

Modification proposal:	Distribution Connection and Use of System Agreement (DCUSA) DCP209 – Resolving Unregistered Consumers		
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:	30 August 2016	Implementation date:	01 October 2016

Background

Some consumers are using electricity which they are not paying for because their supply has not been registered by a Supplier, due to a variety of scenarios⁴. The units these unregistered consumers use contribute to Distribution Losses,⁵ and the costs are spread across all customers. Getting these unregistered consumers registered with a Supplier will reduce overall system losses, improve efficiency and reduce overall cost to other customers. We set out in "Tackling Theft of Electricity- the way forward"⁶ that we would continue to work with stakeholders to find solutions to theft related issues, such as the process for getting unregistered customers⁷ registered by a supplier.

In addition, Standard Licence Condition 49⁸ of the electricity distribution licence requires Distribution Network Operators (DNOs)⁹ to ensure that electricity Distribution Losses are as low as reasonably practicable. In particular a DNO "must undertake all reasonable cost-effective steps within its power to resolve any cases of Relevant Theft of Electricity from its Distribution System." The Definition of Relevant Theft of Electricity includes "(c) any person [who] takes a supply of electricity at premises which have never been registered with an Electricity Supplier." While Distributors are well placed to identify unregistered system users on their networks, they are unable to register them. Registration can only be achieved by a Supplier first agreeing a supply contract with a customer. Distributors need to work with Suppliers to register these system users as customers.

Licence obligations have been placed on Suppliers to deal with situations of electricity theft, but unregistered consumers do not necessarily fall within the definition of theft. The current market arrangements do not place any specific obligation on Distributors or Suppliers to deal with unregistered consumers, nor is there any existing guidance on how best to handle the process once unregistered consumers are identified.

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 These could include having fallen outside of normal industry registration processes; been connected via non-standard connection arrangements; or may have been connected illegally by persons unknown.

⁵ Distribution Losses are defined in the Distribution Licence to mean Units lost while being transported through the licensee's Distribution System, including (a) Units lost in the course of that process as a result of electrical impedance or the operation of that Distribution System (ie 'technical losses'); and (b) Units unaccounted for that can be attributed to Relevant Theft of Electricity, or to inaccuracies or errors in inventories of unmetered supplies (ie 'non-technical losses').

⁶ <https://www.ofgem.gov.uk/publications-and-updates/tackling-electricity-theft---way-forward-0>

⁷ The ordinary meaning of the word 'customer' is a person who purchases goods or services. As unregistered consumers are usually not registered with a Supplier or paying for the units used, we refer to them in this document as 'consumers', except where quoting from other sources or in reference to 'vulnerable customers'.

⁸ Electricity Distribution Losses Management Obligation and Distribution Losses Strategy

⁹ Independent Distribution Network Operators (IDNOs) are not Distribution Service Providers (DSPs) and therefore do not have an obligation to comply with SLC49.

The modification proposal

DCP209 was raised by Northern Powergrid on 8 May 2014. Its aim is to set out an industry wide process to engage with consumers who are currently unregistered and get arrange for them to be registered by a Supplier. It was originally proposed to make changes to the Revenue Protection Code of Practice in Schedule 23 of the DCUSA. However, the DCP209 working group (WG) determined that it would be more effective to have a separate code of practice which would set out the obligations on the different parties and processes for managing unregistered consumers up to, but excluding, the registration process itself.

The Final Modification Report (FMR) was originally submitted to us for a decision on 12 April 2016. We directed that the FMR should be revised to address some deficiencies in the definitions, and that the WG should consider whether the word 'customer' should be replaced in some instances, before being resubmitted to us.¹⁰ A revised FMR was submitted to us on 28 July 2016.

DCP209 proposes to introduce a new Code of Practice¹¹ into the DCUSA, the "Resolving Unregistered Consumers Code of Practice" (COP). It proposes new obligations for Distributors and Suppliers in relation to identifying and communicating with unregistered consumers. These proposed obligations include:

- Distributors shall take steps to identify unregistered consumers, investigate and try to resolve such cases
- Distributors shall communicate with unregistered consumers in order to capture their details
- Distributors will need to retain those details and share them with the consumer's chosen Supplier
- The consumer's chosen Supplier shall communicate with the consumer in order to capture their details (the further details the Supplier needs from the consumer for a supply contract and to register the consumer);
- The Supplier shall, upon receipt of consumer details from the Distributor, retain such details and contact the consumer and offer contractual terms to the consumer (to the extent it is required to do so under the Electricity Act); and
- Where an unregistered consumer contacts a Supplier it must obtain and retain their consumer details and offer contractual terms to them (to the extent it is required to do so under the Electricity Act)

DCP209 also introduces the possibility of discontinuation of supply to unregistered consumers,¹² including for example those consumers who do not respond appropriately to communications from Distributors or Suppliers or who refuse to seek a supply contract. Any such discontinuation of supply would be subject to appropriate considerations for vulnerable customers.¹³

The COP includes a suite of optional letter templates for communicating with unregistered consumers. These letters are optional so as not to be overly prescriptive on the

¹⁰ <https://www.ofgem.gov.uk/publications-and-updates/authority-decision-send-back-dcusa-mod-proposal-dcp209-resolving-unregistered-customers>

¹¹ This follows a similar approach to that taken by the Revenue Protection Code of Practice in Schedule 23 of the DCUSA. It sets out obligations on DNOs and Suppliers but provides optional templates so as not to be overly prescriptive in how each part will meet its obligations

¹² Appendix 2 of the COP provides guidance regarding discontinuation of supply by the Distributor.

¹³ On 1 April 2016 we published our Electricity Distribution Stakeholder Engagement and Consumer Vulnerability (SECV) Incentive Guidance document <https://www.ofgem.gov.uk/publications-and-updates/direction-issuing-stakeholder-engagement-and-consumer-vulnerability-incentive-guidance-riio-ed1>

approach. The process makes reference to 'soft' and 'hard' letters to highlight that the Distributor may wish to use communications which are softer in tone initially, and move to a firmer tone if the unregistered consumer does not respond appropriately. This is in line with the approach already used in the energy industry for unregistered gas consumers.

The COP establishes an obligation on Distributors and Suppliers to have appropriate and coordinated reporting in place to be able to track progress on resolving consumers identified as unregistered. To support best practice, DCP209 proposes an unregistered consumer tracking spreadsheet to be placed on the DCUSA website. This spreadsheet will only be accessible by DCUSA registered parties.

The DCP209 WG considered that the change proposal better facilitates objectives 3.1.1, 3.1.3 and 3.1.5 of the applicable DCUSA Objectives,¹⁴ while two voting parties¹⁵ also considered that it also better facilitates objective 3.1.4.

DCUSA Parties' recommendation

The Change Declaration for DCP209 indicates that all parties were eligible to vote on DCP209. In each party category where votes were cast (no votes were cast in the DG party category),¹⁶ there was unanimous support for the proposal and for its proposed implementation date. In accordance with the weighted vote procedure, the recommendation to the Authority is that DCP209 is accepted. The outcome of the weighted vote is set out in the table below:

DCP209	WEIGHTED VOTING (%)							
	DNO ¹⁷		IDNO/OTSO ¹⁸		SUPPLIER		DG ¹⁹	
	Accept	Reject	Accept	Reject	Accept	Reject	Accept	Reject
CHANGE SOLUTION	100	0	100	0	100	0	n/a	n/a
IMPLEMENTATION DATE	100	0	100	0	100	0	n/a	n/a

Our decision

We have considered the issues raised by the proposal and the Change Declaration and Change Report dated 28 July 2016. 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; and
- directing that the modification is approved is consistent with our principal objective and statutory duties.²⁰

¹⁴ 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.

¹⁵ Electricity North West and Northern Powergrid

¹⁶ There are currently no gas supplier parties.

¹⁷ Distribution Network Operator

¹⁸ Independent Distribution Network Operator/Offshore Transmission System Operator

¹⁹ Distributed Generation

²⁰ 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 consider this modification proposal will better facilitate DCUSA General Objectives 3.1.1, 3.1.2, 3.1.3 and 3.1.5 and has a neutral impact on General Objective 3.1.4.

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

The DCP209 WG considers that reducing non-technical losses through resolving unregistered consumers will lead to a more efficient distribution network and reduce the potentially inefficient use of electricity by unregistered consumers through pricing signals in their electricity tariff.

We agree with the DCP209 WG that this proposal better facilitates this objective because a reduction in non-technical losses on the DNO's Distribution System will lead to more efficient management of the network. Identifying and registering currently unregistered consumers will allow the DNO to plan for the consumer's load. It also facilitates pricing signals to these consumers (through their electricity tariff) which may encourage them to use energy more efficiently.

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

We consider that the proposed COP better facilitates the promotion of competition in the sale, distribution and purchase of electricity. At present all unaccounted for energy usage is shared on a pro rata basis across all Suppliers. Registering these unregistered consumers ensures a more accurate cost allocation to the relevant Supplier. More accurate allocation of costs to suppliers should help to improve competition. It also allows the Distributor to more accurately reflect costs on their networks.

DCUSA General Objective 3.1.3 – the efficient discharge by each of the DNO Parties and IDNO Parties of the obligations imposed upon them by their Distribution Licences

The DCP209 WG considers that the proposal will help Distributors fulfil their licence obligations, particularly those under SLC49. The WG considered that this proposal provides greater clarity on DNO obligations to address 'Relevant Theft of Electricity', which includes unregistered consumers.

We agree with the DCP209 WG that the proposed COP will allow DNOs to more effectively discharge their obligations under SLC49 to reduce electricity distribution losses. Identifying unregistered consumers and working with Suppliers to resolve these cases should lead to a reduction in non-technical losses on the relevant DNO's system.

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

Two respondents consider that this proposal delivers an improvement to DCUSA because it provides a structured and co-ordinated approach for parties to resolve unregistered consumers. They considered that some of these illegal/unauthorised connections may have been identified under the Revenue Protection Code of Practice arrangements contained in Schedule 23 of DCUSA and that this proposal clarifies the subsequent steps to be taken.

We accept that the proposal has some interaction with the Revenue Protection Code of Practice, and that it provides clarity and a co-ordinated approach to dealing with identified unregistered consumers. However we do not consider that it provides better efficiency in the implementation and administration of DCUSA than the current arrangements. As such we consider that the impact on this objective is neutral.

DCUSA General Objective 3.1.5 – compliance with the Regulation on Cross-Border Exchanges in Electricity and any relevant legally binding decisions of the European Commission and/or the Agency for the Co-operation of Energy Regulators

The DCP209 WG considers that this proposal supports EU directives in the area of optimisation of the use of energy through getting unregistered consumers registered by a Supplier so that they can receive appropriate costs signals.

We agree with the DCP209 WG that this proposal supports EU directives in the area of optimisation of the use of energy by reducing the number of unregistered consumers. Registering these consumers will ensure that they pay for the energy they consume, and will ensure that they can identify the most appropriate tariff for their type of usage. This supports EU Directive 2009/72/EC,²¹ through ensuring that these consumers can benefit from a more efficient functioning of the national market, including through effective competition and consumer protection.

The Code of Practice

We expect DCUSA parties to keep the 'Resolving Unregistered Consumers Code of Practice' under review to ensure that it reflects industry best practice.

Decision notice

In accordance with standard licence condition 22.14 of the Electricity Distribution Licence, the Authority hereby directs that modification proposal DCP209: Resolving Unregistered Consumers be made.

James Veaney

Head of Electricity Connections and Constraint Management

Signed on behalf of the Authority and authorised for that purpose

²¹ <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2009:211:0055:0093:EN:PDF>