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27<sup>th</sup> August 2013

Dear Chiara,

**Ofgem: Tackling Electricity Theft – Consultation**

The UKRPA welcomes this opportunity to respond to Ofgem’s consultation and impact assessment.

The UKRPA is a trade association for parties involved in detecting and dealing with meter tampering and the illegal abstraction of electricity and gas, and for providers of products and services to those parties. The UKRPA currently has a total of 14 members, working in both gas and electricity revenue protection areas across Great Britain, Northern Ireland, the Isle of Man and Jersey (covering supply, networks, metering and data organisations).

The UKRPA supports the move towards an electricity TRAS service, and welcomes the close alignment with the approach for gas. We believe this will help encourage a more holistic solution; however, we have some reservations with respect to the impact assessment (especially around the cost of TRAS) and governance (i.e. gas versus electricity).

We set these out in response to the questions raised by Ofgem (see Appendix). However, the UKRPA has identified a number of areas that we consider to be significant in developing the proposed solutions for the electricity market:

- **Theft Risk Assessment Service (TRAS):** we agree that a central service to manage data information and referrals may be a more efficient means to coordinate intelligence to optimise theft detection. However, whilst we agree that action should not be delayed for gas, we nonetheless note that the delivery timescale for the electricity TRAS (Qtr 1, 2015) is some time after that for gas (March 2014) and that this may lead to inefficiencies arising in the development of the TRAS. We understand that there are delays to the procurement process for the gas TRAS development and it is hoped that this will afford more time to properly consider electricity as part of the overall solution.

There is a danger of two wholly independent services being developed leading to greater market complexity and potentially increased inefficiency. Ofgem might like to consider how best to secure a more efficient outcome, e.g. by requiring suppliers to develop the electricity TRAS with due regard to efficiencies arising from the gas TRAS – for example, the UKRPA already operates very effectively a gas and electricity 24hr/365 day theft reporting (web based) service for the public, and our experience suggests that a single telephone helpline should similarly embrace both gas and electricity.

- **TRAS Proposals:** the UKRPA is concerned with the obligation upon Suppliers to take all reasonable steps to investigate all (our emphasis) cases provided to it by the TRAS unless there were good reasons for not doing so. We believe this will have the effect of limiting the design of the TRAS service; for example, TRAS may wish to produce a comprehensive list of ‘targets’ with appropriate risk assessment scores against which suppliers prioritise cases to investigate and visit. This flexible approach would enable suppliers to make best use of their resources to achieve optimal theft discovery. The TRAS should be an additional source of information for suppliers to support their existing efforts (i.e. added value). The mechanism must also be cost reflective in relation to the costs currently experienced across the industry in the identification and investigation of theft cases. There will be lessons to learn from the gas TRAS implementation and these need to be incorporated into the electricity TRAS solution as the industry steps forward.

Consideration also needs to be given to the smart metering implementation programme which will effectively see a nationwide meter exchange programme, in close proximity to the implementation of the electricity (and gas) TRAS. The role that the TRAS plays should be integral in ensuring that processes and procedures are in place to maximise theft reporting opportunities as well as the management of safety considerations, as the mass meter exchange programme is undertaken.

- **Best Practice:** we agree that sharing best practice is a key ingredient, especially as theft of energy is becoming ever more sophisticated. The UKRPA already provides such a forum and would be pleased to provide ongoing support in this capacity going forward. Indeed, it has recently introduced an on-line knowledge sharing Members’ forum for the exchange of ideas and intelligence.

The UKRPA therefore welcomes Ofgem’s support for the UKRPA and its work and we look forward to continuing to help drive forward measures that improve best practice in the detection, prevention and investigation of theft. The design of any incentive mechanisms requires careful consideration to avoid suppliers being deterred from sharing best practice where they might perceive it as having a negative impact on their individual performance under an incentive scheme. Keeping best practice forums distinct from the governance arrangements for any incentives may avoid such unintended conflicts from arising.

- **Incentive Scheme:** we agree that the market should be left to devise the most appropriate incentive approaches, noting these can work to drive the right behaviours for theft services. However, whilst we agree that improvements are required, we have reservations about the potential complexity and cost. Key questions arise, such as: how much should be in the pot, how to define success against targets, and managing settlement disputes etc, notwithstanding the potential for some form of levelisation and settlement solution.

We are also mindful that careful consideration must be given to the design and operation of any incentive mechanism. Well defined incentive regimes and supporting mechanisms, will be of great value to the market in terms of meeting regulatory goals, improving safety and improving efforts to detect, investigate and prevent theft. Poorly structured schemes could have detrimental impacts on the market and this could lead to high costs for the industry due to overly complex arrangements and might even mean that sharing information

negatively impacts on a supplier's individual incentive capability, frustrating the development and communication of industry best practice.

- **Consumer Impact:** we agree that consumers are likely to see some of the benefits accruing from increased theft investigations. However, we also consider that the potential for increased complaints identified by Ofgem could reasonably be mitigated. The UKRPA has developed a Vulnerable Customers Best Practice Guidance<sup>1</sup> document which covers a range of principles that UKRPA members will consider when dealing with vulnerable customers in relation to Revenue Protection matters. The UKRPA would support a similar approach for the market in order to manage interactions between suppliers, DNOs and their agents, and members of the public (not just the vulnerable). The UKRPA are mindful that any proposals should allow suppliers the freedom to deal with repeat vulnerable offenders, as these individuals often pose added safety risks. Additionally, there needs to be a mechanism or arrangement for distinguishing between legitimate consumer complaints and frivolous and/or vexatious complaints which may be unfounded.
- **24 Hour Telephone Service:** the UKRPA recognises the importance of providing easy access for electricity users to report theft (day or night).

During 2011/12 the UKRPA noted there was over 100% increase in energy theft reports (representing almost 1000 reports) to its 24-hour on-line reporting function. An online service sits in contrast with a 24-hour 'telephone' service which is likely to set public expectations that all reported theft matters will be immediately dealt with - this may not always be the case, e.g. where the report is non-specific and a public safety risk is not identified. Notwithstanding emergency situations, it is unlikely to be cost effective to have suppliers 'on call' to provide a 24-hour response service. How a 24-hour telephony service will be supported and what it actually delivers, therefore needs to be fully considered, including whether the service should be free to call and how it might be financed and publicised.

- **Industry Engagement and Code Interactions:** we agree with Ofgem's approach to placing the onus on the industry to implement a number of proposals without the need for a licence direction. The UKRPA are encouraged by Ofgem's engagement with the industry on energy theft issues to date and would be keen to see how such progress is maintained and built upon in the coming months and years. Indeed, the UKRPA notes that the DCUSA DCP054 workgroup is developing the Code of Practice. However, the UKRPA is concerned to note that electricity and gas TRAS services will end up under two code governance regimes (SPAA and DCUSA). This adds unnecessary complexity and cost, and at worst could frustrate TRAS development due to different change management practices and differing stakeholder views. The UKRPA request that Ofgem give serious consideration to a single independent code governance approach, i.e. one that supports both gas and electricity and leverages the obvious dependencies between the two. This is likely to mean arranging for a dual fuel governance body to undertake this role.

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<sup>1</sup> [http://www.ukrpa.co.uk/images/UKRPA%20Best%20Practice\\_Vulnerable%20Customers\\_v1.0.pdf](http://www.ukrpa.co.uk/images/UKRPA%20Best%20Practice_Vulnerable%20Customers_v1.0.pdf)

Concluding, we would like to take this opportunity to reassure Ofgem that the UKRPA and its members are actively engaged in developing new initiatives and solutions in the furtherance of energy theft detection. The UKRPA is pioneering a number of initiatives in the energy sector, working with various organisations in a number of different capacities. The following presents an overview of some of our recent and on-going projects:

- We have worked extensively with a major housing association to develop an interoperability protocol. The protocol will provide support and assistance to housing association staff; focusing on awareness, safety, and improving the communications between housing associations and energy industry organisations. We expect to be publishing the protocol within the next few weeks.
- We are working closely with the Association of Chief Police Officers (ACPO) to better target detection of cannabis farming.
- We are liaising with the Home Office to strengthen joint working practices in relation to combating the emergence of cannabis cultivation in the UK, with organisations such as Crown Prosecution Service (CPS) and Crime Stoppers.
- Our members are working closely with regional Environmental Health Departments to combat the emergence of meter tampering activities at non-domestic premises.
- One of our members is piloting an approach with Merseyside Police, whereby an experienced Revenue Protection Agent works alongside the police, visiting a large majority of cannabis farms that the Merseyside Police are called to. This approach is already delivering significant benefits in terms of response times, cost reductions, and improved detection and recovery rates for cannabis farms.
- We are working with the CPS to improve prosecution rates in relation to energy theft.
- We are developing and implementing energy theft seminars (complementing our biannual conferences) to improve awareness, education and encourage best practices.

The UKRPA welcomes engagement with Ofgem, and we look forward to an ongoing constructive dialogue.

Please do not hesitate to contact us if we can provide further assistance.

Yours sincerely



Tony Thornton – Chair, UKRPA

## APPENDIX

### UKRPA Response to Ofgem's Consultation Questions

#### CHAPTER: Three

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

The UKRPA considers that a TRAS approach for electricity (i.e. similar to that being taken forward for gas) should yield positive results in the detection of theft. The introduction of new electricity supply licence obligations is therefore necessary to ensure alignment with the licence obligations already in place for gas - it would be odd to have gas licence obligations without similar arrangements also for electricity, thus encouraging a single theft detection market philosophy that maximises theft detection methods.

The UKRPA supports the consistent approach proposed for both the electricity and gas markets, however we also note that electricity presents particular challenges with regard to cannabis farms and the associated drug and organised crime issues that arise. This has particular implications for the development of the electricity TRAS and how this is developed alongside any incentive mechanisms and will warrant careful consideration.

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

The UKRPA agrees that the proposals for the electricity licences seem to describe Ofgem's policy intent, whilst noting that the specific details relating to the electricity TRAS would be set out in a subsequent Direction issued by Ofgem (i.e. similar to gas). In that sense at least, the obligations between electricity and gas are very well aligned, with one exception: within the gas supply licences there is an additional clause 12B.7 which allows gas suppliers to defer to the Relevant Gas Transporter if it is required to investigate (encourages a single point of action). However, the same exception is not made for electricity (see Clauses XX.5 and XX.6).

##### **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?**

The UKRPA accepts that consumer protection is important; however, we must not lose sight of the greater consequences of electricity theft – ultimately the loss of life and damage to property. Indeed, in the case of electricity there are much wider social consequences with respect to drugs and crime that are associated with electricity theft, albeit ultimately a balance must be struck.

The UKRPA notes that the draft electricity licence obligations already make significant provision for consumer protection measures (under XX.11), including a requirement to take into account the consumers 'ability to pay'.

Electricity suppliers are best placed to make these critical in-situ judgements (i.e. on a case by case basis), taking account of all the circumstances, including the safety of the occupier and their neighbours. It is important to note that suppliers go to significant lengths to identify vulnerability and operate policies that seek to avoid disconnection – UKRPA members operate to the UKRPA Vulnerable Customers Best Practice Guidance<sup>2</sup>. We therefore believe that further regulation in this area is unnecessary.

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

The UKRPA appreciates the desire for the timely implementation of supply licence conditions for the electricity industry; indeed it allows time for lessons to be learnt from the gas supply licence implementation for TRAS. However, we are concerned with the possibility of different TRAS solutions evolving because of timing differences and how this might reduce the opportunities for efficiencies via a joint development for a gas and electricity TRAS. Indeed, with gas TRAS falling under one code (SPAA) and the electricity TRAS falling under another (DCUSA), the governance arrangements will be different and to some extent duplicated. It is not clear at this stage how the two will be harmonised to ensure that greatest leverage is achieved across the markets. Indeed, it is important to note that having an integrated solution will allow for a better understanding of dual energy theft, i.e. instances of gas theft will in all likelihood indicate a high risk associated with electricity (and vice versa).

As noted in our response to Ofgem's consultation for the RIIO-ED1 electricity distribution price control, we are confident that a TRAS approach, across both markets, can yield positive results in the battle against energy theft, especially when considered in relation to and in conjunction with, a number of the other initiatives going on in the industry, both now and in the near future.

**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 draft IA?**

The IA assumes the cost to set up and operate the electricity TRAS is £700,000. This seems severely underestimated given the complexity of electricity theft, particularly with regard to organised crime and cannabis farming.

TRAS services should not be viewed simply as a large database churning out reports; rather, the UKRPA believes that this will necessitate a much wider intelligence network for the TRAS to consider, e.g. police, fire services, environmental health, landlords etc. Notwithstanding the need for governance and audits, interactive web based services, asset tracking, Smart Metering data analysis, consumer theft reporting capability, etc. Furthermore, Ofgem is already mooting that the TRAS may offer opportunities to improve data quality as part of the Smarter Markets development work.

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<sup>2</sup> [http://www.ukrpa.co.uk/images/UKRPA%20Best%20Practice\\_Vulnerable%20Customers\\_v1.0.pdf](http://www.ukrpa.co.uk/images/UKRPA%20Best%20Practice_Vulnerable%20Customers_v1.0.pdf)

Moreover, Ofgem's IA for a gas TRAS suggests set up costs ranging from £1.5m to £3m for year one, with between £2-3m to operate and manage<sup>3</sup>.

Allowing for development work, and ongoing management, it would not be unreasonable to assume similar costs for an electricity TRAS. That said, there are likely to be material efficiencies to be gained should the gas and electricity TRAS service become a combined delivery project. Under this scenario, the cost to operate and manage could well be reduced by around 20-30%.

Finally, we consider that supplier costs for electricity in relation to the TRAS are likely to be greater than for gas. As noted above, the degree of intelligent networking and close working partnerships that will be required with police, fire services etc, will result in commensurately higher supplier costs.

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

The UKRPA suggest that further consideration be given to the savings that could be made with a single gas and electricity TRAS service provision.

**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?**

The UKRPA confirms its support for TRAS; however Ofgem should be mindful of driving the supplier obligations so tightly that it restricts the TRAS solution development leading to unnecessary costs. For example, it would be a mistake to require suppliers to act on all TRAS reports, no matter their grading or risk.

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

The UKRPA believes there are opportunities to consolidate the delivery of TRAS services for gas and electricity. We note that the embodiment of these TRAS services under different codes could restrict a more efficient model from evolving, and that this requires further consideration.

## **CHAPTER: Six**

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

The UKRPA believes that DNO actions to identify and address electricity theft should be encouraged. That said we accept that at this stage DNOs should not be included in the proposed incentive scheme. However, the nature of electricity theft (particularly with regard to cannabis farming), will warrant closer examination and therefore future incentives for DNOs should not be ruled out.

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<sup>3</sup> Ofgem (March 2012), *Tackling gas theft: Final impact assessment*

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

The UKRPA agrees that in principle licence obligations to tackle theft in conveyance would be helpful. However, the measures should be proportionate and linked with participation within an incentive mechanism.

**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.**

The UKRPA does not have a position in relation to this question.