



Ofgem Consultation - Tackling Electricity Theft

Response from E.ON

General Comments

We support Ofgem's initiative to improve the prevention and detection of the theft of electricity. The theft of electricity creates costs and potential safety issues for all consumers and industry stakeholders and this work should help to mitigate the problem.

The introduction of more clearly defined obligations for Suppliers and Distribution Network Operators (DNO) regarding electricity theft will help to provide improved clarity for all industry stakeholders and is something that we support.

A new Theft Risk Assessment Service (TRAS), offering a centralised support function for Suppliers in their efforts to identify electricity theft, should prove useful and help improve detection rates. Similar services in the financial services industry have been successful and there is no reason to believe that a service in the energy sector will not also deliver effective results.

We do have concerns that the implications of introducing similar TRAS services in both the gas and electricity markets has not been considered in a more strategic way by Ofgem. As described in this consultation the industry will be required to introduce a TRAS service for the gas market in 2014 and then a similar service in electricity in 2015.

It would be better to consider these two services together and make an objective and reasoned decision as to whether one service for both fuels would be more efficient than two different service providers. This question is not raised as part of the consultation but is one that we would suggest that Ofgem considers.

On a detailed point the definition of a vulnerable customer within the proposed new licence condition for electricity Suppliers is different to that recently introduced by Ofgem for the similar amendments to the gas Supplier licence. This inconsistency risks consumers experiencing differing levels of service and additional costs for dual fuel suppliers in servicing their customers. We would like to see the proposals for the electricity Supply licence amended to mirror those already applied to the gas Supplier licence.



Responses to consultation questions:

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

Yes, these build upon the obligations recently introduced in the gas market and should help to improve the detection rates for electricity theft.

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

No, we are concerned that the definition of a vulnerable customer differs from those recently introduced for the corresponding gas supply licence conditions.

This risks introducing discrepancies in the treatment of customers which is not in the interests of customers or Suppliers. We would therefore prefer that the amendments to the electricity licence are changed to reflect those already used within the gas licence.

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?

In answering this question we assume that Ofgem are referring to the use of de-energisation rather than permanent disconnection.

It is important to try and recover charges related to theft in the interests of all consumers. De-energisation is a method that is only used where it is the most appropriate means of recovering charges associated with theft.

We are therefore comfortable with the suggestion that Suppliers be required to use prepayment meters to recover costs from vulnerable customers before they consider de-energising the property.

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

There needs to be an appropriate time to successfully introduce the TRAS and incentive schemes. These are complex schemes to consider and services to procure. This should be reflected in the lead time that Suppliers are given to introduce the new arrangements.



It would perhaps also be pragmatic to consider the overall costs and implications of introducing a gas TRAS service in 2014 and another alternative electricity TRAS service in 2015.

There may be merit in having two different service providers. These are new services for the energy industry and seeing how rival operators approach the service may offer merit. However it is likely to be more efficient to introduce one dual fuel service for the energy industry.

We are concerned that appropriate consideration of this issue has not been given and that we are being driven towards implementing a solution that may not be optimal for the industry or consumers.

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 IA?

In general we do not have any particular concerns with the approach undertaken in the IA that accompanied the consultation.

It is however difficult to quantify with any accuracy the current amounts of stolen electricity. The costs associated with the introduction of new incentive schemes and a TRAS service are also unproven at this point in time as they have not been defined in detail. We are therefore unable to comment upon the specific accuracy or not of the analysis within the IA.

From experience of other incentive schemes that are used within the energy industry we are sceptical that the costs for the incentive schemes have been under-estimated in the IA and that their benefits have been over stated.

The IA would also benefit from a consideration of whether a single electricity TRAS service was preferable to a combined dual fuel gas and electricity TRAS service.

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

Yes, we believe so and we have not identified any additional impacts for consideration.

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?



Ofgem's policy should reflect the work started by the EUK/ENA some years ago that has more recently been developed by industry stakeholders. The implementation of revised licence conditions for Suppliers and DNO clarifying their obligations in this area is welcome.

The implementation of a TRAS service should help mitigate some of the problems of theft detection that a competitive retail electricity market introduces and therefore we would support this initiative.

The introduction of incentive schemes for Suppliers is something we are more cautious about supporting. We are yet to be convinced that these will deliver their intended outcomes and will not end up in incurring additional costs for Suppliers and consumers. Care should be taken when developing and introducing these schemes.

For example the implementation, in isolation, of the incentive schemes around settlement volumes may have unintended consequences and drive the opposite behaviour from Suppliers to that which they are intended. We would therefore be concerned if they were introduced without the more broad range of measures considered in the consultation.

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

No, the consultation seems to have considered all the proposals available.

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

No, without their inclusion it seems difficult to understand how they will be incentivised to detect and prevent theft.

Theft of electricity in conveyance through the network is a significant proportion of total electricity theft and therefore measures to encourage the detection and prevention of this should be introduced.

A collaborative approach from all industry stakeholders is likely to deliver better results than leaving all the activity to Suppliers.

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

Yes, this would seem appropriate. Without obligations it is unlikely that DNO's will be properly incentivised to act to detect and prevent the theft of electricity from their network.



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.

No, we are not aware of any alternative proposals to support DNO in tackling electricity theft.

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

Yes, the actions considered within the IA seem a thorough and robust list.

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?

Yes, the IA sets out a good assessment of the current commercial disincentives and challenges that Suppliers face in tackling electricity theft.

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

We are unable to provide an accurate assessment of the scale of theft in the total GB electricity market as we do not have access to information from beyond our own customer base.

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?

Potentially yes, although it is hard to prove.

Suppliers will each have varying portfolios of customers. Variations will include the proportion of different types of customer (e.g. payment types, socio-economic class) as well as geographic variations. These variations will derive from the historical background of each company as well as their sales and growth strategies.

It is therefore feasible that different Suppliers may have customers who are more or less likely to steal electricity. Whether there is a material difference is difficult to assess currently as information on individual Supplier's customer propensity to steal is not available. This may be information that the future TRAS service could report upon to gain a greater understanding.



Consideration of these potential variations should be taken into account when developing any incentive schemes.

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 Revenue Protection Service generally provides a list of appliances in use at the property at the time of their visit. From this a daily average usage is assessed and then applied to the theft period to create an estimate of the volume of electricity that has been stolen.

In cases where an appliance list is not available, other options are used such as an average for the type of property involved or a load test taken at the time of the site visit.

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 difficult for us to estimate as it is affected by factors such as changes of tenancy within the affected buildings as well as customers changing the party contracting with a supplier to disguise their identity.

Our assessment from the information that is available is that reoffending rates are approximately 25% of all thefts that we detect.

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?

The Code of Practice will formalise the standards of investigations and ensure a consistently high quality standard across the GB, whether this activity is undertaken as part of a DNO provided revenue protection service or via a specialist 3rd party contractor.

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?

Yes, we recognise that there is a perceived disincentive for suppliers to detect theft based on the costs not being recoverable.

However we believe that the IA does not capture the intangible benefit that a Supplier has from being seen to be active in the detection of theft, including its propensity to pass costs through to customers who steal. Those Suppliers who are seen not to undertake this type



of activity will be more attractive to potential thieves will potentially gain a proportionally higher number of these unwanted types of customer.

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?

From experience of other incentive schemes that are used within the energy industry we are sceptical that that costs for the incentive schemes have been under-estimated and that their benefits have been over stated.

Therefore at this stage we are not in support of the introduction of either incentive schemes.

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

Potentially although we are not yet convinced that any incentive schemes are necessary.

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?

No, time should be allowed for these measures to work before any additional action is considered.

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?

No comment, although we the provision of 3rd party revenue protection services and a TRAS service the costs should be equally proportionally for all Suppliers regardless of size.

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

We are unable to provide a comment on this issue as we have no evidence to support the assumptions made.

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 are unable to provide a comment on this issue as we have no evidence to support the assumptions made.

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?

Not directly as the incentive schemes are aimed at addressing perceived financial deficiencies in the current electricity settlement processes.

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

No specific incentive measure will have a direct impact on health and safety.

Giving Suppliers the statutory right to disconnect for safety reasons, rather than the current situation where only the DNO has this right, would enable any potential safety issue to be resolved in a timelier manner.

We have experience where we detect the theft, or suspected theft, of electricity and this is allowed to continue because the access to the metering equipment is unsafe and the DNO is unwilling to make the site safe by disconnection as they feel it would result in adverse publicity for them.

Providing the powers for the Supplier to disconnect a supply for safety reasons would resolve these issues and would have a greater impact upon improving health and safety than the introduction of any incentive mechanism.

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 have no additional issues to those identified in the consultation.

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?



If the TRAS service for electricity is to be added to the proposed gas TRAS service to create one function, then the timescales are potentially achievable.

If the desire is to have two separate services, and a completely new service for electricity needs to be established, then the timescales are will be very challenging to meet.

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?

The obligations and incentives upon DNO's should mirror those that are introduced for Suppliers to ensure that they take action to prevent and detect the theft of electricity.