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NON-CONFIDENTIAL CONSOLIDATED CONSULTATION RESPONSES

R0163 – THEFT DETECTION INCENTIVE SCHEME (TDIS) REPORTING PERIODS

On 12/04/2024 the Code Manager issued a consultation to industry to seek feedback on the Preliminary Change Report for R0163.

The purpose of this document is to consolidate the responses and for the Code Manager to answer any questions raised within those responses.

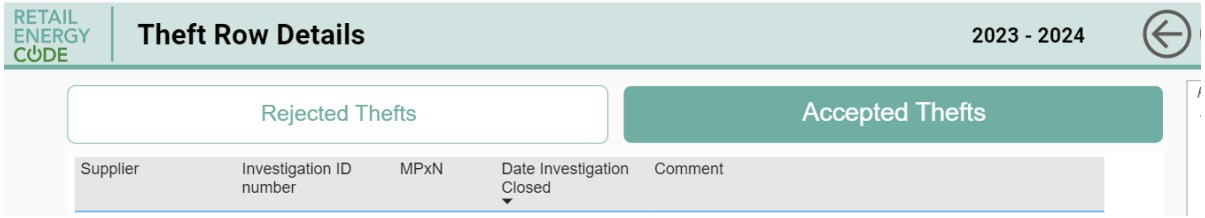
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Question 1:	Do you have any comments on the proposed solution?
RESPONDENT DETAILS	**RESPONSE**
ENGIE (Energy Supplier)	We do not support this proposal as it increases the complexity of an already complex scheme and adds administrative burdens on suppliers with no clearly discernible benefit towards increasing levels of theft detection. The increased administrative burden also needs to be seen in the context of multiple invoicing and reporting requests from various regulatory and code bodies.
Drax (Energy Supplier)	We do not support this modification as it will increase costs and complexity for Suppliers and introduce additional risks, as set out below. Rather than supporting Suppliers in meeting their regulatory obligations to investigate and detect theft, we believe that a change from annual reporting cycle and settlement to a quarterly reporting cycle and settlement would complicate matters and introduce additional operational costs and budgetary uncertainty. 1) Within the change proposal, a stated benefit is that a move from an annual reporting cycle to quarterly reporting cycle should ***"mitigate cash flow issues associated with the current timetable, allowing costs to be at least partially recovered in the financial year in which they were recovered".*** In practice, from a Supplier perspective, the costs and risk to Suppliers of administering theft detection activity quarterly would increase significantly. We would also expect associated REC costs, as funded by REC parties, and ultimately customers, to increase. We believe that any potential perceived cash flow benefits would be vastly outweighed by the additional administration for Suppliers and for REC associated with reconciling invoices and credits, and making any other adjustments, four times a year rather than once.

	This has been 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. We believe that any potential cash flow benefits and/or perceived enhanced forecasting for Suppliers by limiting activity to a rolling quarterly basis would be far exceeded by the additional cost and complexity. There was also an unrelated error with the 2022/23 TDIS scheme for which REC needed to amend reconciliations across all Suppliers. Based on performance to date, a more frequent reconciliation could increase the risk of further amendments and reconciliations being required due to errors in administration. 2) Another stated benefit is to ***"enable Energy Suppliers to better monitor their own performance as compared to their peers".*** We don't foresee any material benefit from proposed changes to the ability of Suppliers to monitor their performance. There are existing REC tools available for Suppliers to view levels of accepted thefts. 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. Because levels of theft detected may vary significantly by quarter, this could further complicate matters if incentive levels vary each reporting period as a result.
ICoSS (Other – Trade Body)	We believe that this change will have a negative impact on suppliers by increasing administration overhead and cashflow risk, providing little benefit in return.

	We have previously indicated concerns with the current TDIS scheme in that the average payment for a supplier reduces as more theft is found, a fixed payment is made only after theft is found (irrespective of costs incurred or costs in seeking but not finding theft) which significantly varies in occurrence across supplier portfolios. We do not believe that shortening the reconciliation period will address these substantial deficiencies and will add additional challenges (see below).
Total Energies Gas and Power (Energy Supplier)	The frequency of settlement under the TDIS scheme does not impact the ability for a Supplier to meet its statutory obligations. M1 | As an Energy Supplier, I want the ability to effectively monitor my TDIS performance so that I can optimise my theft detection operations. The annual reconciliation does not stop a supplier from monitoring their performance including via the REC tools already available. Our effort and ability to meet our annual targets will not alter due to this proposed change. We see the change adding costs and creating no new value for any party. The primary impact will be further increasing customer bills. Based on recent history a more regular reconciliation could create an increased risk of further reconciliations and amendments being required due to errors in administration. We had small issues with the last annual reconciliation and don't want the risk of this now happening 4 times a year. The change has more risk of creating new issues than solving any of the existing ones, such as the targets are not fit for purpose, particularly for non-domestic suppliers.
SSE Energy Supply Ltd (Energy Supplier)	We do not have any concerns with regards to this change however, we believe that suppliers targets should also be assessed on a quarterly basis. This will ensure that suppliers will have the most up to date and accurate information and will ensure that any invoices (credit or debit) issued reflect the performance across industry. We believe that if targets are not reassessed to match these reporting periods, a reconciliation would need to be carried out at the end of each scheme year to rectify any misalignment.
SEFE (Energy Supplier)	We do not believe that the ability for a Supplier to meet its statutory obligations in respect to the detection and investigation of theft is impacted by the frequency of settlement under the TDIS scheme.

	<table><tr><td>M1</td><td>As an Energy Supplier, I want the ability to effectively monitor my TDIS performance so that I can optimise my theft detection operations.</td></tr></table> The fact that the scheme is reconciled annually should not impact a Suppliers ability to monitor their performance including via the existing REC tools available to them e.g. see below.  The level and timing of any renumeration under the scheme should not be a factor when complying with the obligation to efficiently manage theft. Based on recent history a more regular reconciliation could create an increased risk of further reconciliations and amendments being required due to errors in administration. A more frequent reconciliation may create undue volatility in the level of payments across the year as detection of theft does not occur uniformly and predicably across the year. So the quarterly calculations of payments will vary as a function of the number of “valid” thefts in each quarter. This will create added complexity in reconciling and will mean that the level of incentive will likely vary from one quarter to the next. Overall this will increase the administrative burden on Suppliers without delivering any proven benefit to the market as a whole. It could also have unintended consequential impact if it leads to claim optimisation.
Scottish Power Energy Retail (Energy Supplier)	Based on our experience as a large energy supplier, we believe that the Theft Detection Incentive Scheme (TDIS) is most effective as an annual scheme with an annual reporting cycle. In our view, this proposal to move the scheme to a quarterly reporting cycle should not be implemented. The TDIS is comparative in nature: a qualifying supplier’s performance is assessed relative to that of the other qualifying suppliers, not relative to the theft targets. In that context,

	and considering the frequent and substantial revisions to the confirmed theft numbers of different suppliers which continue to take place, we consider that maintaining the annual approach to TDIS is particularly important to ensuring that the recording of confirmed thefts (and, by extension, the performance measures for suppliers) is as accurate as possible, contemporaneously with the reporting period. We are already concerned by the continuing revisions to confirmed theft numbers under the TDIS, and those concerns would be greatly elevated if the scheme's operation were changed from an annual to quarterly basis. In our assessment, while the direct replacement of "year" with "quarter" in Schedule 7 would be a simple exercise, its consequences would be pronounced, demonstrating that the TDIS functions best as an annual scheme. For instance, we are concerned from an operational perspective that the pace of a quarterly scheme would be too fast for all parties concerned. The Code Manager would have to set and communicate theft targets (including supporting elements like the Theft Detection Values), now for six segments instead of four, based on suppliers' evolving portfolio data four times a year instead of one; suppliers would have to adapt to different theft targets, tailoring their processes and resources accordingly, four times a year instead of one. As a result, the possibilities for miscalculation would be increased, without sufficiently tangible benefits. Elsewhere, we have noted that, where a customer portfolio is sold from one supplier to another, the associated transfer of theft targets and confirmed thefts would now take effect that quarter, instead of that year. The risk already exists that, taking into account factors such as the timing of the sale and the speed of integration of those customers, the buying supplier could find itself in a position in which it had an increased obligation to detect energy theft, yet insufficient time to adapt to its change in requirements under the TDIS. However, while the magnitude of impact might be greater at present, the likelihood of this risk manifesting would be more pronounced under a quarterly scheme than under an annual one. Separately, as we have indicated, we are particularly concerned that moving to a quarterly scheme would remove the ability for confirmed theft numbers to be revised within the respective reporting period, not after the fact. In our view, this confirmed theft revisions issue is the most significant point which should be addressed if the structure of TDIS reporting is to be changed.

Question 2:	Do you agree that the proposed solution addresses the problem statement?
RESPONDENT DETAILS	**RESPONSE**
ENGIE (Energy Supplier)	No, as we do not support the premises in the problem statement. An annual cost recovery mechanism is sufficient for the schemes needs and limits the administrative burden on participants. We are easily able to monitor our performance via the current REC reporting arrangements and via our own internal reporting and operational controls. We do also not believe it is desirable to increase the frequency of updates to the scheme as changes need to be managed with sufficient lead times to enable processes and systems to be updated.
Drax (Energy Supplier)	No. In line with our response to question 1, we believe that proposals would increase costs and risks. These costs and risks would include from an invoicing and budgetary perspective for which annual budgets are far easier to manage than quarterly. If, under a quarterly scheme, the TDV could also be amended mid-year, that would increase the risk to Suppliers and complicate matters 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.
ICoSS (Other – Trade Body)	Suppliers should not be seeking to maintain a consistent level of theft detection; they should be seeking to resolve all potential thefts identified in their portfolio. We are concerned that this change seems to go against this principle as it will instead facilitate suppliers "optimising" their theft processes by benchmarking against other suppliers more regularly.
Total Energies Gas and Power (Energy Supplier)	**NO** – see comments in 1 above

SSE Energy Supply Ltd (Energy Supplier)	Yes.
SEFE (Energy Supplier)	**NO** – see comments in 1 above.
Scottish Power Energy Retail (Energy Supplier)	We do not agree with any of three elements of the problem statement. In our view, an annual reporting cycle for the TDIS has no materially negative impact on (1) suppliers' cost recovery, (2) suppliers' performance monitoring or (3) the Code Manager's ability to suggest amendments to the scheme. On the first point, we believe that moving the TDIS to a quarterly reporting cycle could make cost recovery for suppliers worse, not better, because confirmed theft numbers from suppliers may not be as accurate as they otherwise would be under the current structure, due to the frequent and substantial revisions to confirmed theft numbers which continue to take place. The result of that dynamic in a quarterly context would be that the credit or debit positions of suppliers may well not be as robust as they should be to justify the move from an annual to quarterly scheme. On the second point, we already monitor our performance under the TDIS on a regular basis. We see no material benefit to our ability to view or understand our own performance in detecting and reporting confirmed energy thefts from moving the TDIS reporting cycle from annual to quarterly. On the third point, we believe that the Code Manager is already equipped with the necessary flexibility to suggest amendments to the TDIS and that this flexibility is not dependent on the frequency of reporting under the scheme. We note that, for instance, the Code Manager already conducts an annual review of the Theft Target Methodology – and that, under the current proposal, that review would remain annual, instead of changing to quarterly. In any event, as we have indicated, we believe that consistency in the operation of the TDIS is important to ensure its good functioning. In our view, any amendments to the TDIS should be made after careful reflection. We do not see how altering the reporting cycle as proposed would support the measured review and progressive evolution of the scheme. As all parties are aware, the effective performance of a supplier under the TDIS is measured against the collective performance of qualifying suppliers, not against the theft targets. The theft targets instead represent the hypothetical performance that would deliver a neutral position under the scheme, where the overall targets were achieved. If concerns exist on suppliers' performance relative to these hypothetical theft targets, the design and purpose of the targets should be reviewed directly. Changing the scheme reporting cycle from annual to quarterly will not address this issue.

Question 3:	Would implementing the proposed solution incur any costs to your business? If so, please provide details.
RESPONDENT DETAILS	**RESPONSE**
ENGIE (Energy Supplier)	Yes. The additional reporting and invoicing will create more administrative work which will incur costs.
Drax (Energy Supplier)	Yes. As set out above, the proposed solution would significantly increase the costs to our business, including from an invoicing and budgetary perspective.
ICoSS (Other – Trade Body)	We would expect that quarterly reconciliation will add significant volatility to payments to/from suppliers as claiming for thefts and making payments under the scheme are unlikely to be synchronised. This will create a cashflow risk for suppliers as well as add administrative overhead for managing more frequent and more volatile payments.
Total Energies Gas and Power (Energy Supplier)	**YES** – as noted above it would unduly increase the administrative burden.
SSE Energy Supply Ltd (Energy Supplier)	We believe there will be minimal administrative costs to our settlements department.
SEFE (Energy Supplier)	**YES** – as noted above it would unduly increase the administrative burden.
Scottish Power Energy Retail (Energy Supplier)	We are concerned that we could incur costs under this proposal where the move to a quarterly reporting cycle for TDIS produces credit or debit positions for suppliers which are not as accurate as they should be, due to the continuing revisions to confirmed theft numbers by different suppliers which we have highlighted. Given that these positions are determined by collective supplier performance within each segment, a shorter reporting period means that the time for suppliers to ensure the accuracy of their confirmed theft numbers within the respective reporting period would be reduced, potentially impacting on the credit and debit calculations. We believe that this risk is substantial and that such a cost is fundamental to the cost-benefit analysis of the current proposal. We believe that the potential cost of inaccurate credit or debit positions under the scheme from a quarterly reporting cycle is far more important than that of processing invoices or credit notes on a more frequent basis. We also believe that due consideration should be given to the costs on qualifying suppliers of having to make more frequent operational changes, should more regular (indeed,

	quarterly) amendments to the TDIS be made, which could offset, and might well exceed, any purported benefits of the proposal.

Question 4:	Do you identify any benefits to your business through the implementation of the proposed solution? If so, please provide details.
RESPONDENT DETAILS	**RESPONSE**
ENGIE (Energy Supplier)	No. The proposal will increase our administration and costs, and has the potential to be a distraction from the activity of theft detection itself.
Drax (Energy Supplier)	No – please see comments above.
ICoSS (Other – Trade Body)	Our members do not see any benefits to this scheme. Whilst we acknowledge REC's view that the solution will allow changes to the TDIS scheme to be progressed with less disruption, in itself this does not justify this change. We believe that alternative mechanisms for running-off TDIS are available (parallel running, etc).
Total Energies Gas and Power (Energy Supplier)	**NO** – see comments in 1 above.
SSE Energy Supply Ltd (Energy Supplier)	We have not identified any benefits to this change, unless as alluded to in question 1, the targets are also assessed on a quarterly basis as our existing reporting process remains the same.
SEFE (Energy Supplier)	**NO** – see comments in 1 above.
Scottish Power Energy Retail (Energy Supplier)	We do not foresee any tangible benefits resulting from changing the TDIS reporting cycle to quarterly. As we have outlined elsewhere in our response, based on our experience as a large energy supplier, we believe that the TDIS is most effective as an annual scheme with an annual reporting cycle.

Question 5:	Do you agree with the proposed implementation date and approach? If no, please provide rationale.
RESPONDENT DETAILS	**RESPONSE**
ENGIE (Energy Supplier)	No, as we do not support the proposal.
Drax (Energy Supplier)	No – please see comments above.
ICoSS (Other – Trade Body)	No – we do not believe that the limited time given for suppliers to prepare for the implementation of this change, and the resulting changes in cashflow risk, is sufficient. Realistically this change must give suppliers time to amend their financial management to take it into account, so ideally at the start of the next annual scheme.
Total Energies Gas and Power (Energy Supplier)	**NO** – see comments in 1 above.
SSE Energy Supply Ltd (Energy Supplier)	Yes
SEFE (Energy Supplier)	**NO** – see comments in 1 above.
Scottish Power Energy Retail (Energy Supplier)	We do not agree that, were the TDIS ultimately moved to a quarterly reporting cycle, the current proposal should be implemented on 28 June 2024. The current TDIS Reporting Year is already in operation, with its theft targets already established and communicated. No material deficiencies in the structure or operation of the scheme have been identified, so no justification exists to alter a reporting period that is active and in progress. In that context, if the reporting cycle is to be altered, the current Reporting Year should run its full course and the change should take place afterwards. In that light, the earliest implementation date for the current proposal should instead be 1 April 2025. We see no compelling reason for the early curtailment of a Reporting Year already in full operation.

Question 6:	Do you have any other comments relating to this Change Proposal?
RESPONDENT DETAILS	**RESPONSE**
ENGIE (Energy Supplier)	We have been supportive of some of the other measures taken to improve the scheme, such as the introduction of separate targets for domestic and non-domestic thefts, but this proposal does not address any fundamental issues with the scheme and instead only serves to increase the costs of the scheme for suppliers with no evident benefit.
Drax (Energy Supplier)	Yes. Contrary to **REC Objective c)** ***"to drive continuous improvements and efficiencies in the operation of the REC and the central systems and communication infrastructures it governs",*** we believe that we have demonstrated in our comments above that proposed changes in R0163 represent: • An unnecessary retrograde step, with inherent risks, rather than an improvement; and • Increased complexity and costs on REC parties (and REC) and ultimately customers, thereby reducing efficiency in the operation of the REC. We also believe that the points as set out above are contrary to RECCo's mission statement 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". At the recent REC-hosted meeting regarding proposed theft changes we have seen limited support for this proposal. Some REC parties, us included, voiced their opposition to this proposal, including regarding the additional cost, risk and complexity of invoicing, budgeting and reconciling four times a year, rather than once. We have also voiced these concerns at RIG.

	We are pleased to note that, based upon our additional more recent feedback to REC regarding the statement that we challenged within the Change Proposal ***"this change should therefore be limited to the administration of the scheme rather than having any direct operational impacts upon suppliers"*** that the Initial Assessment Report now includes the statement of ***"However, there will be an impact for Suppliers needing to process invoices/credit notes quarterly rather than annually".***
ICoSS (Other – Trade Body)	We believe that this change highlights one of the underlying deficiencies of the TDIS regime, namely that suppliers are not incentivised to address as much theft as possible, but to simply outperform their peers. The current TDIS regime structure needs to be replaced with a more equitable process that does not create perverse incentives that deter theft detection and resolution.
Total Energies Gas and Power (Energy Supplier)	**YES** – We have seen little in the way of Stakeholder support for this proposal and question why this proposal has progressed to this point.
SSE Energy Supply Ltd (Energy Supplier)	SSE supports any changes that will enhance the process for detection and recovery of theft.
SEFE (Energy Supplier)	**YES** – We have seen little in the way of Stakeholder support for this proposal and question why this proposal has progressed to this point.
Scottish Power Energy Retail (Energy Supplier)	We believe that an error exists in Paragraph 8.3 of Schedule 7, Annex 3. This paragraph currently makes reference to the "TDIS Regulatory Year" (which the current proposal would amend to "TDIS Regulatory Quarter"). However, in keeping with the rest of the Schedule, we believe that "Regulatory" should instead be "Reporting".