

Our Ref: Losses/20.0/AJ  
Your Ref:

Gary Keane,  
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Date 02 September 2003

Dear

*Gary*

### **Electricity Distribution Losses – Initial Proposals**

Thank you for the opportunity to comment on the above proposals. This response is on behalf of all three of EDF Energy's licensed Distribution companies (EPN, LPN and SPN) covering the old Eastern, London and SEEBOARD areas.

We support, in principle, Ofgem's proposal in 4.33 to modify the current incentive scheme to reduce losses. We believe that this is a sensible, pragmatic approach that avoids the complexity and cost of the other options whilst also strengthening the incentive. In particular, we support the view that the incentive should continue to apply to both technical and non-technical losses and that the distributed generation adjustment should be removed.

However, we have two concerns over the detailed structure and expectations of such a revised incentive scheme.

Firstly, the "worked example" provided in Appendix 2 is not particularly illuminating as to how the revised scheme would work. We should like to see Ofgem's detailed proposals on the working of the scheme before committing ourselves to supporting the revisions. We understand that these will now be incorporated into the review of the Distribution Price Control currently underway and we look forward to seeing the proposals in October 2003.

Secondly, although strengthening the incentive will mean that loss reduction will play a more prominent role in equipment selection and capital investment decisions, it must be emphasised that this is only one of the variable factors in the decision making process, others including equipment compatibility and purchase cost. Consequently, although it may lead to more lower loss equipment being installed at present it should not be expected that all equipment being installed will be lower loss equipment. Coupled with the

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generally static nature of our asset base, the relatively low equipment replacement and installation levels and the ongoing relatively significant and variable levels of "noise" resulting from non-technical losses, it may be difficult or even impossible to identify any reduction in technical losses as part of the overall reporting of losses in the short term.

Regarding non-technical losses we agree with Ofgem that these are significant and volatile and cause substantial amounts of distortion to reported overall losses, making it extremely difficult to identify genuine technical loss reductions. In addition, we strongly agree that not all of the factors causing non-technical losses are within our direct control. However, we have been working hard to reduce such losses where we have clear responsibility for so doing, particularly in the following areas relating to data quality

- comparisons and analysis between data received by us and that received by Elexon and held in their data monitoring system
- projects to check suppliers have correctly registered 100kW+ sites as half hourly
- cross checking of unmetered supplies estimated annual consumptions issued by the unmetered supplies operator with settlements data to confirm that they are being applied correctly by suppliers and data collectors and
- checking of de-energised sites

We will continue to encourage improvements in the area of non-technical losses wherever possible, particularly in terms of the quantity and quality of data provided by suppliers.

We are participating in the work being done under the Improving Customer Transfers project which may lead, indirectly, to lower losses. We also support the Ofgem initiative to set up a workstream to review responsibilities of the industry with regard to illegal abstraction and whether or not DNOs should provide a revenue protection service to suppliers and plan to play a full part in this workstream to ensure that problem areas are clearly identified and cost effective solutions found that will reduce both theft and losses.

If you have any queries on this response or require any further information from us please contact me on 01293 509370.

Yours sincerely,



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Head of Regulatory Affairs

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