REC Theft Target Methodology

12/01/2024

V2.1



RETAIL ENERGY CODE

Contents

Contents 2
Change History 3
Document Controls 3
Purpose 4
Summary 5
Context 9
Theft Target Methodology 10
Incentive pots 10
Theft Detection Value 12
Theft Targets 14
Attribution Methodology 16

CHANGE HISTORY

Version	Status	Issue Date	Author	Comments
1.0	FINAL	27/02/2023	Code Manager	Final Version for 2023/24 theft year
2.0	FINAL	12/12/2023	Code Manager	Initial Version for 2024/25 theft year
2.1	FINAL	12/01/2024	Code Manager	Iteration following RECCo cover letter

DOCUMENT CONTROLS

Reviewer	Role	Responsibility	Date
Andrew Waghorn	Performance Assurance Technology & Data Lead	Primary Review	08/12/2023
Walter Carlton	Performance Assurance Lead	Overall Review	11/12/2023, 12/01/2024

Purpose

This document sets out the process used by the REC Code Manager to determine individual supplier theft targets as part of the Theft Detection Incentive Scheme ("TDIS") as described in Schedule 7 – Energy Theft Reduction ("the Schedule"), referred to as the Theft Target Methodology ("TTM").

Following REC change R0091 – "Clarifications to the Theft Detection Incentive Scheme" responsibility for the TTM – that determines the level, distribution and value of targets and hence the overall size of the incentive pots – moved from the RECCo Board to the Code Manager. Reporting Year 2024/25 is the first year that this change applies to, with a transitional document created for the 2023/24 to act as the baseline.

Summary

The Theft Targets for TDIS Reporting Year 2024/25 will be calculated in line with the requirements of the Schedule based on the inputs below.
The changes made to Reporting Year 2024/25 are based on responses received from the industry following a call for evidence on initial analysis and change options published by the Code Manager and Supplier performance in the last Reporting Year.

Specifically the following parameters and methodology will apply:

<table>
<tr><th>Item</th><th>Description/Purpose</th><th>Data Used</th><th>Summary of Changes from 2023/24</th></tr>
<tr><td>Incentive Pots</td><td>Split the overall market into separate segments, each operating with an independent target, theft detection value and calculation of end of TDIS Reporting Year credits/debits.</td><td>6 pots have been utilised:
Electricity Domestic
Smart
Non-Smart
Electricity Non-Domestic
Gas Domestic
Smart
Non-Smart
Gas Non-Domestic</td><td>Additional Meter Type splits of Smart and Non-Smart meters[1] for Domestic customer segment.</td></tr>
<tr><td>Theft Detection Value</td><td>The estimated net cost to an Energy Supplier of having undertaken activity to detect the theft compared to not taking action which in combination with the target sets the value of each incentive pot.</td><td><table><tr><th>Fuel</th><th>Segment</th><th>Theft Detection Value (£)</th></tr><tr><td>Elec</td><td>Domestic</td><td>£472.40</td></tr><tr><td>Elec</td><td>Non-Domestic</td><td>£1,469.15</td></tr><tr><td>Gas</td><td>Domestic</td><td>£1,253.45</td></tr><tr><td>Gas</td><td>Non-Domestic</td><td>£2,168.48</td></tr></table></td><td>The TDV for Fuel Type and Customer Segment are not being split by Meter Type (Smart/Non-Smart). Therefore the same TDVs for Electricity Domestic and Gas Domestic will apply for their respective Smart and Non-Smart split pots i.e. £472.40 and £1,253.45 respectively.

These have been adjusted for escalator mechanism and inflation using October 2023 CPI figure published by the Office for National Statistics for illustrative purposes. Once published by the ONS</td></tr>
</table>

[1] This is subject to the availability of appropriate data from EES and GES to allow additional splits of Smart and Non-Smart (by Party or MPID / Short Code). This data is currently available from EES and we are awaiting confirmation of data provision from GES.

<table>
<tr><th>Item</th><th>Description/Purpose</th><th>Data Used</th><th>Summary of Changes from 2023/24</th></tr>
<tr><td></td><td></td><td></td><td>the December CPI figure will be used for the final TTM.</td></tr>
<tr><td>Target</td><td>The number of confirmed thefts targeted to be detected for each pot which in combination with the Theft Detection Value sets the value of each incentive pot.</td><td><table>
<tr><th>Fuel</th><th>Segment</th><th>Meter Type</th><th>Overall Theft Target</th></tr>
<tr><td>Elec</td><td>Domestic</td><td>Smart</td><td>12,398</td></tr>
<tr><td>Elec</td><td>Domestic</td><td>Non-Smart</td><td>17,602</td></tr>
<tr><td>Elec</td><td>Non-Domestic</td><td>-</td><td>4,000</td></tr>
<tr><td>Gas</td><td>Domestic</td><td>Smart</td><td>2,162</td></tr>
<tr><td>Gas</td><td>Domestic</td><td>Non-Smart</td><td>2,948</td></tr>
<tr><td>Gas</td><td>Non-Domestic</td><td>-</td><td>1,890</td></tr>
</table></td><td>Addition of Smart and Non-Smart meter type targets within Domestic customer segment.

Application of weighting to the Domestic targets to focus target on traditional metering.</td></tr>
<tr><td>Attribution methodology</td><td>Determines how targets are allocated to individual Energy Suppliers within each incentive pot.</td><td>Targets are allocated based on market share, derived from the December 2023 number of registered meter points as reported from CSS, combined with data from EES and GES to allow additional splits between Smart/Non-Smart as per the incentive pots above.

Data from CSS will be adjusted to reallocate any meter points reported as domestic where an Energy</td><td>Addition of data used to split pots between Smart/Non-Smart incentive pots.</td></tr>
</table>

Item	Description/Purpose	Data Used	Summary of Changes from 2023/24
		Supplier has a Non-Domestic-only licence. The final target allocated per Energy Supplier is rounded down to the nearest whole number (including zero).	

Context

As part of Schedule 7 and Standard Licence Conditions, Energy Suppliers are required to take actions to seek to reduce theft of energy by identifying and addressing individual cases of Energy Theft. To support this activity the Theft Detection Incentive Scheme ("TDIS") has operated for a number of years, previously under the governance of DCUSA and SPAA and now under REC governance. To date the scheme has largely operated on the same basis under REC as the legacy arrangements and industry performance under TDIS both under the legacy and REC governance has been below the targeted levels. Since the previous publication of the TTM for reporting year 2023/24, RECCo have commissioned the production of the Theft Estimation Methodology (TEM) which indicates theft remains an issue in the industry with an estimated annual impact of between £0.8bn to £1.4bn (based on Dec 2022 prices) potentially adding up to on average an extra £50 per annum to consumer bills.

As per the requirements within the Schedule the TTM requires consideration of a number of inputs:

- The number and definition of **incentive pots** – i.e. how the supply market is split into consumer segments, each pot then operating independently for the purposes of target setting and subsequent calculation of end of TDIS Reporting Year credits/debits.
- The **Theft Detection Value** – defined in the Schedule as an estimated value based on the likely net cost to an Energy Supplier of having undertaken activity to detect the theft, as compared with having taken no action.
- The specific **target** for theft identification that is targeted for each incentive pot in the TDIS Reporting Year.
- An **attribution methodology** to allocate the target for each incentive pot to the relevant Energy Suppliers for that pot, which the Schedule identifies should be based on market share.

The remainder of this paper sets out the basis of the determination of each of the above inputs.

Theft Target Methodology

INCENTIVE POTS

The Schedule sets out explicitly that incentive pots should be split between gas and electricity fuel types, and Domestic and Non-Domestic customer segments, resulting in four incentive pots. Annex 3 of Schedule 7 states targeted incentive pots are established for each of the consumer segments identified in the TTM, requiring at a minimum a split between gas and electricity and domestic consumers and Non-Domestic consumers.

Based on responses received from industry following a call for evidence from the Code Manager on TTM Reporting Year 24/25 change options and Supplier performance in the last Reporting Year, this will be the first year a change is introduced to the incentive pots.

The change options consultation identified 62% of respondents agreed to a split between meter types for Domestic, whilst also requesting guidance be provided on how targets would be expected to be met in those pots. Respondents believe a Smart meter itself should be a deterrent for meter tampering and that sites with Smart meters would have been visited more recently and any tampered meters would have been replaced.

Opinions were mixed from respondents on the Non-Domestic customer type split. In addition, there is currently limited evidence on which to derive this split based on available industry data points. Based on the feedback provided we support the principle to split the Non-Domestic customer type between I&C and SME customers. However with limited feedback to support options to derive this split based on available industry data points, the existing work on Non-Domestic thresholds undertaken by Ofgem[2] and the relative size of the split pots verses the administration burden of investigation, we are not splitting the Non-Domestic customer type between I&C and SME customers at this time. We understand that DESNZ will be consulting on their work to define the threshold for SME and I&C and said consultation will be published soon. We will continue to engage with Ofgem and DESNZ on their work to define Non-Domestic thresholds to gain a better understanding on how to apply the split. We will perform further analysis in the coming year on the split of SME and I&C pots as more data becomes available.

Given the above, for the purposes of 2024/25 Theft Targets six segments will be used:

- Electricity Domestic Smart
- Electricity Domestic Non-Smart

[2] Ofgem: Non-Domestic market review

- Electricity Non-Domestic
- Gas Domestic Smart
- Gas Domestic Non-Smart
- Gas Non-Domestic

The split of Domestic meters between Smart and Non-Smart categories allows adjustment of the target (as outlined on page 14) between the Smart and Non-Smart sub-populations of meters based on the principle that the level of theft is expected to be lower for Smart meter customers. There is no fundamental change to the approaches to the detection of theft, where we would expect suppliers already differentiate between meter type – for example considering use of tamper alerts from Smart meters which are not available for Non-Smart meters.

The data used to determine meter points as Domestic or Non-Domestic will be based on classification reported from CSS based on the domestic premises indicator (see **attribution methodology below).** The Domestic meter type split is determined based on “Meter Type” and “Smart Meter Indicator” fields taken from EES and GES datasets[3].
Note that given the need to use data from two separate sources which cannot be matched at a meter point level, the data from EES/GES used to split the overall Domestic/Non-Domestic populations will be applied through calculating a per-MPID ratio as described on page 16.

[3] This is subject to the availability of appropriate data from EES and GES to allow additional splits of Smart and Non-Smart (by Party or MPID / Short Code). This data is currently available from EES and we are awaiting confirmation of data provision from GES.

THEFT DETECTION VALUE

Results from the TTM Reporting Year 24/25 change options consultation showed there is general agreement among respondents that there is a need to update the evidence base for the setting of the Theft Detection Value (TDV). However, there was insufficient evidence provided (both via direct response or anonymously) to warrant amending the TDV beyond an inflation adjustment.

Diverse comments were received on specific points of detail and policy considerations regarding the differentiation of TDVs between pots and which costs should be considered. Some respondents stated there are different operating costs involved in investigating different types of theft investigations, while others believe overall costs are essentially the same for all investigations. The limited monetary information received regarding costs suggest they may not be materially out of line with the current TDV.

We note that whilst the information provided to support the TDV assessment was insufficient to support more significant change in TDV determination it did demonstrate that suppliers incur significant costs (of a similar level to the current overall scheme pot size) in investigating thefts.

As explained in their covering letter, following Ofgem's open letter in December 2023 reminding Suppliers of the importance of theft reduction and their responsibilities under the supply licence, RECCo consider it appropriate to introduce an escalator mechanism to be applied to the TDV to provide an increased economic incentive to detect theft. They have accordingly requested the Code Manager to apply a 20% increase above inflation to each TDV which will be used in the determination of incentive pot sizes for the 2024/25 Theft Year. In the absence of further evidence and RECCo's request, the Theft Detection Values for the 2024/25 TDIS Reporting Year will therefore be set based on the 2023/24 values adjusted for inflation using the 12 month CPI value published by the Office for National Statistics[4] and a 20% escalator mechanism increase. For the avoidance of doubt, TDV will still remain different for fuel type (Electricity and Gas) and customer segments (Domestic and Non-Domestic) but remain the same for Meter Type pots (Smart and Non-Smart) within each fuel type. We remain of the view that there remains a need to build up a more substantial evidence base to confirm or update TDV values and will therefore seek to gather data over the course of 2024 to support this given the limited data that has been obtained from the call for evidence.

The TDV for Fuel Type and Customer Segment are not modified by Meter Type (Smart/Non-Smart). Therefore the same TDVs for Electricity Domestic and Gas Domestic will apply for their respective Smart and Non-Smart pots i.e. £472.40 and £1,253.45 respectively.

The values used therefore are as follows:

[4] Consumer price inflation tables (Office for National Statistics)

Fuel	Segment	Theft Detection Value (£)
Elec	Domestic	£472.40
Elec	Non-Domestic	£1,469.15
Gas	Domestic	£1,253.45
Gas	Non-Domestic	£2,168.48

Adjusted for inflation and escalator mechanism (using the October 2023 CPI figure published by the Office for National Statistics for illustrative purposes; the December CPI figure, once published by the ONS, will be used for the final TTM).

THEFT TARGETS

Results from the TTM Reporting Year 24/25 change options consultation showed there was broadly consistent feedback that parties were keen to reduce the total Theft Target to be in line with historic performance achieved. The feedback given was that targets were considered to be unrealistically high, with the targets having never been reached at either an industry or Supplier level.

Although we understand the rationale behind this suggestion it is important to consider the purpose of the target and also the implications of lowering the target on the scheme operation. Under the current TDIS design the targets (in combination with the Theft Detection Value) determine the overall pot value and hence any material change to the targets would impact the overall pot available (assuming no change in Theft Detection Value). Performance against target does not directly impact the calculation of credits/debits by parties – rather this is based on performance of suppliers relative to others in the same segment. The target indicates the level of performance that would be required for a neutral position under the scheme should the overall segment target be met. Therefore a reduction in the Total Target without a proportionate increase in the TDV would result in a smaller Incentive Pot Value and therefore lower Debit and Credit Payments.

We believe the summarised points on insufficient information on which to inform a change to the TDV set out in the previous section also apply to any decision to change the theft target and hence total scheme value.

When considering responses from other questions based on Domestic splitting involving Smart meters, including that a Smart meter itself should be a deterrent for meter tampering and that sites with Smart meters would have been visited more recently with any tampered meters having been replaced, we will be applying the proposed weighting to the targets when splitting the Domestic pot which will therefore weight targets towards Non-Smart meters. This is based on the principle that the level of theft is expected to be lower for Smart meter customers.

We will therefore retain the overall target as is and will be applying the proposed weighting from the consultation to the targets when splitting the Domestic pot which will therefore weight targets towards Non-Smart meters.

Taking this into account the targets for the 2024/25 TDIS Reporting Year will continue to be based on the number of confirmed thefts and will be applying the proposed weighting from the consultation to the targets which will therefore weight targets towards Non-Smart meters, thus continuing to operate at the same level as in the prior year, namely:

Fuel	Segment	Meter Type	Overall Theft Target
Elec	Domestic	Smart	12,398
Elec	Domestic	Non-Smart	17,602
Elec	Non-Domestic	-	4,000
Gas	Domestic	Smart	2,162
Gas	Domestic	Non-Smart	2,948
Gas	Non-Domestic	-	1,890

ATTRIBUTION METHODOLOGY

As per the requirements of the Schedule, targets for each customer segment are allocated to Energy Suppliers based on their market share for that segment. The specific process is as follows:

1. Obtain market share data (specifically number of registered meter points by MPID / Short Code and Domestic/Non-Domestic segment) from CSS (note this is the same data as used for RECCo invoicing). The dataset produced from December 2023 will be utilised as the most current dataset available at the time of determining theft targets.
2. Obtain market share data (specifically number of registered meter points by MPID / Short Code and Smart/Non-Smart meter types) from EES and GES. The dataset produced from December 2023 will be utilised to be consistent with the CSS data used as per step 1.
3. Map data from step (1) to a REC Party level using the REC Party Register.
4. Obtain latest licence type per REC Party published by Ofgem.
5. If a Party has a Non-Domestic-only licence but has a non-zero number of supply points reported as being in the Domestic consumer segment add this number of supply points to the Non-Domestic number of supply points for the Party and set the Domestic total to 0.
6. Using the data from step (2) calculate the proportion of Smart/Non-Smart meters by MPID / Short Code. For Electricity data this will be limited to Profile Class 1 & 2 MPANs only.
7. Combine the ratio calculated in step (6) and the adjusted Domestic/Non-Domestic data from step (5) and calculate a split of the adjusted registered Domestic meter points between Smart and Non-Smart by applying the ratio to the adjusted Domestic market share.
8. Aggregate data from step (7) to determine number of registered meter points per REC Party split by each incentive pot and use to determine the market share percentage in each incentive pot.
9. Calculate the Party target by applying the relevant market share percentage calculated in step 8 to the total incentive pot target.
10. Round the target down to the nearest whole number less than or equal to the target calculated in step 9 (NB: targets are always rounded **down,** including to a target of zero).

Note: The split between Domestic and Non-Domestic sites applied at step (1) is based on the data provided from CSS which utilises the Domestic Premise Indicator (DPI). We are currently investigating data quality issues in the population of this data item and it is likely that some data cleanse activity may be required to be undertaken by Suppliers. Dependent on the extent of the issues identified it may be necessary to apply a one-off adjustment for the purposes of the 2024/25 Theft Year determination of the split of market share between Domestic and Non-Domestic sites and if necessary this will be progressed as a separate derogation request to provide suitable governance and audit trail.



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