

Chiara Redaelli
Smarter Markets Team
Ofgem
9 Millbank
London
SW1P 3GE

Electricity North West
304 Bridgewater Place, Birchwood Park
Warrington, Cheshire WA3 6XG

Telephone: +44(0) 1925 846999
Fax: +44(0) 1925 846991
Email: enquiries@enwl.co.uk
Web: www.enwl.co.uk

Direct line: 01925 846854
Email: tony.mcentee@enwl.co.uk

Email to smartermarkets@ofgem.gov.uk

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Dear Chiara

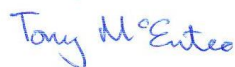
Tackling electricity theft – Consultation dated 3rd July 2013

Electricity North West has a dedicated team providing revenue protection services for suppliers and investigating theft in conveyance in our Distribution Services Area. As part of this service we have developed working relationships with suppliers and other interested parties, and have successfully implemented joint initiatives to detect theft.

Consequently we have a positive interest in any changes proposed to both the supply licence and the distribution licence which will increase the focus in this area.

In relation to Ofgem seeking views on tackling electricity theft, please find enclosed our response on the proposals.

Yours sincerely,



Tony McEntee
Head of Customer Contracts & Supplier Liaison

Responses to Questions

Consultation

Chapter: Three

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

We support Ofgem's proposals with regard to introducing changes to the electricity supply licence as a means of increasing their obligation in tackling electricity theft.

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

We agree that the draft changes to amend the electricity supply licence reflect the intent described in Chapter 3 and will result in a more consistent approach to electricity theft across suppliers which are also fair to customers.

We do however have a specific comment on the drafting:

Definition of 'Theft of Electricity' makes a reference to the Electricity Act paragraph 5(2) of Schedule 6. Our view is that this may be a typographical error and should refer to paragraph 5(1) of Schedule 6.

Extract from the Electricity Act

"(1)Where, otherwise than in the exercise of a power conferred by regulations under section 29, premises have been disconnected by an electricity supplier or an electricity distributor, no person shall, without the consent of the supplier or, as the case may be, the distributor, restore the connection.

(2)A person who acts in contravention of this paragraph shall be liable on summary conviction to a fine not exceeding level 3 on the standard scale"

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?

We support the positive action to maintain supply to these customers and actively pursue an appropriate method of recovering the repayment of charges by other arrangements. We also support any need to further develop (if deemed necessary) the proposed code of practice in this area but suggest that the change proposal associated with this (DCP054, which is currently with Ofgem after the industry recommended its acceptance) is approved in its current form and then be subject to open governance rather than delay its introduction

Question 4: Do you agree that our proposed new electricity supply licence conditions should be introduced as soon as reasonably practical?

We agree that the changes to the electricity supply licence should be implemented as soon as reasonably practical.

Chapter: Five

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?

We agree with the approach, assumptions and outcome analysis made in the draft Impact Assessment.

Question 6: Have we correctly assessed the main impacts in the accompanying draft IA? Are there additional impacts that we should consider?

We consider that the main impacts in the draft Impact Assessment have been correctly assessed.

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?

Each measure in isolation has pros and cons as identified within the consultation document and no option in isolation will deliver the industry benefits and expected results we all strive to achieve. In our opinion there needs to be a mixture of measures. Consideration needs to be given to a fixed fee detection value together with a volume incentive coupled with the settlements cost sharing arrangements to ensure suppliers who are actively tackling theft are not disadvantaged. The volume incentive needs to be linked to those units entering settlements based on a robust reporting and audit regime. The TRAS service will also ensure that potential theft is identified for investigation.

Further analysis is required over whether the incentives need to be capped or not. There is concern over capping in that if the 'annual pot' is spent then theft reporting/units entering settlement may be delayed into the next year. Our view is that a cap is not helpful to the industry in tackling theft.

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

We believe that there are unlikely to be any further options that need to be considered. Regarding the combinations please see our response to question 7.

Chapter: Six

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

We believe that at some point distributors should be incentivised to identify and reduce theft in conveyance. The incentives available together with reporting and auditing of such instances needs to be developed with the industry since such volumes would not enter settlements.

Question 10: Do you agree with our view that DNOs should have licence obligations to tackle theft in conveyance?

We believe that DNOs have an obligation to undertake theft in conveyance with or without a licence condition. However we are happy to support such an initiative which should give consideration to pulling together earlier industry work (supported by Ofgem) associated with the definition of theft in conveyance, the rights under the electricity act, and the recovery not only of the lost revenue but also the costs associated with undertaking such an activity inclusive of any costs in rectifying the situation.

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.

Recovery of the lost revenue will be sought from the occupier under the terms the DNO Schemes in respect of unauthorised electricity supplies pursuant to Schedule 6 of the Electricity Act 1989. However in certain cases e.g. cannabis cultivation, recovery is not always possible. This supports our belief that an incentive mechanism be introduced for distributors to allow cost recovery in these situations.

We also believe that there are changes needed to the proposed DCP054 change proposal should this Ofgem initiative on electricity theft be approved to strengthen the theft in conveyance section. As indicated on an earlier response, it is our view that this should be post approval (of DCP054) rather than delay its introduction.

Impact Assessment

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 consider that the assessment of the impact of the consultation has captured the majority of actions that the suppliers can take to tackling theft.

However, with the introduction of more effective detection, the result could be to encourage the perpetrators to bypass the meter further back on the distributor's network. Although this is a connection to the distributor's network it would not constitute theft in conveyance, since there is a supplier registered at that property. This may well have been considered e.g. some cannabis farms fall into this category but not evident in the consultation document.

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 believe that the impact assessment has identified the concerns that we identified at the time of raising DCP054 in that it introduced costs to suppliers by ensuring units entered settlements and by not doing so such costs were smeared across the industry. This, amongst other reasons, then impacted the distributor incentive scheme which was based on units in and units out of the network.

Chapter: Three

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

From the distributor perspective it is difficult to assess the magnitude of theft when some suppliers use their own 'in house' revenue protection services.

However out of the 2,896 properties we visited last year, coming from a mix of supplier requests and targeted areas, we found tampering in 1,870 properties

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 have no evidence to provide a response to this question.

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?

In the main we follow the current Revenue Protection Code of Practice, appendix 3 in this area. This has also been incorporated within the proposed DCP054 change proposal. In summary there is no single method that can be applied because it depends on each circumstance. If there is a clear pattern of past consumption this can be used, if not (and the customer permits) an audit of appliances within the premises is used or finally default profile consumptions together with occupancy numbers and patterns are used. In certain instances post theft consumption patterns are also considered.

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?

Our records show that approximately 50% of offenders tamper with their electricity meter again.

We always call to check on premises where tampering has been found and as indicated above the offence has been repeated in about half of the premises.

Where an offence has been discovered we will always follow the policy of the supplier or if this is not evident contact them for further instructions. For re-offence this is usually de-energisation by removing the cut-out fuse and fitting a polycarbonate cover together with security seals over the service position. .

We would only de-energise by cutting the cable outside the premises if instructed to do so by the supplier.

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?

It is essential that any incentive measure is accompanied with compliance controls including independent administration and auditing both by such an administration and in line with Ofgem guidance.

Once the consultation is concluded a review of the outcome needs to be undertaken to understand whether any further enhancements are required to the proposed DCUSA revenue protection code of practice.

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 agree with the issues and challenges identified in this consultation.

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?

The only concern we have is regarding the volume incentive when there is a perverse incentive to delay submission thereby increasing the incentive payment. There should be some means of capping this e.g. incentive volumes are only accepted up to x days after an enquiry has been raised.

As indicated earlier we also have a concern over the cap in both instances since this could delay submissions if the 'annual pot' is spent.

The overall approach may be difficult to evaluate so it may be worth considering a review further down the line.

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

In isolation no, it needs the support of the volume and detection incentive schemes. If in isolation it could be a benefit initially for the early starters (those that have systems and processes to deal with the initiative) but become a cost burden to them in later years as other suppliers start to process lost units into settlements.

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 address the incentive problem and improve theft investigation, detection and prevention?

Whatever method is ultimately adopted the policing of this activity and the penalties for any misuse must be adequately defined as a meaningful deterrent robust auditing and reporting will be required to ensure that all leads reported are followed to completion.

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?

Small suppliers no doubt will face material issues especially when the distributor does not offer a service to other parties. The cost of providing an in-house revenue protection service could be prohibitive. However, it may be more economical for the smaller suppliers collectively to consider contracting out these services to another provider. The introduction of the TRAS will help to mitigate some of these costs. Consideration should be given to not charging smaller suppliers for the set up and ongoing costs of the TRAS with a threshold being based on x,000 MPANs to help aid competition and not provide a barrier to entry.

Chapter: Five

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

We agree with the analysis in this area and have evidence to support some of the comments made e.g. we have come across a case where a tamper was removed and the consumption in the premises reduced from approximately 50 units per day to 20 units per day.

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 don't know what percentage reduction will result, however from the evidence presented in the answer to the previous question it is expected that a customer will use less electricity after the illegal tampering has been detected. This is usually attributed to controlling appliances efficiently eg turning the heating off and not using the immersion heater etc rather than investing in energy saving measures. In cases where the tampering relates to fuel poverty it is unlikely that any investment in energy saving initiatives will be made unless initiated by the landlord (where applicable) or the supplier through various incentive schemes. A positive outcome from this, when considering fuel poverty and vulnerable customers, could be that such incentive schemes should be conveyed to the customer at the time of agreeing a payment plan for the recovery of charges.

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?

The drive to detect interference can only improve the health and safety of the consumers by removing dangerous situations from the premises. An incentive to promote the detection of theft by educating people in the signs to look for at the meter position would result in more leads and consequently the removal of dangerous situations on site. The proposals in this consultation will improve awareness of the danger associated with meter tampering and increase the safety of customers.

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

The incentive to detect theft would have the greatest impact on health and safety especially if part of the incentive is passed through to operatives/service providers visiting customer premises. If this is combined with education to promote the detection by any parties entering the premises then the numbers of detected tampering will increase resulting in the removal of dangerous situations. The volume incentive will also improve safety but will probably not uncover as many theft cases as the detection incentive.

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?

There may be a detrimental effect associated with the detection method resulting in unsubstantiated leads and unnecessary investigations and therefore a system of auditing and reporting should be established to monitor the effectiveness in this area.

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?

The timescales proposed for the introduction of the TRAS and the associated incentives appear to be acceptable assuming the consultation is agreed in line with the current programme.

With regard to the distributor licence we do not believe there is a need to delay its introduction until the commencement of RIIO-ED1. The industry will continue to move forward in this area by making changes to DCUSA in developing 'obligations' and 'best practice' associated with theft in conveyance to the revenue protection code of practice and in dealing with the issue associated with no registered supplier ahead hopefully of this date.

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 believe that this is a step forward in highlighting the responsibilities that distributors have in this area. We do however believe that a distribution incentive scheme is still required to balance the scales so that suppliers and distributors can work together in reducing incidents of theft to the benefit to the wider consumer community and benefit from the wider environmental benefits that this has to offer.