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Ofgem
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Dear Chiara

Tackling Electricity Theft-Consultation

Thank you for the opportunity to comment on this consultation. This response should be regarded as a consolidated response on behalf of UK Power Networks' three distribution licence holding companies: Eastern Power Networks plc, London Power Networks plc, and South Eastern Power Networks plc. For convenience, the three licensees are collectively referred to as "UK Power Networks" throughout.

We have provided answers, where appropriate, to the consultation questions in the appendix to this letter, but we would like to bring out two key points:

- UK Power Networks considers that the proposals are generally robust, well-considered and represent a significant advance in addressing theft within the electricity industry.
- UK Power Networks agrees that theft of electricity in conveyance activities are primarily a DNO responsibility but believes that the issue of getting customers registered with a supplier must be addressed and the necessary industry changes implemented ahead of formal obligations coming into effect.

If you have any questions regarding this response please do not hesitate to contact me in the first instance.

Yours sincerely

A handwritten signature in black ink, appearing to read "K Hutton". The signature is fluid and cursive, with a large initial "K" and a long, sweeping underline.

Keith Hutton
Head of Regulation
UK Power Networks

Appendix - UK Power Networks' response to the questions set out in the consultation

CHAPTER Three

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

UK Power Networks welcomes proposals to introduce new electricity supply licence obligations in relation to theft of electricity. In the past the onus has largely fallen on the Distribution Network Operators (DNOs) to detect and investigate instances of electricity theft for the reasons articulated in the consultation document.

It is for these reasons that there has possibly been some degree of inertia amongst suppliers in the detection and prevention of electricity theft. A joined up industry-wide approach, encompassing standardised requirements, behaviours and actions with a clear financial incentive would represent a significant step in the right direction. It may though impact the viability of DNO-hosted RPU services. These geographically based services offer economies of scale and are particularly important for smaller suppliers.

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

We believe that suppliers, as the party affected by the licence changes, are best placed to comment on the drafting.

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?

UK Power Networks agrees that a variety of methods should be available for the repayment of charges as an alternative to disconnection. Disconnection must be a last resort option. However, vulnerability can manifest itself in a variety of ways, it may be complicated or influenced by numerous factors, it may be temporary in nature and is therefore frequently subjective in its determination. With vulnerability criteria so broadly defined it is important that such classification is not used to place premises and occupants permanently beyond normal requirements and expectations.

We also welcome the consultation's conclusion that where a vulnerable customer repeatedly tampers with an electricity supply, putting themselves and others in danger, then disconnection may be the only appropriate response.

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

UK Power Networks concurs that the proposed electricity supply licence conditions should be introduced as soon as reasonably practical. We agree that the current arrangements are sub-optimal and the sooner this can begin to be addressed the quicker the benefits will derive to the wider electricity-consuming public.

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 IA?

The impact assessment appears to be comprehensive and robust.

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

The majority of the questions are directed at suppliers and thus we are not the primary recipient. Nevertheless, from our perspective, the main impacts appear to have been covered appropriately.

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?

We agree with Ofgem that a package of policy measures collectively covering each facet of the process: prevention; detection; investigation; rectification and the settlement of assessed lost units is much more likely to be effective and successful than one single measure. We consider that audited compliance with the new Code of Practice being considered under DCUSA DCP 054 should be a part of this package in addition to enhanced audit of settlement. We also remain mindful of the need to maintain full geographic coverage of theft investigation capabilities for all suppliers.

The key choice Ofgem suggests in paragraph 5.8 of the consultation is between a detection incentive scheme and a volume incentive scheme. We consider that, at least initially, a detection incentive scheme represents a better approach. There is an expectation that suppliers will grow and enhance their countering theft activities as a result of this package of measures. Detection and resolution of each theft case involves a material fixed costs element and as such a detection based incentive would be more cost reflective to the incentivised parties over the next few years than would a volume based one.

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

Noting the above observations, we believe that the proposals would be more effective at countering theft leading to increased detection and resolution and we have no alternative proposals.

CHAPTER: Six

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

Evidence from our network areas (using the data available to us as we do not act for all suppliers) suggests that theft in conveyance accounts for only 10% of total electricity theft cases. Nevertheless, the best designed solution would see an incentive that covers both DNOs and suppliers proportionally. For DNOs to participate in an incentive arrangement the issue of achieving successful supplier registration would first need to be resolved and the solution implemented.

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

Our perception from involvement with industry workgroups (DCP 054, DIF 28 etc.) suggests that there is scope for improvement in the tackling of theft in conveyance among DNOs. We also agree with the DNOs interviewed by Ofgem that we are the only party that can realistically address this area. In lieu of an incentive scheme we would anticipate that a licence obligation be funded as part of DUoS with appropriate reporting of cases investigated and resolved. In time that base funding might be reduced on account of DNO inclusion within incentive arrangements.

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 have no alternative proposals but we believe existing proposals could be enhanced. DNOs face a number of barriers in successfully addressing electricity theft. In placing a licence obligation on DNOs it is imperative that they are provided with regulatory clarity and have available appropriate mechanisms to deliver what is being requested in an efficient and effective manner.

We specifically highlight the difficulty in getting customers registered as the biggest challenge for DNOs. Our experience is that suppliers prove nervous of non-standard situations and concerned at the potential for bad debt. Even if they are willing to take on the customer they may struggle to get the necessary paperwork signed and returned.

Our solution would be to require suppliers to accept theft in conveyance referrals from DNOs, perhaps on a rota basis, and to offer a financial reward under the supplier incentive arrangements for them achieving an MPAN registration. This could be an instrumental step in the industry's ability to tackle theft in conveyance.

In dealing with theft in conveyance and with particular consideration of vulnerable customers, DNOs lack both a supplier's ability to recover money via prepayment meters and their broader expertise in collecting payments and debt recovery. This further highlights the need to bring customers back within 'normal' supplier-led arrangements in a timely manner.

DNOs always wish to avoid disconnection wherever possible and current understanding is that they may only disconnect in the event of serious safety concerns under the Electricity Safety, Quality and Continuity Regulations. The result is that a customer may persistently refuse to nominate a supplier in order to regularise their supply safe in the knowledge that there is no ultimate sanction. This provides yet another example of why new mechanisms must be put in place to secure supplier registration for theft in conveyance situations.

Our work leads us to believe that the mix of customers and situations encountered within theft in conveyance is rather different to 'normal' supplier theft cases. For example, with multiple-occupancy conversions where every premise is illegally connected by the owner or landlord the occupants may claim no knowledge and may genuinely have no reasonable culpability for the situation. These cases present numerous challenges but an ability to efficiently arrange a supplier for each premise would constitute the most important single step in achieving a successful resolution.