

Decision Paper on transactional charges associated with electricity metering activities

**September
2015**



About the Utility Regulator

The Utility Regulator is the independent non-ministerial government department responsible for regulating Northern Ireland’s electricity, gas, water and sewerage industries, to promote the short and long-term interests of consumers.

We are not a policy-making department of government, but we make sure that the energy and water utility industries in Northern Ireland are regulated and developed within ministerial policy as set out in our statutory duties.

We are governed by a Board of Directors and are accountable to the Northern Ireland Assembly through financial and annual reporting obligations.

We are based at Queens House in the centre of Belfast. The Chief Executive leads a management team of directors representing each of the key functional areas in the organisation: Corporate Affairs; Electricity; Gas; Retail and Social; and Water. The staff team includes economists, engineers, accountants, utility specialists, legal advisors and administration professionals.

Our Mission

Value and sustainability in energy and water.

Our Vision

We will make a difference for consumers by listening, innovating and leading.

Our Values

Be a best practice regulator: transparent, consistent, proportional, accountable, and targeted.

Be a united team.

Be collaborative and co-operative.

Be professional.

Listen and explain.

Make a difference.

Act with integrity.

Abstract

A consultation paper on transactional charges associated with electricity metering activities was issued on 5 June 2015 and responses were to be received by 3 July 2015. The purpose of that consultation was to obtain stakeholder feedback on a number of aspects related to transactional charges - including levying of charges, liability for charges and the nature of such charges.

This Decision Paper reviews the responses to the consultation paper and provides the Utility Regulator's position.

Audience

Electricity consumers, consumer groups, electricity industry participants, statutory bodies and the wider stakeholder body.

Consumer impact

The regulatory framework should ensure customers are paying fairly for the services they use.

Contents

Introduction and background	4
Structure of Decision paper	5
Purpose of paper	6
Summary of Responses to the Consultation	7
Other issues raised by Respondents	18
Utility Regulator Position	21
Conclusion and Next Steps	22
Annex 1 – Respondents to the Consultation	24

Executive Summary

The Utility Regulator issued a consultation on proposed transactional charges associated with electricity metering activities on 5 June 2015. The responses have been summarised in this decision paper. The responses have been considered by the Utility Regulator and our position on the issues is provided in this decision paper.

The paper looks at what actions NIE Networks Limited (NIE) and Suppliers must undertake on issues relating to transactional charges for metering activities.

The Utility Regulator is cognisant of NIE's metering project that was announced in June 2015 and has decided that proposed transactional charges associated with electricity metering activities should be postponed at present.

The paper also considers views on other important issues that respondents considered relevant in this context and which were not discussed within the Consultation.

The Utility Regulator is therefore recommending a Single Code of Practice for NIE and Suppliers to ensure cohesive and consistent rules and practices when dealing with suspected meter tampering. This will be referred to as a Code of Practice for Theft.

Introduction and background

1. The Utility Regulator's duties include protecting the interests of present and future consumers of energy and water. We are vigilant to issues which could impact on consumers' interests. There is increasing evidence of theft from both Suppliers and the distribution network operator, NIE. The regulatory framework must be capable of responding to the changing and dynamic nature of this theft.
2. The illegal abstraction of electricity from NIE's electricity distribution system indirectly imposes costs on other electricity consumers who are consuming lawfully. The act of consuming electricity illegally does not directly impose a cost on NIE because NIE is not exposed financially to any losses of electricity on its network.
3. The term 'revenue protection' is used in the electricity industry to describe activities to detect and deter cases of illegal abstraction of electricity (and electricity theft) and to collect money owed in relation to that illegal abstraction. NIE carries out revenue protection services on behalf of Suppliers.

Structure of Decision paper

4. The paper will be made up for the following sections:

- summary of Responses to the Consultation including the key points raised by respondents to the consultation questions;
- other issues that were raised in the responses to the consultation;
- proposed timelines for implementation of decisions; and
- conclusion and next steps.

Purpose of paper

5. On 5 June 2015 the Utility Regulator published a consultation paper on proposed transactional charges associated with electricity metering activities. The purpose of this paper is to:
 - Discuss responses to the consultation;
 - Provide the final decisions following the consultation; and
 - Provide suppliers with details on next steps and timeframe for implementation.

Summary of Responses to the Consultation

6. Seven responses were received to the consultation on proposed transactional charges associated with electricity metering activities. The list of respondents is included as Appendix 1 to this decision paper. All of the responses have been posted on our website in full and can be viewed at www.uregni.gov.uk. The response from Power NI was marked 'Private and Confidential' and its comments have not been included in this paper or published. The key points raised by respondents to the consultation questions are summarized below.

Question 1. Respondents are asked to provide any information or evidence they have which relates to the equality impact of the proposals in this paper.

SSE Airtricity

7. SSE Airtricity believes it is important that all customers are treated as equal in the development of revenue protection processes and that it follows the guidelines and rules as set out by the regulator.

Question 2. Respondents are asked for their views on whether it is appropriate to levy a transactional charge with supporting reasons provided. In addition, respondents are asked for their views on which party should be liable for such a transactional charge and in which circumstances, with supporting reasons provided.

SSE Airtricity

8. The cost of providing suitable meters is NIE's responsibility and that cost is recovered through the Distribution Use of System (DUoS) charges. It is therefore unclear to SSE Airtricity why individual transactional charges

should be passed to suppliers to replace meters that are no longer fit for purpose.

9. The owner of the property or responsible customer for the meter directly should incur all costs involved in normalising the situation. The current proposal appears to be addressing meters where there is only a suspicion and no confirmation of tampering. Clear industry guidance would be needed to support a supplier taking such an approach to a customer's meter without confirmation of tampering at the property.
10. Meter tampering is an illegal activity and is outside normal competitive energy business. Costs should pass through to the customer where the Supplier deems appropriate.
11. Not passing through costs means that regular customers who are not acting illegally would ultimately be subsidising those who choose to act in contravention with the law. It is also essential that customers receive the appropriate signals to disincentivise meter tampering activity and are therefore held fully accountable for their actions.

Budget Energy

12. Levying an additional transactional charge for Revenue Protection related activities is inappropriate. Meters provided by NIE should be fit for purpose and be more resilient against tampering and that this shouldn't be an additional cost to be borne by Suppliers. Cost of being vigilant could also penalise a Supplier yet benefit the industry as a whole.
13. Budget Energy believes that transactional charges should only apply in relation to proven cases of meter interference and that these should be levied directly on the offending party / parties.

Consumer Council

14. The Consumer Council believes it is appropriate for NIE to levy a transactional charge in instances of meter tampering. Where criminal activity has occurred, it would not be appropriate for the body of consumers to bear the cost of meter replacement, nor should electricity Suppliers or NIE have to pay for the cost of work undertaken.
15. The amount recovered is reflective of the costs incurred by NIE and that the money is recovered in a non-punitive manner. The individuals proven to have tampered with their meters should have payment options. Special attention should be afforded to the financial situation of each individual concerned.
16. Supplier licence conditions that apply to debt should also apply to the recovery of debt accrued as a result of meter tampering.

Chase Solutions

17. Chase Solutions believes that anything other than a reactive approach will result in costs being incurred by the supplier, either directly if they undertake their own visits, or via charges from the DNO for Revenue Protection visits they undertake following on from leads generated by the supplier.
18. Chase Solutions states that there should be incentives for all parties to address theft without being penalised through transactional charges in instances where suspected tampering cannot be proven.
19. Incentives for suppliers to manage the theft cases themselves could be introduced as per similar schemes in the UK.
20. Chase Solutions believes all parties should come together to shape a process that provides an incentive for the industry as a whole to actively seek, detect and prevent theft in the electricity market.

Electric Ireland

21. Electric Ireland believes that where a fee is being incurred it should be possible, in the circumstances, to pass it on directly to the customer.

NIE

22. There is no other mechanism apparent to NIE under the RP5 price control for NIE to recover the costs of extending its standard Revenue Protection services. An extension to NIE's standard Revenue Protection services is consistent with the Competition Commission's Final Determination.

23. NIE considers it appropriate to levy a transactional charge on the supplier that requests the work to ensure that the associated costs are recovered from Suppliers in a cost reflective manner. It provides Suppliers with a direct commercial incentive broadly in line with other transactional charges.

Question 3. Respondents are requested for feedback as to whether transactional charges should only be levied on meter tampering being **proven** and that no such charges are levied unless conclusive proof is obtained.

SSE Airtricity

24. In the absence of guidance on what will be considered reasonable proof then SSE Airtricity finds it difficult to see how any customer would be charged. SSE Airtricity believes confirmation should come from NIE with respect to tampering at a property based on either physical or paper based evidence.

25. In the absence of being able to pass through the cost of a meter exchange to the customer, it is unclear why a Supplier would request this exchange in the first place.

Budget Energy

26. Budget Energy supports the proposition that transactional charges should only be levied on meter tampering being proven and that no such charges are levied unless conclusive proof is obtained.

Consumer Council

27. Transactional charges should only be passed on to bill payers where meter tampering has been proven following forensic analysis of the meter by NIE. A drop in the consumption of electricity is not proof of meter tampering as other factors may apply. It is also necessary that it is proven that the tampering occurred during the period in which the current occupant of a property was resident.

28. It is equally unfair that the consumer base should bear the costs of mistakes made by electricity supply companies. Where analysis determines the consumer has not engaged in tampering the supplier should pay the transactional charges.

Chase Solutions

29. Chase Solutions believes that to apply transactional charges on only proven instances of tampering is not necessarily the correct approach as there are instances of theft that are difficult to prove and there has been no meter damage.

30. Chase Solutions argues that the levy of a transactional charge in these instances would only act as a reason not to investigate all but the most 'concrete' of leads. Chase Solutions believes the correct behaviour is to investigate in all instances where the supplier believes there is information that requires follow-up activity. Any restriction on the follow-up of theft may lead to issues of safety.

31. Chase Solutions states that it is not always evident from meter testing that the meter has been tampered. Meter tests could be returned as negative and a transaction charge levied on the supplier if the method of abstraction was not specifically active or affecting the meter when the DNO visited the property.

NIE

32. NIE has no comment as to how Suppliers should seek to recover its costs from customers.

33. NIE states it would be acting solely as the Supplier's agent and simply replacing meters on request. NIE would not be endorsing or otherwise checking the accuracy of any information available to the Supplier that leads them to request a meter replacement. NIE believes it is appropriate that it levies a transactional charge on the Supplier to recover its costs regardless of whether meter tampering is subsequently proven.

Question 4. Respondents are asked for their views on what types of charges should and/ or could be recovered via transactional charges and the rationale. We would be grateful if respondents could include a breakdown of elements within such charges and appropriate monetary levels for unit costs.

SSE Airtricity

34. SSE Airtricity believes it is appropriate to recover transactional charges in full from the customer as levied by NIE in cases of confirmed theft.

35. Where charges are passed through to the customer, reasonably occurred costs should also pass through to the customer where the supplier deems appropriate. To disallow a supplier from passing through costs in this way would mean that regular customers who are not acting illegally would

ultimately be subsidising those who choose to act in contravention with the law.

36. It is also essential that customers receive the appropriate signals to disincentivise meter tampering activity and are therefore held fully accountable for their actions. SSE Airtricity believes priority should be given to protecting regular legitimate customers from the activity of those who act illegally.

Budget Energy

37. Transactional charges should principally cover associated labour and material costs and capital costs if wilful destruction of meters can be proven.

38. The determination of appropriate monetary levels should be transparent and competitive.

Consumer Council

39. Where it is proved that an individual has tampered with a meter, the costs associated with the investigation and replacement of the meter should be passed on to the individual guilty of the tampering via payment options.

40. NIE should avoid the need for repeat visits and therefore duplication of potential charges. It is essential that NIE and the electricity suppliers work on the premise that the individual may not be guilty of meter tampering and therefore the visit should be arranged at a time convenient to the individual. The individual should be informed the cost of additional visits will be borne by the individual if they are found guilty of having tampered their meter.

NIE

41. NIE refers to the breakdown of the costs associated with carrying out keypad meter replacement as part of its revenue protection activities as previously provided. NIE further refers to the additional costs of carrying out this work as a revenue protection activity and considers this cost estimate to be robust.

42. NIE estimates that 43% of the estimated cost would be socialised (and charged to all suppliers/customers) through DUoS charges, with the remaining 57% of the cost being chargeable to the Supplier requesting the meter change.

Question 5. We welcome views from respondents as to what measures should be taken to protect vulnerable customers in the context of meter tampering and transactional charges.

SSE Airtricity

43. SSE Airtricity believes no customer category is treated more favourably in the context of illegal activity.

44. SSE Airtricity will address any issues involving vulnerable customers sensitively and where possible assist in reaching an arrangement with the customer. However, this agreement must be made recognising the full extent of what has occurred.

Budget Energy

45. Measures taken will depend very much on the individual circumstances of the vulnerable customer and the particulars of specific situation.

Consumer Council

46. The Consumer Council believe it is important that where individuals are proven to have tampered with their meter, supply companies ensure they recover lost revenue and transactional charges at a rate that is manageable for the circumstances of the individual concerned .
47. The Consumer Council also believe it is essential that suppliers provide consumers with clear information regarding next steps following the identification of meter tampering.
48. Information should also be included concerning organisations which offer advice and support regarding debt issues, housing services, and health and social services. A similar document to the gas “household alert” list should be developed in conjunction with the electricity Suppliers and NIE.
49. The Consumer Council believes there is a need for the UR to develop a code of practice on energy theft. This could include gas to ensure a uniform and fair approach to dealing with meter tampering. The code of practice should also determine the rates at which revenue can be recovered depending on the individual’s circumstances.

Chase Solutions

50. Chase Solutions believes vulnerability is not an acceptable reason for theft and that ‘vulnerable’ customers should be treated in the same way as any other customer.
51. Vulnerable customers would, however, need to be managed on an individual case by case basis, taking into consideration the specific vulnerability of the customer, or the wider household.

NIE

52. NIE states this proposal will supplement other major initiatives being undertaken and managed by NIE which will either directly or indirectly

reduce the risk of meter tampering and the illegal abstraction of electricity that is ultimately paid for by all electricity customers (including vulnerable customers).

Question 6. Respondents are asked for comments on how a transactional charge should be treated and/ or recovered should a customer be in the process of switching/ have switched Supplier.

SSE Airtricity

53. SSE Airtricity believes that a customer should not be allowed to switch Supplier while their energy supply is under investigation or has been found to have a meter tampering at the property. If the customer is allowed to switch Supplier, the charges associated with the transactional charge and revenue protection incident should pass to the new Supplier and be recovered from the customer.

Budget Energy

54. One option to consider is to invoke the debt flag (DCN) process. In cases where a customer proven of meter tampering has switched, such additional transaction charges should be levied directly on the customer.

Consumer Council

55. The Consumer Council considers that where a consumer who is in the process of switching supplier is suspected of tampering their meter, the switch should be temporarily halted until it is determined whether or not tampering has taken place. The Supplier from which the consumer sought to switch should recover the cost of the transactional charges and lost revenue from the consumer. Revenue lost by the initial Supplier is returned

to it by the supplier to whom the consumer has switched via a percentage of each vend made by the consumer.

56. Where a consumer has completed a switch and it is found that their meter has been tampered, the supplier to whom they have switched should pass the transactional charges on to the consumer. Suppliers should be able to reimburse each other in relation to transactional charges.

Chase Solutions

57. Chase Solutions refers to the mainland UK where there are rules around regarding switching that have been adopted and have proved successful.

Other issues raised by Respondents

SSE Airtricity

58. SSE Airtricity recognises that revenue protection is a growing concern in the energy industry in NI. SSE Airtricity believes it is important to establish the principle that the customer/ property owner is responsible for the meter at the property and will be held accountable for any activity at that meter point. The choice to act illegally lies with the property owner/customer and is not something a supplier, NIE or a regular customer should be held liable for.
59. Where possible, costs should be passed through to and recovered from the customer who has benefited from the tamper and where this is not possible the cost should be recovered from network charges which are spread equally across all Suppliers/customers.
60. It appears that the meters being supplied are no longer fit for purpose. NIE should be replacing these meters with appropriate technology and SSE Airtricity welcomes the meter replacement programme that forms part of the NIE price control. There should be a priority of meter replacement in areas where there are high levels of suspected meter tampering.
61. An industry definition of proof of tampering should be developed looking at the type of information that is available to make this type of assessment.
62. SSE Airtricity believes it is important to highlight the obligation on customers with respect to ensuring no tampering or interference with their meter, the safety issues that arise due to meter tampering and the illegality of this activity.

Consumer Council

63. The Consumer Council recognises NIE is required to undertake a programme of meter replacement and recertification. It is concerned however that this work has begun prior to the Department for Enterprise, Trade and Investment (DETI) making a decision concerning whether to roll out smart meters. The Consumer Council believes NIE should be permitted to postpone the meter replacement and recertification programme until such a decision is made.

Chase Solutions

64. Chase Solutions believes in incentives for both Suppliers and DNO to proactively seek and detect theft.

65. Other areas for discussion should include:

- Business Customers and Mixed usage sites supplied as commercial with a domestic element to the supply;
- The use of meter security devices;
- Roll out of SMART metering; and
- Industry-wide incentives for the general public to report theft.

66. Wider discussion on transactional charges and theft to include:

- Proper portfolio management both supplier and DNO;
- Sites with no Supplier;
- Meter reading awareness of theft and reporting;
- The requirement to obtain a periodic read; and

- A review of the warrant process in Northern Ireland for suppliers, or their agents, to take a lead role, working closely with the DNO.

NIE

67. NIE states other major initiatives being undertaken and managed by NIE under the RP5 price control which will either directly or indirectly reduce the risk of meter tampering. This includes NIE's standard Revenue Protection services as well as an extensive capital replacement programme, involving the planned replacement of c. 25% of electricity meters in service across Northern Ireland during this price control period.

68. The proposed additional transactional service by NIE has been developed following a period of significant engagement by NIE with suppliers and other stakeholders over a number of months. The proposal is to provide Suppliers with a mechanism by which a supplier could specifically request NIE to change a keypad meter that it suspects has been tampered. This would provide greater flexibility to suppliers by extending the range of Revenue Protection services. It is an optional service and suppliers have the choice of whether or not to avail of this service and incur the associated cost.

Utility Regulator Position

69. Given the interim measures taken, some of which have been referred to in the “Conclusion and Next Steps” Section the Utility Regulator has decided that proposed transactional charges associated with electricity metering activities should be postponed. The Utility Regulator will consider the introduction of a charge and how best to incentivise all parties involved at a later date, having given due consideration to the outputs achieved as detailed in our Conclusion and Next Steps Section.

Conclusion and Next Steps

70. NIE as the Distribution Network Owner, is starting a new meter project, which will see the replacement of 200,000 electricity meters over the next two years.
71. NIE is responsible for the fitting and maintenance of all electricity meters in Northern Ireland. NIE also reads the meters on behalf of the electricity supply companies in Northern Ireland who in turn use this information to bill customers for their electricity usage.
72. In its final determination for the RP5 price control period, the CMA provided cost allowances for metering works.
73. NIE's current plan is to put in place a programme to replace keypad meters that fall outside certification during RP5. This will target replacement of c. 140k credit meters over the remainder of RP5. The CMA also provided allowances for recertification of keypad meters, with c. 80k of these meters due to expire certification by the end of 2017.
74. Replacement of meters would be based solely on certification requirements rather than the risk of tampering and commenced in 2015.
75. The Utility Regulator will request suppliers and NIE to produce and sign up to a Single Code of Practice for Theft.
76. A working group will be set up to look at producing the Code and to agree terms.
77. Industry representatives, the Consumer Council, Northern Ireland Trading Standards Service etc, will be invited to attend if necessary as part of the Code development.

78. The Code should identify the rules and governance procedures to which Suppliers and NIE must adhere to and should be updated as required.
79. Any Code developed should look at relevant existing schemes in other jurisdictions and energy markets. Further development of the Code to include gas will be considered and will be consulted upon in line with the Utility Regulator's Forward Work Plan.
80. It will still be the responsibility as per Supplier's licences to ensure that Condition 17 'Procedures for the Detection and Prevention of Theft, Damage and Meter Interference' is met.
81. Any Code developed shall be required to be approved by the Utility Regulator. The Utility Regulator's intention is that it will become a licence requirement for Suppliers and NIE to comply with the Code.

Annex 1 – Respondents to the Consultation

SSE Airtricity

Budget Energy Ltd

Consumer Council

Chase Solutions (UK) Ltd

Electric Ireland

Northern Ireland Electricity

Power NI (marked private and confidential)