












DCUSA Change Report		At what stage is this document in the process?
<h1>DCP 288,288A and 288B</h1> <h2>Introduction of the Electricity Theft Detection Incentive Scheme</h2> <p>Date Raised: 12 December 2016</p> <p>CP Status: Standard Change</p>		01 – Change Proposal
		02 – Consultation
		03 – Change Report
		04 – Change Declaration
<p>Purpose of Change Proposals:</p> <p>The intent of DCP 288 and 288A 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>DCP 288B seeks to create an alternative scheme based upon the investigation of received leads and TRAS Qualified Outliers rather than the absolute detection of confirmed theft</p>		
	<p>This document is issued in accordance with Clause 11.20 of the DCUSA, and details DCP 288 ‘Introduction of the Electricity Theft Detection Incentive Scheme’.</p> <p>Parties are invited to consider the proposed amendments (Attachment 1, 2 and 3) and submit their votes using the Voting form (Attachment 4) to dcusa@electralink.co.uk by 09 February 2018.</p> <p>The voting process for the proposed variation and the timetable of the progression of the Change Proposal (CP) through the DCUSA Change Control Process is set out in this document.</p> <p>If you have any questions about this paper or the DCUSA Change Process, please contact the DCUSA by email to dcusa@electralink.co.uk or telephone 020 7432 3008.</p>	
	 <p>Parties Impacted: Suppliers</p>	
	 <p>Impacted Clauses: 1.1, new Schedule xx (Electricity Theft Detection Incentive Scheme)</p>	

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Timetable		 Any questions?
The timetable for the progression of the CP is as follows:		Contact: Fungai Madzivadondo
Change Proposal timetable		 DCUSA@electralink.co.uk
		 0207 432 3008
		DCP 288
		Proposer: British Gas
		 Kevin.woollard@britishgas.co.uk
		Alternate DCP 288A
		Proposer: First Utility
		 carl.whitehouse@first-utility.com
		 07545 209826
		Alternate DCP 288B
		Proposer: Gazprom
		 Alexander.Mann@gazprom-energy.com
Activity	Date	
DCP 288 Initial Assessment Report Approved by Panel	21 December 2016	
Consultation One issued to Parties	17 February 2017	
DCP 288A Raised	14 April 2017	
DCP 288B Raised	25 July 2017	
Consultation Two issues to Parties	22 August 2017	
Change Report issued to Panel	10 January 2018	
Change Report issued for Voting	19 January 2018	
Party Voting Ends	09 February 2018	
Change Declaration Issued to Parties and Authority	13 February 2018	
Authority Decision	20 March 2018	
Implementation Date	5 Working Days After Authority Approval	
Incentive Scheme Go Live Date	01 June 2018	

1 Executive Summary

What

- 1.1 The Distribution Connection and Use of System Agreement (DCUSA) is a multi-party contract between Electricity Distributors and Electricity Suppliers and large Generators. Parties to the DCUSA can raise Change Proposals (CPs) to amend the Agreement with the consent of other Parties and (where applicable) the Authority.

Why

- 1.2 In March 2014, British Gas raised Supply Point Administration Agreement (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 (GTDIS) into the SPAA and this DCUSA change proposal has been raised to enable an equivalent incentive scheme to be introduced into the Electricity market. 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 which was approved by Ofgem and implemented to the SPAA on 14 March 2017. The Gas Theft Detection Incentive Scheme went live on 01 June 2017.

How

The overall aim of the Incentive Scheme is to encourage Suppliers to meet their licence condition to detect, investigate and prevent theft.

- 1.4 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”¹ document dated 4th March 2014.
 - A robust methodology is 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.

¹ https://www.ofgem.gov.uk/sites/default/files/docs/2014/03/Electricitytheft-iafinal_0.pdf

- 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 considered within the scheme if they meet the definition of “Confirmed Theft” as introduced into the DCUSA by change proposal DCP 267.
- The TRAS Service Provider will provide an annual report to the DCUSA secretariat detailing the number of “Confirmed Theft” 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, DCP 288A and DCP 288B are classified as Part 1 matters because:

- a) They are 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) They are likely to have a significant impact on competition in:
 - i. the supply of Electricity (DCUSA Para 9.4.2 (c));

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 The Panel considered that the Theft Issues Group (TIG) has carried out the level of analysis required to enable Parties to understand the impact of the proposed amendment and to vote on DCP 288, 288A and 288B.
- 2.3 The DCUSA Panel recommends that this CP:
- Be issued to Parties for Voting

3 Why Change?

Background of DCP 288

- 3.1 On 26th October 2015 Ofgem approved SPAA CP 14/268, and DCP 288 was 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 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 Solution

Theft Issues Group Assessment

- 4.1 The DCUSA Panel acknowledged that the Theft Issues Group (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 to enable DCUSA Parties not represented on the TIG to 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 the Authority on 07 March 2017 and implemented on 14 March 2017. The Gas Incentive Scheme went live on 1 June 2017.

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.

- 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, and 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.
- 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 their 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 by providing notice to the Secretariat before the start of 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.

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, Electricity theft detections confirmed within a calendar month 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 between 119 to 124 calendar days of the end of a Scheme Year. The Secretariat will issue an anonymous overall final report the "Scheme Year Summary Report", within 144 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 a 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 of 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 the submission of Confirmed Theft.

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 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.

Implementation Timescales

- 4.23 During their discussions, the TIG acknowledged that the Gas Theft Detection Incentive Scheme had already been developed and was awaiting Authority consent; therefore, it was likely to be implemented before the Electricity Incentive Scheme. There was a preference for the Gas and Electricity Incentive Scheme to have the same Scheme Year however, this could lead to a significant delay in implementing the Electricity Scheme if it missed the implementation date for the Gas Scheme by one or two months. The TIG proposed that if the implementation of the

Electricity Scheme was 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.

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.

5 DCP 288 Consultation One

- 5.1 Two consultations were issued in relation to the Electricity Incentive Scheme proposal. The first DCP 288 consultation was issued to DCUSA Parties on 17 February 2017. Responses were received from nine Supplier Parties.
- 5.2 A summary of the responses received, and the TIG's conclusions are set out below. The full set of responses and the TIG's comments are provided in Attachment 5.

Question 1 - Do you understand the intent of the CP?

- 5.3 All the respondents understood the intent of the CP.

Question 2 - Are you supportive of the principles of the CP?

- 5.4 The majority of respondents were supportive of the principles of the CP; however, one respondent was not supportive of the proposed change explaining that they do not agree that a market share proportional target for each Supplier will accurately represent actual customer behaviour. Across the larger Suppliers, this may be a reasonably valid statistical approach, however for smaller Suppliers, it is not. This one size fits all approach will not work across the Industry.
- 5.5 The respondent also pointed out that there are already provisions and monitoring in place to ensure that Electricity theft is investigated efficiently in both TRAS and ETTOS. These are both new components that could effectively tackle theft, but are still in their infancy.
- 5.6 Some of the TIG members agreed with the view that a one size fits all approach does not work for all Suppliers.

Question 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.

- 5.7 Some of the respondents agreed with the TIG's view to that Supplier Theft Targets should be split based on Domestic and Commercial Metering Points for consistency. Other respondents pointed out that creating a split between Domestic and Commercial Metering Points is only of value if it drives improved Supplier behaviour in addressing this industry issue.
- 5.8 A respondent questioned whether the TIG had considered data submission by profile class. The TIG noted the responses and agreed to further consider options for splitting Domestic and Commercial Supply Points.

Question 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.

- 5.9 There were mixed responses on the proposal to split the theft target by 28,000 for the Domestic sector and 4,000 for the Commercial sector. A respondent suggested that the Theft Target should be 39,000, with split of 35,000 for the Domestic sector and 4,000 for the Commercial sector to reflect the data currently received from the Theft Risk Assessment service(TRAS).
- 5.10 The TIG noted that Ofgem set the theft target more than three years ago when the licence obligations were updated. This target is expected to increase significantly and should align with data currently submitted to the TRAS service.
- 5.11 Another respondent pointed out that the Gas scheme had populated metrics for Scheme Year 1 and 2 but the Electricity proposal only relates to Scheme Year 1. The TRAS Theft Target should be introduced at the same times for Gas and Electricity.

- 5.12 A respondent highlighted that the 4,000 Commercial sector target was set to originally include cannabis farms, and therefore this figure should be re-evaluated as a significant proportion of this would have been cannabis farms.
- 5.13 Other respondents suggested that the TIG review the decision behind Ofgem's proposed split for Domestic and Commercial sectors. The TIG agreed to review the Ofgem Impact Assessment considering the size of the pot and the split between Domestic and Commercial Supply Points.

Question 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.

- 5.14 The majority of respondents agreed with the proposal for excluding individual Suppliers whose Theft Target is calculated to be less than 1 Confirmed Theft for each Scheme Year.
- 5.15 One respondent suggested that the TIG should consider a number of Points before making a final decision on the requirements of mandatory Supplier involvement, highlighting that having a low threshold will ensure more suppliers are mandated by the Incentive Scheme. Smaller suppliers may make a business decision to pay the financial penalty at the end of the scheme. The respondent pointed out that all suppliers regardless of their size should be incentivised to invest in their theft detection capability and should therefore have at least 1 Confirmed Theft target.
- 5.16 The TIG noted that the majority of the respondents agreed with the proposal to exclude individual Suppliers whose Theft Target is calculated to be less than 1 Confirmed Theft for each Scheme Year.

Question 6: Do you agree with the TIG's view that that the size of the pot is reasonable? If no, please provide your rationale.

- 5.17 The TIG noted that there were mixed responses regarding the size of the Incentive Scheme pot. One respondent suggested for the pot size to be increased from £12.8m to approximately £16m to align the with the industry data currently submitted to the TRAS. Members of the TIG agreed with the suggestion to increase the size of the pot. It was noted that the Ofgem impact assessment had been carried out a few years prior to the implementation of the scheme.
- 5.18 Other respondents suggested that the TIG undertake a review of the Ofgem Impact Assessment that established the theft target. The TIG agreed to review the size of the Electricity Incentive pot.

Question 7 - Do you agree with the TIG's proposal for self-certification and audit? If no, please provide your rationale.

- 5.19 Most of the respondents agreed with the proposal for a self-certification, however, one respondent disagreed with proposal for self-certification highlighting that the Incentive Scheme pot is over £25m for the first two years. The audit requirements should be covered by the costs of the scheme.

- 5.20 The TIG agreed that the Incentive Scheme audit process and requirements should be clearly defined.

Question 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.

- 5.21 The majority of the respondents agreed with the TIG's proposal that there should not be explicit provisions relating to cannabis farms within the Electricity Theft Incentive Scheme.
- 5.22 The TIG agreed that the Incentive Scheme should not apply cannabis farm theft to the Commercial theft target. All Confirmed Thefts will be allocated to the relevant market sector based on whether they relate to a Domestic or Commercial Metering point.
- 5.23 It was noted that the legal text should be updated to align with the TIG's proposal that there should not be explicit provisions relating to cannabis farms within the Electricity Incentive Scheme.

Question 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.

- 5.24 Most of the respondents agreed that the Gas and Electricity schemes should be aligned in the future. The Electricity scheme could be implemented for a short or long year in the first scheme year and then align with the Gas Incentive Scheme in Year 2.
- 5.25 The TIG noted that the scheme targets would be subject to appropriate pro rata treatment. There needs to be an understanding of the theft target requirements from the beginning of Year 1. Members also recommended for the expected implementation timescales to be clarified with Ofgem.

Question 10 - Do you consider that the proposal better facilitates the DCUSA objectives? Please give supporting reasons.

- 5.26 Most respondents agreed that the DCUSA General Objective 2 is better facilitated by DCP 288:

General Objective 2: 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.

- 5.27 The overall view was that General Objective 2 is better facilitated by DCP288 as it will provide suppliers with a Commercial incentive to identify theft on their portfolio by providing financial consequences to those Suppliers who do and do not detect theft.
- 5.28 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.

5.29 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.

5.30 A respondent pointed out that DCUSA General Objective 4 is better facilitated by DCP288.

General Objective 4: The promotion of efficiency in the implementation and administration of the DCUSA

5.31 One respondent pointed out that the rationale that DCP 288 better facilitates the objective of facilitating effective competition in the supply of Electricity to be premature and not holistic as there is no guarantee that this scheme shall in fact find more thefts in the Industry.

Question 11 - Do you have any comments on the draft legal text?

5.32 Most of the respondents did not have comments on the legal text. One respondent provided suggested amendments to be made to the legal text for consistency. The TIG agreed with the proposed updates and recommended that the legal text be updated.

5.33 The TIG agreed to carry out a full review of the legal text responses after defining and agreeing elements of the Electricity incentive scheme.

Question 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?

5.34 The majority of respondents agreed that a definition for Domestic and Commercial Metering Points should be added to the DCUSA. The TIG agreed that the proposed definitions for the terms should be submitted to the legal advisor with the finalised legal text for review.

Question 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.

5.35 The TIG noted the following suggestions by respondents to ensure the effective implementation of the Electricity Theft Detection Incentive Scheme:

- **Consistency for both fuels** - Ensure consistency with the Electricity and Gas Incentive Schemes
- **Validation process** - A process for Suppliers to challenge theft target number ahead of invoicing should be out in place.
- **Size of pot** - Consideration of the one size fits all approach
- **Alternative CP** – One of the respondents, First Utility advised that they would be raising an alternate CP noting that independent Suppliers should have a lower theft target based on their portfolio rather than the industry market share. First Utility would like to raise an alternative Change Proposal to reduce the theft target for independent Suppliers. It was

highlighted that a similar alternate was raised during the development of the Gas Theft Detection Incentive Scheme (GTDIS) and that depending on the outcome of the ETDIS there should be consistency in both Schemes. Ofgem would decide if the proposed mechanism should be included in the Gas Incentive scheme.

- It was also noted that Npower may want to raise an alternative Change Proposal to address the Commercial theft target arrangements.

5.36 The group agreed to consider the suggestions and noted that an alternate CP would be raised to introduce what the proposers considers to be a fairer approach to the Theft Detection Incentive Scheme for independent Suppliers.

Question 14 - Are there any alternative solutions or unintended consequences that should be considered by the Theft Issues Group?

5.37 Some of the respondents suggested for the TIG to consider the following in developing the Electricity Incentive scheme:

- Consistency across all theft targets. The minimum performance target for TRAS and the Incentive Scheme should be the same.
- To carry out a review of the concerns raised by consultation respondents
- Consider the alternative CP.

5.38 The TIG noted the concerns and suggestions by respondents. The group agreed to consider the suggested alternatives before making a final decision on the Electricity Incentive Scheme.

Question 15 - Are you aware of any wider industry developments that may impact upon or be impacted by this CP?

5.39 Two respondents provided comments on the introduction of the Electricity Incentive Scheme. One respondent pointed out that any significant changes to the current change proposal should be reflected in the Gas Theft Detection Incentive Scheme.

5.40 Another respondent mentioned that the transition to smart meters, AMR and HH, over time in most cases, potentially limits avenues to identify theft to the use of consumption analytics only rather than site visit data. Where a remote reading meter has been installed the need to visit a customer's property will become ever more redundant. This could potentially lead to fewer confirmed theft cases, as a whole.

5.41 The TIG noted that smart meters are likely to have an impact on theft in general and that the TIG should monitor and discuss smart meter issues with regards to theft.

Question 15 - Do you have any further comments?

5.42 Two respondents provided further comments with one Supplier pointing out that the Impact Assessment undertaken by Ofgem in 2014 is key to establishing the Theft Target and the size of the incentive pot. The accuracy of these two areas are critical to the success of the Incentive

Scheme. The respondent requested that these two areas are reviewed by the Theft Issues Group to safeguard applicability.

- 5.43 Another respondent suggested that the scheme itself incentivises Suppliers on the number of confirmed theft cases, but not the steps taken to investigate theft. Suppliers should be incentivised on the steps and investigations which may or may not have led to a confirmed theft. Theft may not always be occurring and therefore a supplier should not be penalised for the lack of confirmed cases. The respondent felt that the scheme does not account for Suppliers who may not hit targets set but invest sufficient time and resource into the theft detection process.

TIG Assessment Following Consultation One

- 5.44 After reviewing the first consultation responses, the TIG discussed the Change Proposal and noted the below Points:

Ofgem Feedback

- 5.45 On the view that the proposed theft target volumes are out of date Ofgem confirmed that they have no issues with the split or volumes being changed. The Authority was not concerned with the alignment of the Gas and Electricity schemes; if two different schemes are running they can be evaluated side by side to determine which is best. Ofgem is flexible on implementation dates as it does not need to align to the Gas year. Ofgem do however want a review of the Incentive Scheme after 12 months.

Size of the incentive scheme

- 5.46 The Ofgem Impact Assessment was carried out in 2014. Since then the market has grown and more Suppliers have joined the industry. The TIG agreed to increase the domestic theft target. This will lead to an increased cost for the Incentive Scheme. Like the Gas Incentive Scheme, this will bring the target up to date with the RPI.

Commercial theft Target

- 5.47 The size of the Commercial theft target had been due to the inclusion of cannabis farms within the Incentive Scheme calculation. The TIG agreed to remove this from Commercial theft target as cannabis farms are usually found at Residential addresses. The Commercial theft target will remain at 4,000.

Implementation timelines

- 5.48 The TIG considered the implementation timelines for the Electricity Incentive Scheme. As part of the DCP 288 consultation Suppliers had been asked whether they prefer a short scheme year of 6 months or long year of 18 months. Most respondents were happy with either but suggested that the Electricity Incentive scheme be aligned with the Gas in Scheme Year 2. It was highlighted that although Ofgem is happy for the scheme not to be aligned it is important for the group to consider the industry preference to align the schemes. It was suggested that a short year should

be six months or over. It is noted that depending on when the Authority decision is made the secretariat will require time to prepare for the implementation of the Incentive Scheme (e.g. Guidance document, issue of theft target to parties, opt in process timeline). The TIG agreed to implement the Electricity scheme for a long year of 15 months and then align with the Gas scheme in Year 2 which will be the Gas Incentive Scheme Year 3. It was suggested that a fixed date starting on the first of a month is preferable.

Self-certification

- 5.49 The self-certification process will be aligned with the agreed process under the Gas Theft Detection Incentive Scheme.

Electricity Supply Point submission process

- 5.50 During its assessment of the theft target Commercial and Residential split values the Theft Issues Group (TIG) recognised that currently the Metering Points are received as a total and not split by Residential and Commercial as required under the Incentive Scheme.
- 5.51 To effectively implement the ETDIS, theft detection and investigation should be split by the Commercial and Residential sectors to enable the calculation of theft incentive targets for individual Suppliers. In addition, the principles of Ofgem's Impact Assessment published in 2012 supports such methodology for the implementation of an ETDIS.
- 5.52 Currently, the DCUSA Secretariat, ElectraLink receive Metering Points as a total of the Supplier's registered customers, however this is not split by Residential and Commercial customers. The TIG identified the need to agree on a Metering Point submission process in lieu of finalising the overall methodology of the ETDIS.

Alternative CPs

- 5.53 During their review of the consultation responses the TIG noted that one of the respondents wished to raise an alternative CP proposing to introduce, in their view, a fairer approach to the ETDIS for independent Suppliers. The alternative CP, DCP 288A was raised on 14 April 2017. It is similar in principle to the original CP but proposes a different solution for calculating the Theft Target for independent Suppliers. The Theft Target for Suppliers with less than 2 million Metering Points will be adjusted by a percentage each year. The adjustment percentage will start at 33.3% of their Confirmed Theft target for scheme year 1, increasing to 66.6% for scheme year 2 and increasing to the maximum 100% in scheme year 3.
- 5.54 The second alternate, DCP 288B was raised on 25 July 2017. Through DCP 288B the proposer seeks to create what it considers would be an equitable scheme which suitably incentivises detection of Electricity theft without distorting competition and hampering effective functioning of the market. The proposer's aim is to create a scheme which it believes would appropriately incentivise suppliers to detect theft whilst not running the risk of cross-subsiding the theft detection efforts of other suppliers in an inefficient manner.

- 5.55 The sponsors and the TIG agreed to consult on the proposed solutions for DCP 288A and DCP 288B. This is discussed in sections 4 and 5.

6 Alternative DCP 288A

- 6.1 First Utility raised DCP 288A which in its view would seek to introduce a fairer approach to the ETDIS for independent Suppliers (Attachment 7). The Alternative CP is similar in principle to the original CP. However, unlike the original CP the Theft Target for Suppliers with less than 2 million Metering Points will be adjusted by a percentage each year. The adjustment percentage will start at 33.3% of their Confirmed Theft target for scheme year 1, increasing to 66.6% for scheme year 2 and increasing to the maximum 100% in scheme year 3.
- 6.2 Suppliers with more than 2 million Electricity Metering Points will be allocated the resultant shortfall in addition to their regular market-share derived percentage allocation. This is to ensure that the overall Confirmed Theft target is not reduced.
- 6.3 The proposer explained that the reason for the proposed approach is that in its view consumers who switch from large to small Suppliers are less likely to engage in energy theft; therefore, larger Suppliers should be responsible for investigating a larger proportion of energy theft. By moving to a smaller Supplier on a fixed tariff, the proposer considered that consumers are reducing their energy bill so would not steal energy. Members of the TIG argued that this is not the case; consumers switch from large to small suppliers to avoid detection. The TRAS has shown that consumers engaging in energy theft are likely to switch to a smaller Supplier once they find out they are under investigation.

TIG Assessment of DCP 288A

- 6.4 The TIG raised concerns that the Alternative CP does not have quantifiable evidence to support the reasoning behind the proposed approach for calculating the Theft Target. It is important to be careful of making assumptions about the behaviours of those that are stealing energy. The alternative CP methodology is based on the assumption that customers stealing energy are less likely to switch to smaller Suppliers, therefore small Suppliers should not be responsible for the large numbers of confirmed thefts. However, there is no justification that customers who switch to small Suppliers are not stealing energy. It could be said that customers switch to small Suppliers to avoid detection.
- 6.5 It was highlighted that a similar CP was raised during the development of the Gas Incentive Scheme but was rejected by the Authority. To ensure a fairer approach for smaller Suppliers it was agreed that Suppliers with a theft target of less than 1 will not be included in the scheme; those Suppliers can choose to opt in. Although this might create a smaller safe-haven for energy theft, all Suppliers are still mandated to investigate theft. Regardless of the agreed theft target all Suppliers would still be obligated to participate in the theft arrangements as set out in the supply licence conditions and under the SPAA and DCUSA codes.

- 6.6 The TIG noted that there should be a clear difference between the original and the alternative CP. The proposer argued that the alternative CP provides a softer landing for Suppliers to get up to speed with the scheme. The alternative CP does not drastically change anything from the originally proposed solution. It aims to protect small and mid-tier Suppliers. New entrants would know in advance and prepare rather than benefitting from a soft landing. A member of TIG argued that it is not fair to allow soft landing only for those Parties already in the market. Also, if a Supplier has both Gas and Electricity Metering Points they will have different incentives because the theory behind the scheme is different.
- 6.7 The TIG also questioned whether the DCP 288A legal text would only apply for the first scheme year highlighting that if the scheme is run for 15 months for the first scheme year, then this exempts new Suppliers for a period of 15 months. Under this scheme new Suppliers will not have the same soft landing as existing Suppliers already on the scheme. The TIG questioned whether soft landing should only apply to the first year or also for scheme year two and whether it should incorporate Industrial & Commercial (I&C) Suppliers.

7 Alternative DCP 288B

- 7.1 Gazprom Marketing and Trading Retail Limited raised another alternative proposal DCP 288B (Attachment 7) which in its view seeks to create a scheme whereby Suppliers are appropriately incentivised to detect theft but do not run the risk of cross-subsiding the theft detection efforts of other suppliers in an inefficient manner. The proposer notes that it is wrong to assume that levels of Electricity theft are equally distributed across the portfolios of all Electricity Suppliers in accordance with each Supplier's market share as proposed by DCP 288.
- 7.2 Without this change, it is argued, there will then be a serious risk that suppliers will not be appropriately incentivised to carry out theft detection activities in a manner which does not distort competition and hamper the effective functioning of the market.
- 7.3 The proposer is of the view that Electricity theft is not equally distributed across each Supplier's customer portfolio in accordance with its market share as proposed by DCP 288 and already implemented under SPAA CP 14/268 and CP16 327 - Gas Theft Detection Incentive Scheme. There is therefore a danger that the ETDIS, as currently structured, creates a cross-subsidy from Suppliers who may have a lesser proportion of theft within their portfolio than their market share might suggest to those Suppliers where the reverse is true.
- 7.4 The proposer believes that an appropriate solution to the potential flaws in the current proposed arrangements would be to retain the overall incentive pot for the industry, divided into Residential and non-Residential pots, but remove the individual supplier targets and incentivise each supplier to investigate all leads provided to it by the TRAS Service Provider or an Electricity Distribution Network Operator and to conclude each investigation within a three-month timeframe. The proposed fixed payment of £400 should therefore be made for each investigation concluded within the requisite three-month period following provision of the relevant lead by the TRAS

Service Provider or an Electricity Distribution Network Operator. This should then have the effect of ameliorating the potential scenario under the current proposed arrangements, whereby a Supplier may follow up all leads given to it by the TRAS Service Provider or an Electricity Distribution Network Operator but still incur debits under the scheme due to no actual theft being found, and create the necessary incentive to detect theft and avoid cross-subsidy.

- 7.5 The proposer considers this approach will provide valuable data on the number of leads investigated and the amount of theft detected as a result of those investigations by each supplier which will then help determine whether theft is in fact equally distributed across the market, something which the proposer does not believe is the case. Any reconciliation process should be based on the number of leads provided by the TRAS Service Provider or an Electricity Distribution Network Operator to each Supplier in relation to which it did not conclude an investigation within the requisite time-period when compared against the same metric for all Suppliers active in that sector and regardless of market share. This will also provide an additional incentive for each Supplier to do so. Therefore, if every Supplier concluded all investigations in relation to all leads provided to it by the TRAS Service Provider or an Electricity Distribution Network Operator within the requisite time frame, there would be no need for any reconciliation to be carried out. Any remaining monies in the pot not paid out to Suppliers could then be rolled into the next year.

TIG Assessment of DCP 288B

- 7.6 The TIG discussed the proposed approach and noted that unlike DCP 288, DCP 288B seeks to introduce a performance based scheme rather than that proposed by the theft target incentive scheme. Under DCP 288B theft targets will not be equally distributed across each Supplier's customer portfolio in accordance with its market share. Suppliers will be required to investigate leads provided by the TRAS Service Provider and Distribution Network Operators (DNOs). It is the proposer's view that market share should not detect how many thefts a Supplier might have, this should be performance based. Suppliers should not incur costs if they fail to meet their target. The proposer believes that the DCP 288 approach is beyond Supplier control as it seeks to penalise Suppliers even if they manage to meet their target.
- 7.7 It was noted that performance will be based on how many leads a Supplier receives; however, this depends on Supplier processes - a Supplier may be focusing on a lower quality, less reliable theft lead source and not one likely to identify higher levels of theft. It was highlighted that investigations should not only be provided by the TRAS Service Provider as proposed under DCP 288B. Other theft lead sources such as the Energy Theft Tip Off Service (ETTOS) and Supplier's own field agents are used to identify investigation leads. It was highlighted that referrals from DNOs are typically passed by email or telephone and not through the TRAS Service Provider. These referrals will not be provided to Suppliers as part of the Qualified Outliers issued monthly to Suppliers. Thus, a process should be put in place to allow for such theft leads within the scheme.

- 7.8 A majority of the TIG believe that the arrangements to incorporate ETTOS, field agents and DNO leads are not clearly explained. It is not clear how the reporting process will work. As drafted the scheme is reliant on proper data capturing and self-declaration by Suppliers making it difficult to audit. It is noted that these sources represent most of investigated leads and an overwhelming majority of site-visited leads. With £13m/year of incentive money being allocated via the Scheme such planned operation seems inadvisably 'loose'. It is important that the industry present genuinely workable options for an Incentive Scheme which offer a reasonable degree of robustness.
- 7.9 The DCP 288B proposer explained that channels of communication already exist between ETTOS, DNOs and Suppliers, field agents will communicate back to Suppliers as a matter of course. The cost of this is likely to be quite small. There will also be sufficient time between the Authority expressing a decision and implementation for the related processes to be defined and these are unlikely to be excessively onerous nor inefficiently costly.
- 7.10 It was highlighted that it should be clear whether Suppliers will be required to investigate Qualified Outliers under the TRAS and/ or theft leads from other sources. On the proposed approach to focus on investigation leads rather than Confirmed Theft, the TIG raised concerns as to what constitutes an investigation i.e. on-site by a Revenue Protection personnel or desktop exercise. It was highlighted that most Suppliers have limited resources to carry out physical investigations. The CP proposer explained that although not all investigations will result in Confirmed Theft, Suppliers will incur costs carrying out investigations. Investigation costs will depend on Supplier processes. It was suggested that an audit process could be put in place as part of the scheme.
- 7.11 The TIG also noted the investigation timeframes proposed under DCP 288B and discussed how long after receiving an investigation should the Supplier close and report back to the TRAS Service Provider. It was noted that under the Gas Theft Detection Incentive Scheme Confirmed Theft should be reported within two TRAS submission windows, which are on the 5th of every month.

Further TIG Considerations

Theft target volumes and value

- 7.12 The TIG discussed the theft target volume and considered whether the same value of £400 per identified theft should be used for both Residential and Commercial.
- 7.13 The TIG agreed to increase the total theft target to 35,000 with a theft target volume of 31,000 for Residential and 4,000 for Commercial. The increase was made to align with the consumption data currently being submitted to the TRAS Service Provider. As a result, the value of the Incentive Scheme pot increased from £11.2m to £12.4m for Residential. The DCP 288 (Attachment 1) and 288A (Attachment 2) legal text have been updated to show the agreed theft target numbers.

Reporting Procedures

- 7.14 It is noted that a reporting procedure proposed in the legal text and similar to that implemented under the Gas Theft Incentive Scheme will be put in place as part of the scheme.

Next Steps

- 7.15 Given the TIG discussions after consultation one and the alternate CPs raised, the group agreed to consult with the industry on the items below:
- Electricity Metering Point Submission Options
 - Alternative DCP 288A
 - Alternative DCP 288B
 - Theft Target Volumes and Value
 - Incentive scheme reporting

8 DCP 288, 288A and 288B Consultation Two

- 8.1 The second consultation on the Electricity Incentive Scheme was issued to DCUSA Parties on 22 August 2017. Responses were received from 17 Parties with 15 responses from Supplier Parties and 2 responses from Electricity Distributors.
- 8.2 A summary of the responses received, and the TIG's conclusions are set out below. The full set of responses and the TIG's comments are provided in Attachment 6.

Question 1 - Which of the 4 proposed Options do you support and why?

- 8.3 The majority of respondents were supportive of Option 4 which requires the TRAS Service Provider to submit a Metering Point data report to the Secretariat. Respondents noted that the TRAS process already requires Suppliers to submit supply point data split by Commercial and Residential and this aligns with the requirements of the Incentive Scheme.

Question 2 - Are you supportive of the proposed approach for a missing data file? Please provide your rationale.

- 8.4 Most respondents agreed with the proposed approach for the previous month submission file to be used when a Supplier fails to submit, or a file fails validation for the required month.

Question 3 - What default value should be put in place if a Supplier has not submitted a file?

8.5 There were mixed responses on the use of a default value where a file has not been submitted. The TIG discussed the options for Suppliers that fail to submit data or are not signed up to submit TRAS data. Members advised:

8.6 For Suppliers that are signed up and fail to submit data files,

- The Secretariat should find out when was the last submission and identify Residential and Commercial customers then look at the latest set of data from DNOs and apply percentage split on Residential and Commercial to the latest set of data received.

8.7 For Suppliers not submitting data to TRAS, the Secretariat is to do the below:

- Find out number of Suppliers that haven't submitted to TRAS in the last three months,
- Suppliers that have never submitted to TRAS,
- Whether there is other data available besides TRAS, and
- Find out Supplier Market share.

Question 4 - When looking at Option 4 - Do you agree with the TIG's recommendation? Please provide your rationale.

8.8 The majority of respondents agreed with the TIG's recommendation to use Option 4 as this is already an existing process for Suppliers to submit data split by Commercial and Residential.

Question 5 - When looking at option 4 - Do you have any views on the use of the TRAS data for the purposes of the Electricity Incentive scheme? Please provide your rationale.

8.9 Most of the respondents support the use of TRAS data for the purposes of the Incentive Scheme. The TRAS data submission process aligns with the requirements of the Incentive Scheme.

Question 6 - Do you believe any of the other options should be considered further? Please provide your rationale.

8.10 There were mixed responses on whether other responses should be considered further. The TIG considered whether there is a need to develop the other three options. It was highlighted that other options may be more onerous on Suppliers. TIG agreed to progress with Option 4.

Question 7 - Should the scheme proposed under DCP 288A consist of 12 months only? Please provide your rationale

8.11 Some of the respondents preferred for the scheme to be implemented for a 12-month period to limit soft landing. The group considered whether the market share percentage will be different if the scheme was shortened to 12 months. The DCP 288A proposer noted that they would like the scheme to run for 24 months as proposed, as there is no significant support for 12 months.

Question 8 - Under DCP 288A, how should Suppliers be treated under first and second scheme year? Please provide your rationale.

8.12 Some of the respondents noted that the proposed scheme is unfair as it does not allow soft landing for new Suppliers. The scheme gives deferential treatment to Suppliers. DCP 288A does

not treat all Suppliers equally, as it works on assumptions. The DCP 288A proposer confirmed that they would like to keep the scheme at 24 months.

Question 9 - Do you think the scheme should incorporate I&C Suppliers? Please provide your rationale.

- 8.13 The majority of respondents agreed that I&C Suppliers should be incorporated in the scheme. TIG members highlighted that it is logical to incorporate I&C Suppliers within the scheme however, another alternate CP specific to I&C will need to be raised.

Question 10 - Do you agree with the proposed solution for DCP 288A?

- 8.14 The majority of the respondents disagree with the proposed DCP 288A solution with only three respondents in favour of the proposed solution.

Question 11 - Do you have any comments on the DCP 288A draft legal text?

- 8.15 The TIG noted minor amendments the legal text.

Question 12 - Do you have any further comments on DCP 288A?

- 8.16 One respondent noted that the proposed DCP 288A approach does not align with the Gas Incentive Scheme approach.

Question 13 - What type of theft lead sources should form part of the DCP 288B scheme? Please provide your rationale.

- 8.17 The majority of respondents agree that all theft lead sources should be used to identify theft.
- 8.18 Based on responses the proposer confirmed that they are happy to include other theft lead sources to form part of the scheme.

Question 14 - What constitutes a definition of investigation? Please provide your rationale.

- 8.19 Some of the respondents suggested that the definition of investigation should include desktop review. TIG noted that operational desktop analysis should be included as part of investigation, excluding it causes unnecessary field investigations.
- 8.20 It was highlighted that Theft will not be identified by carrying out a desktop exercise however, desktop exercises are carried out to determine if a site visit is required. Removing desktop checks from the investigation process creates a problem for the larger Suppliers as they have more customers to investigate.

Question 15 - What cost should each investigation be awarded? Please provide your rationale.

- 8.21 Some of the respondents suggested that a cost of investigation should be set at £400 to align with the DCP 288 and 288A proposal. Members of the TIG highlighted that including all site visits regardless of the outcome then £400 might be excessive but the scheme should not have different payment levels. However, the TIG did recommend that a site visit is necessary to secure an incentive payment as desktop checks alone cannot reasonably warrant.

8.22 TIG members note that there is no mention of how metrics will be compiled to monitor desktop-only investigations (no incentive payment) and site visit investigations (qualifying for incentive payment). Desktop investigations need to be differentiated from completed investigations that involve a site visit (and which qualify for a £400 payment) and any wholly unactioned qualifying leads. In line with the legal text desktop-only investigations should be reported to the Scheme Administrator. A failure to report cases closed at the desktop investigation stage which did not entail a site visit would artificially inflate that party's incentive payment. It is not clear how well this mechanism will work in practice; how auditable would it prove and how much work/cost is involved for Scheme Administrator to operate this service.

8.23 The DCP 288B proposer explained that desktop investigations are already conducted by Suppliers, with the main area of focus being on physical investigations, particularly as the incentive payment is linked to these. A desktop investigation not resulting in a physical visit will have no material impact on the scheme, and it is not believed that monitoring or audit of these is required, particularly as the aim of the Change Proposal is to create a suitable framework of cost-efficient incentives without creating cross-subsidies or disproportionate costs for smaller market participants.

Question 16 - How many days after an investigation should a Confirmed Theft be reported? Please provide your rationale.

8.24 The TIG noted that some respondents preferred for the investigation timelines to be aligned with the TRAS data submission process while other preferred for this to be aligned with the timelines set out in the theft code of Practice schedules.

Question 17 - Do you think a Self -Certification process should be implemented as part of DCP 288B? Please provide your rationale.

8.25 The majority of respondents agreed that self-certification should be included as part of the scheme proposed by DCP 288B. The audit process will be similar to the Gas Incentive Scheme.

Question 18 - Do you agree with the proposed solution for DCP 288B?

8.26 The respondents had mixed views on the proposed solution for DCP 288B. Most respondents preferred for the Gas and Electricity schemes to be aligned while some felt that 288B is correct when it indicates that theft is not evenly distributed across the market and that any regime that supposes that will penalise those Suppliers who either actively manage risk (by refusing to supply certain non-domestic suppliers) or are new entrants to the market.

Question 19 - Do you have any comments on the DCP 288B draft legal text?

8.27 The TIG noted the Supplier 1 legal text comments and agreed with most of the proposed amendments. The following items are also to be updated on the legal text:

- Use of terminology- 288B should refer to investigations outcomes not confirmed theft.
- Consider annual reconciliation to align with GTDIS and 288.
- Clarify what is meant by investigation completed and confirmed theft.

Question 20 - Do you have any further comments on DCP 288B?

8.28 The TIG noted a few further comments of DCP 288B.

Question 21 - Do you agree with the proposed solution for DCP 288?

8.29 Most respondents support DCP 288 with nine in favour and six against the proposed solution. A number of those who disagree believe that theft is not evenly distributed across the market.

Question 22 - Do you have any comments on the DCP 288 draft legal text?

8.30 The TIG noted the legal text comments and agreed to make changes on the below:

- Update terminology
- Replacing participating Supplier with Qualifying Supplier
- Update paragraph references
- Align the Self- Certification process with the SPAA

Question 23 - Do you have any further comments on DCP 288?

8.31 A respondent pointed out that DCP 288 is the fairest and most robust solution. It also mostly reflects the current arrangements of the GTDIS and will be most easily adopted by Suppliers who are already participating in the scheme.

Question 24 - Do you agree with the TIG's view to increase the Residential theft target value as a consequence of the increase in volumes? If not, please provide your rationale.

8.32 There were mixed responses on whether to increase the Residential theft target value. The TIG noted that for DCP 288 and 288A it does not matter what the theft target value is. If the target is not met this does not mean Suppliers lose out. Payment is based on percentage of annual detection. The target will determine the incentive pot. The TIG agreed to set the theft target at:

- 30,000 for Residential
- 4,000 for Commercial

Question 25 - Do you agree with the TIG's view that the cost of Commercial theft target should be £400 as proposed under Residential theft target? If not, what should the value be set at?

8.33 A majority agreed with a theft target value of £400.

Question 26- Do you agree that the Electricity Incentive scheme costs should be aligned to the Gas Incentive Scheme or increased to align with the increased theft target value? If not, please provide your rationale.

8.34 Most of the respondents agreed with TIG's view for the Electricity Incentive Scheme value to be aligned to the Gas Incentive Scheme.

Question 27 - Are you supportive of the proposed reporting process for the Electricity Incentive Scheme? Please provide your rationale

8.35 Most of the respondents agreed with the proposed reporting process for the Electricity Incentive Scheme.

Question 28 - Do you consider that each of the CPs (DCP 288, DCP 288A and DCP 288B) better facilitate the DCUSA objectives? Please give supporting reasons against each.

- 8.36 Most of the respondents agreed that the DCUSA General objective 2 is better facilitated by DCP 288, 288A and 288B as they facilitate competition. It was noted that the TIG is to agree on which DCUSA Objectives are better facilitated by each CP before finalising the Change Report.

Question 29 - Are you supportive of the proposed implementation date of 1 February 2018, two months following authority decision?

- 8.37 The TIG noted that some of the respondents preferred an implementation date of 1 June 2018 to align with the Gas Incentive Scheme. Also, this will provide Suppliers and the Code Administrator sufficient time to ensure arrangements are in place for the Electricity Incentive Scheme.

Question 30 - How long after the authority approval should the scheme be implemented? Please provide your rationale.

- 8.38 Most of the respondents felt that the scheme should be implemented at least two months after the authority decision to allow Suppliers time to prepare. Based on the decision to move the implementation date to 1 June 2018, the lead time for implementing the scheme is likely to be at least three months.

Question 31 - Do you think the Electricity Scheme Year should coincide with Gas Incentive Scheme? Please provide your rationale.

- 8.39 The TIG agreed to implement the Electricity Incentive Scheme on 1 June 2018 therefore, aligning with the Gas scheme.

Questions 32 - 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.

- 8.40 There were no further comments for any additional changes to ensure the effective implementation of the scheme.

Question 33 - Are there any alternative solutions or unintended consequences that should be considered by the Theft Issues Group?

- 8.41 Two respondents suggested alternative solutions that should be considered by the TIG. One respondent pointed out that the legal text for DCP288 should explicitly exempt Suppliers with less than 1% market share (on an MPAN basis) from participating in the scheme. This will mean that smaller I&C Suppliers do not end up paying into the scheme with no hope of detecting any theft. The TIG noted the response.

Question 34 - Are you aware of any wider industry developments that may impact upon or be impacted by this CP?

- 8.42 The TIG noted the following industry developments likely to impact or be impacted by the implementation of the Electricity Incentive Scheme:
- The introduction of mandatory Half-Hourly settlement;

- Smart meter installations might impact theft overall not just the Incentive Scheme;
- Time of Use tariffs could have an impact on the scheme; and
- Supplier investigation processes may be impacted.

Question 35 - Do you have any further comments?

8.43 The TIG noted the Electricity North West response on whether it would be appropriate to introduce restrictions/blocks on customers changing Supplier while an investigation is ongoing. The group supported that view but highlighted that this change could be made under the MRA or Retail Code. It was noted that with faster switching customers can quickly change Supplier while they are being investigated, this has an impact on existing the Supplier's ability to complete an investigation or confirm theft.

TIG Conclusions

8.44 After reviewing the consultation responses, the TIG discussed the Change Proposal and noted:

Theft Target Value

8.45 There were mixed responses on whether to increase the Residential theft target value. The TIG noted that for DCP 288 and 288A it does not matter what the theft target value is. If the target is not met this does not mean Suppliers lose out. Payment is based on percentage of annual detection. The target will determine the incentive pot. The TIG considered whether the target should stay at 28,000 (Residential) and 4,000 (Commercial) as directed by Ofgem. It was noted that at the time of the Ofgem direction a Commercial theft target of 4,000 was set to include cannabis farms however cannabis farms had been removed from Commercial as they are most likely to be found in Residential premises. The TIG agreed to set the theft target at:

- 30,000 for Residential
- 4,000 for Commercial

8.46 On whether the cost of Commercial theft target should be set at £400, most respondents agreed with the TIG's proposal to keep the theft target value at £400 like the Residential value. Respondents also agreed with the TIG's view for the Electricity Incentive Scheme value to be aligned to the Gas Incentive Scheme.

8.47 The DCP 288 and D288A legal text is provide as Attachment 1 and 2.

Non TRAS Suppliers

8.48 The TIG considered the data submission process for Suppliers that fail to submit data or are not yet submitting data to the TRAS Service provider and suggested:

- **For Suppliers that are signed up and fail to submit data files:**
 - The Secretariat should find out when was the last submission, identify Residential and Commercial customers then look at the latest set of data from DNOs and

apply percentage split on Residential and Commercial to the latest set of data received.

- **For Suppliers not submitting data to TRAS, the Secretariat is to:**
 - Find out number of Suppliers that haven't submitted to TRAS in the last three months;
 - Suppliers that have never submitted to TRAS;
 - Whether there is other data available besides TRAS; and
 - Find out Supplier Market share.

8.49 It is noted that the above process will be added to the Incentive Scheme Guidance Document.

Investigation timelines

8.50 With regards to the investigation timelines the TIG advised that an investigation should be carried out as per the Theft Code of Practice Guidelines i.e. within 90 working days.

Indicative Summary Report

8.51 The TRAS Service Provider is to provide the monthly indicative summary report showing the number of Confirmed Thefts. It is noted that the DCP 288B reporting process will require a different summary report to that agreed under DCP 288 and 288A. A request for a summary report showing completed investigations will be made to the TRAS Service Provider if DCP 288B is approved.

Implementation

8.52 On the proposed implementation date of 1 February 2018, the TIG noted the arguments for aligning the Gas and Electricity schemes and agreed to align the schemes and implement the Electricity Incentive Scheme on 1 June 2018. Based on the decision to move the implementation date to the 1st of June, the lead time for implementing the scheme is likely to be at least three months. Given the time required for Suppliers and the Scheme Administrator to prepare for the Incentive Scheme it is proposed that the Incentive Scheme schedule be implemented into the DCUSA five Working Days after Authority Decision with a go live date of 1 June 2018.

9 Relevant Objectives

Evaluation Against the DCUSA Objectives

9.1 For a DCUSA Change Proposal to be approved it must be demonstrated that it better meets the DCUSA Objectives. There are five General DCUSA Objectives and six Charging Objectives. The full list of objectives is documented in the CP form provided as Attachment 7.

DCP 288 and DCP 288A

9.2 For DCP 288 and DCP 288A the majority of the TIG considers that the DCUSA Objective Two is better facilitated by DCP 288 and 288A. The rational for the support of General Objective Two is set out in the table below:

Impact of the Change Proposal on the Relevant Objectives:	
Relevant Objective	Identified impact
General Objective Two - 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	<p>Positive</p> <p>The majority of the TIG considers that DCUSA General Objective Two is better facilitated because theft of Electricity increases the costs paid by consumers and can have serious safety consequences. It also leads to a misallocation of costs among Suppliers, which can distort competition and hamper the efficient functioning of the market. Estimates of the scale of Gas and Electricity theft vary, but even lower estimates suggest that the scale is significant, being more than £100 million per year.</p> <p>For DCP 288 and 288A the majority of the TIG also considers that the consequence of this modification therefore will be an increase in the amount of theft detected by Suppliers, over and above the volume that would possibly be detected without the existence of such a scheme. Reducing theft and correcting the apportionment of misallocated energy costs should assist in the correct apportionment of costs to those who drive such costs into the market, therefore improving competition between Suppliers.</p> <p>Negative</p> <p>A member of the TIG believes that these proposals do not better facilitate DCUSA Objective 2. Measuring supplier performance solely on detection of theft relies on the belief that theft is evenly distributed across the retail market which anecdotal evidence suggests is not valid. However, one member of the TIG was willing to provide factual evidence that suggests that theft is evenly distributed across the retail market.</p> <p>Setting the measurement at the number of thefts rather than the performance of the investigation process means parties could be unduly penalised for finding no theft, despite initiating extensive investigations following the lead or Qualified Outlier.</p>

DCP 288B

- 9.3 For DCP 288B the majority of the TIG feel that DCUSA General Objective Two is not better facilitated however, a member of the group considers that DCUSA General Objective Two is better facilitated by DCP 288B. Commentary detailing the rationale for and against General Objective Two is set out in the table below:

Impact of the Change Proposal on the Relevant Objectives:	
Relevant Objective	Identified impact
General Objective Two - 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	<p>Positive</p> <p>DCP 288B better facilitates General Objective Two as it will provide Suppliers with an appropriate financial incentive to investigate potential instances of theft within their Electricity customer portfolio, while avoiding the potential cross subsidy that might be created where payment was linked only to discovery of theft rather than completion of Qualified Outliers provided to suppliers by the TRAS Service Provider or an Electricity Distribution Network Operator.</p> <p>The member of the group also considers that the consequence of this proposal is that the detection of theft will be fairly and equitably incentivised, leading to an increase in levels of theft detection and providing a clearer picture as to the extent that theft may or may not be evenly distributed across the Electricity market, while removing the potential cross-subsidy that the original DCP288 proposal creates.</p> <p>Negative</p> <p>The majority of the TIG believe that General Objective Two is not better facilitated by DCP 288B as it does not encourage effective competition. DCP 288B does not incentivise theft detection because it does not require Suppliers to perform at the same level. Instead of investigation and confirming theft as proposed by DCP 288 and 288A, under DCP 288B Suppliers will be required to only investigate leads.</p>

10 Impacts & Other Considerations

Consumer Impacts

- 10.1 The TIG did not identify any material impact on consumers from the implementation of this CP.

Environmental Impacts

- 10.2 In accordance with DCUSA Clause 11.14.6, the TIG assessed whether there would be a material impact on greenhouse Gas emissions if DCP 288, 288A or 288B were implemented. The TIG did not identify any material impact on greenhouse Gas emissions from the implementation of this CP.

Engagement with the Authority

- 10.3 Ofgem has been engaged with the development of DCP 288, 288A and 288B as a member of the TIG.

11 Implementation

- 11.1 Subject to Authority decision the DCP 288, 288A and 288B change will be implemented five Working Days after Authority decision and go live on 01 June 2018.
- 11.2 DCP 288, 288A and 288B are classified as Part 1 matters and therefore will go to the Authority for determination after the voting process has completed.

12 Legal Text

- 12.1 The DCP 288 legal text is provided as Attachment 1.
- 12.2 The DCP 288A legal text is provided as Attachment 2.
- 12.3 The DCP 288B legal text is provided as Attachment 3.
- 12.4 The differences between the Incentive Scheme rules set out in the three sets of legal texts are:
- **Under DCP 288** an industry-level Theft Target, to be met by all Suppliers will be established for each year of the scheme. The Theft Target will be split by market share and based on a total of 34,000 Confirmed Theft detections across both Domestic and Commercial sectors (with Domestic set at 30,000 and Commercial set at 4,000). The incentive pot will be paid out to Suppliers at the end of each period in proportion to the number of Confirmed Thefts identified in each market segment.
 - The **DCP 288A** is similar in principle to DCP 288. However, unlike the original CP the theft target for Suppliers with less than 2 million Metering Points will be adjusted by a percentage each year. The adjustment percentage will start at 33.3% of their Confirmed Theft target for scheme year 1, increasing to 66.6% for scheme year 2 and increasing to the maximum 100% in scheme year 3.
 - **DCP 288B** seeks to introduce a performance based scheme rather than that proposed by DCP 288 and DCP 288B. Under DCP 288B theft targets will not be equally distributed across each Supplier's customer portfolio in accordance with its market share. The

proposer's view is that Electricity theft is not equally distributed across each Supplier's customer portfolio in accordance with its market share Suppliers will be required to investigate leads provided by the TRAS Service Provider, Distribution Network Operators and other theft leads. The CP proposes to remove the individual supplier targets and incentivise each Supplier to investigate all leads provided to it by the TRAS Service Provider or an Electricity Distribution Network Operator and to conclude each investigation within a three-month timeframe.

13 Recommendations

Panel's Recommendation

- 13.1 The Panel approved this Change Report on **17 January 2018** The Panel considered that the TIG has carried out the level of analysis required to enable Parties to understand the impact of the proposed amendment and to vote on DCP 288, DCP 288A and DCP 288B.
- 13.2 The Panel have recommended that this report is issued for Voting and DCUSA Parties should consider whether they wish to submit views regarding this Change Proposal.

Voting Arrangements

- 13.3 As there are three proposed solutions to DCP 288, please note that there are specific voting arrangements unique to this Change Report.
- 13.4 The methods of voting are:
- **ACCEPT** one variation and **REJECT** the others; or
 - **ACCEPT** all variations with preference detailed on the vote form (1 – 3, with one being most preferable); or
 - **REJECT** all variations.

Attachments

- Attachment 1 – DCP 288 Legal Text
- Attachment 2 – DCP 288A Legal Text
- Attachment 3 – DCP 288B Legal Text
- Attachment 4 – DCP 288, 288A and 288B Voting Form
- Attachment 5 – DCP 288 Consultation One with TIG Comments
- Attachment 6 – DCP 288, 288A and 288B Consultation Two with TIG Comments
- Attachment 7 – DCP 288, 288A and 288B CP Forms

