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Tackling electricity theft – Consultation

Dear Chiari,

SmartestEnergy welcomes the opportunity to comment on Ofgem's consultation on tackling electricity theft.

SmartestEnergy is a supplier in the half hourly electricity market and an aggregator of embedded generation. We are about to enter into the NHH market.

Our main concern with these proposals is that if the focus is on domestic cannabis, we would question whether this is really an issue for HH or non-domestic suppliers.

We also believe that distributors are best placed to monitor theft due to cannabis farms because they see the system at street level and would be able to identify any unusual increases better than a supplier.

The document states that there is the risk that particularly small suppliers would be negatively affected by the smearing of costs related to undetected theft. Our concern is that the regulatory burden to monitor these matters, if not properly controlled, could far outweigh the disbenefit Ofgem have identified.

Ofgem's proposals appear to be very heavy handed. We have concerns that the TRAS (which will require suppliers to submit their policies for tackling theft and to report on their performance in achieving the objectives set out in those policies with actions which will include activities for investigating, detecting and preventing electricity theft) will be something of a disproportionate burden on small and/or non-domestic suppliers. The scope of the obligation therefore needs to be very carefully considered and explicitly outlined in Ofgem's proposals.

There is already in place SLC 12.1 which states that: "The licensee must take and must ensure that its agents take all reasonable steps to detect and prevent: (a) the theft or abstraction of electricity at premises supplied by it...." We do not believe that more is needed.

If the roll out of smart meters is expected to have a positive impact on reducing electricity theft it would make sense to let this take its course. In the meantime there is still an existing licence obligation which Ofgem can use i.e. better enforcement of existing obligations to inspect meters once/twice per year.

We answer the questions in the consultation document in order below:

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

We can understand that the incentives to detect and correct theft are somewhat weakened given the resource required to investigate and, more importantly the fact that a supplier is better off with a higher proportion of theft than the industry average because the costs (through losses) are socialised across all suppliers in the region. However, this is not such a concern given the fact that there are still significant concentrations of customers who have never moved away from the legacy supplier i.e. the costs in large part will return back to the dominant supplier in question. We do not anticipate this situation changing before smart meters are completely rolled out.

Then there is the matter of suppliers who detect theft having problems recovering the money. This is not likely to be much of a benefit as the customer is likely to be a bad payer and the supplier becomes liable for the distribution charge. A related matter which does need to be addressed therefore is the iniquity of making suppliers pay for distribution costs even though they themselves are not being paid.

The incentives may be weak but there is still the licence obligation which Ofgem can use i.e. better enforcement of existing obligations to inspect meters once/twice per year.

SLC 12.1 already states that: "The licensee must take and must ensure that its agents take all reasonable steps to detect and prevent the theft of electricity." Is it really necessary to create further licence conditions or can Ofgem not just issue guidance on best practice in this area?

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

Ofgem need to consider whether the best place for this licence condition is in the domestic or all supplier section i.e. what is the value of XX?

Clauses such as XX1 (b) (ii) and in particular XX1 1 (a) (i) give the conditions a domestic focus. If this is the sole intent, it should be more explicitly stated.

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?

That depends on whether there is deemed to be an additional deterrence element to the threat of disconnection.

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

No. We would say that Ofgem should beware unintended consequences. It is important to think through messages being sent out to vulnerable customers i.e. they can steal and not be disconnected.

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?

Figure 3 (Summary of impact on financial incentives from different measures) under Impact on competition does not make sense to us.

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

Whilst the headline figures are attention grabbing it should be noted that not all costs can be removed. Suppliers will incur costs to maintain vigilance.

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?

Clearly, "settlement-volume based" is preferable to "detection-based." However, as a supplier in the commercial sector we are concerned at the two suggestions under the "detection-based" or "settlement-volume based" incentive schemes. Theft in the areas we operate is virtually non-existent, especially in the half hourly market which represent 50% of all electricity supplied. It is highly inappropriate to implement any scheme which rewards on a detection/settlement rate or which shares the costs across all suppliers. This is in essence an issue for domestic suppliers and the costs should be borne by domestic suppliers. In our view, enhancing audit is really the only viable option of all of those presented.

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

Given that it will take time for the proposed Theft Risk Assessment Service to be implemented we believe it is prudent to allow measures such as Smart meter roll-out to take their course and address theft as part of the mop-up exercise after this. In the meantime, suppliers can be kept honest through enhanced audit.

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

Whilst it is true that suppliers have little incentive to detect theft and are actually positively disincentivised (because they are proportionately better off if they do nothing compared with more active suppliers) it is still the case that there are not sufficient incentives on distributors; on the face of it distributors have an incentive to protect their revenues, in reality price control means that there is no incentive. The difference is that the suppliers' disincentive affects both other suppliers and customers whereas the distributors' disincentive affects just customers. Given that distributors should help in the overall "crackdown", if there is to be increased incentives the distributors should be a part of this.

We welcome the proposal to amend the DNOs' licence obligations to provide more clarity on the requirement for DNOs to tackle theft and note that this would include taking the necessary action when there is no supplier responsible for the site (unregistered sites).

However, we also note that the document states that "DNOs will still be under a licence obligation to reduce losses as far as reasonably practicable, and actions taken to reduce losses due to theft should be encouraged by this licence obligation." If this is sufficient in Ofgem's thinking for distributors we would ask why it is not sufficient for suppliers.

If the difference is the additional obligations under the DCUSA, why not extend these for suppliers under the DCUSA?

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

Yes

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

If you have any questions, please do not hesitate to contact me.

Please note that our response is not confidential.

Yours sincerely,

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