Smarter Markets
Ofgem
9 Millbank
London
SW1P 3GE

28 August 2013

**Tackling electricity theft - Consultation**

EDF Energy is one of the UK's largest energy companies with activities throughout the energy chain. Our interests include nuclear, coal and gas-fired electricity generation, renewables, and energy supply to end users. We have over five million electricity and gas customer accounts in the UK, including residential and business users.

We share Ofgem's view that theft of electricity has serious cost implications for honest customers who bear the cost of theft. Electricity theft also impacts suppliers who lose revenues, incur costs in tackling theft incidents, and have to manage the associated safety risk to their employees and agents. Theft of electricity can also have serious safety consequences for customers as well as other individuals in close proximity.

We agree that improved arrangements to detect and prevent theft are likely to have consequential benefits for customers and the market more widely, but it is imperative that any measures implemented do not negatively impact honest customers.

The key points we would like to make in relation to the consultation and draft impact assessment are:

- The cost of any new arrangements to tackle electricity theft must be proportionate to the benefits that will be delivered.
- Vulnerable customers that steal electricity should not be afforded a higher level of protection than honest customers in genuine payment difficulty.
- Any incentive scheme implemented must balance the financial interests of suppliers against the fair treatment of customers.
- A clear, plain English definition of electricity theft is required in order to avoid differing interpretation between parties that could be to the detriment of customers.
- We support the introduction of a volume based incentive scheme in conjunction with a settlement cost sharing arrangement.

Our detailed responses are set out in the attachment to this letter. Should you wish to discuss any of the issues raised in our response or have any queries, please contact Dan Simons on 07875 113701, or myself.

EDF Energy
40 Grosvenor Place, Victoria
London SW1X 7EN
Tel +44 (0) 20 7752 2187

edfenergy.com

*EDF Energy plc.*
*Registered in England and Wales.*
*Registered No. 2366852.*
*Registered office: 40 Grosvenor Place, Victoria, London SW1X 7EN*

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I confirm that this letter and its attachment may be published on Ofgem's website.

Yours sincerely,

**Paul Delamare**
**Head of Downstream Policy and Regulation**

**Attachment**

**Tackling electricity theft - Consultation**

**EDF Energy's response to your questions**

**CHAPTER: Three**

**Q1: Do you agree with our proposals to introduce new electricity supply licence obligations in relation to theft?**

Yes. The proposed licence obligations will help to ensure that all suppliers undertake activity to detect and prevent electricity theft in a consistent manner. The introduction of new electricity supply licence conditions will also align with the obligations introduced into the gas supply licence earlier this year.

**Q2: Do you agree that our drafting proposals set out in Appendix 3 reflect the policy intent described in this chapter?**

The drafting proposals broadly reflect the policy intent; however, we have the following comments in terms of the detailed licence condition drafting:

- XX.11 – we would question the ability of a supplier to identify vulnerability and ability to pay for customers who are not part of a supplier's portfolio. As currently drafted the standards set out in XX.11 apply to steps undertaken under XX.4 which is in respect of premises not supplied by the licensee;
- XX.11 (c) – suppliers are already subject to such obligations.

**Q3: Do you consider that electricity suppliers should be required to offer vulnerable customers and customers that would have genuine difficulty paying, different methods for the repayment of charges associated with electricity theft as an alternative to disconnection?**

Suppliers already have an obligation under SLC 27 to offer a wide range of payment methods to customers in payment difficulty. This includes prepayment metering, regular cash payments and Fuel Direct. In addition we would also offer Direct Debit.

Any customer who had accrued a debt as a result of electricity theft would be offered a repayment arrangement in accordance with these existing requirements and the customer's ability to pay would be taken into account when agreeing an appropriate repayment plan.

However, there are still some circumstances in which disconnection may remain an appropriate response. For example, where a vulnerable customer repeatedly tampers with their electricity supply and puts themselves or others in danger.

Finally, it is important that customers that steal electricity are not afforded a higher level of protection than honest customers in genuine payment difficulty.

**Q4: Do you agree that our proposed new electricity supply licence conditions should be introduced as soon as reasonably practical?**

Yes.

**CHAPTER: Five**

**Q5: Do you agree with our approach to conducting the draft IA, the assumptions that we have made and the outcome of our analysis in the accompanying draft IA?**

While we broadly agree with the approach to conducting the draft IA, we would question some of the assumptions made as part of the analysis.

In particular, the estimated set up and operating costs for the TRAS service seem extremely low. Given the scope and scale of the service and based on our experience of developing the requirements for the equivalent TRAS service in gas, there is the potential for set up and operating costs to be significantly more than the £700k quoted in the draft IA.

We would also question the estimated costs for set up, operation and auditing of the detection based incentive scheme and the volume based incentive scheme. These appear to be based on the gas "SETS" modifications, both of which were rejected by the majority of gas suppliers with many parties questioning the rationale for the set up and operation costs provided.

**Q6: Have we correctly assessed the main impacts in the accompanying draft IA? Are there additional impacts that we should consider?**

While we are broadly satisfied that the main impacts have been assessed, the fact is that the total value of electricity theft remains largely unknown, with vastly differing estimates of the amount of theft currently taking place.

As such, the large number of assumptions made in the draft IA does somewhat limit the ability to draw robust conclusions from the analysis.

**Q7: Which, if any, of the proposed policy measures (or package of policy measures) to support theft investigation, detection and prevention should be implemented and why?**

EDF Energy continues to support the reduction of electricity theft and believes that this is a matter of high priority for the GB electricity market.

However, there is a risk that the costs associated with developing the arrangements under the proposed incentive schemes and the TRAS could be significantly underestimated which would add a sizeable amount to the overall costs incurred by suppliers when detecting and investigating theft. Consequently, there is a strong likelihood that these costs would be passed on to honest customers in the event that increased levels of theft were not detected.

Therefore, it is imperative that any policy measure introduced is effective, proportionate and strikes a reasonable balance between the benefits to consumers and the costs of carrying out theft investigation, detection and prevention.

Of the various measures proposed, we support the introduction of Licence Conditions and a Theft Code of Practice in order to align with obligations already present in the gas market.

We also support, in principle, the introduction of the volume based incentive scheme in conjunction with a settlement cost sharing arrangement. We believe that this package of measures, if calibrated correctly, would offer the highest overall benefit to suppliers and the industry as a whole.

We consider there is already a clear commercial incentive for suppliers to detect and prevent domestic electricity theft as once a culprit has been identified, they can be billed for the revenue lost as a result of the theft as well as for future lawful consumption. At present, this recovery often takes place over an extended period through a prepayment meter or via direct benefit reductions.

This is rarely the case for non-domestic or cannabis farm theft where recovering revenue from the culprit is often impossible.

A volume based incentive scheme would encourage suppliers to target these higher value instances of theft as it would be possible to recover costs that would previously have been unrecoverable. Suppliers would also retain the existing commercial incentive to bill customers for lower value domestic theft as well as gaining the added incentive of being able to recover further revenue once the units had been entered back into settlement.

In contrast, while a detection based scheme may lead to an increase in the number of theft detections, we are concerned that it could also lead to suppliers targeting low value or short running theft on the basis that it would be more profitable rather than targeting higher value or longer running theft.

It is often easier for suppliers to identify this type of low value domestic theft than it is to detect more sophisticated and higher value theft such as cannabis farm theft or non - domestic theft.

Creating a commercial "bounty" for finding relatively low value domestic theft could lead to inappropriate and disproportionate behaviour by revenue protection agents and could lead to suppliers treating any site where electricity is not being correctly registered as theft. This would not protect customer interests and could lead to customers being unfairly alleged to have been stealing electricity.

There is a risk that a detection based scheme that paid out on each instance of theft identified could encourage suppliers to understate the amount of units being entered back into settlement following a confirmed case of theft as there would be little incentive to enter the true value.

Finally, while we can see the potential benefit of an electricity TRAS, there may be some merit in letting a gas only TRAS service run for a period of time to better understand and assess its effectiveness prior to embarking on a potentially complex and costly procurement of an equivalent electricity service.

**Q8: Do you consider that there are alternative proposals, or variations of the combinations of the proposed policy measures that should be considered?**

Assuming that a gas TRAS is implemented and does prove to be an effective way of identifying theft, we feel that there may be some merit in a combined gas and electricity TRAS under a single service provider.

This would help to reduce operating costs and utilise the experience and expertise of the gas service provider as opposed to starting from scratch with a brand new electricity TRAS.

In addition, we feel that further work is required to mitigate against some of the potential unintended consequences from the incentive schemes. In particular, the potential for a negative customer experience that could result from electricity suppliers all competing for an incentive pot.

Tiered incentive payments for different customer types may go some way to addressing this issue.

**CHAPTER: Six**

**Q9: Do you agree with our view that DNOs, for the time being, should not be included in an incentive scheme?**

No. We consider that the DNOs have an important part to play in electricity theft detection and fail to see the rationale for excluding them from any proposed incentive scheme.

**Q10: Do you agree with our view that DNOs should have licence obligations to tackle theft in conveyance?**

Yes, especially since the previous commercial (losses reduction) incentive mechanism for DNOs to reduce the amount of electricity illegally taken was removed as part of the fifth electricity Distribution Price Control Review.

**Q11: Are you aware of any alternative proposals to support DNOs in tackling theft in conveyance that should be considered? If so, please provide further details.**

Not at the present time, albeit there may be some value in exploring whether a TRAS arrangement would be appropriate for DNOs as well as suppliers should the gas TRAS arrangement prove successful.

# Electricity theft – Draft Impact Assessment

## EDF Energy's response to your questions

**IA Q1: Do you consider we have captured all relevant actions that, if undertaken by suppliers, can contribute to tackling electricity theft?**

While we are satisfied that the majority of the actions captured could contribute to tackling electricity theft, it is important to note that any measures undertaken to address electricity theft should be proportionate to the issue and should not result in materially increased costs for honest customers.

In addition, we note that there is only a brief reference to the roll out of smart metering within the consultation.

EDF Energy considers that the roll out of smart metering could also have a significant positive impact on electricity theft. Firstly, the replacement of existing metering stock will likely lead to an increase in the number of theft incidents identified. It is also likely to act as a deterrent as customers (i.e. those who would otherwise steal electricity) become more aware of suppliers obligations to visit their premises.

Secondly, it is intended that smart meters will be capable of providing an increased level of tamper alerts that may warn that theft may be occurring. As the smart metering roll out gathers pace and customers become generally aware that the system includes anti-tamper measures, there is an expectation that instances of meter tampering will reduce. Hence the presence of tamper alerts will act as a preventative measure whereas most of the measures currently proposed are largely reactive.

It is worth noting that the nature of theft is likely to change from a physical issue to a software issue as the technology develops. As such, any solution needs to be sufficiently robust to cater for changes in the market and the manner in which electricity theft occurs.

**IA Q2: Do you consider our approach to the draft IA suitable for demonstrating the current commercial disincentives and challenges suppliers face to tackle theft? If not, what alternative approach would you suggest to be best?**

We agree that the draft IA captures the majority of the issues faced by suppliers when dealing with electricity theft, in particular in relation to non domestic and cannabis farm theft. In other situations, we do not consider that there is currently a disincentive for suppliers to undertake activity to detect and deter electricity theft and to protect honest customers from harm.

**CHAPTER: Three**

**IA Q3: What do you consider to be the scale of theft in the GB electricity market?**

It is difficult to quantify the scale of theft currently taking place in the GB electricity market, as there is little in the way of publically available data or analysis.

We consider that there may be value in suppliers sharing their unbilled purchase volumes with Ofgem on a regular basis and for Ofgem to report on this as a standard metric. While this is unlikely to be a direct representation of theft, the data is likely to provide a correlation and could provide a useful trend to monitor and target.

Also, the lack of a code of practice has meant that suppliers are likely to have differing interpretations of what actually constitutes electricity theft. In many cases we have discovered through our own investigations, what may initially look like electricity theft, has in fact been caused unintentionally or by a previous tenant and so should not necessarily be treated as dishonest practice.

It is important that customers are only treated as stealing electricity on the basis of a substantial body of evidence as any allegation of dishonesty can have serious implications for a customer's credit history and ease of switching supplier where a debt has been built up as a result of theft.

Therefore, we maintain that a clear, plain English definition of electricity theft should be included within a code of practice in order to avoid differing interpretation between parties that could be to the detriment of customers.

**IA Q4: Do you consider that there is material difference in the prevalence of electricity theft between suppliers' customer portfolio? What factors drive any considered difference in theft distribution?**

EDF Energy does not believe that theft is evenly distributed across suppliers' customer portfolios, and that there is likely to be a material difference in the prevalence of electricity theft between suppliers.

Based on our experience in the electricity market, we would expect customer type and geographical split to be factors in theft distribution, with a higher proportion of theft occurring in cities where customers tend to be more transient.

**IA Q5: When theft has been detected, what actions do you take to ensure accurate estimates of the volume stolen and to ensure stolen units are entered into settlement?**

We use various methods to enable us to get an accurate estimate of stolen units. This may include an ammeter test, previous consumption data and an appliance check list, taking a meter read after a month or two. We also adjust for night and day, summer and winter periods.

Once an estimate of stolen units has been identified and agreed with the customer an assessment of the unrecorded units is sent to the Data Collector to enter into settlement.

**IA Q6: What is your estimate of the re-offending rates? Are there any actions you take to prevent re-offence at a premise where theft is detected?**

We estimate the re-offending rate to be around 8% for electricity theft. We do continue to monitor previous cases and revisit if we find evidence that abstraction may be taking place again.

**IA Q7: For each incentive measures, are the proposed compliance measures sufficient to ensure suppliers conduct investigations to satisfactory standards and thereby protect consumer interests? In addition to the proposed new Revenue Protection Code of Practice on theft investigation being developed under the DCUSA, are there any further measures that should be introduced to help address any perceived weakness?**

No, we do not consider that the proposed compliance measures are sufficient to ensure suppliers conduct investigations to satisfactory standards and thereby protect consumer interests.

There is a risk that an incentive scheme that financially rewards individual suppliers for detecting electricity theft could result in a disincentive for parties to work together for the good of the industry.

For example; should a supplier identify an instance of theft for a customer not on their portfolio, perhaps at a block of flats, there may be a perceived disincentive to share this information as it could have a detrimental impact on their own performance relative to the other supplier.

Such an incentive scheme may also create a perverse incentive for suppliers to investigate and label any unrecorded consumption as theft irrespective of whether this is the case. This is not to the benefit of consumers and may damage public perception of the industry and how it manages suspicion of electricity theft.

It is important to ensure that where theft is suspected, any investigation is carried out in a robust and consistent manner between suppliers and that there is a clear definition of what constitutes electricity theft.

**CHAPTER: Four**

**IA Q8: Do you consider the incentive problem described in the consultation to be a reasonable representation of the issues and challenges suppliers face to tackle theft?**

In part, yes. We certainly consider that the incentive issues around cannabis cultivation and non domestic theft to be a reasonable representation of the issue albeit we believe that there is a commercial incentive for suppliers to identify other types of theft.

**IA Q9: To what extent do you consider the detection-based and the volume-based incentive schemes are likely to establish and realise targets for theft detection that are proportionate to the potential consumer benefits? Do you have any views on the two variations (cap / no cap) of each of those incentives schemes?**

Both, the detection based and volume based incentive schemes have the potential to establish and realise targets for theft detection that are proportionate to the potential consumer benefits provided that they are calibrated correctly and that a sufficient volume of theft is detected.

However, while they are likely to deliver a financial benefit to those suppliers that are proactive in identifying electricity theft, there are still a number of issues with the incentive schemes that will need to be addressed before the potential consumer benefits are fully realised.

In particular, there is a risk that an incentive scheme could end up rewarding those suppliers who have done little to address theft in the past should they suddenly start identifying a significant amount of theft on their portfolio.

Conversely, those suppliers who have already made significant investment in the past in order to address electricity theft may be penalised for having a cleaner customer portfolio.

Likewise, the two variations (cap / no cap) are not without their own problems. With no cap, there is no way for suppliers to control their costs as the amount being paid into an incentive scheme is wholly dependent on the volume of theft identified, which is still something of an unknown quantity.

By contrast, placing a cap on the amount that could be paid out may mean that suppliers are unable to recover their costs should a large amount of theft be identified in a given period and could result in these costs being passed on to honest consumers.

On the basis that the more suppliers are incentivised to be efficient and effective in tackling theft, the more consumers would benefit from improved theft detection, we would lean toward an incentive scheme with no cap rather than a cap / theft target. This approach would see suppliers continue to carry out theft detection as long as it is commercially profitable to do so and should deliver the highest benefit to customers as well as the wider industry.

However, careful consideration will need to be given to these factors as part of the development of any incentive scheme if the potential consumer benefits are to be delivered.

**IA Q10: Do you consider that the cost-sharing mechanism could address the disincentive suppliers face to enter estimated stolen units into settlement?**

Yes, we agree that the cost sharing mechanism would go some way to addressing the disincentive suppliers may face when entering stolen units into settlement.

**IA Q11: Do you consider that additional or alternative measures to the three incentive measures, to the enhance audit and to the TRAS are needed to address the incentive problem and improve theft investigation, detection and prevention?**

We do not consider the "incentive problem" applies equally to all types of electricity theft.

There is already a clear commercial incentive for suppliers to detect and prevent electricity theft and to recover revenue lost as a result of that theft as well as revenue generated by subsequent lawful consumption.

For domestic customers, this often means that once a culprit is identified and billed accordingly, recovery of the value of energy stolen and the costs associated with its identification generally takes place over an extended period through a prepayment meter or via direct benefit deductions. While not ideal, this does at least result in a proportion of the money being recovered.

In contrast, for other types of theft such as cannabis farm theft, there is often little or no prospect of suppliers recovering the amounts due following detection, despite these types of theft often being much more expensive to investigate and involving much higher volumes of electricity. This means that cannabis farm theft is particularly costly to suppliers with little benefit to the individual supplier resulting from detection (although there is a clear benefit to the wider industry).

A cost sharing scheme would certainly go some way to addressing this issue. However, any incentive scheme should also consider whether it is possible for suppliers to recover revenue from another source such as the culprit. As such, it may be appropriate to look at tiered incentive payments dependent on type of theft, perhaps with a higher payment rate for non domestic and cannabis farm theft where there is little possibility of suppliers recovering their costs at present.

**IA Q12: Do you consider that the cost and availability of services to support theft detection and investigation is a material issue for small suppliers?**

No. We consider that cost and availability of services to support theft detection and investigation is an issue for the majority of suppliers, rather than being limited to small suppliers. While small suppliers may not benefit from the same economies of scale as larger suppliers when contracting with an RPS, this is also an issue experienced by larger suppliers outside of areas of customer density. In addition, smaller suppliers will have the same obligations to roll out smart metering as larger suppliers and so should see a similar increase in the amount of theft identified.

We firmly believe that all suppliers should have a common obligation to detect and investigate theft irrespective of how many customers they supply.

**CHAPTER: Five**

**IA Q13: Do you agree with our initial views on consumer behaviour in respect of energy efficiency?**

Yes.

**IA Q14: What percentage reduction in consumption would you expect customers to make when an illegal electricity supply is detected? To what extent do you consider that this would result from a response to increased costs and/or an increased propensity to invest in energy efficiency measures?**

Once an illegal electricity supply has been identified and rectified, we would expect future consumption to be reduced to a level consistent with any other customer with similar energy usage requirements.

Where electricity is taken illegally, customers are less likely to be price sensitive and motivated to moderate consumption and therefore consumption would be higher.

**CHAPTER: Six**

**IA Q15: Do you consider the proposed incentive measures would have any direct or indirect impacts on health and safety others than the areas discussed in this draft IA?**

There is a risk that the proposed incentive measures could lead to increased pressure on suppliers and their agents to find higher levels of theft which could lead to a higher number of investigations and less quality. This could potentially lead to increased health and safety risks.

The proposals may also result in a disincentive for suppliers to work together to resolve theft for the benefit of the industry and customers alike. If suppliers are competing against each other to identify the highest volume of theft, there is no incentive to alert another supplier to potential theft on one or many of their sites. Again, this could lead to increased health and safety risk.

EDF Energy believes that it is absolutely imperative that any proposal implemented does not, in any way, compromise the safety of any particular individual.

**IA Q16: What incentive measure (or combination of incentive measures) do you consider would have the greatest impact on health and safety?**

We consider that a common code of practice detailing, among other matters, a common approach for the conduct of investigations and the measures that suppliers should take would have the greatest overall benefit on health and safety.

Of the incentive measures, we consider that the TRAS would have the greatest overall benefit on health and safety. Unlike the detection based and volume based incentive

schemes, the TRAS would place an emphasis on preventing and detecting theft across the industry as a whole rather than focussing on any particular supplier's portfolio.

We also note that meter tamper detection devices on smart meters might be more effective than the majority of tools available to the proposed schemes as tamper alerts would be preventative as opposed to the incentive schemes which are reactive.

**CHAPTER: Seven**

**IA Q17: Do you consider there are other risks or unintended consequences of the proposed policy measures not discussed in this draft IA? What alternative policy measures do you consider could address these risks?**

As referenced in a number of our previous answers, we consider that the majority of risks relate to the detection based incentive scheme and perhaps, to a lesser degree, the TRAS.

Our main concern with regard to the detection based incentive scheme is that it may result in suppliers targeting lower volume domestic theft on the basis that it would generate more profit and is easier to find. Subsequently, there is a risk that a detection based incentive scheme could lead to suppliers neglecting larger scale, higher value theft on the basis it is harder to detect and identify a culprit.

Such an incentive scheme could also lead to the targeting of domestic customers who have resorted to theft as a result of genuine payment difficulty in preference to perpetrators of high volume electricity theft, such as landlords and cannabis farms.

This would not be in the best interests of customers or the wider industry as we firmly believe that benefits will only be realised if all types of electricity theft are addressed.

Our concern in relation to TRAS is that its effectiveness is still very much an unknown quantity and it is unclear as to whether such a service would deliver a significant improvement to theft detection over and above the analysis already being undertaken by suppliers.

One way to address this issue may be to assess the effectiveness of the equivalent service in gas for a period of time prior to progressing a similar service in electricity.

Finally, most of the measures proposed are focussed purely on detection. Consideration needs to be given to whether the aim of any successful proposal is purely the detection of theft on an ongoing basis, or detection of theft with the ultimate aim of its prevention.

**CHAPTER: Eight**

**IA Q18: Do you consider that the implementation timescale for our proposals is realistic and achievable? If not, what do you consider to be a realistic timeframe? What additional measures, if any, do you consider should be undertaken to secure implementation within a reasonable timeframe?**

The implementation timescales for each of the proposals are challenging. It is important to recognise that any measure implemented should be robust, targeted and be capable of delivering the highest value to the industry, rather than just being the quickest to put in place.

It is also worth noting that there are a number of other significant changes taking place within the industry such as Smart Metering and the Retail Market Review with only a finite resource available to deliver them. It is important that such changes are also considered and that a holistic view is taken when considering implementation timescales for new initiatives.

**IA Q19: Do you consider that our approach to enhancing obligations on DNOs would provide more focussed action on tackling theft in conveyance? If not, what do you consider to be an alternative approach?**

It is likely that enhanced obligations on DNOs would provide more focus on theft in conveyance. It may also be worth exploring a new incentive scheme and whether DNO inclusion in the TRAS would be appropriate.

**EDF Energy**
**August 2013**