possible to do the job. Further activity is required to ensure that the evidence trail is enhanced .

### Ofgem's Role

Ofgem is currently reviewing DNO's performance on system losses. In order for them to target DNO's they must surely also need to look at non-technical losses, which included

theft, meter and billing errors. SESL would be happy to help Ofgem with their research to identify a figure for the non-technical losses and to then assist in measuring trends.

### **Social and economic factors**

There is no longer the same loyalty towards the industry that the old Electricity and Gas Boards used to have. There is no local presence any longer and many of our utilities are now owned by foreign companies. The face to face contact has dropped significantly as there are no points of contact for the customers except for the meter reader and these services are often sub contracted to another company.

Other organisations such as the DVLC are getting better at combating fraud and it is now very difficult to get away with not taxing vehicles. Benefit fraud is also being successfully targeted. This means that the avenues for people who are looking to try and get away without paying for something have been reduced, increasing the attractiveness of theft from the utility market.

Therefore to take no action is not an option.

### **Incentivisation or enforcement?**

#### **Enforcement**

This would require policing and the regulators involvement. How would Ofgem prove that a supplier is fulfilling its obligations? For example, Supplier X has four million customers, how many reports of meter tampering does supplier X have to give Ofgem to reassure them that their obligations are being fulfilled? If supplier X doesn't declare any 'tamperers', what will Ofgem do? Fine them? If so, how much? Our belief is that supplier X will always be able to do 'just enough' to avoid any penalties.

#### **Incentivisation**

Correct incentivisation is self-perpetuating and should establish a proactive approach to the issue of deterring and detecting 'theft'.

### **Should the responsibility fall on the Distributor or Supplier?**

SESL believes that it should be the supplier, they have the relationship with the customer, they are the loser in law and also liable for costs and losses. The Supplier can encourage identification of loss situations through its meter operation and data collection contracts. They can also drive deterrents through these contracts with more frequent premise visits and enhanced security devices at the meter position. Most importantly the supplier is best placed to report evidence of offences for prosecution. The successful outcome of which and resulting publicity is in SESL's opinion, the most effective deterrent.

With regards to the Distributor, there are some safety issues that they are responsible for but generally those distributors that are supporting revenue protection at the moment are doing it because the settlement system encourages them to do so.

## **Implementation considerations**

A common solution across gas and electricity is required, this will utilise the best of the existing practices and pool knowledge. There is a need to establish proactive recovery of non-technical losses, not just concentrating on theft. Suppliers with their RP practitioners need to look at billing, metering and connection errors, along with data entry errors, as the same lack of incentives causes these situations to develop and perpetuate.

### **Who will be the RP Service Providers?**

RP Service Providers can be DNO's, the supplier could resource themselves or contract with an independent agent. All the RP Practitioners should work to a set standard and operate under commercial arrangements. The NVQ in Revenue Protection should also be encouraged for all service providers.

The Revenue Protection Code of Practice is out of date and much reference has been made to this in the Ofgem discussion document. Although it served its purpose at the time the Code was never implemented as the industry failed to support and resource the committee required to oversee RP. Siemens believe that the Code of Practise should still be encouraged and updated to give the industry a platform to work from.

Whatever is implemented there should be recognition given to Suppliers for proactive effort and long term corrective action, e.g. the punishment of wrong doers.

### **How can the industry culture be changed?**

Suppliers need to be convinced that there is a requirement for a proactive Revenue Protection service. It is probably not practical to go back to the days when the Electricity and Gas Boards could afford to prosecute all wrong doers but SESL would welcome the opportunity to talk to the Energy Retailers Association with a view to helping them to come up with a common approach to 'theft' and develop a policy statement.

The main constraint to suppliers being proactive is the current settlement system. Under the present system if the correct procedure is followed when a theft is identified the supplier has to pay the energy costs, distribution costs and the costs of the RP investigation. In short the supplier is reimbursing all parties that have shared the loss prior to detection. One way in which incentives can be provided to suppliers is not reporting losses to settlement for re-adjustment, thereby allowing the supplier to keep any revenues that it recovers.

As an alternative, where a supplier is liable to pay the costs above but cannot recover any monies from the consumer, they should be able to claim under an 'insurance' scheme. In this scenario the funding for RP and the estimated value of the energy lost is paid for at the beginning of the operating period e.g. every year. The funding would be compulsory on the suppliers and relate to the number of connection points and any 'weighting' factor applied to each supplier's premium according to any 'deterrent' measures that they have introduced.

This fund will be used to pay the Revenue Protection practitioners and it will enable contracts to be set up. The service can still be in the competitive environment, as there doesn't have to be one service provider. When a loss is identified instead of the supplier getting another bill to pay, they will receive an amount from the 'insurance fund'.

E.G Fred Smith gets caught stealing £1000 worth of electricity and is also charged £500 costs. The supplier will be recompensed with the £1500 but then has to go to Mr Smith and try to recover the money, anything received by the supplier could go to reducing the premium that is paid by that supplier in the next funding period.

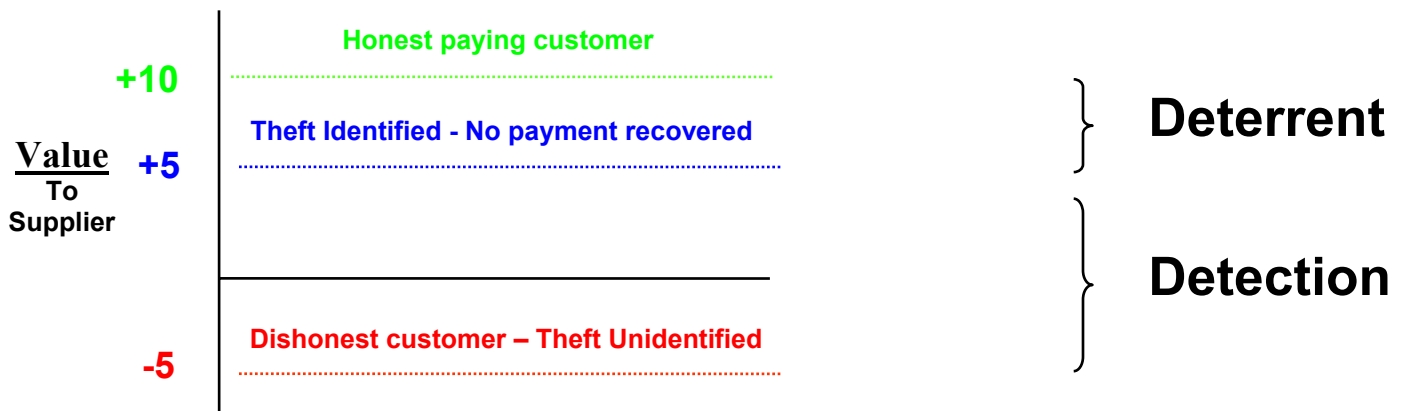
This 'solution' needs more detailed consideration and Siemens would want to work with the industry and its working groups to further explore the feasibility of this proposal.

**Vision**

The industry needs to get to a position where it insentivises 'deterrents' as well as 'detections'. A middle ground has to be found where a supplier who detects a 'theft' is better off than they were when it was undetected but not as well off as if the 'theft' had been prevented.

The following diagram illustrates this principle.

- +10 = an honest prompt paying customer.
- -5 = a dishonest customer that is stealing energy unbeknown to the supplier.
- +5 = Theft detected but no costs or value of energy recovered by the supplier



**Service delivery**

A service of this nature could be undertaken by any industry party including the DNO, the Energy Suppliers or an independent third party.

We have previously mentioned the implementation of the code of practise but believe that the establishment of a more formal industry body be supported to monitor activity and guide process development / implementation. The UKRPA already provides a

centralised function capable of administering to the needs of the Revenue protection industry and marshalling what is already a professional group of individuals.