

Proposed modification:	Distribution Connection and Use of System Agreement (DCUSA) DCP201 – Provisions for the Theft Risk Assessment Service (TRAS)		
Decision:	The Authority ¹ directs that modification DCP201 be made ²		
Target audience:	DCUSA Panel, Parties to the DCUSA and other interested parties		
Date of publication:	25 March 2014	Implementation Date:	1 April 2014

Background to the modification proposal

Theft of electricity increases the costs paid by consumers and can have serious safety consequences. Some estimates put the cost of stolen electricity at over £200m per year. This problem can be compounded where these costs are misallocated among suppliers, distorting competition and hampering the efficient functioning of the market.

In July 2013 Ofgem consulted³ on proposals for tackling electricity theft that mirrored the recently introduced regulatory framework for the gas sector. These proposals included the establishment of a Theft Risk Assessment Service (TRAS).

On 25 September 2013, Ofgem directed that DCP054: '*Revenue Protection: Unrecorded Units into settlements*' be made⁴. This change sought to ensure that an appropriate revenue protection service is put in place and that DCUSA Parties adhere to a revenue protection Code of Practice to be incorporated into the DCUSA.

On 4 March 2014, Ofgem published its final decision on tackling electricity theft⁵. This included a decision to place licence obligations on electricity suppliers around the investigation, detection and prevention of theft, including the establishment of the TRAS. We recognised that a dual fuel TRAS had the potential to be more cost efficient and more effective than separate services being developed under gas and electricity. We therefore welcomed the work that industry parties had carried out to date, through a joint working group of the gas Supply Point Administration Agreement (SPAA) and the DCUSA, the latter being seen as the natural home for electricity theft issues following the implementation of DCP054.

However, it had been noted early on in that joint working group, only so much could be achieved on an informal basis. In order to provide appropriate short-term governance for the dual fuel project and in the longer term for the TRAS itself, a DCUSA change would be required in order to establish the TRAS arrangements as being within scope of the DCUSA.

The modification proposal

In order to facilitate the introduction of the TRAS as set out above, DCP201 seeks to do the following:

- introduce a definition of the TRAS within the DCUSA;
- add to the duties of the DCUSA Panel as set out under Section 5.3 of the document, requiring it to develop and give effect to the TRAS arrangements; and,

¹ The terms 'the Authority', 'Ofgem' and 'we' are used interchangeably in this document. Ofgem is the Office of the Gas and Electricity Markets Authority.

² This document is notice of the reasons for this decision as required by section 49A of the Electricity Act 1989.

³ '[Tackling energy theft – consultation](#)', Ofgem ref: 100/13

⁴ www.ofgem.gov.uk/ofgem-publications/83406/dcp054authoritydecisionletter.pdf

⁵ '[Tackling electricity theft – the way forward](#)'

- provide for the Recoverable Costs⁶ of developing and administering the TRAS arrangements to be allocated to Supplier parties, on the same basis as their existing contributions, i.e. on a market share basis.

DCUSA Parties' recommendation

The Change Declaration for DCP201 indicates that all those who voted, representing both DNOs and Suppliers, were in favour of implementing DCP201, as set out below. The outcome of the weighted vote is set out in the table below:

DCP201	WEIGHTED VOTING (%)							
	DNO ⁷		IDNO/OTSO ⁸		SUPPLIER		DG ⁹	
	Accept	Reject	Accept	Reject	Accept	Reject	Accept	Reject
CHANGE SOLUTION	100	0	n/a	n/a	100	0	n/a	n/a
IMPLEMENTATION DATE	100	0	n/a	n/a	100	0	n/a	n/a

In accordance with the weighted vote procedure, the recommendation to the Authority is therefore that DCP201 is accepted.

The Authority's decision

We have considered the issues raised by the proposal and the Change Declaration dated 21 February 2014. We have considered and taken into account the vote of the DCUSA Parties on the proposal which is attached to the Change Declaration. The Authority has concluded that:

- implementation of the change proposal DCP201 will better facilitate the achievement of the General DCUSA objectives¹⁰; and
- directing that the change is approved is consistent with the Authority's principal objective and statutory duties.¹¹

Reasons for the Authority's decision

We consider this proposal will better facilitate DCUSA Objectives 1 and 2. We consider that it has a neutral impact on the other applicable objectives.

Objective 1) – the development, maintenance and operation by each of the DNO Parties and IDNO Parties of an efficient, co-ordinated, and economical Distribution System

We note that the issuing of bespoke funding for activities carried out under the DCUSA has previously been raised as part of DCP057¹², which Ofgem rejected on 24 February 2010. We were concerned that DCP057 would give the DCUSA Panel broad discretion to change the established DCUSA funding arrangements, without it being clear what checks and balances would be in place.

⁶ As defined in Section 8.1 of the DCUSA

⁷ Distribution Network Operator

⁸ Independent Distribution Network Operator/Offshore Transmission System Operator

⁹ Distributed Generation

¹⁰ The DCUSA General Objectives (Applicable DCUSA Objectives) are set out in Standard Licence Condition 22.2 of the Electricity Distribution Licence and are also set out in Clause 3.1 of the DCUSA.

¹¹ The Authority's statutory duties are wider than matters that the Panel must take into consideration and are detailed mainly in the Electricity Act 1989 as amended.

¹² DCP057: 'Flexible funding model' www.ofgem.gov.uk/ofgem-publications/62558/dcp057d.pdf

DCP201 is different insofar as the proposed funding mechanism is specific to the TRAS arrangements and does not impact upon the DCUSA funding arrangements more generally. It targets the costs associated with the TRAS at the electricity suppliers who have the licence obligation to establish that service, and in a manner consistent with established funding principles. We consider that this is appropriate. We also note that this does not preclude DNOs and other interested parties from taking services from the TRAS and paying for them directly, as appropriate.

Respondents from both DNO and supplier businesses considered that the implementation of the TRAS service would lead to DNOs having more accurate settlements data, which would enable them to better manage their networks in an efficient manner. They considered that this would further facilitate DCUSA Objective 1.

We agree with these views. The scale of electricity theft is by its nature difficult to quantify, though the figure mentioned above, which along with other estimates was further explored as part of the July 2013 Ofgem consultation, suggests that it is a material problem. We consider that one of the problems of theft is that the energy must be accounted for somewhere, with much of it traditionally attributed to system losses. This may not only drive up network usage costs for suppliers but give potentially inaccurate investment signals to DNOs. Identifying and reducing the instances of theft should therefore enable DNOs to better manage the network in an efficient manner and ultimately reduce network costs.

Objective 2) – the facilitation of effective competition in the generation and supply of electricity and (so far as is consistent with that) the promotion of such competition in the sale, distribution and purchase of electricity

The implementation of the TRAS arrangements will enable the electricity industry to better manage the risks associated with theft, to target its resources more efficiently on investigating and preventing such theft, and ultimately to reduce the amount of electricity that is lost to theft each year. Combined with the new licence obligations upon suppliers mentioned above, DCP201 will also ensure that all suppliers engage in these efforts, rather than potentially allowing some gain a free ride from the efforts and investment of others.

We therefore agree with those respondents who suggested that the implementation of DCP201 will have direct efficiency benefits in terms of each supplier's revenue protection activities, and in the longer term through the reduction in costs associated with energy that is illegally consumed and/or not entered into settlements. To the extent that the most efficient operators will be able to pass on these gains through to consumers, we consider that the implementation of DCP201 will better facilitate effective competition between suppliers.

Decision notice

In accordance with standard licence condition 22.14 of the Electricity Distribution Licence, the Authority hereby directs that modification proposal DCP201: 'Provisions for the Theft Risk Assessment Service (TRAS)' be made.

Rob Church

Associate Partner, Smart Metering and Smarter Markets

Signed on behalf of the Authority and authorised for that purpose