

Proposed variation:	<b>Distribution Connection and Use of System Agreement (DCUSA) DCP054 – Revenue Protection: Unrecorded Units into settlements</b>		
Decision:	The Authority <sup>1</sup> directs that proposal DCP054 be made <sup>2</sup>		
Target audience:	DCUSA Panel, parties to the DCUSA and other interested parties		
Date of publication:	25 September 2013	Implementation Date:	7 November 2013

## Background to the modification proposal

Theft of electricity increases the costs paid by consumers and can have serious safety consequences. Some estimates put the cost of stolen electricity at around £200m per year. This problem can be compounded where these costs are misallocated among suppliers, which could contribute to distorting competition and the efficient functioning of the market.

Both Suppliers and Distributors have obligations under their respective licence conditions<sup>3</sup> to investigate theft and take appropriate action where theft is identified. This includes the power to disconnect and to levy charges. Since 1998 the licence conditions have been augmented by a Revenue Protection Code of Practice ('RP CoP'), which aims to ensure that these powers are used in a consistent and appropriate manner.

However, the provision of a Revenue Protection service is not uniform across the industry and adherence to the RP CoP is currently on a voluntary basis. While some Distributors continue to provide these services, in other areas Suppliers may be required to provide these services themselves or contract with another Supplier or a metering agent.

## The modification proposal

DCUSA Change Proposal 054 ('DCP054'), which was raised by Electricity North West in September 2009, seeks to ensure that an appropriate Revenue Protection service is put in place by either the relevant Distributor or the Supplier and that:

- 1) certain prescribed Revenue Protection procedures are undertaken;
- 2) all reported energy illegally extracted is entered into settlements; and,
- 3) the RP CoP is incorporated into the DCUSA and is thereafter actively maintained in order to reflect best practice.

Whilst DCP054 would place a DCUSA obligation upon parties to adhere to the RP CoP, it does not preclude parties from exceeding these obligations if they consider it appropriate.

## DCUSA Parties' recommendation

The DCP054 Change Declaration states that no votes were cast by independent Distributors or Distributed Generation (DG) parties. In each party category where votes were cast there was majority support for the proposal and its proposed implementation date.

In accordance with the DCUSA weighted vote procedure, the recommendation to us is that DCP054 is accepted. The outcome of the weighted vote is set out in the table below:

1 The terms 'the Authority', 'Ofgem' and 'we' are used interchangeably in this document. Ofgem is the Office of the Gas and Electricity Markets Authority.

2 This document is notice of the reasons for this decision as required by section 49A of the Electricity Act 1989.

3 E.g. Standard conditions 12 and 27 respectively.

DCP054	WEIGHTED VOTING (%)							
	DNO		IDNO/OTSO		Supplier		DG	
	Accept	Reject	Accept	Reject	Accept	Reject	Accept	Reject
CHANGE SOLUTION	100	0	N/A	N/A	80	20	N/A	N/A
IMPLEMENTATION DATE	82	18	N/A	N/A	80	20	N/A	N/A

## Our decision

We have considered our statutory duties and functions in reaching this decision. We have considered the issues raised by DCP054, the comments of consultation respondents and the results of the Change Declaration issued 20 August 2013. We have concluded that:

1. the implementation of the change proposal DCP054 will better facilitate the achievement of the DCUSA General Objectives;<sup>4</sup> and
2. directing that the change is approved is consistent with our principal objective and statutory duties<sup>5</sup>.

## Reasons for our decision

We note that this change proposal received majority support from voting parties in all relevant party categories. We consider that this proposal would better facilitate DCUSA objectives b) and c). We consider that it has no impact against the other DCUSA objectives.

*Objective b) the facilitation of effective competition in the generation and supply of electricity;*

We consider that introduction of minimum standards of investigation for all DCUSA parties will improve the rigour with which electricity theft is investigated. This, together with the clarity provided by the development and documentation of best practice and clarity on the existing regulatory framework, should improve the overall performance of the industry in detecting theft. As noted above, undetected electricity theft can lead to the misallocation of costs among Suppliers, which could contribute to a distortion in competition and the efficient functioning of the market.

A crucial aspect of ensuring the appropriate allocation of electricity costs is that the units of discovered theft are subsequently entered into settlements. The DCUSA includes obligations in relation to how unrecorded units should be estimated and that they should be submitted into settlement. However, the requirements for the subsequent processing of these units falls within the scope of the Balancing and Settlement Code ('BSC') and there is currently no single, clear process for doing so. The 'Issue 39' group was therefore convened in September 2010 in order to consider these issues.

The Issue 39 final report<sup>6</sup> of February 2011 sets out three options, including impact assessments for each option, which may inform a future BSC modification proposal. However, the group concluded that it would be best to do so after getting more clarity over the contents of the RP CoP developed within DCP054 and on Ofgem's proposals to tackle electricity theft.

We published a consultation<sup>7</sup> on our proposals to tackle electricity theft on 3 July 2013. This included proposals to improve the incentives to prevent, detect and investigate theft

<sup>4</sup> The DCUSA General Objectives are set out in Standard Licence Condition 22.2 of the Electricity Distribution Licence and are also set out in Clause 3.1 of the DCUSA.

<sup>5</sup> The Authority's statutory duties are wider than matters that the Panel must take into consideration and are detailed mainly in the Electricity Act 1989 as amended.

<sup>6</sup> See [http://www.elexon.co.uk/wp-content/uploads/2012/02/179\\_09\\_Issue\\_39\\_Report\\_v1.0.pdf](http://www.elexon.co.uk/wp-content/uploads/2012/02/179_09_Issue_39_Report_v1.0.pdf)

<sup>7</sup> [Tackling electricity theft – consultation](#). Ofgem Ref: 100/13

and the introduction of a Theft Risk Assessment Service. We are still considering responses to this consultation and aim to publish our decision before the end of the year.

We consider that these initiatives will further improve the allocation of costs associated with theft, benefitting competition as set out above. However, subject to our decision on the issues consulted on in July 2013, any changes may prompt a further review of the provisions within the RP CoP in order to ensure that they are consistent. It would therefore be appropriate for the RP CoP to be a more dynamic document than it has been in the past, incorporating revisions as and when necessary. We therefore consider that the inclusion of the RP CoP within DCUSA will provide a more effective and efficient governance of future change and should ensure that further changes to the RP CoP are carried out in a robust and timely manner. We therefore consider that DCP054 better meets DCUSA objective b).

*Objective c) the efficient discharge by the licensee of the obligations imposed upon it by this licence;*

The Distributor retains responsibility for theft in conveyance, with primary responsibility for all other theft resting with the Supplier. However, the Distributor also has licence obligations<sup>8</sup> regarding the reporting of theft, damage and meter interference. To the extent that the roles and responsibilities of relevant parties are further clarified and reinforced by the RP CoP within DCUSA, together with the lines of reporting between those parties, we consider that the implementation of DCP054 will better facilitate the efficient discharge of the licensees' obligations.

### **Decision notice**

In accordance with standard condition 22 of the Electricity Distribution Licence, the Authority hereby directs that modification proposal DCP054: '*Revenue Protection: Unrecorded Units into settlements*' be made.

**Maxine Frerk**

**Partner, Retail Markets and Research**

Signed on behalf of the Authority and authorised for that purpose

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<sup>8</sup> Electricity Distribution Standard Condition 27: 'Theft, damage and meter interference'