

DCUSA DCP 288 Draft Consultation		At what stage is this document in the process?
<h1>DCP 288</h1> <h2>Introduction of the Electricity Theft Detection Incentive Scheme</h2> <p>Date Raised: 12 December 2016</p> <p>CP Status: Standard Change</p>		<p>01 – Change Proposal</p> <p>02 – Consultation</p> <p>03 – Change Report</p> <p>04 – Change Declaration</p>
<p><b>Purpose of Change Proposal:</b></p> <p>This change is to introduce an Electricity Theft Detection Incentive Scheme in line with Ofgem’s decision document entitled “Tackling electricity theft – the way forward” published on 4th March 2014.</p>		
	<p>The Theft Issues Group (TIG) recommends that this Change Proposal (CP) should:</p> <ul style="list-style-type: none"> <li>• proceed to a Consultation</li> </ul> <p>Parties are invited to consider the questions set in section 9 and submit comments using the form attached as Attachment 1 to <a href="mailto:dcusa@electralink.co.uk">dcusa@electralink.co.uk</a> by <b>10 March 2017</b>.</p> <p>The Theft Issues Group will consider the consultation responses and determine the appropriate next steps for the progression of the CP.</p>	
	<p>Impacted Parties: Suppliers</p>	
	<p>Impacted Clauses: 1.1, new Schedule xx (Electricity Theft Detection Incentive Scheme)</p>	

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Timetable		
The timetable for the progression of the CP is as follows:		
<b>Change Proposal timetable</b>		
Activity	Date	
Initial Assessment Report Approved by Panel	21 December 2016	
Consultation issued to Parties	17 February 2017	
Change Report issued to Panel	12 April 2017	
Change Report issued for Voting	21 April 2017	
Party Voting Ends	12 May 2017	
Change Declaration Issued to Parties and Authority	16 May 2017	
Authority Decision	To Be Confirmed	

## 1. Summary

### What

- 1.1 The intent of this consultation is to seek the industry's view on the introduction of the Electricity Theft Detection Incentive Scheme.

### Why

- 1.2 In March 2014 British Gas raised SPAA change CP 14/268 "Introduction of The Gas Theft Incentive Scheme". This change was raised in line with the principles set out by Ofgem within their decision document entitled "Tackling gas theft: the way forward" published on 26th March 2012.
- 1.3 On 26th October 2015 Ofgem approved CP 14/268 which introduced a gas theft detection incentive scheme into the SPAA and this DCUSA change proposal has been raised to enable an equivalent incentive scheme to be introduced into the electricity market.
- 1.4 The proposed electricity incentive scheme rules have been drafted based on the rules approved under SPAA CP 14/268 and the subsequent amendments made via SPAA CP 16/327. (SPAA CP 16/327 has been accepted by the SPAA Change Board and is currently with Ofgem for decision).

### How

*The overall aim of the incentive scheme is to encourage Suppliers to detect theft at a level that is beneficial for consumers, taking into account the costs and other impacts of this activity.*

- 1.5 The key principles of the scheme are:
- An industry-level Theft Target, to be met by all Suppliers, will be established for each year of the scheme. For the purposes of the first year of the scheme the target will be set at 32,000 confirmed thefts split 28,000 domestic and 4,000 commercial in line with the Ofgem "Tackling Electricity Theft – The Way Forward Final Impact Assessment"<sup>1</sup> document dated 4<sup>th</sup> March 2014.
  - A robust methodology to be established to identify the costs that Suppliers are likely to incur in achieving the Theft Target. The total value of these costs should be used to set the size of the incentive pot. For the first year of the incentive scheme, the incentive pot will be set at £12.8m in line with the above mentioned Ofgem Final Impact Assessment.
  - Payment into or from the incentive pot will be calculated at the end of each scheme year in proportion to the number of confirmed thefts identified in each market segment.
  - Confirmed thefts can only be taken into account within the scheme if they meet the definition of "Confirmed Theft" as introduced into the DCUSA by change proposal DCP 267.

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<sup>1</sup> [https://www.ofgem.gov.uk/sites/default/files/docs/2014/03/electricitytheft-iafinal\\_0.pdf](https://www.ofgem.gov.uk/sites/default/files/docs/2014/03/electricitytheft-iafinal_0.pdf)

- The TRAS Service Provider will provide an annual report to the DCUSA secretariat detailing the number of “Confirmed Thefts” reported by each Supplier.
- The DCUSA Secretariat will be responsible for calculation of the financial debits and credits resulting from the operation of the scheme and for the overall administration of the scheme.

## 2 Governance

### Justification for Part 1 Or Part 2 Matter

2.1 DCP 288 is classified as a Part 1 matter because:

- a) it is likely to have a significant impact on the interests of electricity consumers as the cost of electricity theft are borne by all consumers and this change seeks to incentivise Suppliers to detect theft and thereby reduce costs to consumers and
- b) it is likely to have a significant impact on competition in:
  - i. the supply of electricity;as those Suppliers who perform well in detecting theft will be rewarded for meeting their Theft Target but those that do not meet their Theft Target will contribute to the costs of the scheme.

### Requested Next Steps

2.2 Following a review of the consultation responses, the Theft Issues Group (TIG) will work to agree the detail of the solution for DCP 288.

## 3 Why Change?

### Background of DCP 288

3.1 On 26th October 2015 Ofgem approved SPAA CP 14/268, DCP 288 has been raised to enable an equivalent incentive scheme to be introduced into the electricity market.

3.2 Although Ofgem has not directed that an incentive scheme should be implemented, it has requested that industry raise a modification to give effect to an incentive scheme as set out in their final decision document entitled “Tackling Electricity Theft – The Way Forward Final Impact Assessment” published 4th March 2014.

“We would welcome efforts by the industry to swiftly raise a modification proposal to give effect to an incentive scheme and cost sharing arrangements that are in line with the high level principles set out earlier in this document. “

3.3 British Gas has waited for the gas theft incentive scheme to be fully developed before raising this change proposal. By doing this it is anticipated that the principles agreed under the gas scheme can be also applied to the proposed electricity scheme.

- 3.4 The proposed electricity incentive scheme rules have been drafted based on the rules approved under SPAA CP 14/268 and the subsequent amendments made via SPAA CP 16/327. (SPAA CP 16/327 has been accepted by the SPAA Change Board and is currently with Ofgem for decision).

## 4 Theft Issues Group Assessment

- 4.1 The DCUSA Panel acknowledged that the TIG has been established to oversee the progression of theft related changes under the DCUSA and SPAA codes. Therefore, it would be more efficient to use the TIG to assess the DCP 288, rather than creating a new working group. DCUSA Parties were provided with information regarding DCP288 and the relevant TIG meetings were held in open session so DCUSA Parties not represented on the TIG could attend.
- 4.2 The TIG noted that prior to DCP 288 being raised, CP14 268 was raised to introduce the Gas Theft Detection Incentive Scheme under the SPAA and was approved in October 2015. After its approval CP16 327 was raised to implement further legal text amendments to ensure the effective implementation of the gas incentive scheme. CP16 327 was approved by SPAA Parties and is awaiting Authority decision.

### Key Principles

- 4.3 The TIG agreed to develop the Electricity Theft Detection Incentive Scheme in line with the principles agreed under the gas incentive scheme:

#### **Theft Target**

- 4.4 Under the Electricity Theft Detection Incentive Scheme, a Theft Target will be established and published before the beginning of each year. This will determine the target number of Confirmed Theft detections within the stated Scheme Year period. The target will be used to establish the size of the Scheme incentive pots for that Scheme Year and will be broken down into domestic and commercial metering points.

**Question 3 is seeking views on the TIG's proposal to split Theft Targets based on domestic and commercial metering points.**

- 4.5 Prior to the beginning of each Scheme Year, an overall Theft Target for the Scheme is to be established and communicated to Suppliers. For Scheme Year 1 & 2 the Theft Target has already been determined, for subsequent Scheme Years the TRAS Service Provider is required to determine an overall Theft Target (as part of its Theft Target Methodology Review) which the Secretariat will publish in advance of the commencement of each Scheme Year to all Supplier Parties to the DCUSA.
- 4.6 For the initial Scheme Year (SY1) the Theft Target will be based on a total of 32,000 Confirmed Theft detections in aggregate across both domestic and commercial sectors. With a specific

breakdown of 28,000 Confirmed Theft detections for the domestic sector and 4,000, Confirmed Theft detections for the commercial sector.

**Question 4 is seeking views on whether the Confirmed Theft detections should be split by 28,000 for the domestic sector and 4,000 for the commercial sector.**

- 4.7 The Scheme Year 2 (SY2) Theft Target will be at the same level as Scheme Year 1 (SY1). The TRAS Service Provider will undertake a review known as the 'Theft Target Methodology Review' during the second and each subsequent scheme year to establish the target for the following year. The Theft Target will be subject to the DCUSA Panel's approval and should be published to Suppliers and the Authority. It is noted that where the Theft Targets proposed by the TRAS Service Provider for a Scheme Year are not approved by the DCUSA Panel, then the same Theft Targets as applied to the previous Scheme Year will apply.
- 4.8 The Secretariat will be required to establish and confirm to each individual Supplier each Supplier's calculated domestic and commercial Theft Targets, based on market share data.
- 4.9 DCP 288 proposes that Suppliers with a theft target of less than one should be excluded from the Scheme. However, Suppliers have the opportunity to opt in to the Scheme through providing notice to the Secretariat before the start of each Scheme Year.

**Question 5 is seeking views on the TIG's proposal to exclude individual Suppliers whose Theft Target is calculated to be less than 1 Confirmed Theft for each Scheme Year.**

### Size of the Incentive Pot

- 4.10 The Theft Target for each Scheme Year will be used to establish the size of the Scheme incentive pots. The Theft Detection Value will be set at £400 per theft as set out in Ofgem's Final Impact Assessment document:

$(X * Y)$

Where:

X = The 'Theft Target' established for the Scheme Year, relevant to the Scheme section

Y = The 'Theft Detection Value', relevant to the Scheme section

- 4.11 This equates to an overall incentive pot of £12.8 million. The Scheme will provide the domestic and commercial sections with individual incentive scheme pots based on an 87.5%/12.5% split (in line with the domestic/commercial theft target split). The size of the individual pots for the domestic and commercial sections will therefore be £11.2 million for domestic theft and £1.6 million for commercial theft for the initial two years:

**Table 1**

Scheme Year 1

Domestic Incentive Pot: £11.2M (28,000 x £400)

Commercial Incentive Pot: £1.6M (4,000 x £400)

- 4.12 Values will be based on the assumption that all Suppliers participate in the Scheme from day 1, and are calculated in accordance with the values presented within Ofgem's Final Impact Assessment. Supplier Parties that are exempt from a relevant Scheme Year and do not opt into The Scheme, are not relieved of their Supply Licence obligations to investigate, detect and investigate theft.

**Question 6 is seeking views on whether the proposed size of the incentive pot is reasonable.**

### **Reporting**

- 4.13 Under the Electricity Theft Detection Incentive Scheme Suppliers will be required to report confirmed theft and submit data in accordance with the TRAS arrangements. To be included in the scheme, are electricity theft detections confirmed within a calendar month. These must be provided to the TRAS Service Provider by the 5th Working Day after the 5th calendar day of the second month after the date when the theft was confirmed. Any Confirmed Thefts submitted after this deadline will not be eligible for inclusion within a Scheme Year.
- 4.14 The TRAS Service Provider will be required to report on the number of Confirmed Theft detections of each Supplier on a monthly basis, the Secretariat will then provide this information within an 'Indicative Scheme Summary Report' (for each of the Scheme months 1 to 11) to Suppliers, the DCUSA Panel and the Authority when requested. Where Suppliers have issues with the data accuracy this should be reported to the Secretariat.
- 4.15 The Secretariat will send Suppliers, the DCUSA Panel and the Authority an anonymous overall Indicative Scheme Summary Report and provide Suppliers with their individual identifier within the anonymous Indicative Scheme Summary Report. The Supplier identifiers will also be provided to the Authority.
- 4.16 The TRAS Service Provider will be required to provide the annual report, detailing the number of Confirmed Thefts reported by each Supplier for each scheme year within 60 calendar days of the end of a Scheme Year. The Secretariat will issue an anonymous overall final report the "Scheme Year Summary Report", within 80 calendar days after the end of each Scheme Year, to each participating Supplier, the DCUSA Panel and The Authority, detailing the total number of valid Confirmed Theft detections recorded for the Scheme Year for each Supplier against their relevant Theft Target within each market sector and the cumulative number of Confirmed Theft detections recorded by all Suppliers for each market sector, for the whole Scheme Year.

### **Self-Certification and Audit**

- 4.17 Ahead of the beginning of each Scheme Year, Suppliers will be required to self-certify that all reported Confirmed Thefts to the TRAS Service Provider are in accordance with the definition of

Confirmed Thefts under DCUSA. If Supplier does not self-certify on an annual basis, the Secretariat will report non-compliance to the DCUSA Panel for determination of next steps.

- 4.18 In addition, Suppliers may also be required to participate in compliance checks. The DCUSA Panel reserves the rights to conduct an audit of Suppliers evidence for a Confirmed Theft. The purpose of these audits shall be to provide the DCUSA Panel with sufficient information to confirm compliance with the DCUSA in relation to submitting Confirmed Theft.

**Question 7 is seeking views on the proposal for self-certification and audit.**

### **Cannabis Farm**

- 4.19 The TIG considered the inclusion of cannabis farms, noting that DCP288 states that these should be included in the commercial sector in accordance with the Ofgem 2014 impact assessment document.
- 4.20 It was highlighted that a definition of 'cannabis farms' is not included in the DCUSA code therefore it would be difficult to assess how many plants can be classed as a cannabis farm and what would qualify for the theft detection value. It was also highlighted that the TRAS provisions do not include specific requirements relating to cannabis farms. Therefore, data submitted to TRAS in relation to thefts linked to cannabis farms will be reported within the residential or commercial outcome files based on the market sector of the metering point. It is therefore not possible to apply thefts relating to a domestic metering point to a commercial theft target.
- 4.21 A final point highlighted by the group is that applying all cannabis farms theft detections to the commercial sector would disadvantage domestic only Suppliers who do not have a commercial theft target.
- 4.22 The TIG concluded that there should not be explicit provisions relating to cannabis farms within the electricity Theft Detection Incentive Scheme. All Confirmed Thefts will be allocated to the relevant market sector based on whether they relate to a domestic or commercial metering point.

**Question 8 is seeking views on the TIG's conclusion regarding cannabis farms.**

### **Implementation Timescales**

- 4.23 During their discussions the TIG acknowledged the Gas Theft Detection Incentive Scheme has already been developed and is awaiting Authority consent therefore it is likely to be implemented before the electricity incentive scheme. There is a preference for the gas and electricity incentive scheme to have the same scheme year however, there could be a significant delay in implementing the electricity scheme if it misses the implementation date for the gas scheme by one or two months. The TIG proposes that if the implementation of the electricity scheme is to be delayed by more than 6 months to align to the gas scheme, then the electricity scheme should be implemented for one short or long year (6 months or 18 months) and then aligned for future years.

**Question 9 is seeking views on the TIG's proposal to implement the electricity scheme for one short or long year (6 months or 18 months) and then align for future years.**

### **Incentive Scheme Invoicing Process**

- 4.24 The TIG notes that the DCUSA Secretariat will be responsible for the calculation of the financial debits and credits resulting from The Scheme. All debits and credits associated with the Scheme Year will be calculated based on the total number of Confirmed Thefts shown within the final Scheme Year Summary Report, and will cover the full twelve-month period of the Scheme Year utilising the Supplier market share figures from the beginning of that Scheme Year. After calculation, a notification of the relevant debit and credit values will be issued to each Supplier within 80 calendar days after the end of the Scheme Year. All debit invoices issued under the Scheme will be subject to the normal DCUSA payment terms. Credits to eligible Suppliers will be issued as soon as reasonably practicable, following the receipt of payment of Scheme debits.
- 4.25 Non-payment of Scheme debit invoices will be treated in the same way as the non-payment of DCUSA invoices, with the same sanctions being applied. For information purposes the Authority will be notified of non-payment.
- 4.26 Arrangements will be made to ensure that DCUSA Ltd is not faced with a financial deficit associated with The Scheme. The issuing of credits from The Scheme will be done in such a way avoid discriminate between Suppliers and this will be achieved by paying out the incentive pot to Suppliers at the end of each period in proportion to the number of thefts identified in each market segment.

## 5 Relevant Objectives

### Assessment against the DCUSA General Objectives

- 5.1 The Theft Issues Group considers that the following DCUSA General Objective is better facilitated by DCP288:

Impact of the Change Proposal on the Relevant Objectives:	
Relevant Objective	
<b>General Objective Two</b> - The facilitation of effective competition in the generation and supply of electricity and (so far as is consistent therewith) the promotion of such competition in the sale, distribution and purchase of electricity	Positive

- 5.2 The CP is better facilitated by the DCUSA General Objective two as the proposal will provide Suppliers with a commercial incentive to detect theft on their portfolio, by linking costs and benefits to their performance. In a competitive environment such as the energy supply market the potential financial implications of not detecting relative volumes of theft on their portfolio with benefits associated with results only.
- 5.3 The consequence of this proposal therefore will be an increase in the amount of theft detected by Suppliers over and above the volume that would have been detected without the existence of such a scheme. Reducing theft and correcting apportionment of costs to those who drive such costs into the market, therefore improving competition between Suppliers.
- 5.4 The scheme will also encourage the follow up of theft leads provided by the Theft Risk Assessment Service given that they will need to demonstrate actual thefts detected rather than demonstrate investigative effort in terms of total visits made.

## 6 Impacts & Other Considerations

### Engagement with the Authority

6.1 Ofgem has been receiving DCP 288 communication as a member of the Theft Issues Group.

## 7 Implementation

7.1 The implementation date for DCP 288 will be based on when the incentive scheme is approved. The TIG proposes that the CP is implemented at least two months after approval. Where possible the gas and electricity schemes will be implemented in parallel. However, if the implementation of the electricity scheme is to be delayed by more than 6 months to align to the gas scheme, then the electricity scheme should be implemented for one short or long year (6 months or 18 months) and then aligned for future years.

## 8 Legal Text

8.1 Draft legal text for DCP 288 is provided as Attachment 2.

## 9 Consultation Questions

9.1 The Theft Issues Group is seeking industry views on the following consultation questions:

Question Number	Question
1	Do you understand the intent of the CP?
2	Are you supportive of the principles of the CP?
3	Do you agree with the TIG's view that Suppliers Theft Targets should be split based on domestic and commercial metering points? If no, please provide your rationale.
4	Do you agree with the proposed Theft Target split of 28,000 for the domestic sector and 4,000 for the commercial sector? If no, please provide your rationale.
5	Do you agree with the TIG's proposal for excluding individual Suppliers whose Theft Target is calculated to be less than 1 Confirmed Theft for each Scheme Year? If no, please provide your rationale.
6	Do you agree with the TIG's view that that the size of the pot is reasonable? If no, please provide your rationale.
7	Do you agree with the TIG's proposal for self-certification and audit? If no, please provide your rationale.

8	Do you agree with the TIG's proposal that there should be not explicit provisions relating to cannabis farms within the electricity Theft Detection Incentive Scheme? All Confirmed Theft detections will be allocated to the relevant market sector based on whether they relate to a domestic or commercial metering point. In no, please provide rationale.
9	Do you agree with the TIG's proposal to implement the electricity scheme for one short or long year (6 months or 18 months) and then aligned for future years? If no, please provide your rationale.
10	Do you consider that the proposal better facilitates the DCUSA objectives? Please give supporting reasons.
11	Do you have any comments on the draft legal text?
12	The legal text refers to domestic and commercial metering points which are not defined within DCUSA. Do you believe a definition is required as part of this change?
13	Are there any additional changes you would like to suggest to ensure the effective implementation of the Electricity Theft Detection Incentive Scheme? If yes, please provide your rationale.
14	Are there any alternative solutions or unintended consequences that should be considered by the Theft Issues Group?
15	Are you aware of any wider industry developments that may impact upon or be impacted by this CP?
16	Do you have any further comments?

9.2 Responses should be submitted using Attachment 1 to [dcusa@electralink.co.uk](mailto:dcusa@electralink.co.uk) no later than **10 March 2017**.

9.3 Responses, or any part thereof, can be provided in confidence. Parties are asked to clearly indicate any parts of a response that are to be treated confidentially.

### Next Steps

9.4 Responses to the Consultation will be reviewed by the TIG. The TIG will then determine the progression route for the CP.

9.5 If you have any questions about this paper or the DCUSA Change Process, please contact the DCUSA helpdesk by email to [dcusa@electralink.co.uk](mailto:dcusa@electralink.co.uk) or telephone 020 7432 3008.

### **Attachments**

- Attachment 1 – DCP 288 Consultation Response Form
- Attachment 2 – DCP 288 Legal Text
- Attachment 3 – DCP 288 Change Proposal Form