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Dear Chiara

Tackling Electricity Theft – Consultation

SSE is pleased to provide comments on the above consultation. We welcome the ongoing engagement with Ofgem regarding its proposals for tackling electricity theft. We have provided answers to the specific questions posed by Ofgem and our comments on the proposed licence drafting and proposed incentive schemes in the attached annexes.

SSE fully supports and agrees with the entirety of the response to Ofgem's 'Tackling electricity theft – Consultation' from Energy UK¹.

As Ofgem noted in its consultation document, there are a number of health and safety risks created by the theft of electricity, which is a criminal offence. These risks could have fatal consequences to both individuals involved in the crime and any individuals in close proximity to it. In addition, electricity theft is often associated with serious organised crime and in particular the cultivation of cannabis. The theft of electricity also adds unnecessary costs to customers' bills. Therefore for the above reasons, SSE is fully supportive of the work being undertaken by Ofgem in tackling electricity theft.

We are firmly of the view that any new proposals and licence conditions should be consistent with those implemented for tackling gas theft. It is sensible to ensure we have a coherent regime across both electricity and gas in order to develop a common message and approach to customers by suppliers to energy theft. Therefore SSE welcomes Ofgem's decision to try to keep the proposed supply licence conditions for tackling electricity theft in line with SLC 12A already in operation for gas.

Ofgem has proposed, in paragraph 5.26 of the consultation document, that the new supply licence conditions be introduced in Q1 2014 and the TRAS to be implemented in Q1 2015. SSE agrees with Ofgem's view that the proposed electricity supply

¹ Energy UK response to Ofgem's 'Tackling electricity theft – Consultation, 28 August 2013

licence conditions should be introduced as soon as reasonably practicable following the completion of the current consultation process, so long as any concerns raised by energy suppliers and Energy UK have been adequately addressed.

However, we do have concerns with the proposed implementation timescale for the electricity TRAS. We believe it would be sensible for Ofgem to wait until the full establishment of the gas TRAS before proposing any deadlines for the implementation of the electricity TRAS. We believe that due to the similarities between the gas and electricity services it would not be justifiable to push ahead with the electricity TRAS without first learning from the establishment of the gas TRAS. As an alternative, SSE believes consideration should be given to establishing one TRAS for both gas and electricity. However, it is worth noting that this would require further work to determine how such a service would be developed.

One of our main concerns is with regard to the term 'electricity theft'. SSE is of the view that Ofgem needs to provide more clarification on their definition of 'electricity theft'. Ofgem states, 'the units consumed are not entered into Settlement through this process' in paragraph 2.3 of the Tackling Electricity Theft Consultation document. Therefore we believe that Ofgem will need to clarify whether under its definition incorrect meter configuration, unmetered/unregistered supplies and where energisation status is incorrectly reported, would be deemed to be theft, intentional or not.

With regard to electricity distribution network operators (DNOs), it is important to recognise that any new processes or obligations implemented in this area are likely to result in a significant increase in costs for DNOs. Whilst we agree with the principle that all costs associated with investigating a suspected theft should be recovered from the relevant customer, there will be cases where this is not possible. Examples include where a theft is suspected but subsequently found not to have occurred, or where the DNO uses all reasonable endeavours to recover the costs from the customer but is ultimately unsuccessful. We therefore seek confirmation from Ofgem that, in cases such as these, provision will be made for the DNO to be able to recover these costs.

In conclusion, SSE does broadly support the work by Ofgem in tackling electricity theft. As mentioned above we strongly believe that there should be a coherent regime to tackle the theft of energy. However, we would urge Ofgem to take into consideration the issues raised within this consultation response and the issues raised within Energy UK's consultation response prior to taking any further action.

We would welcome the opportunity to discuss any of the points raised within this consultation response in further detail with Ofgem.

Yours sincerely

Sam Torrance
Regulation Analyst

Annex 1 - Consultation Questions

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

In general, SSE is supportive of Ofgem's proposals to introduce new electricity supply licence obligations in relation to theft. Following the implementation of SLC 12A in the gas supply licence, we are pleased to see that Ofgem has proposed almost identical licence conditions to those implemented for gas. As we made clear in our response to Ofgem's consultation on tackling gas theft², we believe it is vital to ensure a coherent regime across both electricity and gas in order to ensure a consistent message to customers and suppliers to tackling energy theft.

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

Broadly speaking, yes we believe Ofgem's drafting proposals set out in Appendix 3 reflect the policy intent described in chapter three of the consultation document.

SSE would like to reiterate the points raised in Energy UK's consultation response³, particularly the recommendation for Ofgem to review how it has attempted to define customers in vulnerable situations. We agree that the phrase "but not limited to" adds a high degree of subjectivity to the concept of vulnerability and adds additional issues with identifying whether someone living in the premises is vulnerable. There should be consistency as to how Ofgem defines customers in vulnerable situations in the proposed licence conditions with those definitions which already exist in SLC 27 and SLC 12A for gas. Otherwise there could be unintended consequences of 'vulnerable' customers being treated differently when theft is identified depending on the fuel being supplied.

One other concern we would like to raise is in regard to proposed licence condition XX.11 (F). We do not believe that the current settlement requirements are sufficient to ensure that suppliers put through the correct amount of energy and not just the energy they believe is recoverable.

Furthermore, SSE would seek clarification that the treatment of 'vulnerable customer' only relates to domestic customers and not non-domestic.

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?

SSE takes its responsibility to vulnerable customers' situations extremely seriously and disconnection would only be used as a last resort. As we highlighted in our response to the tackling gas theft consultation², SSE will do its utmost to ensure that a customer remains on supply and would never knowingly disconnect a vulnerable customer at any time of year. It is already in a supplier's interest to ensure that the

² SSE's response to the 'Tackling Gas Theft: the way forward' consultation, 4 May 2012.

³ Energy UK response to Ofgem's 'Tackling electricity theft – Consultation, 28 August 2013

charges for disconnection are recovered through whatever means possible, taking account of the customer's circumstances and their ability to pay.

However, we would also like to emphasise the importance that disconnection remains an option for suppliers. Particularly in cases where a premises has a number of cases of theft re-occurring then disconnection provides a last resort of preventing ongoing theft and ensuring the health and safety of those who may be affected, as ultimately energy theft is a dangerous activity.

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

Yes, provided that Ofgem has addressed all the concerns raised by Energy UK and other suppliers then SSE agrees that Ofgem's proposed new electricity supply licence conditions should be introduced as soon as reasonably practicable following the completion of the current consultation process.

However, as we mentioned in our response above, we believe Ofgem should give further consideration to the proposed timescale which requires the establishment of the electricity TRAS by Quarter 1 2015. SSE supports the development of a Theft Risk Assessment Service (TRAS) for Electricity but we are concerned about the timing of these provisions. The Gas TRAS is still being developed with procurement about to commence and the timelines for delivery are very optimistic. This is a new approach to theft not previously undertaken in the industry and we would welcome an opportunity to learn lessons from the operation of the Gas TRAS before immediately starting the development of the Electricity service. We also note that benefits may arise from sharing risk assessment data between fuels but the timing of the TRAS obligations do not easily facilitate this especially as the Gas TRAS is currently in an active procurement.

SSE also agrees with Energy UK regarding the possibility of an alternative approach creating one single TRAS for both gas and electricity. SSE would support any further exploration into how this single TRAS could be developed.

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?

Yes, SSE agrees with the approach Ofgem has taken in conducting the draft IA, the assumptions Ofgem has made and the outcome of Ofgem's analysis in the accompanying draft IA.

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 that Ofgem has correctly assessed the main impacts in the accompanying draft IA and we are not aware of any additional impacts which Ofgem should consider, other than the alternative of creating a single energy TRAS.

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?

SSE believes that the settlement cost sharing policy measure should form an essential part of the incentive regime for electricity theft. The current requirement to enter estimated consumption from theft into settlements could be a disincentive to investigate when investigation costs and the low likelihood of recovery is considered. A reduced settlement cost (20%) for suppliers detecting theft will create an incentive to detect and enter consumption into settlements; and an 80% shared settlement cost will be less than the costs borne by all suppliers if theft hadn't been detected in the first place.

Of the other incentive options being proposed, SSE believes a detection based incentive will provide a greater incentive than a volume based incentive, primarily due to the potential disconnect between theft investigation, detection and the final estimation of the energy stolen. We believe the volume based approach replicates the incentive in the settlement cost sharing proposal to enter consumption into settlements and we are concerned that a focus on high volume thefts may distort detection rates and leave some thefts undiscovered. All three incentive models encourage the increased detection of theft by sharing costs be that settlement costs, volume payments or detection payments. We question the need for the use of a combination of incentives when each replicates a model of redistribution of costs between suppliers.

SSE supports enhanced settlement rules and audit around the inclusion of consumption from theft into settlement and we would welcome clarity around how and when consumption is entered into settlement particularly given the decision on DCP 080A. For the incentive measures identified to work effectively, accurate and assured consumption values are essential.

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

SSE has considered a number of alternative incentive models including a 100% settlement cost-sharing model. However, we have concluded that the settlement cost sharing model proposed should provide adequate incentive to suppliers.

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

Yes, SSE agrees with Ofgem's view that DNOs, for the time being, should not be included in an incentive scheme. However, it is worth considering that it might be appropriate to look at an incentive scheme for DNOs once the new obligations have been in place for a few years as this would allow there to be data available to analyse and set appropriate targets.

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

Yes, SSE believe that DNOs should have licence obligations to tackle theft in conveyance which sit in line with the Revenue Protection Code of Practice which is currently in the process of being developed under the DCUSA.



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, SSE is not aware of any alternative proposals to support DNOs in tackling theft in conveyance that should be considered.

Annex 2 - Impact Assessment 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?

Yes, SSE believes that Ofgem has captured all relevant actions that, if undertaken by suppliers, can 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?

Yes, SSE believes that Ofgem's approach to the draft IA covers everything for demonstrating the current commercial disincentives and challenges suppliers face to tackle theft.

CHAPTER: Three

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

SSE are not able to provide a scale of theft in the GB electricity market to any great deal of accuracy. However, we do believe that the scale of theft in the GB electricity market would be worse than first thought, particularly due to high energy prices, the current economic climate and as Ofgem mentioned in their consultation document the link between the theft of electricity and organised crime, particularly the cultivation of cannabis.

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?

Yes, SSE believes that those suppliers that are more active in dealing with theft will tend to have customers switch to suppliers that are less active and therefore go undetected for longer.

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?

Currently, SSE has three different approaches in order to try to ensure accurate estimates of volume stolen for domestic customers. A brief overview of the three options are outlined below, the approaches are outlined in order with option three being used as the last resort.

1. A check of our Customer Service systems for a pre-recorded history of metering reads
2. Engineers on site, checklist of appliances and then use the average usage of each of these appliances to gain an estimated volume
3. The last resort option would be to gain an average consumption level based on details of the premises and numbers of people in the household etc.

SSE would also take an estimate of how long we believe the theft has occurred for based on all the available information at this time.

SSE would like to gain clarification from Ofgem on what period they are expecting suppliers to correct the usage data. Are Ofgem only expecting settlements to be corrected? If this is the case, then would this be going back no further than 14 months, or back to when the theft commenced. Also, there is no mention in the draft IA to whether a trading dispute can be raised with Elexon to increase the Settlement timetable up to 20 months.

Currently, the supply licence conditions prohibits us from back billing Micro Business Customers (MBCs) beyond 12 months and our internal business SSE business charter defines a small business as MBCs and non half hourly metered single site customers. Therefore if we are expected to correct Settlements usage beyond 12 months, however, we are unable to re-bill Customers for the same Settlement period, then there will be, not just significant loss in Settlement costs, but we may also have to reduce the additional calculated Settlement charges when negotiating with the Customer.

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 not something SSE currently measures as each case of electricity theft is dealt with on its own merits. Therefore it would be difficult to provide an estimate of re-offending rates with any great deal of accuracy. However, SSE does have plans to monitor customers for a minimum of 12 months which will include further site visits.

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?

Yes, SSE is of the view that the proposed compliance measures are sufficient to ensure that suppliers conduct investigations to satisfactory standards and thereby protect consumer interests. We are not aware of any further measures that should be introduced to help address any perceived weakness.

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?

SSE agrees that the incentive problem described in the consultation to be a reasonable representation of the issues and challenges suppliers face to tackle theft.

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?

SSE believes that the detection based incentive in particular will improve the investigation and detection of theft. All suppliers will be trying to improve their performance and will eventually reach an optimal performance based on investigation costs, incentives and market share where further investment is not sustainable. At which point the model should provide a natural cap. There are advantages of a fixed cap to the costs of any model particularly where an individual party is significantly outperforming the rest of the market causing distortion in the incentives vs. the overall cost of the model. Additionally, we would welcome a degree of certainty on the costs of running any incentive model and would welcome further discussion on this area with Ofgem.

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

Yes, SSE believes that the cost-sharing mechanism could address the disincentive suppliers face to enter estimated stolen units into settlement. However, the scheme would require a lot of governance to be set around it in order to prevent the scheme from being open to abuse. Furthermore, the complexity of the scheme will influence the resource and money required to make it work. This is currently an issue with the schemes available on the tackling Gas theft from the networks.

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?

SSE does not believe that any additional proposed measures need to be considered at this stage.

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?

Yes, SSE fully agrees that the cost and availability of services to support theft detection and investigation is a material issue for small suppliers. However it would not be acceptable for small suppliers to not be subject to the same licence obligations.

CHAPTER: Five

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

Yes, SSE agrees with Ofgem's initial views on consumer behaviour in respect of energy efficiency.

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?

SSE believes that the increased costs of energy would be a large factor in cases around energy theft, but not its entirety. We do not believe that those who are knowingly willing to steal energy would often consider energy efficient measures.

With regard to the percentage reduction in consumption we would expect customers to make when an illegal electricity supply is detected this is difficult to assess. A

reduction of up to 10% would seem to be normal, however, this could create the potential problem of cleverer thieves only stealing 10% in order to avoid detection. When SSE deploys more in depth analytics, then the net would start large and gradually get small, to find the optimum level of reduction in energy, however, there is the possibility that this will leave some cases undetected.

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?

SSE believe that the proposed incentive measures would indirectly reduce the health and safety of customers, should they be aware that the industry detection performance is improved, and therefore act as a deterrent. However, the incentive for the industry to detect theft could lead to an additional health and safety risk for its field operatives.

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

SSE believes the incentive measures we proposed in our answer to question 7 of the consultation document would 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?

SSE believe that the key incentive for customers to reduce theft, and in turn improve health and safety, is their perception that the industry has a high success rate in detecting theft. This could be driven by some form of customer awareness publicity campaign.

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 mentioned earlier, SSE believes that more time is required in order for the detail to be thoroughly considered and ensure we take the opportunity to learn from the developments on the gas side.

Please refer to our answer to question 4 of the Consultation questions for our views on the implementation of the electricity 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?

SSE believe that Ofgem's approach to enhancing obligations on DNOs is a good idea and we agree that this should provide more focussed action on tackling theft in conveyance.