REC Theft Target Methodology Options paper survey response summary

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RETAIL ENERGY CODE

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The Code Manager conducted a survey on options for potential changes to the TTM in Autumn 2023, with responses invited between 25th September 2023 and 27th October 2023. Responses were received from 13 organisations, including five from organisations that only operate in the Non-Domestic market, including a collective response from the I&C Shippers and Suppliers Group (ICoSS). The purpose of the survey was both to gather feedback on the proposed options and act as a call for evidence to support the determination of specific aspects of the potential changes. A summary of the responses received is provided below as context for the changes that have been included in the TTM for the 2024/25 Theft Year.

INCENTIVE POTS

Responses to the proposed changes to split the Targets into further pots based on meter type and/or customer type showed no clear consensus.

On the question of splitting the Domestic pot by Meter Type to include Traditional Prepayment, Traditional Credit and Smart/AMR, of the responses received 62% agreed a split between meter types for Domestic was beneficial, though requested that guidance be provided on how targets would be expected to be met in those pots. Some respondents provided insights based on their own experiences in that most theft occurs in the Domestic Prepayment Market and the difficulty in identifying theft for traditional credit meters. Respondents believed 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.

Based on the feedback provided we have included a split of the Domestic pot between Smart and Non-Smart meters but not a further split of the Non-Smart population between credit and prepayment meters. We have applied the proposed weighting to targets such that the overall Domestic theft target is biased towards Non-Smart meters.

On the question of splitting the Non-Domestic pot to include Domestic-type customers, SME and I&C, opinions were mixed from respondents. Some respondents agreed with the desire to split, but did not believe it is realistic to differentiate SME and I&C customers with any accuracy based on available industry data points. Others did not agree with the split, taking issue with the proposed methodology for the split, the complexity of theft reporting and invoicing, and the administrative burden.

We asked the question on what data and rules do you believe should be used to split the Non-Domestic pot between SME and I&C. Some respondents suggested using data provided within EES and GES, while others proposed using criteria such as meter type, profile class, annual energy consumption, or customer base/market share. However there was no consensus on a set of rules as

some respondents have concerns about the clarity and consistency of the definitions used across the industry.

A question was asked for a further split of the Non-Domestic incentive pot SME by Meter Type to include Smart/AMR and Traditional. Responses were mixed where some respondents who partially agree have some reservation on overcomplicating the split and not gaining much benefit from it. Others did not agree based on the view that industry will effectively be penalised for the separation of meters as theft based on Smart meters was a low percentage of their portfolio.

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[1] 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 is expected to be published in early 2024. 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.

THEFT DETECTION VALUE

There was 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) regarding costs. 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 cost involved in investigating different types of theft investigations, while others believe overall costs are the same for all investigations. The limited information received regarding costs was not materially out of line with the current values.

Respondents disagreed on the proposed new incentive pots each having a different TDV, stating that each proposed incentive pot would not have a largely different TDV based on the net cost of investigating theft.

While all respondents agreed that theft investigation activities are undertaken and summarised said activities, limited cost information was provided to support the responses.

As a result we intend to continue the approach of adjusting the existing TDV values based on inflation and will engage further with industry participants including via Energy Theft Reduction Expert Group

[1] Ofgem: Non-Domestic market review

(ETREG) over the next twelve months to try to gather further evidence to either support the current level of TDV or have a sufficient and consistent fact-base to adjust the value further.

THEFT TARGETS

Few respondents agreed with retaining targets at 41,000; those who agreed believed that it represents a reasonable percentage of the estimated number of thefts in the industry. Many others who disagreed state that the targets have never been met and not been reviewed to make them more realistic.

Responses were mixed for the question on whether targets should be set based on the best available estimate of the relative amounts of theft in each incentive pot or should be adjusted to incentivise currently under-investigated/detected theft. Some respondents suggest that the best available estimate approach may be the most appropriate method for setting targets, with regular review to ensure that it is working as expected and that targets can be met. Others suggest that targets should be set using the information available to the industry through previous reporting.

Many respondents agreed that using market share to allocate targets is a sensible approach to take, however those that did agree stated they require further information on how the weightings to adjust the targets would be applied.

The question on applying a weighting to the Domestic pot split between traditional prepayment meters, traditional credit meters and smart meters had mixed responses. One agreeing respondent suggests that if the weighting is calculated by supplier customer base, then it would be fair. Another respondent suggests that they do not agree with the proposed weightings as the rationale and justification for the weightings are not expanded upon, and there needs to be more investigation on how much effort and cost is involved by suppliers to investigate the other meter types. Some respondents suggest that they need more information on the rationale and logic for the weighting to evaluate the proposal.

The majority of respondents provided mixed responses on applying a weighting to the Non-Domestic pot split between domestic-type customers, SME and I&C and asked for additional information on the rationale and logic for the weighting to evaluate the proposal.

From reviewing the above responses, although we understand the rationale behind the suggestions of reducing targets, 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.

In addition when considering responses from other questions based on Domestic splitting involving Smart meters, particularly that include 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, 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. 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.



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