RETAIL ENERGY CODE

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01	Initial Assessment Report
02	Preliminary Change Report
03	Final Change Report

CHANGE REPORT

R0163 – THEFT DETECTION INCENTIVE SCHEME (TDIS) REPORTING PERIODS

CHANGE REPORT	PRELIMINARY
DOCUMENT VERSION	1.0
ISSUED DATE	12/04/2024
DOCUMENT APPROVAL STATUS	PUBLISHED FOR CONSULTATION

RESPONSIBLE COMMITTEE	CHANGE PANEL	CHANGE PATH	SELF GOVERNANCE
PRIORITY STATUS	MEDIUM	URGENCY	STANDARD

DEADLINE FOR ALTERNATIVE CHANGE PROPOSALS	12/04/2024

LEAD CHANGE ANALYST



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CHANGE OVERVIEW

This Change Proposal seeks to alter the Theft Detection Incentive Scheme (TDIS) reporting cycle from an annual to a quarterly cycle.

	High Impact: N/A
	Medium Impact: Code Manager, RECCo
	Low Impact: Energy Suppliers

TECHNICAL LEAD

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CODE MANAGER'S RECOMMENDATION

The Code Manager recommends Change Proposal R0163 is **APPROVED** for implementation on **28 June 2024**.

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BACKGROUND

1 BACKGROUND

Energy Suppliers have an obligation under their standard licence conditions to prevent, detect and investigate theft. However, even when energy theft is detected and proven, there is no certainty that the Supplier will be able to recover any money from the Consumer. The TDIS is intended to offset the costs of Suppliers undertaking these activities.

Under the TDIS, each Supplier is allocated a proportion of an overall Theft Target, proportionate to their share of domestic and non-domestic sectors of the market across both fuels. Suppliers who outperform their competitors receive an incentive payment while those who underperform become net contributors.

There is a growing concern regarding both the performance of Energy Suppliers and the overall efficacy of the scheme in reducing levels of Energy Theft. The current design of the scheme, including the annual reporting cycle, limits the ability of Energy Suppliers to continually monitor their performance and the ability for the Code Manager to enable incremental improvements of the scheme.

The TDIS reporting cycle as specified in Schedule 7 – Energy Theft Reduction determines the cadence of setting theft targets, the reconciliation of Supplier performance against targets and the settlement of payments into and out of the scheme. This Change Proposal seeks to alter this cycle from annually to quarterly. This alteration is limited to the administration of the scheme and will not have a direct operational impact on how Suppliers submit their TDIS reports. However, there will be an impact for Suppliers needing to process invoices/credit notes quarterly rather than annually. Avoidance of doubt, this Change Proposal does not seek to revise the theft targets previously communicated to Suppliers but simply to divide these by an equal quarterly amount. It will also not change the Theft Detection Values.

2 PROBLEM STATEMENT

The current annual TDIS Reporting Cycle does not support the effective cost recovery for Suppliers in year, enable Suppliers to monitor their TDIS performance or enable the Code Manager to flexibly adopt improvements to the scheme.

3 USER STORIES

REF.	USER STORIES
MARKET PARTICIPANT USER STORIES	
M1	As an Energy Supplier, I want the ability to effectively monitor my TDIS performance so that I can optimise my theft detection operations.
M2	As the Code Manager, I want the TDIS to continually evolve so that performance against the scheme can be improved.
M3	As RECCo, I want the TDIS to continually evolve to support the Theft Reduction Strategy.

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PROPOSAL

4 SUMMARY OF ANALYSIS UNDERTAKEN

A letter dated 15 January 2024 regarding the proposed changes to the TDIS was circulated to REC Parties. This letter highlighted Ofgem's concerns around the current level of theft detection compared to the targets and set out RECCo's proposal on how theft incentives could be strengthened both through the Category 3 Change C3-0061 and through the changes to Schedule 7 within this Change Proposal.

A drop-in session to further discuss and outline the proposals was held on 22 January 2024 with representation from seven industry participants and comments were open on the proposals until 05 February 2024. A formal consultation under C3-0061 was also conducted from 15 January 2024 to 05 February 2024 and included a question on whether there was support for the intended changes to Schedule 7 and the reporting cycle moving from annually to quarterly.

In addition, the TDIS reporting cycle was addressed within the REC Issues Group (RIG) session 09 February 2024 and feedback was sought from attendees.

Whilst there were some concerns raised over the additional administrative burden from moving to annual to quarterly cycles, there was sufficient support for this change to be raised formally under the REC Change Process.

5 PROPOSED SOLUTION

This change will remove references to a TDIS Reporting Year within Schedule 7 – Energy Theft Reduction and Schedule 1 – Interpretations and Definitions and replace them with TDIS Reporting Quarter. Within Schedule 7, it also clarifies that the Code Manager may publish a TDIS Reporting Timeframe for more than one TDIS Quarter. Within Schedule 1, the TDIS Quarter outlines the dates of each quarter.

It is expected that the main impact of these changes is on the Code Manager. However, there will be some impacts to Energy Suppliers in that there will be an increased frequency of invoices or credit notes to process (four per year instead of one). There will be no impact to the frequency of TDIS reporting which will remain monthly as clarified under R0091 – Clarifications to the Theft Detection Incentive Scheme.

5.1 MARKET-WIDE HALF HOURLY SETTLEMENT

DESIGN	DATA SPECIFICATION	CODE DRAFTING
No impact on MHHS design.	No Data Specification impact.	No impact on MHHS Code drafting.

6 DRAFT LEGAL TEXT

The legal text changes to deliver the proposed solution to R0163 can be found here.

7 DELIVERY AGAINST CHANGE PROPOSAL PLAN

All activity to date has been in line with the Change Proposal Plan.

The Change Proposal Plan can be found here.

8 KEY RISKS, ASSUMPTIONS, ISSUES AND DEPENDENCIES

8.1 ASSUMPTIONS AND DEPENDENCIES

No.	ASSUMPTION	NOTES	HOW/WHEN TO VALIDATE
A01	There is an assumption that any consequential changes to Category 3 REC documents will be limited to reflect the quarterly cadence only and will otherwise be non-material.		Validated by the Code Manager.

9 PROPOSED IMPLEMENTATION DATE AND APPROACH

PROPOSED IMPLEMENTATION DATE	28/06/2024	PROPOSED IMPLEMENTATION APPROACH	BIG BANG

A June 2024 Release has been proposed as this will allow for the April to June 2024/25 period to be reconciled early. It also allows any subsequent revisions to the scheme to be made earlier as these would only be able to be implemented at the end of a reporting cycle.

10 BUSINESS CASE ASSESSMENT

10.1 BENEFITS

INTANGIBLE BENEFITS	BENEFITS DESCRIPTION
Create more opportunities for continuous improvement to the TDIS	Currently, any change to the scheme arrangements have been restricted to apply for future reporting periods only and therefore improvements to the TDIS could be restricted to every two years (taking into account the Reporting Year and time to complete reconciliations following that year). A quarterly cycle will enable incremental improvements to the scheme to be adopted more flexibly and will enable benefits to be realised sooner.
Earlier settlement of rewards or liabilities	An annual cycle means that the recovery of costs through a TDIS credit or liability to pay into the scheme can only occur several months into the financial year following the one in which they were

	incurred. As rewards or liabilities are determined by a Supplier's performance against other Suppliers rather than their own Theft Target, this impact on cash flow can be difficult to forecast. A quarterly cycle will allow costs to at least be partially recovered within the financial year in which they were incurred.
Enable Energy Suppliers to better monitor their own performance	A quarterly reconciliation will provide Suppliers with a more regular update on their performance.

10.2 COST BENEFIT ANALYSIS SUMMARY

There are no costs associated with this change other than any costs that may be incurred by the Code Manager from the additional administration of the scheme.

Within the previous stakeholder engagement as outlined in section four, there were concerns raised on the increased invoicing and credit note processing required by Energy Suppliers. However, the Code Manager believes that the benefits of this Change Proposal outweigh these concerns, and this will be validated through consultation.

11 CASE FOR CHANGE

11.1 SELF GOVERNANCE

The Code Manager considers that there is a positive case for change for implementing this Change Proposal on the basis that the proposed solution:

- Effectively resolves the problem statement;
- Works to improve the effectiveness of the TDIS; and
- Provides benefits to Energy Suppliers that outweigh any additional administration that may be required to support the solution.

12 CODE MANAGER'S RECOMMENDATION

The Code Manager recommends that the Change Panel:

- **APPROVE** the proposed change solution;
- **APPROVE** the proposed implementation approach; and
- **APPROVE** the proposed implementation date of **28 June 2024**.

13 CONSULTATION PLAN AND NEXT STEPS

The consultation on this Preliminary Change Report for R0163 will be published on the REC Portal on **12 April 2024** and closes on **03 May 2024.**

Following consultation, the Code Manager will produce an updated version of this Preliminary Change Report (referred to as the Final Change Report). This will include the outcome of the consultation, setting out a summary of the consultation submissions and the Code Manager's response.

The Final Change Report will be issued to the Change Panel to make its determination on **21 May 2024.**

14 APPENDIX

CHANGE PROPOSAL	Link
LEGAL DRAFTING	Link
RELATED CHANGE(S)	C3-0061 Consolidated Consultation Responses C3-0061 R0091
ANY OTHER DOCUMENTS / LINKS	RECCo Theft Target Methodology Cover Letter Ofgem Open Letter on Energy Theft

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15 GLOSSARY

TERM	DEFINITION
Consumer	means any person supplied (or seeking a supply) of Energy at an RMP (whether or not that person also exports or is seeking to export electricity at an RMP).
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.
Theft Detection Incentive Scheme (TDIS)	is described in 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	is a methodology for determining Theft Targets, established and maintained by the Code Manager under Paragraph 7 the Energy Theft Reduction Schedule.