RETAIL ENERGY CODE

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01	Proposal Plan
02	Impact Assessment
03	**Consultation**
04	Final Recommendation

CHANGE REPORT

R0173 – IMPROVEMENTS TO THE THEFT DETECTION INCENTIVE SCHEME (TDIS)

DOCUMENT VERSION	V1.0
PROPOSED IMPLEMENTATION DATE	01/04/2025
IMPLEMENTATION APPROACH	BIG BANG

RESPONSIBLE COMMITTEE	CHANGE PANEL	**CHANGE PATH**	AUTHORITY DETERMINED
PRIORITY STATUS	CRITICAL	**URGENCY**	STANDARD
IMPACTED STAKEHOLDERS	ENERGY SUPPLIERS, THE CODE MANAGER, CONSUMERS		

LEAD ANALYST	ASSURANCE LEAD (SOLUTION LEAD)	SUBJECT MATTER EXPERT
ELISE HANDY	ANDREW WAGHORN	ANNE JACKSON
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OVERVIEW

This Change proposes that not only Confirmed Energy Thefts are incentivised within the Theft Detection Incentive Scheme (TDIS) but also Energy Theft Desktop and Site Visit Investigations.

CODE MANAGER MINDED TO POSITION

The Code Manager's minded to position is that the Change Panel recommends that the Authority:

- **APPROVE** the proposed change solution;
- **APPROVE** the proposed implementation approach; and
- **APPROVE** the proposed implementation date of 01 April 2025.

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BACKGROUND

1 SUMMARY

The Theft Detection Incentive Scheme (TDIS) exists to incentivise Suppliers to resolve Energy Theft however, as noted in the Ofgem letter dated 14 November 2023, Suppliers' overall performance has been around 40% of their targets.

While several incremental improvements have been made to the TDIS, the key design principles are unaltered from those developed around a decade ago, which were based on the output of Ofgem's review of Energy Theft arrangements. In particular, the scheme rewards only the discovery of Confirmed Energy Thefts, and to a value determined in part by the Suppliers performance relative to their competitors. Based upon reported Confirmed Energy Thefts, the scheme has not been wholly effective in incentivising all Energy Suppliers to undertake investigative activity. We understand that a key problem for Energy Suppliers is the uncertainty of being able to recover or offset the direct cost of investigations, as compared to the indirect socialised cost of theft remaining undiscovered and any net liability to fund the TDIS.

This Change proposes to extend the scope of the TDIS such that it not only rewards the successful detection of a Confirmed Energy Theft, but also allows for the recovery of reasonable costs of undertaking qualifying Energy Theft Desktop and Site Visit Investigations, which may not always lead to a Confirmed Theft. It is hoped that this change will provide Energy Suppliers greater certainty of a return on investment in tackling theft, and better incentivise appropriate behaviours. This should increase the overall number of investigations and correlating number of Confirmed Energy Thefts that are found and rectified. This will reduce the cost of electricity and gas to bill-paying Consumers and mitigate the risk to health and safety of undiscovered meter tampers or other illegal interference.

The change will also require that all Energy Suppliers report on the outcome of all Energy Theft Tip Off Service (ETTOS) leads that are referred to them. This feedback will help improve the efficacy and future development of this service, that all Energy Suppliers pay for through REC Charges.

2 PROBLEM STATEMENT

Suppliers are not currently meeting their TDIS Theft targets within each TDIS Reporting Year because there may be financial disincentives to undertake investigations where there is no assurance that such investigations would convert into a Confirmed Energy Theft.

3 IMPACTS

CONSUMERS
Gas and Electricity Consumers

REC PARTIES AND SERVICE USERS
Gas and Electricity Suppliers

RECCO / REC CODE MANAGER
REC Performance Assurance

REC DOCUMENTS / PRODUCTS
Schedule 1 – Interpretations and Definitions
Schedule 7 – Energy Theft Reduction
The Performance Assurance Reporting Catalogue (PARC)

MHHS DESIGN
No impact.

MHHS DATA SPECIFICATION
No impact.

MHHS CODE DRAFTING
No impact.

4 CROSS CODE IMPACTS

No cross-code impacts have been identified.

5 PROPOSAL PLAN

Milestone	Activity	From	To
Definition		**24-Apr-24**	**31-Oct-24**
	Solution Development	April	August
	Impact Assessment	August	September
	Legal Review	September	October
	Solution Refinement	October	October
Change Proposal		**31-Oct-24**	**29-Nov-24**
	Business Case Assessment	October	October
	Consultation	October	October
	Final Determination	November	November
Voting		**03-Dec-24**	**03-Dec-24**
	Issued for Authority Determination	04-Dec-24	04-Dec-24

6 STAKEHOLDER ENGAGEMENT

This Change Proposal was discussed and developed through the REC Theft Issues Group (TIG).

7 PRIORITY STATUS AND URGENCY

Category	Significance / Resource impacts / Urgency	Further selection / breakdown	Score (0-3)	Weighting	Weighted Score
Impacts	Consumer Impact	Indirect	1	27	27
	Retail Markets Impact	Retail Risk(s)	3	17	50
	RECCo / REC Party / REC Service Provider Impact	Operational Effectiveness and Efficiencies	2	7	13
		Legal and Regulatory Compliance	2	14	28
Resource	Complexity / Effort / Duration		2	9	18
Strategic Alignment	Contribution to/ Alignment with the objectives of the REC		2	17	17
	Contribution to/ Alignment with RECCo's Forward Work Plan		3		25
Urgency *(The need to progress a change to meet a targeted date)*		Other Planned Activity	3	10	30
				Overall Priority Score (rounded)	208

Priority Status	CRITICAL
Change Proposal Type	STANDARD

SOLUTION

8 SUMMARY OF ANALYSIS UNDERTAKEN

This Change was raised following the first Theft Issues Group (TIG) on 24 April 2024 and attendees were invited to offer solutions to improve the TDIS. At the TIG meeting on 29 May 2024, the Code Manager brought four potential options for improvements to the TDIS for discussion as follows:

- Payment for all investigations
- Payment for site visits
- Payment for specific lead sources
- Enhanced payment for targeted activities.

TIG attendees' preference was the option for payment for **all investigations** and it was agreed for this solution to be further developed and presented at the following meeting on 26 June 2024. The draft definitions for changes to Schedule 1, calculations and legal text for Schedule 7 and alterations to the PARC were agreed to be drafted for 31 July 2024. TIG attendees were invited to contribute to and refine the proposed solution for all investigations.

The Solution Development Report and draft, red-lined legal text were presented at the TIG meeting on 28 August 2024 in preparation for Party Impact Assessment. At this meeting it was queried whether an alternative calculation could be explored. It was agreed to investigate moving the calculation of Confirmed Energy Thefts to the same basis as the new investigation payments i.e. pay out at the Theft Detection Value (TDV) and then socialise the costs. This investigation was completed and is detailed within section 5 of the Solution Development Report.

Data analysis on some example calculations for the proposed solution was provided which can be found here. These values were driven by assumptions regarding performance against target and investigation conversion including proportion of investigations leading to Site visits.

9 PROPOSED SOLUTION

9.1 OVERVIEW

The solution under R0173 will provide an incentive payment for investigations completed. This may be an investigation completed resulting in a Confirmed Energy Theft and these incentive payments will continue to be valued on the existing scheme mechanism, or through investigations that have concluded but not converted into a Confirmed Energy Theft. This will provide differential levels of payments for Energy Theft Desktop and Site Visit Investigations. Energy Theft Desktop Investigations will only result in an incentive payment where it relates to an ETTOS lead and this requirement is documented within the Schedule 1 definitions.

Further detail on the proposed draft solution can be found within the Solution Development Report.

An alternative solution design was considered prior to the Impact Assessment stage as detailed in section 5 of the Solution Development Report. This was discounted as this was found to have a weaker impact on the REC arrangements concerning Energy Theft compared with the proposed solution.

10 DRAFT LEGAL TEXT

The draft legal text changes to deliver the proposed solution to R0173 can be found here.

PRELIMINARY ASSESSMENT

11 SUMMARY OF IMPACT ASSESSMENT ACTIVITY

11.1 SERVICE PROVIDER IMPACT ASSESSMENTS

A Service Provider Impact Assessment was submitted by REC Performance Assurance on 16 October 2024.

REC PERFORMANCE ASSURANCE	• REC Performance Assurance noted the following impacts of R0173 on its processes.
	  ○ Receiving and processing TDIS data submissions from Parties.
	  ○ Changes to the calculation of debits/credits in line with the updated legal drafting.
	  ○ Changes to the scope of the annual review of the TTM – for the TTM review following the first year of implementation.
	  ○ Application of additional Performance Assurance activities regarding reporting of Confirmed and Completed but Unconfirmed Theft Investigations consistent with paragraph 9.3 of the Theft Schedule.
	• The following activities are required to be completed prior to implementation.

	○ Updates to theft guidance documentation including Wiki. ○ Update to portal validation configuration to reflect PARC changes, including testing. ○ Update to Code Manager data processing scripts including Credit/Debit calculation to include Completed but Unconfirmed Theft Investigations, including testing. ○ Update to theft dashboards to include reporting of Completed but Unconfirmed Theft Investigations and changes to reporting of credits/debit calculations, including testing. ○ Design, development and testing of new data analysis to identify potential anomalies/high risk theft data submissions. • Incremental ongoing effort and costs will be incurred in respect to the following activities. ○ Operating data analysis over theft submissions to identify potential anomalies/high risk theft data submissions. ○ Determining actions arising from this analysis, including: ▪ Parties where there is a need to understand the processes/controls operated over the assessment, data collection and/or reporting of theft cases. ▪ Theft cases that should be subject to individual verification against the required evidential standards in the REC, including a combination of risk based and random sampling. ○ Undertaking reviews of the relevant processes/controls operated by Parties identified as above – via application of the RFI Performance Assurance Technique (PAT). ○ Undertaking reviews of individual samples of theft data submission against the requirements of the Code. • Costs associated with ongoing updates to the TTM will continue to be agreed directly with RECCo. • Whilst there will be increased activity and Code Manager costs required to prepare for the implementation of this Change Proposal, there is the assumption that the ongoing activity to process and report theft data and to calculate credits/debits does not require significant additional effort to the current processes and is covered by the existing resource allocation for this work.

11.2 REC PARTY IMPACT ASSESSMENTS

A Party Impact Assessment was published on 13 September 2024 and closed on 04 October 2024. Four responses were received from Energy Suppliers and the consolidated responses can be found here.

ENERGY SUPPLIERS	• All four respondents had representation at the TIG meetings between April and August 2024. • All respondents were supportive of the solution overall however, most believed that Energy Theft Desktop Investigations should not be limited to ETTOS leads. • One Supplier believed that payment should be based on investigations of a substantial level of development which it noted represented a larger share of the costs borne by Suppliers, rather than Energy Theft Desktop or Site Visit Investigations. This Supplier proposed alternative legal text wording which keeps the same principles of rewarding Energy Theft investigations. • One Supplier believed that the proposed multipliers were too low whereas another believed that it was a good starting point. One Supplier requested further rationale on the proposed multiplier figures. • One respondent raised concerns around possible misreporting and lack of processes around auditing of Energy Theft investigations. • Most Suppliers agreed that the solution would improve engagement with the TDIS and therefore provide better outcomes in finding and rectifying Energy Theft. However, one believed that the solution would not alter its own commitment to addressing Energy Theft and did not believe that it would increase the number of Confirmed Theft cases to a noticeable degree. • In reference to the proposed alterations to the PARC, one Supplier agreed that these were appropriate. One agreed that the proposed customer data fields should be removed as these are not needed for the operation of the TDIS. This Supplier did not believe that the ETTOS lead field should be added at this time, but if such a field was to be added, it should refer to the ETTOS Service Provider rather than Crimestoppers. • Those that were familiar with the alternative calculation detailed in the Solution Development Report, agreed that it was right not to be progressed. • Overall, three Suppliers agreed that this change should be made, and one believed that its proposal (bearing the same principles) should be progressed. • Three agreed with the proposed implementation date and one noted that sufficient time should be provided between decision and implementation (3-months). One Supplier provided no comment on the proposed implementation date.

12 KEY RISKS ISSUES ASSUMPTIONS AND DEPENDENCIES

12.1 ASSUMPTIONS AND DEPENDENCIES

NO.	ASSUMPTION	NOTES	HOW/WHEN TO VALIDATE
A01	There is the assumption that only one incentive payment per instance of theft will be paid.	The level of payment is to be determined once a Energy Theft investigation is closed.	Confirmed.
A02	There is the assumption that the expected level of verification for reported theft data will be up to five Parties requiring assessment of process/controls and up to 250 sample theft submissions.		Open.
A03	There is the assumption that verification activities do not identify material misreporting that requires significant investigation or remediation.		Open.
A04	Any findings from the assurance activity do not require assessment as to the potential impact of findings on any previous TDIS Reporting Years.		Open.

NO.	DEPENDENCY	NOTES	STATUS
D01	This Change solution is dependent on the multipliers for the Theft Detection Value (TDV) being incorporated and implemented within the TTM for implementation on 01 April 2025.	A Category 3 Change Proposal will be raised for the alterations to the TTM.	Open.
D02	The implementation of this Change Proposal is dependent on agreement of an associated Change Request from RECCo.		Open.

D03	Data upload of new reporting requirements is dependent on changes to REC Portal validation.		Open.

13 BUSINESS CASE ASSESSMENT

13.1 COST BENEFIT ANALYSIS

No responses to the Party Impact Assessment noted any tangible costs associated with the implementation of this Change Proposal. Whilst there is some level of additional reporting required, this is still in line with the current monthly cadence of TDIS reporting and expectations that all investigations are included within Supplier data submissions.

It is anticipated that there will be costs required for REC Performance Assurance to run and test the new calculation prior to implementation and provide additional assurance activities for the new payment mechanism. The ongoing operational costs of calculating credits/debits should not require significant additional effort and is expected to be covered by the existing resource allocation.

INTANGIBLE BENEFITS	BENEFITS DESCRIPTION
ENHANCED CAPABILITY TO DETECT THEFT	Incorporating payments for Energy Theft Desktop and Site Visits Investigations works to reward the appropriate behaviours rather than only rewarding outcomes i.e. Confirmed Thefts. This will incentivise a greater number of theft investigations which should contribute to an overall increase in the numbers of Confirmed Thefts.
REMOVES THE DISINCENTIVE OF CARRYING OUT THEFT INVESTIGATIONS	Theft investigations come at a cost to Suppliers. Providing payments for Energy Theft investigations will remove the disincentive to carry out activities and work towards identifying meter interference and therefore potential unsafe situations which will be made safe.
GREATER PREDICABILITY OF SOME LEVEL OF PAYMENT UNDER THE TDIS	Suppliers will have greater predictability of some level of payment from the scheme which will help to support resourcing/budgeting.
SUPPORTS WIDER ANALYSIS OF THEFT ACTIVITY AND PERFORMANCE	This Change Proposal encourages the submission of data on all investigations which supports wider analysis of Energy Theft activity and performance.
PROVIDES CONSUMER BENEFITS	This Change Proposal works to reduce the pass through cost of Energy Theft to bill paying Consumers and mitigate the risk to health and safety of undiscovered meter tampers or other illegal interference.
IMPROVED FEEDBACK ON THE EFFECTIVENESS OF ETTOS LEADS	The changes to the PARC will ensure that Suppliers report on the outcome of ETTOS leads that are referred to them. This feedback

	will help improve the effectiveness and future development of the service.
DATA PROTECTION AND THE PARC	This Change Proposal incorporates changes to the PARC where redundant fields have been removed which will minimise the amount of personal data being collected by the Code Manager.

14 CASE FOR CHANGE

AUTHORITY DETERMINATION

The Code Manager believes that R0173 better facilitates the following REC Objectives:

OBJECTIVE	IMPACT TYPE	DESCRIPTION AND JUSTIFICATION
To ensure the REC operates and evolves in a manner that facilitates the achievement of its mission statement[1]	Positive	RECCo's mission is to "facilitate the efficient and effective running of the retail energy market, including its systems and processes...through promoting innovation, competition, and delivering positive customer outcomes." The Code Manager considers that this Change Proposal better facilitates this REC objective as a continually evolving TDIS delivers innovation. Improved data capture will provide enhanced feedback and increase the Code Managers understanding of the efficacy of the scheme and where improvements can be made. Improved Supplier engagement with the scheme will promote improved outcomes for Consumers in reducing energy bills and mitigating health and safety risks associated with undetected meter interference.
To ensure customers interests and data is protected in the operation of the REC	Positive	The Code Manager considers that this Change Proposal ensures Consumer interests are protected as the cost of Energy Theft is borne by Consumers. An effective TDIS will reduce the cost of electricity and gas to bill paying Consumers and mitigate health and safety risks due to undiscovered meter tampers or other illegal interference. The proposed changes to the PARC will remove redundant fields and minimise the amount of personal data collected by the Code Manager.
To drive continuous improvements and efficiencies in the operation of the REC and the central systems and communication	Positive	Whilst this Change Proposal may require a further element of calculation and require a small level of additional administration, The Code Manager considers that this Change Proposal better facilitates this REC objective as it provides continuous improvement for the TDIS. The key design principles of the scheme have remained unaltered

[1] REC Mission Statement

infrastructures it governs		from those developed over a decade ago and the focus on Confirmed Thefts has not been greatly effective in incentivising Suppliers to undertake investigative activity. This Change Proposal provides certainty that payment will be available to offset the costs of investigations and will provide Suppliers with greater confidence of a return on investment for tackling Energy Theft.

In summary, the Code Manager believes that there is a positive case for change based on:

- The solution is viable, implementable and effectively resolves the problem statement;
- The solution provides an enhanced incentive for Suppliers to engage in the TDIS; and
- The solution positively impacts the REC objectives.

15 APPENDIX

CHANGE PROPOSAL	Link
LEGAL DRAFTING	Link
SOLUTION DEVELOPMENT REPORT	Link
EXAMPLE CALCULATIONS	Link
CONSOLIDATED IMPACT ASSESSMENT RESPONSES	Link

16 GLOSSARY

TERM	DEFINITION
Confirmed Energy Theft	means that the holder of an Energy Licence (or person acting on their behalf) reasonably determines that, on the balance of probabilities and taking into account all of the evidence then available, one or more instances of Energy Theft has occurred. Such a determination may not be made unless sufficient evidence is held to substantiate the occurrence of Energy Theft, including (as a minimum): (a) an indication of theft via a desktop review of consumption levels; and (b) a report of a site visit where access was successful; and (c) photographic (or sketch) evidence of the theft, including illegal connection/bypass or meter tampering.
Energy Supplier	means a person which is either or both an Electricity Supplier and/or a Gas Supplier.
Energy Theft	Includes:

	(a) circumstances described in Paragraphs 5(1) (Restoration of connection without consent) and 6(1)(a) (Damage to electrical plant etc) of schedule 6 to the Electricity Act (in so far as they relate to an electricity supplier; (b) circumstances described in Paragraph 6(1)(b) (Damage to electrical plant etc) of schedule 6 to the Electricity Act; (c) circumstances described in Paragraph 11(1) (Interference with meters) of schedule 7 to the Electricity Act; (d) circumstances described in Paragraphs 10(1)(a) and 11(2) of schedule 2B to the Gas Act (in so far as they relate to a gas supplier); and (e) circumstances described in Paragraphs 10(1)(b) and 10(1)(c) of schedule 2B to the Gas Act.
Energy Theft Tip-Off Service (ETTOS)	is described in Annex 2 of the Energy Theft Reduction Schedule.
Indicative TDIS Summary Report	means the report of that name described in Paragraph 7 of Annex 3 of the Theft Reduction Schedule.
Office of Gas and Electricity Markets	Ofgem is the regulator for Britain's gas and electricity industries, overseen by the Gas and Electricity Markets Authority (the Authority)
TDIS Reporting Year	means, unless otherwise agreed by the REC PAB for any given period, 1 April to 31 March.
TDIS Reporting Year Summary Report	means a document of that name to be issued by the Code Manager to each TDIS Qualifying Supplier and to the REC PAB in accordance with the Energy Theft Reduction Schedule, Annex 3
Theft Detection Value (TDV)	has the meaning given in Paragraph 4 of Annex 3 of the Energy Theft Reduction Schedule.
Theft Target	means the target number of Confirmed Energy Thefts to be identified by each Energy Supplier, to be determined in accordance with Paragraph 3 of Annex 3 of the Energy Theft Reduction Schedule.
Theft Target Methodology (TTM)	is a methodology for determining Theft Targets, established and maintained by the Code Manager under Paragraph 7 the Energy Theft Reduction Schedule.