



SP Transmission & Distribution

Mr A Wallace
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9 Millbank
London
SW1P 3GE

Your ref

Our ref

Date

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Contact/Extension

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Dear Andrew

Theft of Electricity and Gas

SP Transmission and Distribution welcomes the opportunity to comment on Ofgem's paper on the Theft of Gas and Electricity. We have restricted our comments to the electricity industry only, although we recognise that there may be many similarities between the two industries.

Given the need for Ofgem to publish a discussion document and to recently hold a seminar on this subject, it is apparent that the current practices in this area could be improved. It is our belief that the responsibility for the prevention and detection of theft should be one that is shared between both supplier and distributor, with each party's obligations being clearly distinguished within their licence obligations.

At present the licence obligations are relatively weak, and do not encourage the reporting of theft. For example suppliers have no obligation to enter amended consumption into the settlement process, thereby reducing distributors' allowed income and increasing losses. As a result, suppliers will pick up a shared cost of unrecorded consumption through the settlement charge via the group correction factor. Therefore, in order to correct this anomaly, an obligation should be put on the supplier to ensure that when theft is discovered the revised consumption data are entered into the settlement process.

The obligation on the supplier should be to enter an assessed consumption level into settlement rather than a meter reading. This is for the reason that if a meter reading is derived from assessed consumption and subsequently entered into the read history as an actual reading, then the next time the physical meter on site is read the reading could be rejected by the systems as invalid if it were less than the manufactured read.

In order to help resolve the current revenue protection problem the industry must first determine who has the responsibility for the provision of the service and address the issue of funding the revenue protection activity. Although suppliers currently have an obligation to

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detect and prevent theft, if they were also to be made responsible for the provision of the service there is a possibility of a number of service providers operating in the same geographic area. This could result in the provision of a disjointed and fragmented service. Alternatively the responsibility for both funding and provision of a revenue protection service could be placed on the licensed network operator, who could in turn choose to offer the service directly or through its agent.

We see merit in placing an obligation on licensed network operators to provide a revenue protection service. Cost recovery would be through charges to all suppliers operating on their network. Any such recovery could be treated as being outwith the price control and treated as excluded income. The charges made to suppliers could be based on the provision of a basic service, and charged on a pence per MPAN basis, with any additional services being charged on a transactional basis.

By permitting the licensed network operators to fund and recover their costs associated with the revenue protection activity, suppliers may view this position simply as an additional cost. Therefore a mechanism should be put in place to provide suitable incentives for suppliers to report any theft discovered, and to allow the supplier to recover the additional costs it has incurred in detecting such activity. One possible method could be for the electricity industry to adopt the same practice in gas, as used by Transco, or alternatively a network operator could offer a finder's fee for the discovery of theft. However, regardless of the mechanism used, the cost to the network operator should be recovered from all suppliers using their network.

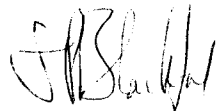
In order to ensure revenue protection works in practice, and that all parties adhere to their obligations, the current code of practice needs to be managed more effectively and also to be amended to give clear guidelines. It could be that a code of practice review panel is set up, along similar lines to the MOCOPA, where all interested parties, including Ofgem are represented. Such a group would be mandated to meet at least four times a year, with the provision that additional meetings are held as and when required. One immediate area that such a group could investigate immediately is to determine a scheme which would allow a network operator to recover costs direct from customers where there is no supplier. Ofgem, in the discussion paper have identified that no such scheme exists at present even although it is permitted under the Electricity Act 1989.

It is our belief that a strengthened Revenue Protection Code of Practice should continue to be applied through the DUoSA. The reason for this view is that in order for a supplier to operate in a network operator's area it must sign onto this agreement, and by doing so the supplier will be deemed to be accepting the role it has to play in the detection and prevention of theft.

In conclusion it is recognised that the issues surrounding revenue protection require all parties to work together to come to a resolution. It was noted at the seminar held on 7 June that there was a consensus that various work groups may be required. SP Transmission and Distribution would welcome the opportunity to contribute to any such groups in the future.

I hope that this is helpful, but please contact me if you need to discuss.

Yours sincerely

A handwritten signature in black ink, appearing to read 'J Blackford', written in a cursive style.

Jeremy Blackford
Regulation