

DCUSA CONSULTATION DOCUMENT	
<b>CHANGE PROPOSAL</b>	DCP 054 Revenue Protection / Unrecorded Units into Settlement
<b>DATE OF ISSUE</b>	09 June 2010
<b>ISSUED TO</b>	DCUSA Contract Managers Consumer Focus
<b>RETURN DEADLINE</b>	07 July 2010

## 1 BACKGROUND

- 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.

## 2 PURPOSE

- 2.1 This document is a consultation by the DCP 054 Working Group. The Working Group is seeking the industry view on 5 incentive schemes which have been developed in relation to Theft of Electricity and Revenue Protection.
- 2.2 Parties are invited to consider the questions asked by the Working Group set out in section 5 below and submit comments using Appendix A to [DCUSA@electralink.co.uk](mailto:DCUSA@electralink.co.uk) no later than 07 July 2010.

## 3 DCP 054 – REVENUE PROTECTION/UNRECORDED UNITS INTO SETTLEMENT

- 3.1 DCP 054 'Revenue protection/unrecorded units into settlement' was raised by Electricity North West Limited in October 2009. The CP seeks to ensure that:
- Suppliers must provide or procure a revenue protection service in accordance with the Revenue Protection Code of practice
  - The Revenue Protection Code of Practice should become a schedule to the DCUSA
  - Where suppliers identify theft, the calculation of stolen units should be made in accordance with the code of practice and the supplier should ensure that the units are entered into settlement.
  - Distribution businesses should have the right to audit suppliers to ensure that the units are entered into settlement.
- 3.2 Electricity North West Limited considers that the failure of Users to detect and report illegal abstraction and to enter unrecorded units into settlements

can have a major impact on Distributor's allowed revenue and the level of reported losses. The failure to enter units into settlement will also negatively impact the distributor's losses incentive calculation. BSC Audits have identified weaknesses in the existing process and ELEXON has commenced Technical Assurance visits to assess the process and recommend any changes as required. The proposer considers that this Change Proposal will ensure all parties are responsible for the energy used.

- 3.3 The DCUSA Panel established a Working Group to assess and develop the CP and instructed it to consider looking at 'missing' units generally not focus specifically on stolen units.

## **4 WORKING GROUP CONSIDERATIONS**

- 4.1 The Working Group is seeking to achieve the following key objectives:

- Put in place robust revenue protection procedures;
- Develop processes to enable missing energy to be identified and passed to the relevant agents for before entering into settlement
- Develop and implement a theft of energy / revenue protection Code of Practice within an appropriate governance framework to ensure it is maintained to reflect best practice.

- 4.2 In order to assist in achieving its objectives, the Working Group considers that an incentive scheme may be the best method to provide encouragement for parties to establish an effective revenue protection scheme and ensure missing units are captured in the Settlement arrangements. Members of the Working Group also highlighted that by forcing suppliers to account for stolen units within the settlement arrangements a perverse incentive is created as the supplier who identifies theft is penalised with the full costs of the assessed energy stolen. The Working Group has therefore put forward an alternative scheme (Settlement Cost Smearing) whereby the full costs of assessed stolen energy are not wholly applied to the supplier who identifies the theft.

- 4.3 During the Working Group discussions members highlighted that the industry had carried out a thorough review of Revenue Protection activities under a joint ERA/ENA work group. As part of this work the group submitted a report to Ofgem in June 2007 entitled Report of the Theft Incentive Scheme Development Group– Final Proposals. The members of the Working Group agreed to review the incentives schemes presented in 2007 together with any new schemes that members felt would be appropriate.

- 4.4 The following 5 incentive schemes have been identified:

- Reasonable Endeavors – A scheme that would enable suppliers to claim for costs incurred in carrying out revenue protection activities.
- Losses Incentives – A scheme that would share the losses incentive between suppliers and distribution businesses.
- Supply Energy Theft Scheme (SETS) – A scheme that would reward those suppliers who outperform against a specified target for detecting theft.

- National Revenue Protection Service (NRPS). – The establishment of a national revenue protection service that all suppliers would be obligated to use. Although this option is included within the incentive schemes the working group felt it was a new way of delivering a revenue protection service rather than an incentive scheme.
  - Settlement Cost Smearing – A scheme whereby the full costs of stolen units are not totally allocated to the supplier who identifies the theft but are smeared across all suppliers.
- 4.5 The Working Group has carried out an initial assessment of each of the Schemes which are set out in Appendices B – F. For each scheme the Working Group has considered how it will operate, how such a scheme will be funded, the rewards, benefits and disadvantages of the scheme, whether it is national or domestic, how it can be implemented and the governance framework required to support it.
- 4.6 The Working Group has identified that there is an issue surrounding the clarity of obligations where there is theft in conveyance. And have asked legal opinion on who has rights to recover costs where theft has been identified in various scenarios.
- 4.7 The Working Group has also produced a financial model (Appendix G) that models the financial impact of each of the incentive schemes on industry parties.
- 4.8 The Working Group has also sought clarification from the DCUSA Legal Counsel (Wragge & Co) on which parties in the electricity market have the ability/responsibility to take action where theft of electricity in conveyance has occurred. The advice provided by Wragge & Co is attached as Appendix H.

## 5 CONSULTATION

- 5.1 The DCP 054 Working Group is seeking a response to the following questions to assist it in the development of DCP 054 and the Code of Practice:

### Revenue Protection Policy

- Suppliers: What are your current practices for Revenue Protection; do you have a statement of requirements that you require Revenue Protection Service providers to follow and, if so, would you be willing to share this statement of requirements in order to ensure any Code of Practice incorporates your requirements?
- What is your Disconnection Policy with regard to discovering theft at customer's premises, does this differ depending on the circumstances of each case?
- When a meter change is required on site after incidence of theft, who should be responsible for changing this meter?
- DNOs: There is some evidence that there are many sites that are energised without a supplier being appointed. This situation results in units not being entered into settlement. What is your policy when discovering sites that have no supplier appointed?
- How do you ensure stolen units are accounted for?

### Potential Incentive Schemes

- The working group has looked at a number of possible schemes to encourage Suppliers to be more proactive in theft detection. Could you indicate which scheme or schemes if any you prefer giving reasons for your selection
- Appendix G models the financial impact on industry parties of each incentive scheme. The model uses a number of inputs that are detailed on tab 2. Do you have any comments on the model or the inputs into the model?
- What advantages and/or disadvantages do you associate with the schemes?
- What costs do you associate with the schemes?
- Who would you envisage paying for the schemes?
- Please give an indication of the time frame you would need to implement the schemes within your organisation.
- Do you have any suggestions for improvements or suggest any other scheme not already considered?

National Revenue Protection Service

- Appendix E provides details of a potential National Revenue Protection Service. Do you support this proposal or have any comments related to this proposal?

5.2 Comment should be submitted using the form attached as Appendix A and returned to [DCUSA@electralink.co.uk](mailto:DCUSA@electralink.co.uk) no later than 07 July 2010.

5.3 All responses will be treated as non-confidential unless indicated otherwise.

## **6 NEXT STEPS**

- 6.1 Following the end of the consultation period the Working Group will meet to consider the responses and determine which if any of the schemes identified should be taken forward. The Working Group will develop the Code of Practice and any necessary supporting drafting for the DCUSA document.
- 6.2 The Working Group will liaise with the DCUSA Legal Advisors to ensure that the drafting is legally robust and in keeping with the current DCUSA drafting. The DCP 054 Working Group will submit its final report setting out the proposed variations to the DCUSA Panel before the CP is issued to all Parties for voting.
- 6.2 If you have any questions about this paper or the DCUSA Change Process please contact the DCUSA Help Desk email to [dcusa@electralink.co.uk](mailto:dcusa@electralink.co.uk) or telephone 020 7432 3011.

## **7 APPENDICES**

- Appendix A – Response Form
- Appendix B – Reasonable Endeavours
- Appendix C – Losses Incentive Scheme
- Appendix D – Supply Energy Theft Scheme (SETS)

- Appendix E – National Revenue Protection Service (NRPS)
- Appendix F – Settlement Cost Smearing Scheme
- Appendix G - Financial Impact on Industry Parties
- Appendix H – Legal Advice from Wragge & Co