REC Theft Target Methodology

20/11/2025

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RETAIL ENERGY CODE

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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
2.2	FINAL	09/02/2024	Code Manager	Iteration following conclusion of Category 3 Change Process and December 2023 CPI figures becoming available.
3.0	DRAFT	10/12/2024	Code Manager	Initial version for 2025/26 Theft Year, for PAB Review and Category 3 Consultation
3.1	FINAL	20/02/2025	Code Manager	As published following Category 3 Consultation, with TDV and Target data updated to reflect final input data available (inflation and latest split of metering data).
4.0	DRAFT	20/11/2025	Code Manager	Initial version for 2025/26 Theft Year, for Category 3 Consultation

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DOCUMENT CONTROLS

Reviewer	Role	Responsibility	Date
Andrew Waghorn	Performance Assurance Technology & Data Lead	Primary Review	
Walter Carlton	Performance Assurance Lead	Overall Review	

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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.

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Summary

The Theft Targets for TDIS Reporting Year 2026/27 will be calculated in line with the requirements of the Schedule based on the inputs below.

Limited changes have been introduced for the 2026/27 year given the implementation of REC Change R0173 / R0259 was only implemented half-way through the 2025/26 Scheme Year and hence time is required to allow the impact of these changes to be measured before further changes are warranted. Changes are limited to including the parameters required by R0173 on a go-forward basis and making updates to relevant parameters based on the latest available market and inflation data.

Specifically, the following parameters and methodology will apply:

Item	Description/Purpose	Data Used	Summary of Changes from 2025/26
Incentive Pots	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.	6 pots have been utilised: ▪ Electricity Domestic ◆ Smart ◆ Non-Smart ▪ Electricity Non-Domestic ▪ Gas Domestic ◆ Smart ◆ Non-Smart ▪ Gas Non-Domestic	No change in the number or definition of segments although as noted later the split between smart and non-smart pots will be updated based on current market data.

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<table>
<tr><th>Item</th><th>Description/Purpose</th><th>Data Used</th><th>Summary of Changes from 2025/26</th></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>£499.22</td></tr>
<tr><td>Elec</td><td>Non-Domestic</td><td>£1,552.57</td></tr>
<tr><td>Gas</td><td>Domestic</td><td>£1,324.64</td></tr>
<tr><td>Gas</td><td>Non-Domestic</td><td>£4,583.22</td></tr>
</table>
</td><td>All values are adjusted for inflation – using the December 2025 CPI figure published by the Office for National Statistics. Note: for the purposes of the draft TTM for Category 3 Consultation the latest available data (October 2025) has been used to provide an indicative value.
As in the 2025/26 Theft Year the TDVs for domestic customers 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., £499.22 and £1,324.64 respectively.</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>17,187</td></tr>
<tr><td>Elec</td><td>Domestic</td><td>Non-Smart</td><td>12,813</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>2,848</td></tr>
<tr><td>Gas</td><td>Domestic</td><td>Non-Smart</td><td>3,207</td></tr>
<tr><td>Gas</td><td>Non-Domestic</td><td>-</td><td>945</td></tr>
</table>
</td><td>The allocation of the domestic targets has been updated to reflect the current split of Smart/Non-Smart meters within the domestic segment based on the portfolio data used for party attribution (see below).</td></tr>
<tr><td>Attribution methodology</td><td>Determines how targets are allocated to individual Energy Suppliers within each incentive pot.</td><td>Targets will be allocated based on market share, derived from the December 2025 number of registered meter points as reported from CSS,</td><td>The previous derogation which allowed Suppliers to submit adjustments to the spit of their portfolio between domestic /</td></tr>
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Item	Description/Purpose	Data Used	Summary of Changes from 2025/26
		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 Supplier has a Non-Domestic-only licence. The final target allocated per Energy Supplier is rounded down to the nearest whole number (including zero).	non-domestic customer segments has not been extended, as DPI data is now visible within the enquiry services and hence Suppliers can take action to correct data prior to the end of December snapshot date. It is essential for Suppliers to take this action themselves where necessary as the previous derogation is no longer available to them for correction of the split.

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Due to known data quality issues with the Domestic Premises Indicator (DPI) within CSS, Suppliers were provided with an opportunity in January 2025 to notify the Code Manager of the need to adjust the split of their portfolio between domestic and non-domestic customers (but with no change to the overall number in their portfolio).

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. The Theft Estimation Methodology was last published in early 2023 and whilst the absolute financial value of energy theft has reduced from the estimate made in that report given reducing energy prices, it still represents a significant cost to consumers as well as presenting safety risks.

During 2025/26 REC Change R0173 was implemented that introduces changes to the scheme, in particular introducing incentive credits/debits for certain investigation activity. Following implementation of this change additional parameters to support the new calculations are included within the TDV section.

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Although the scheme has largely operated on the same basis as the legacy arrangements, it is anticipated that REC Change R0173 will introduce changes to the scheme

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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 changes introduced by R0173 also require multipliers to be established for the incentive payments related to Completed but Unconfirmed Thefts.
- 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.

In the 2024/25 Theft Year a split of the domestic pot was introduced between Smart and Non-Smart Meters. Based on data reported by Parties through the 2024/25 Scheme Year and 2025/26 Scheme year to date we can see differential performance in the reporting of thefts between the smart and non-smart pots which suggests that this change was valid.

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Retaining the split of the domestic segment allows the targets to be set differently for the different meter types and hence supplier targets to reflect differing levels of smart/non-smart meter portfolios. It is therefore proposed to retain split incentive pots for domestic customers.

The Code Manager previously explored the option to allow split the non-domestic segment between SME and I&C customer types. Whilst we believe there remains merit for this split a clear definition that can be reliably determined from central industry data does not exist and hence at this stage no change is proposed.

Given the above, for the purposes of 2025/26 Theft Targets six segments will be used:

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

The data used to determine meter points as Domestic or Non-Domestic will continue to 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.

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 13.

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THEFT DETECTION VALUE

In previous years calls for evidence have been run to obtain information regarding costs incurred by Suppliers to investigate thefts in order to support validation or revision of the TDV values. Limited responses were provided for both the 2024/25 and 2025/26 calls for evidence, with the limited information provided in the 2025/26 exercise suggesting that the magnitude of the TDV was consistent with supplier costs (with some adjustment made in 2025/26 to the Gas non-domestic TDV).

Based on this, the Theft Detection Values for the 2026/27 TDIS Reporting Year will therefore be set based on the 2025/26 values, adjusted for inflation using the 12 month CPI value published by the Office for National Statistics[3].

Values, calculated using the December 2025 CPI figure published by the Office for National Statistics will therefore be as follows: NOTE: the below figures have been calculated based on the latest current available CPI data (October 2025) for illustrative purposes of the draft produced for the Category 3 Consultation.

Fuel	Segment	Theft Detection Value (£)
Elec	Domestic	£499.22
Elec	Non-Domestic	£1,552.57
Gas	Domestic	£1,324.64
Gas	Non-Domestic	£4,583.22

COMPLETED BUT UNCONFIRMED TDV MULTIPLIERS

Incentive payments (and associated cost socialisation) are based on a percentage applied to the relevant incentive pot TDV values (as above) depending on the type of Completed but Unconfirmed Theft Investigation – as set out in paragraph 4.2 of Annex 3 of Schedule 7 (Energy Theft Reduction). These were set based on input from the Theft Issues Group as part of the development of R0173. As this change was only implemented effective 1 October 2025 there is very limited available data on the impact of the change and hence for the 2026/27 Theft Year these values will remain unchanged as follows:

TDV Multiplier	Value
Desktop Investigation (MD)	20%
Site Visit (MS)	50%

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

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¶
As part of the response to the call for evidence suppliers provided details on their costs (in some cases broken down by segment and/or broad spend categories of Lead Generation, Desktop Investigation, Site Visits and Other costs). Each respondent also provided details on the number of desktop investigations, site visits and confirmed thefts reported that the costs related to.¶
¶
To protect the commercial confidentiality of the data provided and given the limited breakdowns provided by some Parties only a limited amount of information from the call for evidence has been included in this document.¶
OVERALL LEVEL OF TDV¶
Given the level of analysis possible we initially considered the overall level of the TDV – i.e. across the scheme as a whole rather than at the individual pot ...

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THEFT TARGETS

OVERALL TARGETS

Theft targets for 2025/26 were set informed by the outcome of the Theft Estimation Methodology. This has not been updated since the 2024/25 TTM was produced, however levels of confirmed thefts continue to increase (likely due at least in part to increased efforts by parties) – i.e. there is no evidence that suggests a significant downward shift in the level of theft since the last TEM update.

The outcome of the 2024/25 Theft Year by segment was as follows:

Fuel Type	Customer Segment	Meter Type	Assigned Target 24/25[4]	% of Target Achieved
Electricity	Domestic	Smart	12,385	42%
Electricity	Domestic	Non-Smart	17,591	62%
Electricity	Non Domestic		3,975	66%
Gas	Domestic	Smart	2,154	45%
Gas	Domestic	Non-Smart	2,941	106%
Gas	Non Domestic		1,868	25%

Overall this represents an improvement on the prior year (overall target achieved of 57% in 2024/25 compared to 53% in 2023/24) and year-to-date performance for 2025/26 indicates a consistent level of identification of confirmed thefts. Note that based on the 2024/25 Theft Year Performance the 2025/26 Target allocations had already been adjusted to reduce the targets for the gas non-domestic segment and make a corresponding increase to the domestic segment and this has been carried forward into the proposed targets below.

WEIGHTING FOR DOMESTIC METER TYPE SEGMENTS

For 2024/25 and 2025/26 target setting a weighting was applied to weight the target towards non-smart meters, which was based on the principle that the level of theft was expected to be lower for Smart meter customers.

Results from 2024/25 data suggest that this principle is borne out in the data, with 68% of electricity domestic thefts and 76% of gas domestic thefts relating to non-smart meters. Based on these results for 2025/26 the weighting applied to Smart Meters when allocating targets was set to 0.5 for the gas domestic segments and the prior weighting of 0.6 was applied for electricity smart meters (i.e. all

[4] Sum of individual party targets, i.e. allowing for rounding as per the allocation rules

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As noted in the Theft Detection Value section above, we propose to significantly increase the gas non-domestic TDV value. In order to maintain a consistent pot size and avoid this change merely significantly rewarding a small number of suppliers already significantly outperforming peers we proposed to reduce the gas ...
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other things being equal a smart meter is 50% as likely to have confirmed theft as a smart meter for gas domestic customers and is 60% as likely to have confirmed theft for electricity domestic customers). Initial data from 2025/26 is broadly consistent with these results and hence no further change in weighting is proposed.

OUTCOME

Taking into account the above changes, targets for the 2025/27 TDIS Reporting Year will continue to be based on the number of confirmed thefts and will be based on applying a weighting from to the targets for domestic meters which will weight targets towards Non-Smart meters.

The Theft Target to be applied by segment will be based on the split of Smart/Non-Smart Meters within the Market taken from the GES and EES extracts as at the same snapshot date as the portfolio data used for target allocation (i.e. 31 December 2025) as per the Attribution Methodology set out below. The indicative target by segment based on market data as at 31 October is set out below, and will be updated for the final version of this document following the consultation:

Fuel	Segment	Meter Type	Overall Theft Target
Elec	Domestic	Smart	17,187
Elec	Domestic	Non-Smart	12,813
Elec	Non-Domestic	-	4,000
Gas	Domestic	Smart	2,848
Gas	Domestic	Non-Smart	3,207
Gas	Non-Domestic	-	945

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¶
Given this is based on only the first six months of operation of this new segmentation, and that the approach to targets may influence supplier behaviour to an extent, a material change in weighting is not proposed. However reflecting the significantly more skewed results in the gas domestic segment an adjustment to the weighting to 0.5 for smart meters is proposed – i.e. all other things being equal a non-smart meter is twice as likely to have confirmed theft as a smart meter.¶

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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. Note that previous use of a derogation to allow for adjustments for known DPI data quality issues no longer apply:

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 2025 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 most recent dataset available to December 2024 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).

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To find out more please contact:
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RETAIL ENERGY CODE