

Modification proposal:	Distribution Connection and Use of System Agreement (DCUSA) DCP225: Theft Risk Assessment Service – Party Obligations		
Decision:	The Authority ¹ directs this modification ² be made ³		
Target audience:	DCUSA Panel, Parties to the DCUSA and other interested parties		
Date of publication:	1 June 2015	Implementation date:	1 June 2015

Background

On 31 October 2012 we directed the modification of the Gas Supplier Licence, introducing new rules regarding the prevention, detection and investigation of gas theft.⁴ In particular, the new licence condition⁵ requires gas suppliers to be a party to, comply with, and maintain the “*Theft Arrangement*”, also referred to as the Theft Risk Assessment Service (TRAS).

We subsequently consulted⁶ in July 2013 on introducing similar arrangements to tackle electricity theft. These proposals included the introduction of new licence obligations upon electricity suppliers, equivalent to those already introduced in gas, and for the establishment of an electricity TRAS. Respondents to that consultation broadly supported our proposals, but considered that there would be cost-efficiencies and other benefits such as the pooling of information, if the TRAS could be a dual-fuel offering.

We agreed, and set out our revised proposals for a dual-fuel TRAS in our March 2014 way forward document.⁷ We subsequently invited gas and electricity suppliers, via the SPAA⁸ Executive Committee and DCUSA Panel respectively, to submit a revised timetable (building upon the one previously established for a gas-only TRAS) and a recommendation for a practicable target date for commencement of the dual-fuel service.

We modified the Electricity Supply licence⁹, and the new Standard Licence Condition 12A: ‘*Matter relating to electricity theft*’¹⁰ came into effect 3 July 2014. On 10 July 2014 we issued a Direction¹¹ to electricity suppliers and a revised Direction¹² to gas suppliers, requiring both to implement a dual-fuel TRAS by 29 February 2016. This date was in line with the work plan submitted to us by the dual-fuel TRAS workgroup set up under the DCUSA and SPAA.

The procurement of a dual-fuel TRAS service is now nearing completion, with a preferred bidder having been identified and terms agreed, subject to contract. It is expected that

¹ References to the “Authority”, “Ofgem”, “we” and “our” are used interchangeably in this document. The Authority refers to GEMA, the Gas and Electricity Markets Authority. The Office of Gas and Electricity Markets (Ofgem) supports GEMA in its day to day work. This decision is made by or on behalf of GEMA.

² ‘Change’ and ‘modification’ are used interchangeably in this document.

³ This document is notice of the reasons for this decision as required by section 49A of the Electricity Act 1989.

⁴ Tackling Gas Theft: New requirements for gas suppliers – Decision Document. Ofgem Ref 137/12. See: www.ofgem.gov.uk/Markets/RetMkts/Compl/Theft/Documents1/Tackling%20Gas%20Theft%20-%20New%20requirements%20for%20gas%20suppliers%20-%20Final.pdf

⁵ Standard Licence Condition 12A: ‘Matters relating to Theft of Gas’

⁶ Tackling electricity theft – Consultation. Ofgem Ref 100/13. See: www.ofgem.gov.uk/ofgem-publications/75268/20130703tackling-electricity-theft.pdf

⁷ Tackling electricity theft – the way forward. See: www.ofgem.gov.uk/ofgem-publications/86504/electricitytheft-decisionfinalv1.pdf

⁸ Supply Point Administration Agreement

⁹ www.ofgem.gov.uk/ofgem-publications/87632/tacklingelectricitytheft-newrequirementsforelectricitysuppliers.pdf

¹⁰ Tackling electricity theft – new requirements for electricity suppliers. Open letter. See: <https://www.ofgem.gov.uk/ofgem-publications/87664/modificationofthestandardconditionsoftheelectricitysupplylicenceundersection11aoftheelectricityact1989.pdf>

¹¹ www.ofgem.gov.uk/ofgem-publications/88710/electrasdirectionfinal.pdf

¹² www.ofgem.gov.uk/ofgem-publications/88713/gastrasdirectionfinal.pdf

the contract will be signed shortly, upon implementation of facilitating changes to the DCUSA and SPAA.

The modification proposal

DCP225 seeks to introduce a new schedule into the DCUSA setting out the governance and funding of the TRAS service, as well as the role and responsibilities of parties with respect to date provision, etc.

The Direction includes an obligation on suppliers to ensure that a performance assurance report is produced by a person who is fully independent of the TRAS. DCP225 also includes provisions requiring the DCUSA Panel to procure an independent report on the performance of the TRAS.

Alongside DCP225, Change Proposal CP15/292¹³ has been raised to the SPAA, replacing the existing SPAA Schedule 34 with the equivalent of the new DCUSA Schedule, thereby maintaining the dual-fuel governance of the TRAS.

DCUSA Parties' recommendation

The Change Declaration for DCP225 indicates that DNO and Supplier parties were eligible to vote on DCP225. In each of those party categories there was strong support for the proposals and for its implementation date as shown below. In accordance with the weighted vote procedure, the recommendation to the Authority is therefore that DCP225 is accepted.

DCP225	WEIGHTED VOTING (%)							
	DNO ¹⁴		IDNO/OTSO ¹⁵		SUPPLIER		DG ¹⁶	
	Accept	Reject	Accept	Reject	Accept	Reject	Accept	Reject
CHANGE SOLUTION	100	0	n/a	n/a	98	2	n/a	n/a
IMPLEMENTATION DATE	100	0	n/a	n/a	97	3	n/a	n/a

Our decision

We have considered the issues raised by the proposal and the Change Declaration and Change Report dated 14 May 2015. We have considered and taken into account the vote of the DCUSA Parties on the proposal which is attached to the Change Declaration. We have concluded that:

- implementation of the modification proposal will better facilitate the achievement of the DCUSA General objectives;¹⁷ and
- directing that the modification is approved is consistent with our principal objective and statutory duties.¹⁸

¹³ SPAA CP15/292: 'Theft Risk Assessment Service Implementation'

¹⁴ Distribution Network Operator

¹⁵ Independent Distribution Network Operator/Offshore Transmission System Operator

¹⁶ Distributed Generation

¹⁷ 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.

¹⁸ The Authority's statutory duties are wider than matters that the Parties must take into consideration and are detailed mainly in the Electricity Act 1989 as amended.

Reasons for our decision

We have considered this change proposal against DCUSA General Objectives 1, 2 and 4, and consider that it would have a neutral impact on the other objectives.

DCUSA General Objective 3.1.1 – the development, maintenance and operation by each of the DNO Parties and IDNO Parties of an efficient, co-ordinated, and economical Distribution System

Several respondents suggested that General Objective One is better facilitated by DCP225 as reduced theft will enable more accurate data about consumption to be utilised by DNOs. They went on to suggest that more accurate data gives DNOs the opportunity to manage their network in a more efficient and economic manner. We agree that improving the information available on levels of theft will initially improve the network operators' ability to manage their network efficiently, and subsequently enable further action to be taken to reduce such theft. We therefore agree that DCP225 will further facilitate DCUSA General Objective 1.

DCUSA General Objective 3.1.2 – 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

Energy theft significantly increases the cost of gas and electricity to consumers, while practices such as meter-tampering can also lead to death and injury. Whilst the total amount of electricity theft is unclear, some estimates put the cost at over £200m per year. This leads to a misallocation of costs amongst suppliers, which can distort effective competition and hamper the efficient functioning of the market.

The implementation of the TRAS is part of a wider strategy to tackle energy theft. We expect the TRAS to enhance suppliers' ability to detect and investigate instances of theft, and as public perception of the likelihood of detection increases, to discourage it. To the extent that this will lead to a reduction in the amount of electricity theft and contribute to the more accurate allocation of costs, we consider the TRAS will improve the functioning of the market and facilitate effective competition between suppliers. DCP225 is fundamental to the introduction of the TRAS and will contribute directly to this aim.

DCUSA General Objective 3.1.4 – the promotion of efficiency in the implementation and administration of this Agreement and the arrangements under it

We have noted and have sympathy with the comments raised by those Suppliers who questioned the scale and timing of data that DCP225 requires to be made available to the TRAS, but also note that strong levels of support for its implementation. We are aware that these data requirements have been refined during extensive discussions both amongst the working group and with the preferred service provider. The workgroup has also been attended by and taken advice from the Information Commissioners Office.

Whilst we recognise the administrative burden that the data requirements place upon parties, particularly in the short term during which a degree of historic data is required, given the estimated scale of electricity theft we are satisfied that this is a proportionate measure. We also understand that the majority of parties present at those workshops agreed that the timing suggested by TRAS provider, i.e. by the end of July 2015, is challenging but achievable.

However, we would also expect the TRAS provider, and the DCUSA Panel, to adopt a degree of flexibility in their requirements. If appropriate, and to the extent that it does

not compromise the timely delivery of the TRAS service, this could reasonably include derogations for individual parties.

Given the above, we acknowledge that the requirements of DCP225, in particular around the provision of data, will initially add to the administrative burden of DCUSA Parties, though we would expect a pragmatic approach to lessen this burden. We recognise that DCP225 may, at least in the short term, reduce the administrative efficiency of the DCUSA and therefore have a negative impact on DCUSA General Objective 4. However, we are satisfied that these requirements are proportionate. We consider that the burden upon parties will be far outweighed by the potential reduction in the cost of theft, particularly when considering the level of such costs, based on current estimates.

Decision notice

In accordance with standard licence condition 22.14 of the Electricity Distribution Licence, the Authority hereby directs that modification proposal DCP225: *'Theft Risk Assessment Service – Party Obligations'* be made.

Rob Church

Partner, Retail Markets

Signed on behalf of the Authority and authorised for that purpose