RETAIL ENERGY CODE

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NON-CONFIDENTIAL CONSOLIDATED CONSULTATION RESPONSES

C3-0061 THEFT TARGET METHODOLOGY V2.1

The purpose of this document is to consolidate the non-confidential responses and for the Code Manager to answer any questions raised within those responses. In addition to the non-confidential response received here an additional two confidential responses were received and considered.

DOCUMENT VERSION	1.0
RESPONSE TYPE	~~CONFIDENTIAL~~/**NON-CONFIDENTIAL**
DATE ISSUED	08 February 2024
RESPONSIBLE COMMITTEE	Performance Assurance Board (PAB)
LEAD ANALYST	Harriet Truss

DATE CONSULTATION ISSUED	15 January 2024
RESPONSE DEADLINE	05 February 2024

Question 1:	Do you support the principle of an escalator to discover an effective TDV?	
RESPONDENT DETAILS	**RESPONSE**	**CODE MANAGER COMMENTS**
Brook Green Supply Non-Confidential Non-Domestic Supplier	No, we aren't supportive of the principle of an escalator. We believe that the current TDV values do not reflect the true cost that suppliers incur in finding theft. The reward mechanism means it pays a fixed amount to the supplier irrespective of the cost. There is also an issue that payments are only made to proven theft; investigations made in good faith that do not prove theft do not receive any payment. The average payment drops for each additional theft is found as the same money is spread over more detections, so creating a variable payment rate. We do not believe that the use of an escalator to ratchet up theft costs will address these fundamental issues with the TDV.	Thank you for your response. RECCo communicated the intention and rationale for application of the 20% escalator in their covering letter dated 15th January 2024. We appreciate your additional feedback which is valuable particularly in the context of wider and longer-term changes that are being considered to the Theft arrangements as part of the overall RECCo theft strategy.
E.ON on behalf of EON Next Energy Ltd and Npower Business Solutions Ltd Non-Confidential Energy Supplier	We support the principle of an escalator but we do not support applying changes to the TDV "within year". We, as many other organisations set our budgets annually and this would cause problems from a budgeting and accountancy perspective	Thank you for your response, we can confirm that a 'ratchet' mechanism within year will not be applied for the 2024/25 Reporting Year.
National Grid Electricity Distribution Non-Confidential Distribution Network Operator	Yes we agree with the proposed solution.	Thank you for your response.

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Drax Energy Solutions and Opus Energy Non-Confidential Supplier	We do not support this proposal as we've not seen any evidence that indicates it is warranted or that it will be effective. Altering the Theft Detection Value (TDV) should only be considered where evidence supports that this is the optimum solution for customers. We are not opposed to an evidence-based review of the TDV. This should be done in conjunction with a wider assessment of the theft arrangements, the target and other measures that can be employed. We also agree that the evidence needs to include costs for analytics, desktop reviews and the cost of unsuccessful investigations.	Thank you for your response. RECCo communicated the intention and rationale for application of the 20% escalator in their covering letter dated 15th January 2024. We appreciate your additional feedback which is valuable particularly in the context of wider and longer-term changes that are being considered to the Theft arrangements as part of the overall RECCo theft strategy.
ICoSS Non-Confidential Non-domestic Trade Body	No. We believe that the current TDV values do not reflect the true cost that suppliers incur in finding theft. The nature of the reward mechanism means it pays a fixed amount to the supplier irrespective of the cost. Also, payments are only made for proven theft; investigations made in good faith that do not prove theft do not receive any payment. Finally, the average payment drops for each additional theft that is found as the same money is spread over more detections, so creating a variable payment rate. We do not believe that the use of an escalator to ratchet up theft costs will address these fundamental issues with the TDV. Instead, an escalator will create a windfall payment to those suppliers who portfolios have a large level of theft, at the cost of	Thank you for your response. RECCo communicated the intention and rationale for application of the 20% escalator in their covering letter dated 15th January 2024. We appreciate your additional feedback which is valuable particularly in the context of wider and longer-term changes that are being considered to the Theft arrangements as part of the overall RECCo theft strategy.

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	those suppliers who have lower levels of theft (see our response to question 5 for more details).	

Question 2:	Do you support the proposal to escalate the TDV by 20% on 1 April 2024?	
RESPONDENT DETAILS	**RESPONSE**	**CODE MANAGER COMMENTS**
Brook Green Supply Non-Confidential Non-Domestic Supplier	No we don't agree with the concept of an escalator. We believe that a more appropriate methodology to determine the TDV value should be used.	Thank you for your response. RECCo communicated the intention and rationale for application of the 20% escalator in their covering letter dated 15th January 2024. We appreciate your comments regarding the need for further work to define the TDV and as noted in the consultation will be seeking to gather further information during the course of the next Reporting Year in respect of relevant supplier costs.
E.ON on behalf of EON Next Energy Ltd and Npower Business Solutions Ltd	We are not clear on the methodology used to arrive at 20%. This proposal makes the broad assumption that suppliers aren't already going to reasonable endeavours to detect, investigate and prevent theft. Raising the TDV will only incentivise the	Thank you for your response. We appreciate your feedback on reviewing theft targets and will share it with RECCo

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Non-Confidential Energy Supplier	suppliers that don't already investigate theft and potentially penalise those suppliers who are already making significant efforts and still not achieving their targets. It is the targets that should be reviewed. These have remained unchanged for over five years.	so it can be considered for the wider theft strategy and TDIS changes. RECCo communicated the intention and rationale for application of the 20% escalator in their covering letter dated 15th January 2024. The application of an escalator may help to tease out the real actual level at which the TDV should be set..
National Grid Electricity Distribution Non-Confidential Distribution Network Operator	Yes we agree.	Thank you for your response.
Drax Energy Solutions and Opus Energy Non-Confidential Supplier	No. In line with our response to question 1, we are opposed to the proposal as there is insufficient evidence that the increase in TDV is warranted or at an optimum level. A review of the TDV needs to be accompanied by a detailed and reasoned analysis for any potential increase. The proposed 20% increase is arbitrary. Notwithstanding that position, Suppliers would require more time to accommodate such a change within their internal processes and systems. Further points that should be noted: • There is no analysis that supports that Suppliers are not investing sufficient resource for theft detection activity.	RECCo communicated the intention and rationale for application of the 20% escalator in their covering letter dated 15th January 2024. The application of an escalator may help to tease out the real actual level at which the TDV should be set.. We appreciate your additional feedback which is valuable particularly in the context of wider and longer-term changes

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	• There has been no research or assessment as to the underlying propensity of theft within different customer segments. • The targets are broad approximations based on pre-Covid assumptions, and the current 40% theft detection success rate reflects not only the resource committed to theft detection but also the difficulty in detecting it. An example of where targets are particularly is theft in the I&C sector for which the targets are unrealistic given the lower propensity for theft in the I&C sector. If the TDV is to be ramped up by 20% and then, as suggested, increased further until levels of theft detection are greater, there is a risk that the TDV could rise significantly, adversely impacting those Suppliers with portfolios of customers with a lower propensity for theft. For example, based on the numbers of meters that we have installed over the past two years, we estimate that evidence of potential theft tampering is approximately one in one thousand meters in the I&C sector. This low rate is not due to a lack of effort or processes for investigating theft on our part, but rather, it is because large I&C businesses are extremely unlikely to engage in energy theft.	that are being considered to the Theft arrangements as part of the overall RECCo theft strategy.
ICoSS Non-Confidential Non-domestic Trade Body	No. Further to our response in question 2 we do not agree with the concept of an escalator. We believe that the increase by 20% is arbitrary and has not been justified. We believe that a more appropriate methodology to determine the TDDV value should be used, basing the energy costs on the current price cap.	Thank you for your response. RECCo communicated the intention and rationale for application of the 20% escalator in their covering letter dated 15th January 2024.

Question 2:	Do you support the proposal to escalate the TDV by 20% on 1 April 2024?	
RESPONDENT DETAILS	**RESPONSE**	**CODE MANAGER COMMENTS**
		We appreciate your comments regarding the need for further work to define the TDV and as noted in our responses to the earlier call for evidence will be seeking to gather further information during the course of the next Reporting Year in respect of relevant supplier costs

Question 3:	As referred to in the RECCo covering letter in relation to possible changes to Schedule 7, do you support changing the TDIS reporting period being changed from being annual to quarterly?	
RESPONDENT DETAILS	**RESPONSE**	**CODE MANAGER COMMENTS**
Brook Green Supply Non-Confidential Non-Domestic Supplier	N/A	N/A
E.ON on behalf of EON Next Energy Ltd and Npower Business Solutions Ltd Non-Confidential Energy Supplier	We support this change and do not envisage significant impacts for our organisation.	Thank you for your response.
National Grid Electricity Distribution	Yes we support the proposed.	Thank you for your response.

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Non-Confidential Distribution Network Operator		
Drax Energy Solutions and Opus Energy Non-Confidential Supplier	No. Although we appreciate that overall targets would not change, the costs and risk to Suppliers of administering theft detection activity quarterly would increase significantly. We would also expect REC costs, as funded by REC parties, to increase. This is exacerbated in our experience where we have multiple MPIDs and have previously been significantly over-invoiced on one MPID and under-invoiced on others, and with a similar situation for credits. Although the cumulative invoices and credits may be correct, this has involved considerable time in working with our internal Accounts Payable Teams to seek to correct allocation of costs to internal cost codes/budgets and liaising with REC Finance. For the avoidance of doubt, even if REC were able to resolve this MPID issue going forwards, to receive reconciliation invoices and credits four times a year, rather than once would increase costs, especially given the time it can take to receive credits following payment of invoices. There was also an unrelated error with the 2022/23 TDIS scheme for which REC needed to amend reconciliations across all Suppliers. This error would have been exacerbated under a quarterly arrangement. If, under a quarterly scheme, the TDV could be amended mid-year (e.g. on a 6-monthly basis) as has been proposed, that would increase the risk to Suppliers and complicate matters	Thank you for your response. We note your feedback, however we also believe there is merit in moving to a more frequent reconciliation process to facilitate timely change to the scheme parameters (with the current arrangements creating effectively a two-year cycle). This change is still being considered but will go through a Category 1 Change due to the necessary changes to the associated schedules where your comments can be further considered. We note a number of further pieces of feedback and suggestions you raise, which is valuable particularly in the context of wider and longer-term changes that are being considered to the Theft arrangements as part of the overall RECCo theft strategy.

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	further from a finance and budgeting perspective. If quarterly arrangements were introduced, there would need to be a quarterly true-up mechanism and annual reconciliation process. This would also need to take account of any alterations to the within-year targets, TDV values and variance in parties' customer base to ensure clear and accurate accounting and apportionment of the costs and incentive. More generally, theft detection is not a straightforward activity. The process of detecting, analysing, and confirming theft can span many months which is better suited to an annual reporting mechanism. We believe that any potential cash flow benefits and/or enhanced forecasting for Suppliers by limiting activity to a rolling quarterly basis would be far exceeded by the additional cost and complexity. As expressed by several Suppliers at the REC-hosted drop-in session of 22nd January '24, rather than parties focussing on how much money they may need to pay into or be credited by the scheme, we believe the focus should be on making theft detection activities as straightforward as possible. The proposed change to quarterly arrangements would increase the administrative burden on theft (and finance) teams, diverting resource away from core theft detection activity. If an already complex scheme were to be complicated further and made more costly for Suppliers to administer, there is a perverse	

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	risk that Suppliers become discouraged from investing time and effort into theft detection activity.	
ICoSS Non-Confidential Non-domestic Trade Body	We currently do not have a strong view on this proposal, but overall we support the move to a quarterly reporting cycle, though we are mindful however of the potential impacts some suppliers have raised We understand the rationale for shortening the time period to allow the TTM to be adjusted more rapidly in light of improved information and believe this outweighs the additional cost of increased administration. More widely we see the issues identified in this part of the covering letter as symptomatic of the weaknesses of the current theft regime. Suppliers should be incentivised to detect and deal with theft when found, not seek to outperform their peers by checking against their competitors' progress, one of the stated benefits of moving to a more regular reporting cycle. This indicates that a more thorough evaluation of the current process would be beneficial.	Thank you for your response. We appreciate your additional feedback which is valuable particularly in the context of wider and longer-term changes that are being considered to the Theft arrangements as part of the overall RECCo theft strategy.

Question 4:	Do you have any other comments on the proposed changes to the Theft Target Methodology?	
RESPONDENT DETAILS	**RESPONSE**	**CODE MANAGER COMMENTS**
Brook Green Supply Non-Confidential Non-Domestic Supplier	We do not believe that the change to supplier costs should be considered a Category 3 change. The clear intention of Category 3 change process at the set-up of the REC was to progress changes that would not significantly impact industry parties. The creation of an escalator with the intent to alter supplier behaviour should be progressed through the change proposal process.	Thank you for your response. The change proposed is to amend the value of a variable within the TTM rather to make a substantive change to the mechanics of the calculation itself, hence has been progressed as a Category 3 change..
E.ON on behalf of EON Next Energy Ltd and Npower Business Solutions Ltd Non-Confidential Energy Supplier	Regarding the segmentation of the Residential incentive pots into smart/non smart, whilst we agree that in theory a smart should be a deterrent for meter tampering, we don't agree with the assignation of an arbitrary target. The covering letter advises '*The Code Manager proposes that there will be no overall increase to the theft target for the domestic sector, but that the disaggregated theft targets would be weighted more heavily towards the non-Smart segment'* but there are no further details on this, and the attribution methodology in the Target theft methodology document is also silent on this What is the proposed weighting? Our recommendation would be instead that the Supplier theft file is amended to included smart/non smart so that analysis may be undertaken as to what weighting would be appropriate.	Thank you for your response. The TTM Options Paper that was part of the call for evidence for proposed TTM changes highlights the weightings to be applied. The overall domestic target was split based on a weighting of 0.6 for Smart meters and 1 for Non-Smart meters. Changes to the theft file specification were included as part of the PARC change proposed, change R0154, which includes a new 'Incentive Pot' field, and will therefore include capturing whether theft was on a Smart or Non-Smart meter based on the proposed incentive pot split.

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	REC should give consideration to whether the categorisation of the Target theft methodology as a category 3 document is appropriate. Whilst the changes outlined in this change proposal probably do not have '*any material impacts on REC Parties or stakeholders, therefore do not require progression through the full formal change process'* we think there is the potential for this and would recommend that this is kept under review, the full change process being utilised where there are significant impacts to parties.	Thank you for your comments regarding the category 3 change processes, we will consider this in respect of future changes within TDIS and as noted above other potential changes if progressed will follow the Category 1 process.
Drax Energy Solutions and Opus Energy Non-Confidential Supplier	This consultation has been issued with a very short lead time and with the Category 3 Change Proposal having a proposed implementation date of 9 February 2024, even though responses to the consultation are due by 5 February 2024. We are very concerned at the lack of visibility of these proposals and short implementation timescales for industry participants upon whom these changes may negatively impact. We would not regard these Category 3 changes as immaterial. Even with the additional proposed Change Proposal to amend REC Schedule 7, we would expect material changes like this Category 3 change to be subject to standard REC Change Proposal consultation and review and to be given a greater lead time for REC Parties to prepare for any system and process changes.	Thank you for your response. We would point to the preceding call for evidence and consultation exercise with industry that informed the development of the TTM changes. We understand the short lead time for the change can lead to a concern on lack of visibility and the impacts this may have. We appreciate your additional feedback which is valuable particularly in the context of wider and longer-term changes that are being considered to the Theft

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	The very short timescales proposed for changes appear to be a knee-jerk reaction to modify by April. As we have highlighted this is without sufficient evidence to merit the change and is likely to further complicate an already complex scheme. The theft target has been in place for many years but with no fundamental reassessment of the evidence base, the targets and ongoing assessment of the assumptions used for customer segments. We would support a comprehensive assessment and analysis of energy theft. This is required to re-assess what a realistic target is per sector rather than to increase the TDV indiscriminately as the only lever to increase levels of theft detection activity. With the roll out of smart metering and MHHS our expectation is that the glide path of theft levels is likely to fall over the medium term making the targets even less relevant and unachievable, dependent on the sector.	arrangements as part of the overall RECCo theft strategy.
ICoSS Non-Confidential Non-domestic Trade Body	We do not believe that the change to supplier costs should be considered a Category 3 change. The clear intention of Category 3 change process at the set-up of the REC was to progress changes that would not significantly impact industry parties. The creation of an escalator with the intent to alter supplier behaviour should be progressed through the change proposal process.	Thank you for your response. The change proposed is to amend the value of a variable within the TTM rather to make a substantive change to the mechanics of the calculation itself, hence has been progressed as a Category 3 change.

Question 5:	Do you have any other comments on the wider strategy set out in the RECCo covering letter?	
RESPONDENT DETAILS	**RESPONSE**	**CODE MANAGER COMMENTS**
Brook Green Supply Non-Confidential Non-Domestic Supplier	We support proposals to create separate targets for Industrial & Commercial customers and SME customers and believe this should continue to be explored. There is very little theft from Industrial & Commercial customers. Due to the way the TTM works, this makes it very difficult for Industrial & Commercial suppliers to meet any targets that are set. Whilst we understand the REC might struggle for data relating to Industrial & Commercial / SME, the separate targets could be set based on datasets which are more established like meter type e.g. AMR / non-AMR. We still have major concerns with TTM process overall, which include: • It assumes that theft rates are common across suppliers with no evidence to support this. They are not. As have been demonstrated by the information submitted by suppliers over many years, theft rates are variable between suppliers. • The nature of the reward mechanism deters active investigation which are complex and detailed as the amount paid is fixed irrespective of the cost.	We appreciate your additional feedback which is valuable particularly in the context of wider and longer-term changes that are being considered to the Theft arrangements as part of the overall RECCo theft strategy. .

Question 5:	Do you have any other comments on the wider strategy set out in the RECCo covering letter?	
RESPONDENT DETAILS	**RESPONSE**	**CODE MANAGER COMMENTS**
	• Payments are only made if a supplier fails to prove theft; investigations made in good faith that do not find theft do not receive any form of payment. • The average payment drops for each additional theft is found as the same money is spread over more detections, so reducing the incentive to find theft above a supplier's theft target	
E.ON on behalf of EON Next Energy Ltd and Npower Business Solutions Ltd Non-Confidential Energy Supplier	We would absolutely advocate further consideration being given to incentivising suppliers based on the activities undertaken rather than the outcome of that activity, acknowledging that this would need to be done carefully so that it could not be abused. REC also needs to be cognisant of work being undertaken in other areas and the potential negative impacts on the theft process, an example being the Change of Occupier work for non-domestic as this work would seem to not have considered implications on Theft.	We appreciate your additional feedback which is valuable particularly in the context of wider and longer-term changes that are being considered to the Theft arrangements as part of the overall RECCo theft strategy.
Drax Energy Solutions and Opus Energy Non-Confidential Supplier	Theft Detection Methodology is a complex area and for which, since transition from DCUSA and SPAA, REC have acknowledged that there are areas that could have been better administered and communicated. This has resulted in various amendments and clarifications from REC over a relatively short space of time. Therefore, we believe that further analysis is required before applying any further change at short notice, given the associated risk and complexity. As a separate observation,	We appreciate your additional feedback which is valuable particularly in the context of wider and longer-term changes that are being considered to the Theft arrangements as part of the overall RECCo theft strategy.

Question 5:	Do you have any other comments on the wider strategy set out in the RECCo covering letter?	
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	we cannot recall many instances where Distribution Network Operators (DNOs) or Metering Agents have advised us of suspected theft. REC Schedule 7 (Energy Theft Reduction) is also mandatory for DNOs. We suggest REC could potentially consider how improvements could be made in this area, rather than focussing solely on Suppliers. It was suggested at the REC-hosted drop-in session of 22nd January '24, that, although this would have a longer lead time, a robust centralised theft detection process with a single body detecting theft on behalf of industry may be more cost-effective than current arrangements. We believe it would be a far better use of time and resource to expedite this initiative than to make the arbitrary changes proposed to the theft methodology.	
ICoSS Non-Confidential Non-domestic Trade Body	The current TTM process is fundamentally flawed and needs to be replaced. • It assumes that theft rates are common across suppliers with no evidence to support this. They are not. As has been demonstrated by the information submitted by suppliers over many years, theft rates are variable between suppliers. New entrant domestic suppliers are likely to have higher than? average rates of theft as they tend to have more active customers who switch, whereas non-domestic suppliers can refuse supply to customers who fail credit checks and potentially reduce the amount of theft exposure in their portfolios. Suppliers cannot find theft that does not exist.	We appreciate your additional feedback which is valuable particularly in the context of wider and longer-term changes that are being considered to the Theft arrangements as part of the overall RECCo theft strategy.

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	• The nature of the reward mechanism deters active investigation which are complex and detailed as the amount paid is fixed irrespective of the cost. • Payments are only made if a supplier succeeds in proving theft; investigations made in good faith that do not find theft do not receive any form of payment. • The average payment drops for each additional theft is found as the same money is spread over more detections, so reducing the incentive to find theft above a supplier's theft target. • The process for reporting and confirming thefts is complex and time-limited, meaning that incentive payments may not be received for thefts legitimately detected. • The decision not to split the non-domestic incentive pots between I&C and SME/Microbusiness should be reviewed, as there is a great variation in theft risk between these sectors. We shall be looking to raise changes to seek to remove the disincentives from the current theft regime.	