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Dear Andrew,

***Theft of electricity and gas – Next Steps***  
**Consultation document, January 2005**

This response is submitted on behalf of RWE npower and may be placed in the public domain.

As you know, we have been active in the two working groups set up by the Electricity Retail Association (ERA) and the Energy Networks Association (ENA). I attend both groups and have chaired one of them since the beginning of the year.

It is in the nature of industry initiatives of this sort that progress can only be made through a process of compromise and through this the development of a working consensus. The direction being taken by the working groups therefore reflects a consensus position rather than the views of RWE npower.

With this in mind, I wanted to reiterate RWE npower's position, as reflected in our response to the original consultation document. In our opinion the obligation to detect and prevent theft in electricity supply should lie with distributors, as should its investigation if that requirement is introduced. Having just agreed the new distribution price control, they will have five years of retained benefit before potential revision. At present, suppliers incur the cost of fulfilling an obligation that benefits distributors and are further disadvantaged when they discover theft. Distributors clearly have the greatest financial incentive to fulfil the obligation and, being locally based, are much better placed to do it.

The working groups have been considering schemes to remove the disincentive on suppliers to deal with theft and to provide incentive to both suppliers and distributors to do so. Such an approach would seem to ignore the logic of the natural economic incentive on distributors. Distributors already have sufficient incentive. Any scheme therefore should look at how suppliers could be recompensed for losses they incur as a result of theft. We should not introduce additional complication and cost for suppliers whilst distributors continue to receive most of the benefits, or allow them to benefit disproportionately from any new requirements.

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We make these points especially because as a supplier with no distribution company in the group there is the potential for us to be particularly disadvantaged. Others might not be so affected because what is lost in supply, including the costs of investigation, could be recouped in distribution.

Whilst arrangements in gas differ from those in electricity, they should be made to recognise that theft is an industry-wide problem and should counter the adverse economic effects on suppliers when they identify theft. I hope the working groups will be able to ensure that any new arrangements do this.

Please call if you want to discuss any of these points. I trust our level of involvement demonstrates a commitment by RWE npower to further the review begun by Ofgem and I look forward to continuing with the working groups to move matters forward.

Yours sincerely,

Gerald Jago  
Economic Regulation  
RWE npower