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2<sup>nd</sup> April 2014

Dear Chiara

### [British Gas response to the consultation on Tackling Electricity Theft](#)

1. British Gas believes electricity and gas theft is a very serious issue, which places lives at risk and adds unnecessary costs to customers' bills. We estimate that the annual cost to UK customers of gas and electricity theft is around £500m.
2. British Gas has led the industry in devoting resource to energy theft detection; in an average year, 56% of all gas theft is detected by British Gas. We also take direct responsibility for detecting electricity theft – much of which is linked with cannabis farms, and we have a strong track record of working with the police to detect and stop this. In addition we also ensure that all other aspects of electricity theft, including commercial premises and domestic customers, are given the same priority to mitigate the safety risks involved.
3. British Gas welcomes Ofgem's continued focus on theft and we are fully supportive of the new licence obligations on electricity suppliers to detect, prevent and investigate electricity theft.
4. Whilst we support in principle the licence condition to implement a Theft Risk Assessment Service (TRAS), we would reiterate our concerns voiced in our previous response that TRAS must be sufficiently focussed upon the best means of achieving high quality theft leads. It must not be allowed to burden industry with disproportionate or speculative data requests which could result in spurious revenue protection leads – adding costs to the industry without commensurate benefits. We advocate the earliest possible implementation of the TRAS, but have concerns with the potential for delay associated with its implementation.
5. The procurement of a dual fuel TRAS has recently commenced under a joint SPAA/DCUSA working group and initial project plans indicate that the earliest point that a contract for the service could be in place would be by May 2015 with a Day 1 service being implemented by February 2016<sup>1</sup>. The TRAS will need to develop and deliver a variety of theft identification elements, some of which could be implemented much sooner than others. We have already discussed these concerns with Ofgem and provided some ideas on how to maximise value delivered at the earliest opportunity. To enable a faster implementation timeframe, a staged implementation of these elements may be the most prudent way to deliver the services and associated benefits. However, to achieve this clear direction from Ofgem is required on the revised implementation date for TRAS.

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<sup>1</sup> Dependant upon delivery capability of appointed TRAS service provider

6. As stated in our previous response we believe that anything less than a 100% settlement costs smearing mechanism will act as a disincentive for suppliers to detect theft. Whilst we understand the principle of ensuring suppliers have some incentive to prevent theft we do not believe that exposing suppliers to the full costs of assessed stolen units is the correct way to achieve this. This will encourage the wrong behaviours when assessing stolen units particularly when this procedure is so subjective and could be open to abuse. If Ofgem's approach of only allowing 80% of costs to be smeared is taken forward we believe that any associated incentive scheme would need to fully compensate the supplier for the additional un-smeared costs.
7. The case for 100% smearing is particularly strong in relation to cannabis farms where there is little prospect of recovering the costs of stolen energy from a customer as these are usually perpetrated by criminal gangs. Ofgem's assertion that a 80% smearing mechanism will provide an incentive to suppliers to prevent theft is flawed as it is difficult to envisage what a supplier could do to prevent cannabis farm theft from occurring in the first place when the large majority of these will have been "direct to mains illegal connections" where the metered supply point will look relatively normal and would not have been picked up through supplier monitoring.
8. We fully support the principle for industry to bring forward proposals for an electricity theft detection incentive scheme. We are actively considering raising the required industry code modifications to put the scheme in place.
9. We support the proposal that DNOs should have a licence condition to tackle theft in conveyance and agree that DNOs should not be included in any supplier incentive scheme.

More detailed responses to your consultation questions are attached to this letter but should you require any further information please do not hesitate to contact Kevin Woollard ([kevin.woollard@britishgas.co.uk](mailto:kevin.woollard@britishgas.co.uk) or 07979 563580)

Yours faithfully

Kevin Woollard  
Regulatory Manager

**Question 1: Do you agree with the drafting of our licence condition on:**

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- a) the objective for tackling theft of electricity**
  - b) the Theft Arrangement**
  - c) our proposed standards of investigation ?**
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- 1.1. With regard to the licence drafting for the objective for tackling theft of electricity we welcome Ofgem's decision to align the drafting of vulnerability to the equivalent gas licence condition. However we note that there is still a variance between the definitions in SLC 12A.1 (b) (ii) where the electricity definition includes the words "takes into account whether Domestic Customers and/or the occupants of Domestic Premises are in a vulnerable situation such as customers of Pensionable Age, disabled, or chronically sick". In our view the underlined words above should be deleted which would then align the condition with gas, as appears Ofgem's intent.
- 1.2. With regard to the licence drafting for the Theft Arrangement we have noticed a difference in the drafting between the gas SLC and electricity. The electricity condition 12A.9 state "The licensee must take all reasonable steps to secure and implement changes required by the Theft Arrangement" whereas the Gas SLC states that "The licensee must take all reasonable steps to secure and implement changes to the Theft Arrangement". The wording in the gas SLC would appear to be clearer and the electricity SLC should be amended to align with the gas wording.
- 1.3. We do not have any comments on the drafting of the proposed SLC for standards of investigation, however we do have still have serious reservations regarding the policy intent of SLC 12A.11(b) "The licensee must take (and ensure that any Representative takes) into account the Domestic Customer's ability to pay all or part of the Charges for the supply of Electricity resulting from Electricity Theft when calculating instalments," and 12A.11(d) "Where the licensee or any Representative knows or has reason to believe that there may be persons of a category described in sub-paragraph 12A11.(a) (i), the licensee or any Representatives must take all reasonable steps not to Disconnect the supply of electricity to the relevant premises in Winter".

- 1.4. As outlined in our previous response to Tackling Electricity Theft we do not agree that the same protections should be offered to customers who choose to steal as those that are offered to customers that have energy debts but have chosen not to steal. Where we are unable to recover charges resulting from electricity theft at a reasonable rate, particularly for repeat offenders, there will be no disincentive to re-offend and these additional costs will be borne by honest customers who choose not to steal. In 2013 approximately 12% of all domestic theft cases involved re-offending.
- 1.5. We believe we have developed a robust policy that seeks to balance the need to tackle theft and protect customers and their neighbours from dangerous situations where theft has occurred whilst also offering safeguards for vulnerable customers. This includes non disconnection of supply where there is evidence the customer is vulnerable or there is a member of the household who is vulnerable, and it is their first offence. Where “vulnerable” customers continue to re-offend and put the lives of their own family and neighbours at risk we believe we must, as a last resort, have the ability to disconnect the supply even if this occurs during the Winter period .
- 1.6. We agree with Ofgem’s view that in cases of electricity theft, vulnerability should be assessed in the context of the potential implications of being disconnected from electricity supply rather than considering the challenges faced by an electricity consumer in engaging in energy markets.

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**Question 2. Do you agree that our proposal to direct the implementation of the Theft Risk Assessment Service (TRAS) ?.**

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- 2.1. We agree in principle with the proposal to direct the implementation of the Theft Risk Assessment Service (TRAS).
- 2.2. We welcome Ofgem’s clarification regarding the obligation for the supplier to investigate “all cases” provided by the TRAS. Based on the current direction of travel in specifying requirements of the TRAS we have concerns that TRAS may generate high volumes of spurious or low-value leads that will

be expensive to investigate and will not provide good value to all consumers. Our experience shows that a combination of lead channels is by far the most effective means of tackling theft rather than a purely data driven approach which has a relatively low conversion rate. Any leads provided by the TRAS will compliment lead generation activities that Suppliers already have in place, in order to currently satisfy their theft detection licence obligations. TRAS should be incentivised to explore all channels for obtaining leads and be rewarded on the conversion rates achieved.

- 2.3. We agree with Ofgem's view that an electricity theft incentive scheme should be implemented. We believe this should run alongside the implementation of the TRAS and that the TRAS will provide some leads that will help suppliers to meet their targets set under the electricity theft incentive scheme. It would then be for suppliers to determine which leads, whether TRAS provided or self generated should be investigated and would be most likely to help the supplier meet or exceed their incentive scheme targets.
- 2.4. We are actively considering bringing forward industry modification proposals for the implementation of an electricity theft incentive scheme.

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**Question 3. Do you agree with our proposed requirements for the TRAS and the related drafting of the proposed direction?**

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- 3.1. We agree with the proposed requirements for the TRAS and the drafting of the proposed direction.
- 3.2. With regard to the scope of service for the TRAS, we believe that in order to achieve the earliest possible implementation date, the TRAS should be implemented in a phased approach, targeting highest value areas first, and leveraging existing industry theft specific data. The TRAS will deliver multiple channels for lead generation, some of which will be quicker and easier to establish than others. For example the establishment of a national customer tip off line and the commencement of engagement with third parties such as the police, local authorities, benefits agency etc can be commenced relatively quickly, as can the analysis of current and historical theft data, whereas the development and delivery of complex data analysis tools will take longer to

implement and refine. Day 1 of the TRAS should not be delayed to enable delivery of the slowest element of its activities. We believe this approach would provide best value to consumers.

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**Question 4. Do you agree we should require the TRAS to be implemented by 31 March 2015 ?**

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- 4.1. The evidence based project plan currently being developed by the joint SPAA/DCUSA working group would indicate that implementation of the TRAS by 31 March 2015 is not achievable. The project plan is due to be issued to Ofgem within the next couple of weeks. Current plans being proposed by the joint working group indicates that the earliest a TRAS contract for services could be awarded is in May 2015. We would suggest that this is the earliest date that Ofgem should stipulate in their direction, however further to our previous comments it would also be useful for Ofgem to provide some clear direction on a TRAS Day 1 implementation date, which could be brought forward should a phased approach to implementation be undertaken.