



**SP ENERGY
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Date
28th August 2013
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Dear Colleague

Tackling electricity theft – Consultation – July 2013

I am writing in response to the above consultation paper issued on 3 July 2013. We welcome the opportunity to comment on the issues raised.

We are happy to work with Ofgem to develop licence amendments as part of the RIIO ED1 process that encourage a balanced and proportionate approach on the part of DNOs to tackle electricity theft, to work alongside measures to be applied by suppliers.

We would like to point out that the removal of the losses incentive from distribution price control does not mean that distributors are indifferent to theft, whether in conveyance or not. Theft can involve serious safety issues and damage to our network, as well as hindering our recovery of charges. We therefore already have powerful incentives to do all we reasonably can to detect and prevent theft.

However, we are concerned at the apparently very general nature of the proposed obligation on DNOs in paragraph 6.15 “... to undertake all reasonable cost effective actions to identify theft occurring on their distribution networks, and take the necessary steps to rectify the position within a reasonable time period.” We have to make a judgement about the resources to devote to (for example) revenue protection based on the perceived level of activity. The proposed definition would appear to encompass theft in relation to registered MPANS as well as theft in conveyance. Individual actions taken in this area will not necessarily be cost effective.

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At present we are reliant to a degree on routine meter inspections by suppliers' agents to identify suspected cases of tampering with our termination equipment. We would therefore ask for consideration of an amended approach that focuses on implementation of anti-theft *policies* that are reasonably considered to be cost effective. Cost-effective in this context is not defined in the consultation paper, but from a DNO perspective it should take into account avoided damage to DNO equipment from anti—theft activity as well as DUoS recovered as a result.

Our comments, focussing on the DNO questions, are set out in the attachment.

I hope that this is helpful but please contact me if you would like to discuss.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Alan Michie', written in a cursive style.

Alan Michie
SP Energy Networks

Tackling electricity theft – Consultation – July 2013

Detailed Comments by SP Energy Networks – August 2013

CHAPTER: Three - Enhancing obligations on suppliers

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

We broadly support the proposals subject to appropriate parameters and implementation arrangements.

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

No comment.

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?

No comment.

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

No comment

CHAPTER: Five – Assessment of Policy Measures

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?

From a DNO perspective, the IA does not address the impacts of the proposals for network operators.

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

No comment

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?

Please see response to question 1.

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 comment.

CHAPTER: Six - Establishing principles for DNOs

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

We do not see that a new incentive scheme for DNOs is appropriate given that the DNO does not interact with most individual customers on any regular basis.

Under previous price control schemes, DNOs were subject to the losses incentive scheme which provided a financial incentive to reduce losses on their network. However this has now been removed under DPCR5 and RIIO-ED1.

From a RIIO-ED1 perspective it is our intention to begin to use smart metering data mapped to network and substation monitoring to identify potential theft once smart meters are rolled out globally, although the full potential of this may not be understood until the ED2 price control.

We fully agree that the new incentive scheme should be rolled out to suppliers as per the proposal.

We would also like to note that even in the absence of a losses incentive for DNOs, we have not reduced our annual Revenue Protection Services activities and do not have any plans to. Therefore the perceived risk that the DNO enthusiasm may reduce in light of the changes is simply not reflected in SP Energy Networks plans.

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

Under the current regulatory requirements, DNOs have obligations to tackle theft under DCUSA (32.3) and also to notify suppliers under the Distribution Licence SLC27 where theft is detected.

We support the broad thrust of the proposals that DNOs should have licence obligations to tackle theft in conveyance. However, the proposed wording appears to be wider than "conveyance", incorporating new measures to tackle unregistered sites. Where DNOs are made aware of unregistered sites, we will take all necessary actions within our power to resolve, including disconnection under grounds of Health and Safety. It should be noted however that currently there are no mechanisms in place to recover lost DUoS revenues where an unregistered site has been detected. This does not help deter any potential illegal abstractions and also further reduces the powers available to DNOs.

The consultation also makes note to the fact that the new licence obligation refers to cost effective 'actions', which taken individually may be difficult to measure. This must be taken into consideration.

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.

We believe that any new obligations on DNOs should be couched in terms of implementation of policies that are reasonably considered to be cost effective in detecting or preventing theft in conveyance after taking into account actual and potential damage to network assets and losses of use of system revenue.