

Proposed modification:	<b>Distribution Connection and Use of System Agreement (DCUSA) DCP215 – the inclusion of a theft assessment calculator within DCUSA</b>		
Decision:	The Authority <sup>1</sup> directs that modification DCP215 be made <sup>2</sup>		
Target audience:	DCUSA Panel, Parties to the DCUSA and other interested parties		
Date of publication:	15 October 2014	Implementation Date:	06 November 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 consulted<sup>3</sup> 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 made<sup>4</sup>. 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. Appendix 7 of the Code of Practice requires that where a case of theft is found, an assessment of the unrecorded units of electricity consumed should be made in a systematic, consistent and transparent manner. Appendix 7 also sets out an approach for achieving this, which amongst other methods may include the use of an assessment calculator.

On 4 March 2014, Ofgem published its final decision on tackling electricity theft<sup>5</sup>. 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.

## The modification proposal

The proposer notes that the requirement for a common theft assessment calculator was discussed as part of the development of the theft Code of Practice, but that such a tool was not incorporated into the final version which was implemented as part of DCP054.

The proposer also notes that further work has been ongoing on gas, with a view to procuring such a tool. They therefore feel that amending the DCUSA at this time such that it envisages the use of such a tool would facilitate that procurement being conducted on a dual fuel basis. This would allow cost sharing and therefore be more efficient than procuring such a tool for the DCUSA alone.

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

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

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

<sup>4</sup> [www.ofgem.gov.uk/ofgem-publications/83406/dcp054authoritydecisionletter.pdf](http://www.ofgem.gov.uk/ofgem-publications/83406/dcp054authoritydecisionletter.pdf)

<sup>5</sup> '[Tackling electricity theft – the way forward](#)'

Specifically, DCP215 seeks to:

- insert into Clause 1 of the DCUSA a new defined term of 'Theft Assessment Calculator', being a tool procured by the Panel in order to provide a means of assessing unrecorded electricity units arising as a result of instances of Theft of Electricity;
- amend Clause 5 of the DCUSA, obligating the DCUSA Panel to arrange for a Theft Assessment Calculator to be procured, maintained and made available to those Parties obliged to use it. This may be carried out in conjunction with those making equivalent arrangements for gas; and finally,
- amend Schedule 23: 'Revenue Protection Code of Practice' to state that where an assessment calculator is used, Parties must use the one most recently made available by the DCUSA Panel.

### DCUSA Parties' recommendation

The Change Declaration for DCP215 indicates that all those who voted, representing both DNOs and Suppliers, were in favour of implementing DCP215, as set out below. The outcome of the weighted vote is set out in the table below:

DCP201	WEIGHTED VOTING (%)									
	DNO <sup>6</sup>		IDNO/ OTSO <sup>7</sup>		SUPPLIER		DG <sup>8</sup>		Gas Suppliers	
	Accept	Reject	Accept	Reject	Accept	Reject	Accept	Reject	Accept	Reject
CHANGE SOLUTION	92	8	100	0	100	0	n/a	n/a	n/a	n/a
IMPLEMENTATION DATE	92	8	100	0	100	0	n/a	n/a	n/a	n/a

In accordance with the weighted vote procedure, the recommendation to the Authority is therefore that DCP215 is accepted.

### The Authority's decision

We have considered the issues raised by the proposal and the Change Declaration dated 10 September 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 DCP215 will better facilitate the achievement of the General DCUSA objectives<sup>9</sup>; and
- directing that the change is approved is consistent with the Authority's principal objective and statutory duties.<sup>10</sup>

### Reasons for the Authority's decision

We consider that this proposal will better facilitate DCUSA Objective 4. Consultation respondents provided no comments against DCUSA Objectives 2 and 5, and we agree

<sup>6</sup>Distribution Network Operator

<sup>7</sup>Independent Distribution Network Operator/Offshore Transmission System Operator

<sup>8</sup>Distributed Generation

<sup>9</sup> 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.

<sup>10</sup> 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.

that DCP215 would have no impact upon those two 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***

The proposer and some of the other respondents who support DCP215 felt that it would help reduce the losses caused by unrecorded units and therefore improve the efficiency of the DNOs, though they did not elaborate on how the availability of the calculator would, of itself, contribute to such a reduction.

The respondent who was opposed to DCP215 felt that it would have a neutral impact against objective 1), noting that such reductions in losses will only occur if previously unrecorded units were subsequently entered into settlements. They went on to state that there was no evidence an assessment calculator procured as a result of DCP215 would be any more accurate than existing calculators, and that other techniques for assessing unrecorded units would remain available.

We agree with the latter respondent, that the availability of a standard assessment calculator is of itself unlikely to have any material impact on the amount of energy being assessed as unrecorded and subsequently entered into settlements. We therefore consider that DCP215 would have a neutral impact on DCUSA Objective 1.

***Objective 3) – the efficient discharge by each of the DNO Parties and IDNO Parties of the obligations imposed upon them by their Distribution licences***

Some of the respondents in favour of the implementation of DCP215 considered that it would enable DNOs to meet their licence obligations, with some giving specific reference to obligations under RIIO ED1 and Standard Licence Condition (SLC) 49: 'Losses and Theft of Electricity'. However they did not elaborate on how these obligations would be better met.

The respondent opposed to DCP215 also made specific reference to SLC49. They noted that there would be no obligation to use the assessment calculator in preference to the other methods for estimating unrecorded energy, as listed in the Code of Practice. They noted that the appropriate choice of method may be determined on a case by case basis, and therefore did not consider that DCP215 would better facilitate the discharge of licence obligations.

We agree that DCP215 would not restrict the existing discretion over which method to use to determine the amount of unrecorded energy. Schedule 23 continues to recognise that no single method is necessarily appropriate in all cases. However, it does prescribe that if an assessment calculator is to be used, it shall be the one provided by the DCUSA Panel. We therefore consider that DCP215 may provide for a greater degree of standardisation, which may itself be of some benefit, but have seen no evidence to suggest that it would result in any more or less energy being entered into settlements than currently. We therefore again consider that DCP215 would have a neutral impact upon this DCUSA objective.

***Objective 4) – the promotion of efficiency in the implementation and administration of the DCUSA and the arrangements under it***

Those respondents in favour of DCP215 suggested that it would further facilitate DCUSA objective 4), but again with little substantiating comment other than it providing for a greater degree of consistency in calculating unrecorded units.

The respondent opposed to DCP215 considered that it would be detrimental to the efficient operation of the DCUSA. They noted that parties are already required to be compliant with Schedule 23 of the DCUSA and that DNOs have developed techniques which take into account regional variations. They therefore felt that the proposed assessment calculator may be superfluous, lead to additional administrative costs and may even prove to be less accurate than those existing techniques.

We note that the focus of the calculator is to assess energy usage based on the number and type of appliance in the property. It is therefore not clear to us that there would be regional variations in this calculation, but we see no reason why they could not be included within the calculator, if appropriate. However, we are sympathetic to the concerns over the cost and additional burden that the proposed calculator may impose. Ultimately we consider that it is appropriately a decision for the DCUSA Panel on whether or not to jointly procure a Theft Assessment Calculator with SPAA Parties.

We would not expect either code to proceed unless the tendered calculator is of demonstrable value, both in terms of cost and improved accuracy. Until such time as a calculator is procured by the DCUSA Panel, the obligations on Parties to use it cannot have effect and existing techniques for quantifying the extent of theft will continue.

We consider that DCP215 provides the DCUSA Panel with an option to embark on a joint procurement with the SPAA, but does not prescribe that they should exercise that option or subsequently enter into an unfavourable contract.

### **Decision notice**

In accordance with standard licence condition 22.14 of the Electricity Distribution Licence, the Authority hereby directs that modification proposal DCP215: 'the inclusion of a theft assessment calculator within DCUSA' be made.

**Rob Church**

**Partner, Retail Markets**

Signed on behalf of the Authority and authorised for that purpose