# REC Theft Target Methodology

28/02/2023

V1

RETAIL
ENERGY
CODE

# Contents

## CHANGE HISTORY

| Version | Status | Issue Date | Author | Comments |
|---------|--------|-----------|--------|----------|
| 1.0 | DRAFT | | Code Manager | Initial Version for 2023/24 theft year |
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## DOCUMENT CONTROLS

| Reviewer | Role | Responsibility | Date |
|----------|------|----------------|------|
| Andrew Waghorn | Performance Assurnace Technology & Data Lead | Primary Review | 16/02/2023 |
| Walter Carlton | Performance Assurance Lead | Overall Review | 17/02/2023 |
| Jon Dixon | Director of Development and Strategy | RECCo Review and Comment | 24/02/2023 |
| | | | |

# 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").

REC Change R0091, if approved, will transition responsibility for developing and maintaining the TTM to the Code Manager from the REC Board. This document has been prepared as part of this transition – reflecting the current approach applied by the Code Manager to determine Theft Targets as directed by RECCo, forming a baseline from which further development can occur for the 2023/24 TDIS Reporting Year.

# Summary

The Theft Targets for TDIS Reporting Year 2023/24 have been calculated in line with the requirements of the Schedule based on the inputs below, which are largely consistent with the parameters and methodology for 2022/23 TDIS Reporting Year.  As part of 2022/23 TDIS Reporting Year the Theft Detection Values were revised, providing a greater incentive to investigate and detect non-domestic theft as compared to domestic theft.  We will assess what effect this change may have had on Supplier performance against targets once 2022/23 TDIS Reporting Year has concluded, and together with the proposals signalled as part of R0091 and RECCo's wider Theft Reduction Strategy including the findings of the Theft Estimation Methodology[1], will consider the case for more substantive modifications for 2024/25 TDIS Reporting Year and beyond.  Such changes would be progressed via a REC Change Proposal.

Specifically the following parameters and methodology has been applied:

| Item | Description/Purpose | Data Used | | | Summary of Changes from 2022/23 |
|---|---|---|---|---|---|
| Incentive Pots | Split the overall market into separate customer segments, each operating with an independent target, theft detection value and calculation of end of TDIS Reporting Year credits/debits. | Four pots have been utilised: <br> ▪ Electricity Domestic <br> ▪ Electricity Non-Domestic <br> ▪ Gas Domestic <br> ▪ Gas Non-Domestic | | | None |
| Theft Detection Value | 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. | **Fuel** | **Segment** | **Theft Detection Value (£)** | Adjusted for inflation using December 2022 CPI figure published by the Office for National Statistics |
| | | Elec | Domestic | £356.93 | |
| | | Elec | Non-Domestic | £1,345.61 | |
| | | Gas | Domestic | £1,005.98 | |
| | | Gas | Non-Domestic | £1,740.35 | |

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[1] See: https://www.retailenergycode.co.uk/energy-theft-costs-consumers-up-to-1-4-billion-yearly/

| Item | Description/Purpose | Data Used | | | Summary of Changes from 2022/23 |
|---|---|---|---|---|---|
| Target | 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. | **Fuel** | **Segment** | **Overall Theft Target** | None |
| | | Elec | Domestic | 30,000 | |
| | | Elec | Non-Domestic | 4,000 | |
| | | Gas | Domestic | 5,110 | |
| | | Gas | Non-Domestic | 1,890 | |
| Attribution methodology | Determines how targets are allocated to individual Energy Suppliers within each incentive pot. | Targets are allocated based on market share, derived from the December 2022 number of registered meter points as reported from CSS. This was 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). | | | ▪ Adjustment made so non-domestic suppliers are not allocated domestic target<br>▪ Data sourced from CSS<br>▪ Domestic/non-domestic attribution based on domestic premises indicator |

# Context

As part of the Schedule 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. Current industry performance under TDIS is below the targeted levels, and RECCo have communicated their intention to introduce more significant changes to the scheme from theft year 2024/25 as part of wider work on the theft strategy, as set out in its Forward Work Plan for 2023-26[2].

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 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.

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[2] See: https://www.retailenergycode.co.uk/introducing-our-strategy-forward-work-plan-2023-26/

# Theft Target Methodology

## INCENTIVE POTS

The Schedule in force at the time of determining theft targets sets out explicitly that incentive pots should be split between gas and electricity, and domestic and non-domestic, resulting in four incentive pots. The proposed changes to the Schedule create greater flexibility for future TDIS Reporting Years, whilst requiring at a minimum a split between domestic and non-domestic consumer segments.

Results of the recent TDIS Survey conducted by RECCo identified approximately 50% of respondents thought the current split was sufficient, with 43% indicating it should be further segmented. RECCo has indicated as part of the Theft Strategy and Forward work plan an intention to explore additional segmentation (for example differentiating between Smart and traditional meters and further segmenting the non-domestic consumer segment) informed by the outputs of the Theft Estimation Methodology with the potential for significant change following RECCo's Theft Strategy review. The Code Manager will conduct additional analysis and consultation regarding new or modified segmentation as part of the development of the TTM for 2024/25 TDIS Reporting Year – this work will commence in early autumn 2023.

Given the above, for the purposes of 2023/24 Theft Targets the existing four segments will be retained, i.e.:
- Electricity Domestic
- Electricity Non-Domestic
- Gas Domestic
- Gas Non-Domestic

The data used to determine meter points as domestic or non-domestic will be based on classification reported from CSS based on the domestic premises indicator (see **attribution methodology below) – this represents a change from the 2022/23 TDIS Reporting Year** where attribution between domestic and non-domestic was based on available industry attributes (e.g. profile class).

## THEFT DETECTION VALUE

Results of the recent TDIS Survey conducted by RECCo indicated majority support for the current higher Theft Detection Value for non-domestic thefts vs domestic thefts and the gas Theft Detection Value being higher than the equivalent electricity figure. Although diverse comments were received on specific points of detail and policy considerations regarding exactly which costs should be considered in the Theft Detection Value no specific feedback was provided on proposed levels / changes to the value.

In the absence of any strong evidence or indication that a change is merited, the Theft Detection Values for the 2023/24 TDIS Reporting Year will therefore be set based on the 2022/23 values, adjusted for inflation using the 12 month CPI value published by the Office for National Statistics[3]. The values used therefore are as follows:

| Fuel | Segment | Theft Detection Value (£) |
|---|---|---|
| Electricity | Domestic | £356.93 |
| Electricity | Non-Domestic | £1,345.61 |
| Gas | Domestic | £1,005.98 |
| Gas | Non-Domestic | £1,740.35 |

## TARGET

Results of the recent TDIS Survey conducted by RECCo confirmed a very strong preference for continuing to set targets based on the number rather than volume of theft. Feedback was given that targets were considered by some respondents to be unrealistically high, linked in some cases with comments about different consumer segments. It is recommended that these comments be considered as part of the wider review of consumer segments for the 2024/25 TDIS Reporting Year as noted above.

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.

Taking this into account the targets for the 2023/24 TDIS Reporting Year will continue to be based on the number of confirmed thefts and will continue to operate at the same level as in the prior year, namely:

| Fuel | Segment | Overall Theft Target |
|---|---|---|
| Electricity | Domestic | 30,000 |
| Electricity | Non-Domestic | 4,000 |
| Gas | Domestic | 5,110 |
| Gas | Non-Domestic | 1,890 |

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

For the 2024/25 Theft Year the Code Manager will include further review and consideration of the target levels taking into account information made available from the REC Theft Estimation Methodology and in conjunction with work planned on customer segmentation.

## 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:

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 2022 was utilised as the most current dataset available at the time of determining theft targets.

2. Map data from (1) to a REC Party level using the REC Party Register. Aggregate data to determine number of registered meter points per REC Party.

3. Obtain latest licence type per REC Party published by Ofgem.

4. If a Party has a non-domestic 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.

5. Determine the market share percentage in each customer segment/incentive pot based on the adjusted data from step (4).

6. Calculate the Party target by applying the relevant market share percentage calculated in step 4 to the total incentive pot target.

7. Round the target down to the nearest whole number less than or equal to the target calculated in step 6 (NB: targets are always rounded **down,** including to a target of zero).

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