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27th August 2013

Dear Sir or Madam

[British Gas response to the consultation on Tackling electricity theft](#)

1. British Gas believes electricity and gas theft is a very serious issue, which places lives at risk and adds unnecessary costs to customers' bills. We estimate that the annual cost to UK customers of gas and electricity theft is around £500m.
2. British Gas has led the industry in devoting resource to energy theft detection; in an average year, 80% of all gas theft is detected by British Gas. We also take direct responsibility for detecting electricity theft – much of which is linked with cannabis farms, and we have a strong track record of working with the police to detect and stop this. In addition we also ensure that all other aspects of electricity theft, including commercial premises and domestic customers, is given the same priority to mitigate the safety risks involved.
3. We have been lobbying for a whole industry solution where everyone must actively work to detect theft. We, therefore, welcome Ofgem's consultation on this extremely important issue and will work closely with Ofgem to ensure these proposals deliver real benefit to customers. It is important that any new regime maintains incentives on those suppliers, like British Gas, who are adopting a proactive approach to theft.
4. We are supportive of the new licence obligations on electricity suppliers to detect, prevent and investigate electricity theft.
5. We fully support licence conditions that seek to provide protection to genuinely vulnerable customers and those customers who have genuine difficulty in payment of their electricity bills. We continue to feel strongly, however, that those customers who choose to steal electricity should not be afforded the same protections as honest customers who have chosen not to steal.
6. Whilst we do not oppose the aim of moving to a more flexible definition of vulnerability over an appropriate timescale, this aspiration must be balanced against the fact that theft is inherently unsafe. We must be able to disconnect customers, including customers in vulnerable situations, where they repeatedly tamper with their meter and pose a risk to their own health and safety, and also that of their family and neighbours.

7. We are supportive in principle of introducing the Theft Risk Assessment Service (TRAS) and we will work with Ofgem and the industry to ensure this service brings real benefits to customers. However, we have already shared with Ofgem our analysis showing that a combination of lead channels is by far the most effective means of tackling theft, with a pure data-driven approach having a relatively low conversion rate. TRAS must not be allowed to burden industry with unnecessary or unreliable data requests which could result in spurious revenue protection leads – adding costs to the industry without commensurate benefits. It would make sense to establish the Gas TRAS first and apply lessons from that exercise to ensure the most efficient electricity service is implemented.
8. We support the principle of improving incentives on suppliers to detect and investigate theft. Any scheme must ensure the financial incentives on suppliers to detect theft are appropriate and do not encourage incorrect behaviours. It must be of sufficient value to ensure that no disincentive to proactively investigate theft exists in the supplier community. We support a hybrid of the suggested incentive schemes where both the number of detections and the volume of theft detected are rewarded.
9. We agree with Ofgem's comments relating to the treatment of stolen units within the existing settlement arrangements. We do not believe the existing settlement arrangements enable suppliers to effectively enter units into settlement as concluded under the Elexon Standing Issue 39 Final report. Assuming these issues with the current process can be resolved, a full settlement cost-smearing approach is needed to supplement any requirement of suppliers to enter all assessments of stolen units into settlement. Without this there will be a financial disincentive to suppliers to detect theft. We would therefore only support changes to allow suppliers to enter units into settlement alongside a full settlement cost smearing mechanism where all suppliers incur a proportion of the cost of the assessed stolen units and only if the incentive scheme mentioned above is already implemented.
10. We support the proposal that DNOs should have a licence condition to tackle theft in conveyance and agree that DNOs should not be included in any supplier incentive scheme.

More detailed responses to your consultation questions are attached to this letter but should you require any further information please do not hesitate to contact Kevin Woollard (kevin.woollard@britishgas.co.uk or 07979 563580)

Yours faithfully



Kevin Woollard
Regulatory Manager

Question 1: Do you agree with our proposals to introduce new electricity supply licence obligations in relation to theft?

- 1.1. We agree with the principle to introduce new electricity supply licence obligations in relation to theft. We do, however, have some questions and concerns relating to some of the specific licence conditions and we have set these out below.
- 1.2. We agree with the new licence conditions to introduce an overarching objective to require suppliers to detect, prevent and investigate theft. We also agree with the new conditions in support of this overarching condition to detect and prevent theft and to investigate theft once identified.
- 1.3. We welcome the comments in para 3.24 relating to repeat offenders *"In some circumstances, for example where a vulnerable customer repeatedly tampers with their electricity supply and puts themselves or others in danger, then disconnection may be an appropriate response."* We firmly believe any offence is an unacceptable safety risk. We would propose to reconnect after the first offence, having explained the safety implications around this activity and advised that any repeat offence will result in disconnection. Any subsequent offence should result in disconnection, or an expectation will quickly develop that customers can continue to steal without consequence. This will not achieve the objectives of TRAS, and also leaves suppliers open to the potential of corporate manslaughter charges if a major incident occurs as a result of theft of electricity in the future.
- 1.4. We note proposals have been included which would require suppliers to offer vulnerable customers the ability to repay any charges associated with electricity theft via a prepayment meter. Our experience would appear to show that the propensity to steal by domestic customers is greater with customers with a prepayment meter than those with a credit meter, possibly due to the immediacy of their gain. Where a customer already has a prepayment meter installed and has chosen to steal we would interpret our licence condition to only apply to customers who do not already have a prepayment meter installed.

Question 2. Do you agree that our drafting proposals set out in Appendix 3 reflect the policy intent described in this chapter.

- 2.1. Whilst we agree that the drafting set out in Appendix 3 reflects the policy intent described in chapter 3 we do have concerns and queries relating to the policy intent as set out under Question 1 above.
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Question 3. Do you consider that electricity suppliers should be required to offer vulnerable customers and customers that would have genuine difficulty paying, different methods for the repayment of charges associated with electricity theft as an alternative to disconnection?

- 3.1. We agree that suppliers should offer vulnerable customers and customers who have genuine difficulty in paying different methods for the repayment of charges associated with electricity where appropriate, however, we do believe there are genuine issues associated with such alternatives particularly deductions from social security benefits. Whilst arrears recovery is at a set amount, currently circa £4 per week, ongoing usage is at the required rate therefore customers who believe they are losing a significant amount from their benefits to pay for Energy bills will look to reduce the ongoing recorded usage. The amount taken for ongoing usage is currently reassessed quarterly. If additional theft is detected any assessment of stolen units will be applied to their arrears amount which will still remain at the set amount, only the recovery period will be extended. Their ongoing usage amount will increase but in the short term they will have benefitted the value of the stolen units which will only be recovered at a minimal amount per week. This could act as a perverse incentive to carry out theft in the knowledge that any arrears will continue to be collected at a minimal amount per week.
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Question 4. Do you agree that our proposed new electricity supply licence conditions should be introduced as soon as reasonably practical?

- 4.1. We agree that the new licence conditions relating to the duty to detect, prevent and investigate theft should be introduced as soon as reasonably

practical. However we have strong reservations relating to the new definition of vulnerable customers.

- 4.2. British Gas is very proud of the approach that we adopt in dealing with customers in vulnerable situations, including in relation to the topic of energy theft. We have consistently supported Ofgem's efforts to consider how suppliers deal with customers in vulnerable situations and the assistance they can offer in order to ensure that those in need receive the support they need from their energy supplier. However, we have repeatedly drawn attention to our reservations about how the concept of dynamic or transitory vulnerability can be operationalised across what is essentially an energy services company, which employs thousands of front line employees across a number of sites, not only in the UK, but also across India and South Africa. As part of our responses and discussions with Ofgem, we – along with other suppliers - have also drawn attention to how any change in policy which will affect our current operation will have significant system, process and training implications and would need a considerable period of time (and cost) to scope out and implement across all of our sites.
- 4.3. We consider that Ofgem's attempt to define customers in vulnerable situations in the draft licence conditions in relation to electricity theft fails to take account of concerns about the implementation of this widened definition, that it may prove extremely challenging to deliver in practice, and may have far-reaching consequences which have not been fully considered since the electricity theft consultation represents the first time that Ofgem has shared this changed definition.
- 4.4. In our opinion, British Gas is at the forefront of detecting energy theft and in so doing offering protection to vulnerable customers. We have developed a robust policy that seeks to balance the need to tackle theft and protect customers and their neighbours from dangerous situations where theft has occurred whilst also offering safeguards for vulnerable customers. Our policy has been shared and discussed in detail with Customer Futures' Extra Help Unit, and includes the following key points:

- *Non disconnection of supply where there is evidence the customer is vulnerable, or there is a member of the household who is vulnerable, and it is their first offence.*
- *Suspending disconnection action where we believe a customer is potentially vulnerable, pending a full investigation into circumstances including financial security and personal wellbeing.*
- *Treating each fuel independently, i.e. abstraction found on an electricity meter for the first time following previous thefts from a gas meter should be treated as a first time offence.*
- *Balancing the customer's obligation for the energy they have stolen with finding a solution that takes account of the customer's circumstances, and recovering costs and assessed charges through a prepayment meter.*
- *Second or subsequent cases of tampering will result in permanent disconnection from the network until all charges have been paid in full. This includes any debt previously applied to the customer's account or prepayment meter.*
- *Any decision to disconnect a repeat offending vulnerable customer must be pre-approved by a Revenue Protection Manager.*

4.5. Whilst we do not oppose the aim of moving to a more flexible definition of vulnerability over an appropriate timescale, we would assert that we must be able to disconnect customers, including customers in vulnerable situations, where they repeatedly tamper with their meter and pose a risk to their own health and safety, and also that of their family and neighbours. We therefore have significant concerns with Ofgem's suggestion that suppliers have a potentially ongoing requirement to offer vulnerable customers guilty of theft a pre-payment meter as an alternative to disconnection. It is also unclear how this proposed requirement would interact with the obligation to only offer a pre-payment meter where it is safe and practicable to do so. We consider that our existing policy – which involves non-disconnection of supply where there is evidence the customer or someone in the household is vulnerable, and it is their first offence - strikes the correct balance between tackling theft, disincentivising repeat occurrences and protecting customers and their neighbours from dangerous situations, whilst also offering safeguards for vulnerable customers.

- 4.6. We also have wider concerns about the impact of including this draft definition of vulnerable customers in the supply licence when the wider implications of changing the definition have not been consulted on or properly considered. Most obviously, the current draft definition does not align with the equivalent protections in the gas licence nor indeed in any other part of the Supply Licence (including conditions relating to debt and disconnection). It does not appear sensible, nor in the best interests of customers or suppliers, to expect suppliers to operate to differing definitions of vulnerability. Changing the reference to vulnerability in respect of electricity theft has potentially far wider repercussions than those relating solely to electricity theft since whatever definition is adopted here will inevitably be replicated elsewhere. We therefore consider that Ofgem should consult separately on changing references to vulnerability throughout the Supply Licence. Such an approach would allow Ofgem, suppliers and customer groups to take a more holistic approach and consider any unintended consequences or other factors which might be considered helpful – for example how what is proposed might align with other definitions of vulnerability, such as that recently included in one of the recitals to the European Customer Rights Directive which sets out new rules on pre contractual information and cool off rights and comes into force in June 2014:

“(34) The trader should give the consumer clear and comprehensible information before the consumer is bound by a distance or off-premises contract, a contract other than a distance or an off-premises contract, or any corresponding offer. In providing that information, the trader should take into account the specific needs of consumers who are particularly vulnerable because of their mental, physical or psychological infirmity, age or credulity in a way which the trader could reasonably be expected to foresee. However, taking into account such specific needs should not lead to different levels of consumer protection”

Question 5. Do you agree with our approach to conducting the draft IA, the assumptions that we have made and the outcome of our analysis in the accompanying draft IA?

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- 5.1. We agree with Ofgem's approach to conducting the draft IA and have provided detailed comments in response to your IA questions in Appendix 1 to this response.
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Question 6. Have we correctly assessed the main impacts in the accompanying draft IA? Are there additional impacts that we should consider?

- 6.1. See Appendix 1 to this response
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Question 7. Which, if any, of the proposed policy measures (or package of policy measures) to support theft investigation, detection and prevention should be implemented and why?

- 7.1. We believe that an incentive scheme that rewards both a combination of volume of theft detections together with value of assessed stolen units should be implemented. This would ensure incorrect behaviours are avoided such as suppliers only targeting cannabis farms where the value of stolen units may be high but from a safety perspective many of the illegal connections are safer than domestic theft owing to the sophistication and abilities of the gangs that perpetrate this type of electricity theft.
- 7.2. We support the implementation of a settlement cost sharing scheme where the full costs incurred via settlement are shared across the industry on a market share basis. This will ensure suppliers that identify theft and update settlement are not financially penalised. If suppliers were obligated to put units into settlement without a settlement cost smearing mechanism in place this would act as a major disincentive on suppliers and would potentially drive the wrong behaviours with regard to electricity theft detection.
- 7.3. Alongside a settlement cost smearing mechanism we would support the introduction of robust audit and performance assurance arrangements to ensure all suppliers are correctly accounting for stolen units.

- 7.4. Whilst we support the concept of the introductions of the Theft Risk Assessment Service (TRAS) we do not believe suppliers should be obligated to introduce this service until the equivalent service in gas has been implemented and is proven to work and deliver real benefits to customers.
- 7.5. We note that para 4.37 states that “suppliers would be expected to investigate all cases provided to it by the TRAS unless there were good reasons for not doing so”. We do not support this principle. We believe the TRAS should be implemented alongside a theft detection incentive scheme designed to ensure suppliers are required to detect and investigate a minimum volume of theft detections. Suppliers should then be given the discretion to investigate those leads with the highest likelihood to result in confirmed theft detection. This will enable suppliers to concentrate on the more probable theft cases and not waste resources in investigating spurious leads. We believe this position is consistent with the Direction for implementing the TRAS within the gas sector.
- 7.6. We support the introduction of the additional supporting measures including the establishment of a single 24 hour theft contact number, a forum for establishing best practice and coordination measures to promote tackling theft including the police, theft detection agencies, the UKRPA and consumer bodies. We believe that a stolen meter register may have limited benefits in the electricity industry.

Question 8. Do you consider that there are alternative proposals, or variations of the combinations of the proposed policy measures that should be considered?

- 8.1. As stated under Question 7 above we believe an incentive scheme that rewards a combination of number of theft detections together with volume of assessed stolen units should be implemented alongside a settlement cost smearing scheme.

Question 9. Do you agree with our view that DNOs, for the time being, should not be included in an incentive scheme?

- 9.1. We agree that DNOs should not be included in a supplier incentive scheme. We believe that DNOs should be obliged via licence conditions to concentrate on theft in conveyance and unregistered sites. We would not support any proposal that would enable DNOs to actively seek out theft on registered electricity sites, provide expensive revenue protection services and benefit from rewards or incentives under any new price controls for reductions in lost units.
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Question 10. Do you agree with our view that DNOs should have licence obligations to tackle theft in conveyance?

- 10.1. We strongly believe that DNOs should have licence obligations to tackle theft in conveyance including tackling unregistered sites. DNOs should be required to report on the number and volume of sites where theft in conveyance occurs and sites which are unregistered.
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Question 11. Are you aware of any alternative proposals to support DNOs in tackling theft in conveyance that should be considered? If so, please provide further details.

- 11.1. We believe a licence obligation for DNOs to tackle theft in conveyance should be sufficient incentive to ensure that theft in conveyance is actively pursued and dealt with.
- 11.2. We are aware that under the new RIIO ED1 proposals DNOs are able to apply for a discretionary reward where it is able to demonstrate that losses have been reduced, it is our view that DNO should only be entitled to this reward where it has reduced theft in conveyance only. This reward should be available where the DNO can demonstrate that they have increased their level of theft in conveyance detection over and above that level that is funded via price controls. The reward scheme should be independently audited. Leads on theft where a registered supplier is in place should be passed on and dealt with by the supplier under any new supplier incentive scheme.

Appendix 1 – Response to Draft IA Questions

CHAPTER: TWO

IA Question 1: Do you consider we have captured all relevant actions that, if undertaken by suppliers, can contribute to tackling electricity theft?

We have not indentified any further actions which would contribute to tackling electricity theft.

IA Question 2: Do you consider our approach to the draft IA suitable for demonstrating the current commercial disincentives and challenges suppliers face to tackle theft? If not, what alternative approach would you suggest to be best?

We have reviewed the draft IA and consider your approach for demonstrating the current commercial disincentives is suitable. This is a very complex area and we believe that in order to incentivise suppliers sufficiently we will need a combination of enhanced audit, full settlement cost smearing and a supplier incentives scheme to ensure the current commercial disincentives are removed.

CHAPTER: Three

IA Question 3: What do you consider to be the scale of theft in the GB electricity market?

We estimate that the annual cost to UK customers of gas and electricity theft is around £500m.

IA Question 4: Do you consider that there is material difference in the prevalence of electricity theft between suppliers' customer portfolio? What factors drive any considered difference in theft distribution?

We believe there are factors that will impact the prevalence of electricity theft between suppliers' portfolios. We believe abstraction is more commonplace where prepayment meters are present. We also believe that small commercial supplies are more prone to theft due to economic pressures (particularly in business' where energy is a significant cost) and also cannabis cultivation. Half hourly meters are less likely to have energy theft, but where they do the impacts would be considerable. We also know that 40% of our domestic theft cases are at properties where our customer has been identified as vulnerable or potentially vulnerable.

IA Question 5: When theft has been detected, what actions do you take to ensure accurate estimates of the volume stolen and to ensure stolen units are entered into settlement?

Our agents will obtain information to identify how long theft is likely to have been occurring, they will then use our "assessment calculator" to estimate the volume of stolen units. This can take into account previous consumption or appliances in the property. The current Balancing and Settlement Code (BSC) arrangements means it is difficult for suppliers and their data collectors to enter stolen units into settlement. As stated earlier we would only support amending the arrangements to allow assessed stolen units to be entered into settlement as long as a full settlement cost smearing mechanism is implemented as well.

IA Question 6 What is your estimate of the re-offending rates? Are there any actions you take to prevent re-offence at a premise where theft is detected?

This is very difficult to estimate, so far in 2013 we have identified 32 situations where we had previously found electricity theft in 2012/2013. Clearly more customers will have re-offended however we do not have any data to provide a reasonable estimate.

What we are sure of is that reoffending takes place and the threat of a prepayment meter (which was more often already the meter type in situ) does not act as a significant deterrent for a domestic customer who has already stolen from a prepayment meter.

A more reactive approach identifies many abstraction after the perpetrators have left the property, they may well steal again but not at the property where theft was originally detected. Moving property or changing supplier is an obstacle to preventing re-offending.

IA Question 7: For each incentive measures, are the proposed compliance measures sufficient to ensure suppliers conduct investigations to satisfactory standards and thereby protect consumer interests? In addition to the proposed new Revenue Protection Code of Practice on theft investigation being developed under the DCUSA, are there any further measures that should be introduced to help address any perceived weakness?

We have worked together with the DCUSA DCP 054 working group to draft what we believe is a robust Code of Practice to ensure suppliers conduct theft investigations to satisfactory standards. This Code of Practice if approved would apply to all investigations including those carried out under any new incentive scheme and therefore we do not believe any further measures are needed.

CHAPTER: Four

IA Question 8: Do you consider the incentive problem described in the consultation to be a reasonable representation of the issues and challenges suppliers face to tackle theft?

We believe the consultation highlights the challenges suppliers face in tackling electricity theft. Particularly the issue suppliers will face if they are forced to incur additional costs by entering assessed stolen units into settlement. We believe this will act as a major financial disincentive and should only be contemplated alongside a full costs smearing mechanism.

IA Question 9: To what extent do you consider the detection-based and the volume-based incentive schemes are likely to establish and realise targets for theft detection that are proportionate to the potential consumer benefits? Do you have any views on the two variations (cap / no cap) of each of those incentives schemes?

We believe it is important to combine a volume based and detection based scheme. The risk with a volume based scheme would be high assessments (especially from cannabis farms) whereas a detection based scheme could result in numerous vacant property detections. In isolation neither of these two situations will have a long term impact on the reduction of energy theft.

IA Question 10: Do you consider that the cost-sharing mechanism could address the disincentive suppliers face to enter estimated stolen units into settlement?

If a full cost-sharing mechanism was introduced we believe this could address the disincentive suppliers face in entering stolen units into settlement.

IA Question 11: Do you consider that additional or alternative measures to the three incentive measures, to the enhance audit and to the TRAS are needed to Electricity theft – Draft Impact Assessment Electricity theft – Draft Impact Assessment 41 address the incentive problem and improve theft investigation, detection and prevention?

We believe that a combination of enhanced audit, full settlement cost smearing and a supplier incentives scheme will be sufficient to address the incentive problem and improve theft investigation, detection and prevention.

IA Question 12: Do you consider that the cost and availability of services to support theft detection and investigation is a material issue for small suppliers?

We do not believe that the costs and availability of services to support theft detection and investigation is a material issue. There are a number of options in the market to buy in experienced Revenue Protection Services.

CHAPTER: Five

IA Question 13: Do you agree with our initial views on consumer behaviour in respect of energy efficiency?

We agree with your initial views that consumers who choose to steal electricity are less like to be price sensitive and not likely to moderate their usage.

IA Question 14: What percentage reduction in consumption would you expect customers to make when an illegal electricity supply is detected? To what extent do you consider that this would result from a response to increased costs and/or an increased propensity to invest in energy efficiency measures?

We do not have sufficient data to identify the possible reduction in consumption. We agree that detection and a decision not to steal again will result in reduced usage, we believe this would be primarily due to the increased cost and would result on more controlled usage rather than any investment in energy efficiency measures.

CHAPTER: Six

IA Question 15: Do you consider the proposed incentive measures would have any direct or indirect impacts on health and safety others than the areas discussed in this draft IA?

We believe that all of the measures that increase the number of theft detections will have a direct impact on health and safety. We believe the deterrent effect of more detections and investigations will in due course reduce the number of cases where customers choose to steal electricity and thereby have a beneficial impact on health and safety.

IA Question 16: What incentive measure (or combination of incentive measures) do you consider would have the greatest impact on health and safety?

We believe a supplier incentive scheme where suppliers are incentivised to identify and investigate theft will have the greatest impact on health and safety.

CHAPTER: Seven

IA Question 17: Do you consider there are other risks or unintended consequences of the proposed policy measures not discussed in this draft IA? What alternative policy measures do you consider could address these risks?

We are very concerned with the proposals to reduce the supplier's ability to disconnect where vulnerability has been identified. As highlighted earlier suppliers must retain the right to disconnect properties where customers repeatedly tamper with their meter and pose a risk to their own health and safety, and also that of their family and neighbours. Repeatedly reconnecting reinforces the belief that the customer can continue to steal without consequence but also leaves us open to the potential of corporate manslaughter if a major incident occurs as a result of theft of electricity in the future.

CHAPTER: Eight

IA Question 18: Do you consider that the implementation timescale for our proposals is realistic and achievable? If not, what do you consider to be a realistic timeframe? What additional measures, if any, do you consider should be undertaken to secure implementation within a reasonable timeframe?

As stated previously we support the enhanced supplier licence conditions to prevent, detect and investigate theft. We do however have strong reservations relating to the new licence conditions relating to the definition of vulnerable customers as set out in our main response.

We do not believe the TRAS should be implemented into the electricity market until the service has been successfully implemented into the gas market. We do however believe a theft incentive scheme could be implemented into the electricity market around Q2 2015 ahead of the TRAS.

IA Question 19: Do you consider that our approach to enhancing obligations on DNOs would provide more focussed action on tackling theft in conveyance? If not, what do you consider to be an alternative approach?

We agree that the proposed enhanced obligations on DNOs would provide focussed action on tackling theft in conveyance. We also consider that DNOs should only have the ability to secure discretionary rewards where they have demonstrated an overall increase in the number of theft in conveyance detections over and above those detections already funded from agreed price controls.