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Dear Andrew,

**Theft of Electricity and Gas – Discussion Document**

You have invited views on the above document published in April and I am pleased to attach our comments.

We believe that the current arrangements are sufficient and do not see any need for them to be amended at this time. However, there may be merit in reviewing them in twelve to eighteen months time to ensure that the continuing development of competition has not led to a material reduction in theft detection.

I hope that you find our comments helpful. We would be pleased to discuss any of the views expressed.

Yours sincerely

Rob McDonald  
**Director of Regulation**

## **Theft of Electricity and Gas**

### **Discussion Document April 2004 85/04**

#### **Whether the responsibilities and incentives on electricity suppliers and DNOs are correct or should be amended**

##### **Responsibilities**

In our view, the current responsibilities set out for electricity suppliers and DNOs are correct and we see no need for them to be amended at this time. The present licence conditions clearly set out the respective obligations of DNOs and suppliers. Furthermore, suppliers have obligations to read and inspect meters, which also produces benefits in terms of detection of theft. Against this background, SSE has in place robust procedures for detecting and preventing the theft, meter damage or meter interference.

##### **Incentives on Suppliers and DNOs**

In addition to the licence conditions noted above, suppliers and DNOs have strong commercial incentives for detecting and preventing theft. In terms of supply, where a supplier detects theft they can make recovery in the form of billed revenue from customers.

In relation to incentives on DNOs, it is apparent that under the distribution price control DNOs' allowed revenue is in part determined by the volume of units distributed. In addition, DNOs can earn higher revenue under the losses incentive term of the price control. To the extent that theft is calculated in losses this provides a further commercial incentive for DNOs to minimise theft. In addition, as part of the current distribution price control review, Ofgem have put forward proposals to strengthen the incentives on DNOs to reduce losses, including theft.

As a consequence, we consider that the current arrangements are adequate and there is no need for them to be amended. We also believe that the estimations provided by Ofgem in the paper on the cost of theft are high and hence overstate the scale of the theft problem.

#### **Whether the responsibilities on gas suppliers, shippers and DNOs are correct or should be amended**

##### **Responsibilities**

As with electricity, we believe that the responsibilities on suppliers, shippers and DNOs are correct and do not need to be amended. There are licence conditions in place with

additional measures for theft that include inspection, reading and testing of meters as well as exchanges of information between suppliers and the relevant transporter or shipper for operation, development or maintenance of the pipeline system and detection and prevention of theft.

### **Incentives**

As above, we do not believe that there is any need for amendment at this time and the current incentives are sufficient. As volumes of losses are incorporated in DN shrinkage, Transco has a similar incentive to reduce shrinkage volumes, and hence theft as the DNOs in electricity.

### **The effectiveness of reasonable endeavours and allowances scheme in place and the role of IGTs in providing a mechanism for suppliers to recoup costs from failed attempts to recover charges from customers**

We do not believe that at present the reasonable endeavours scheme is effective. There is a need for clarification of the exact criteria that need to be met for a claim to be successful. In our view, the scheme is not used presently to its full potential due to the need for this clarification. We understand that the scheme was set up to allow suppliers to recover costs from Transco where an investigation of suspected theft has been carried out but not successful. The amount recovered would be to cover transportation costs along with the cost of the investigation. We would welcome confirmation that our understanding is correct and of the mechanism for making a claim.

### **Whether there should be a requirement on GT's and/or DNOs to provide RP services for use by suppliers on their networks or whether this should be a supplier responsibility.**

Presently for gas and electricity we have in place an RP Service to detect and prevent theft. The RP Service we have in place works on the basis that where a positive theft is detected and we are refused access, we will then apply to the courts for a special warrant on the grounds of safety. In cases where we are unsure, we have a procedure that ensures we visit the property in question on a number of occasions. Where we are unable to gain access we will leave a letter and also send a letter by post to the property in an attempt to arrange an appointment to inspect the meter in question. If this fails we will then visit one last time and leave a warrant application notification letter. This warrant application will be to read and inspect the meter.

We are unclear of exactly what Ofgem is asking for in relation to this heading as it appears to imply that a RP Service is a separate entity from the main business, but the above definition highlights that RP is simply “bedded into” our existing processes. We do not therefore understand how an obligation to provide a RP “service” could work in practice.

**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 service areas should be treated**

We do not notice any discernible differences between gas and electricity or between in and out of the authorised distribution area.

**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**

We believe that the current code of practice is sufficient overall and does not need to be amended at this time.

**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**

Overall we believe that there is a high level of compliance with the current agreements throughout the industry. As a consequence there would be no justification for altering the current agreements or to put in place new obligations to mandate compliance.

**Whether there is a continued need for the theft of Gas Code of Practice and if so, whether it should be reviewed or updated and if so, who should carry out this review?**

We do not believe that there is any need to update this Code as at present it provides a common framework for suppliers to meet their obligations. The obligations set out in the code are clear and as such we do not see any need to review the Code at this time. However there may be some merit in considering placing the gas code of practice under the governance of the new Supply Point Administration Agreement (SPAA), although at present we believe that there are greater priorities for inclusion within that framework.

**Whether adherence to code should be voluntary or mandated, for example under the standard conditions of the licences**

Adherence to the Code should remain voluntary, as is currently the case. As noted above, the current framework provides a common framework that sets out obligations that are clear.

**Whether respondents consider that the current arrangements are sustainable or would require ongoing compliance enforcement by Ofgem to ensure that parties meet their obligations**

It is our belief that the current arrangements are sustainable and that there is no need for ongoing compliance enforcement from Ofgem to ensure all parties meet their obligations. However, there may be merit in reviewing this issue again in twelve to eighteen months time to ensure that the continuing development of competition has not led to a material reduction in theft detection.