

*By e-mail*  
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28<sup>th</sup> February 2005

Dear Andrew

## **RE: Theft of electricity and gas –Next Steps**

Centrica welcomes the opportunity to comment on Ofgem's Next Steps paper on the issue of theft of electricity and gas. For ease of reference we will use the same paragraph numbering in our comments as in the Ofgem paper. Centrica are firmly of the opinion that it is the correct incentives that are the most important element in addressing theft in electricity and gas as it is these that will have an impact on reducing theft in the future. It is acknowledged within industry that theft is occurring that is greater than that being reported, we believe that the best way to address this is to have the correct incentives in place to encourage suppliers and others in the chain to tackle this problem that impacts on all customers in one way or another

### **Section 1 Introduction**

No comments

### **Section 2 Update on Industry performance lost and cost of theft**

Given the lack of information from some suppliers after two requests to supply data the Ofgem paper is based upon the comments of a few respondents, and therefore scarce data, which inevitably result in it not fully reflecting the position within the industry as it is.

We agree that accurate data is important and suggest that DNOs and the GT are in the best position to give estimates as to the level of theft in the electricity and gas as they are aware of the gap between usage allocated to suppliers etc and total energy used. They are also the parties best able to discount other reasons for loss and thereby arrive at a figure for theft. This approach is in our opinion the most efficient and cost effective way of gaining an accurate picture of the state of the industry and would form a basis to inform future discussions on this issue. The problem that suppliers face is that there is a large element of the unknown when trying to detect theft and reporting over and above what is already done is unlikely to inform the debate in a way that will be of great benefit.

### **Section 3 Principles**

- Principle 1: This states that a high risk of detection and prosecution should exist. We note that this will only be the case when all suppliers are proactive thereby increasing the risk and / or the consequence of being caught, i.e. a criminal record is commonplace. However, as only a fraction of the energy believed to have been stolen

in both markets annually is actually recovered, prosecutions which follow, are few and far between.

- Principle 2: This states that commercial incentives on suppliers, GTs and DNOs should actively encourage the detection, investigation and prevention of theft of gas and electricity and that where this is not possible, there should be effective regulatory safeguards. We agree entirely with both aspects of this, we believe that it should be Ofgem who determine which of the routes is appropriate, or potentially that both are appropriate. Centrica would favour commercial incentives to the supplier foremost, with adequate teeth on Ofgem's part to enforce any non-compliance.
- Principle 3: This states that the arrangements should not require regular Ofgem intervention to ensure compliance and their overall effectiveness. We agree with this principle as it is entirely consistent with the principles of good regulation. Once again, if the correct incentives are in place, industry will engage in the detection and prevention of theft and Ofgem should not be required to intervene.
- Principle 4: This states that the arrangements should be cost effective and should take into account the impact of theft on customers both in terms of cost and safety. We agree with this as a principle however we are not entirely sure how these will work in practice, in particular we are not clear how safety can be quantified when evaluating the cost effectiveness of the arrangements.

#### **Sections 4 through 6 Theft obligations in the electricity market, gas market and the incentives in each market respectively**

We agree in principle with the Ofgem views as set out in these sections, but would add a further suggestion for consideration.

- **Proposed Incentives**

A financial incentive scheme needs devising in electricity, which operates in a similar way to that of the gas Reasonable Endeavours scheme. Currently, there is no incentive to detect and prevent theft in electricity, unless you are a service provider, it is just as easy to do nothing. To replicate exactly what happens in gas, will of course result in higher costs to all suppliers & customers, that is if the DNO's are able to accurately assess lost units (which it is believed they are not). The settlement process in gas takes account of all units put into the transmission system, and these are divided equally amongst all suppliers and the GT.

It is our understanding that the supplier who puts lost / unmetered units back into settlement gets dis-incentivised by having to pay the DNO. We maintain that these units should be distributed across all suppliers, so as not to unfairly dis-incentivise the supplier who has identified the theft. The flaw with the current situation is that not all suppliers put units into settlement as they lose out.

Therefore, any such scheme in electricity should not seek to penalise suppliers who detect theft, but should provide an incentive. What should happen, is that all suppliers should enter units into settlement, but suffer no immediate financial penalty. The DNO should then annually, enter these units back into the following year, then divide the production cost on a pro-rata basis against each supplier by customer base so that all suppliers are charged equally, as in gas. This way, the cost and risk would be smeared amongst all suppliers, even those who do very little to detect and prevent theft. Potentially, a

transmission rebate could be offered to those suppliers who have engaged in the process on top of any units recovered and paid for, where they have successfully contributed towards validating losses and reducing consumption, a 'green reward'.

- **Offences - Endangerment to life**

This year saw a case brought against a customer for theft, where they were charged with **reckless endangerment to life**, criminal damage, theft of gas and abstraction of electricity. The former striking home at the safety aspect, rather than the punitive or financial issues, this is a route that is open to industry at present and may be something to consider going forward in order to enhance the deterrent factor.

- **GT responsibilities and transient customers**

One aspect which seems to have been touched on, but not expanded on, is that of the responsibility of the GT or DNO. Customers who switch suppliers or withdraw from a supplier and fail to sign up, seem to get forgotten. There is very clear evidence in the gas market, that when a supplier withdraws from a site, that the GT does not in every case isolate the gas service. Tower blocks are a good example, where no external valve exists, and yet a live service remains. We have also come across meters which Transco state they have removed, and yet are found years later still being used, and gas not being paid for. We suggest that this area should also to be addressed for completeness. For clarity, we believe that the investigation by DNOs and the GT especially, of unmetered unregistered addresses. Is particularly important. They should be obligated to do a number of random checks on properties purportedly not supplied with gas / electricity. We also believe that there should be some reconciliation between emergency visits to gas escapes and customer on supply, as there is a safety angle to all of this that must not be forgotten.

## **Sections 7 and 8 Compliance and codes of practice**

Earlier in the paper Ofgem state that some suppliers and GT's are not complying with their licence to supply, in this section Ofgem state that they believe their involvement should be minimised. We note that only by increasing the incentives on suppliers and GT's etc, as well as by creating a proper deterrent against theft, will Ofgem be able to reduce their involvement.

## **Section 9 Way forward and work programme**

As a further consideration, we believe, that in addition to considering the incentives necessary to encourage the industry to increase the vigilance that is used in combating theft, it is also necessary to consider options available to increase the deterrent factor as well. We believe that this is the case for a number of reasons, the first being that it is surely the most cost effective way of dealing with theft in electricity and gas, as prevention is better than a cure – i.e. as the deterrent factor is increased and thereby instances of theft reduced, less resource is necessary to deal with the consequences of such theft. Secondly, safety would also be increased, as with less interference, there is less chance of harm either to a potential thief or to innocent third parties, this cannot be said to be the case in dealing with theft post-fact.

We believe that there needs to be a three pronged approach to deterrence:

- Punitive effect – to drive home that theft is wrong.

- Incentives on industry to increase action against theft.
- Publicity / increased awareness – this in particular creates the deterrent effect. As awareness of the fact that the industry is actively pursuing theft and that there are consequences from theft both in terms of financial and criminal sanctions increases, it is likely that people will be deterred from acts of theft that they may have previously considered.

We believe that the results of the work currently being carried out in the ERA/ENA workgroups, in which we are playing an active role and are pleased to continue to do so, will be reduced without all of the above being present.

We hope that you find these comments helpful, please do not hesitate to contact me on 020 8734 9351 or e-mail me at [martin.romer@centrica.co.uk](mailto:martin.romer@centrica.co.uk) if there are any questions.

Yours sincerely

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