

Modification proposal:	<b>Distribution Connection and Use of System Agreement (DCUSA) Change Proposal 368 (DCP368): Amendment to the Electricity Theft Detection Incentive Scheme (ETDIS) Timing</b>		
Decision:	The Authority <sup>1</sup> has decided to approve <sup>2</sup> this modification <sup>3</sup>		
Target audience:	DCUSA Parties, DCUSA Panel and other interested parties		
Date of publication:	7 July 2020	Implementation date:	14 July 2020

## Background

The Electricity Theft Detection Incentive Scheme (ETDIS) was introduced in June 2018 setting out yearly theft targets for participating Suppliers to report confirmed thefts. This followed the earlier introduction of the Gas Theft Detection Incentive Scheme (GDTIS) based on the same design principles in June 2017. Under both schemes, suppliers are able to make a claim for payment from one of two separate funds into which all suppliers pay, pro rata to their market share. The separation of funds reflects the split in the incentive scheme and associated targets between domestic and non-domestic Suppliers.

As theft arrangements including the incentive schemes are currently operated across both the DCUSA and the Supply Point Administration Agreement (SPAA) it was identified early as a candidate for inclusion in the dual fuel Retail Energy Code (REC). This decision was subsequently confirmed as part of the Retail Code Consolidation (RCC) Significant Code Review (SCR) launch statement.<sup>4</sup>

The REC had originally been scheduled to replace the SPAA and Master Registration Agreement (MRA), and incorporate elements of other codes as necessary, with effect April 2021. However, both the GDTIS and ETDIS currently run from June to May each year, spanning the intended transition period. The administration of the scheme is in part also dependent upon activities undertaken as part of the Theft Risk Assessment Service, the contract for which will expire at the end of March 2021.

## The modification proposal

DCP368 seeks to update and align the theft incentive scheme schedules and timetable in order to facilitate an effective migration of the scheme to the REC. In particular, it seeks to reduce the 2020/21 reporting year to eight months, ending 31 January 2021. This would enable all payments and claims to be reconciled by the existing service provider(s) and for the scheme to start afresh under the governance of the REC.

In May 2020 we accepted the equivalent change to the SPAA.<sup>5</sup>

## DCUSA Parties' recommendation

<sup>1</sup> The terms 'the Authority', 'Ofgem' and 'we' are used interchangeably in this document. Ofgem is the Office of the Gas and Electricity Markets Authority. This decision is made by or on behalf of GEMA.

<sup>2</sup> This document is notice of the reasons for this decision as required by section 38A of the Gas Act 1986.

<sup>3</sup> 'Change' and 'modification' are used interchangeably in this document.

<sup>4</sup> See: [https://www.ofgem.gov.uk/system/files/docs/2019/11/rcc\\_launch\\_statement.pdf](https://www.ofgem.gov.uk/system/files/docs/2019/11/rcc_launch_statement.pdf)

<sup>5</sup> SCP491: [Amendment to the Gas Theft Detection Incentive Scheme \(GDTIS\) Timing](#)

Only the supplier party category<sup>6</sup> was identified as having an interest in DCP368. All of the three respondents supported the implementation of DCP368, satisfying the required >50% of the weighted vote for the proposal to be recommended to the Authority:

DCP368	WEIGHTED VOTING (%)							
	DNO <sup>7</sup>		IDNO/OTSO <sup>8</sup>		SUPPLIER		DG <sup>9</sup>	
	Accept	Reject	Accept	Reject	Accept	Reject	Accept	Reject
CHANGE SOLUTION	N/A	N/A	N/A	N/A	100%	0%	N/A	N/A
IMPLEMENTATION DATE	N/A	N/A	N/A	N/A	100%	0%	N/A	N/A

### Our decision

We have considered the issues raised by the proposal, the Change Declaration dated 23 March 2020 and Change Report dated 23 April 2020. We have considered and taken into account the vote of the DCUSA Parties on the proposal which is attached to the Change Declaration. We have concluded that:

- implementation of the modification proposal will better facilitate the achievement of the Applicable DCUSA objectives;<sup>10</sup> and
- directing that the modification is approved is consistent with our principal objective and statutory duties.<sup>11</sup>

### Reasons for our decision

As this change proposal is specifically about the orderly transition of the governance of the scheme to the REC, rather than the manner in which the scheme operates, we agree with the Change Report that it should be considered against relevant objective (d), and that it has a neutral impact upon the other applicable DCUSA objectives.

#### ***Applicable DCUSA Objective (d) - the promotion of efficiency in the implementation and administration of the DCUSA***

We note that there were only three responses to the consultation on this change proposal, each of whom were in support as it would facilitate the orderly transition of the incentive scheme to the REC. There were no other substantive comments.

DCP368 was predicated largely on the transition of the ETDIS to the REC with effect 1 April 2020, in line with the RCC timetable at the time the proposal was raised. Although the RCC is separate to the Switching Programme SCR, it has been developed in parallel in order to provide simple and effective governance of the new switching arrangements, including of the Central Switching Service (CSS). Prompted by the Covid-19 situation, the Switching Programme agreed to a six month delay to User Entry Process Testing. Although detailed re-planning is on-going, this is likely to have a commensurate impact upon the CSS implementation date. Supplier representatives on the Switching

<sup>6</sup> There are currently no gas only supplier parties acceded to the DCUSA.

<sup>7</sup> Distribution Network Operator

<sup>8</sup> Independent Distribution Network Operator/Offshore Transmission System Operator

<sup>9</sup> Distributed Generation

<sup>10</sup> The Applicable DCUSA Objectives are set out in Standard Licence Condition 22.2 of the Electricity Distribution Licence.

<sup>11</sup> The Authority's statutory duties are wider than matters that the Parties must take into consideration and are detailed mainly in the Electricity Act 1989 as amended.

Programme Delivery Group<sup>12</sup> also called for a delay to related regulatory activities, including the development of the REC.

Further to these requests, Ofgem and the REC Company (RECCo) Board agreed to revise the REC version 2.0 effective date to 1 September 2021. Notwithstanding any changes that may be made to the REC delivery timetable, we recognise that there are dependencies upon service providers whose contracts are due to expire March 2021, prior to the end of the current scheme year. We also recognise the importance of providing certainty to suppliers in advance of the start of the scheme year, in order to ensure that all participants can make appropriate plans and avoid the unintended consequences that may arise from a change mid-year. We therefore do not consider that the intent of the proposal has been superseded by changes to the REC timetable.

Since DCP368 was raised, Covid-19 has also necessitated changes to the start of the 2020/21 scheme year. In April, we issued an open letter to energy network<sup>13</sup> and retail energy supply<sup>14</sup> companies setting out an enabling framework for regulatory flexibility. In that letter we recognised and welcomed the extraordinary efforts that suppliers and other energy industry participants have made and continue to make in order to meet the challenges posed by the Covid-19 pandemic. During this time, suppliers have prioritised those activities which protect consumers and security of supply, in some cases redeploying staff and other resources from non-priority activities, including non-safety related theft detection activity. We followed up the open letter by writing to the DCUSA Panel and SPAA Executive Committee confirming that in our view it would be inappropriate for the 2020/21 GTDIS and ETDIS schemes to commence on 1 June. Both the DCUSA Panel and SPAA EC subsequently agreed to derogations postponing the start of the scheme year to 1 August 2020.

Without prejudice to any determination that may be made by the DCUSA Panel and/or the SPAA Executive Committee in respect of a future derogation request, we consider that it would be appropriate to ensure that the theft incentive schemes can be brought to an orderly conclusion while the existing service provider's contract remains in effect. This will ensure, amongst other things, that there is an accurate and efficient reconciliation and settlement of all parties' financial positions under the scheme. Both the ETDIS and GTDIS will then recommence in 2021 under the auspices of the REC.

We therefore agree that the implementation of DCP368 will facilitate the efficient implementation and administration of the DCUSA arrangements.

### **Decision notice**

In accordance with standard licence condition 22.14 of the Electricity Distribution Licence, the Authority hereby directs that modification proposal DCP368: 'Amendment to the Electricity Theft Detection Incentive Scheme (ETDIS) Timing' be made.

### **Arik Dondi Head of Switching Arrangements**

Signed on behalf of the Authority and authorised for that purpose

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<sup>12</sup> The SPDG was established as part of the internal governance of the Switching Programme – for further details go to: <https://www.ofgem.gov.uk/gas/retail-market/forums-seminars-and-working-groups/switching-programme-delivery-group#block-views-publications-and-updates-block>

<sup>13</sup> See: [https://www.ofgem.gov.uk/system/files/docs/2020/04/networks\\_letter\\_0.pdf](https://www.ofgem.gov.uk/system/files/docs/2020/04/networks_letter_0.pdf)

<sup>14</sup> See: [https://www.ofgem.gov.uk/system/files/docs/2020/04/supplier\\_letter.pdf](https://www.ofgem.gov.uk/system/files/docs/2020/04/supplier_letter.pdf)