

**DCP 054 Working Group****Incentive scheme evaluation against agreed criteria**

Scheme name – **SETS**

**1. How will the scheme operate, i.e. a technical description and simple worked example?**

- A % market share would be calculated for each Supplier based on the number of sites and associated market volume that the Supplier is responsible for. This market share would be used to assess how much of an influence each Supplier has on the market.
- Each Supplier would be given a threshold based on their market share that would designate the level of error that Supplier should be accounting for. This threshold would be the initial target that a Supplier would be looking to achieve in terms of theft reporting.
- There are 2 options for the creation of the market share
  1. *Market share is based on the number of sites in that Customers portfolio as a ratio of the full market numbers*
  2. *Market share is based on the associated volume EAC/AA that supplier is responsible for as a ratio of the full market numbers.*

For this proposal to use a threshold effectively Option 2 would need to be used as the volume would be used to confirm how much a supplier should pay / receive. The calculation for this would be:

**KWh associated with theft \* £ per KWh (TBC)**

- On a monthly basis each Supplier would report all cases of 'confirmed' theft to a designated agency (eg. Elexon, OFGEM) who would then compare the performance of each Supplier against one another.
- If a Supplier is below their target threshold then they would pay charges to the designated agency based on how far below the threshold they are.
- If a Supplier is above their target threshold then they would receive payments from the designated agency based on how far above their target threshold they are.
- All payments and charges would be capped.

**2. How will the scheme be funded?**

- The scheme will be funded by the Suppliers themselves as any Supplier who is performing poorly would have to pay money into a collective fund.

**What are the rewards/ expected benefits of the scheme?**

- Suppliers are incentivised to operate a successful Revenue Protection business with the opportunity to recover benefits.
- Distributors are given the confidence that all units would enter Settlement as only an investigation that showed evidence of Settlements adjustment being made would be deemed as a 'confirmed' theft.
- The process is self sustaining as poor performers would fund the payments to good performers.
- There are tools and reporting mechanisms currently in place that could be tailored to fit this scheme (eg. Elexon materiality reporting).
- Internal changes to Supplier processes would be minimal as the scheme would utilise existing processes that Suppliers operate for managing units into Settlements.

**3. What will the coverage be e.g. National/Domestic?**

- It is expected that all customer types would be eligible for entry in this scheme.

**4. When could the scheme start / be effective from?**

- Following agreement on external agent who would manage the process and creation of reporting / funds framework the system could be adopted by Suppliers after minimal testing.
  - *Estimated lead time: 9 months from confirmation of scheme adoption*

**5. How would the scheme be implemented?**

- Tender process to confirm agent that will manage the proposed framework.
- Supplier agreement on defined process for implementing units into Settlements
- Selected agency build reporting / funds process
- Testing
  - Selected Agency testing to ensure process framework is suitable
  - Suppliers given reporting template by selected agency to ensure they can provide data in correct format
  - Internal Supplier testing to ensure 'confirmed' theft can be evidenced and associated volume tracked
- Test results reviewed as part of working group close down
- Release to live

**6. How will performance be measured?**

- Suppliers will be measured based on the market share with their 'actual theft detected' measured against their target threshold.

**7. How will the scheme be monitored / audited?**

- Data requests and sample checks could be carried out as part of the annual BSC audit with Technical Assurance checks in place as and when required (if obligations were built into the BSC and managed within the current Elexon framework)
- Monthly reporting from Suppliers would go through agreed validation routines carried out by the selected agency.
- Quarterly sample checking could be implemented based on the framework already in place for the management of excessive EAC/AAs and Energisation Status monitoring.

**8. How will reporting work under the scheme?**

- Monthly reporting framework governed by selected agency
  - Suppliers submit monthly report showing 'confirmed' theft and associated volume
  - Selected agency circulate monthly report showing split performance across Suppliers and distribution of charges / payments

**9. What governance framework is required – where will the scheme sit?**

- A number of existing Elexon processes and tools could be amended to suit the needs of this scheme.
- The selected agency would maintain overall governance of the process with Suppliers driving the performance and financial elements.

**10. Are there any disadvantages of implementing this scheme?**

- Initial funding would have to be in place in case the majority of Suppliers initially achieved their target threshold.
- Funding of this process is reliant on the presence of poorly performing Suppliers. If all Suppliers are performing within market thresholds then who would fund the process?
- Timescales could be lengthy as tender process for governing body may be required.