

Anna Rossington  
Head of Distribution Policy  
The Office of Gas and Electricity Markets  
9 Millbank  
London  
SW1P 3GE

98 Aketon Road  
Castleford  
West Yorkshire  
WF10 5DS  
tel (01977) 605641  
fax (01977) 605811

Anna.rossington@ofgem.gov.uk

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Dear Anna

### **Impact of the Interruptions and Incentive Scheme (IIS) on second tier Low Carbon Networks (LCN) Fund projects**

Thank you for the opportunity to comment on the issues outlined in the consultation on power outages associated with second tier low carbon network projects.

We are in full agreement with the sentiments outlined in the consultation, especially of the need to protect customers from inefficient loss-of-supply events caused by work associated with the LCN. On fully considering the implications of each of the options laid out we have come to the conclusion that the second of these, that is funding of IIS penalties through the discretionary reward mechanism, would be preferable.

The consultation first posed the question as to whether LCN fund projects should be protected from IIS penalties. Given that the targets set for IIS did not take into account either planned or unplanned interruptions as a result of LCN projects, then we believe that an allowance should be made for efficiently incurred and planned outages. The contingent nature of innovation projects, in general, means that LCN projects are likely to be subject to some degree of unplanned outage. Such outages can usually be mitigated with careful management but would be difficult to entirely eradicate and some account should be taken of this.

There were 3 options outlined for providing an appropriate allowance:

1. Fund project IIS penalties through project funding
2. Fund project IIS penalties through the discretionary reward
3. Exempt project interruptions from IIS penalties.

Options 1 and 3 do not provide a means of maintaining the downward pressure on the level of interruptions seen by customers. Option 1 requires a pre-assessment of the level of interruptions a given project will incur, but once set, there is no incentive on DNOs to reduce this. Option 3 appears to be a blanket exemption which provides no clear incentive to minimise the impact on customers.

Our considered view is that Option 2, through use of the discretionary reward mechanism, offers the best compromise between protecting customers, minimising project administration and design effort, and ensuring that relief is granted for only such interruptions that can be exclusively attributed to the project, be they planned or unplanned.

In implementing this option, DNOs would total up the planned and unplanned interruptions actually attributable to LCN projects. Only then, after the fact, would they be recompensed via the discretionary reward following successful scheme completion.

These totals would be potentially subject to audit, to ensure they had been efficiently incurred and correctly allocated to LCN work.

Treating all LCN caused interruptions as counting towards IIS penalties and then giving a post event "allowance" for the IIS penalties incurred has the effect of reducing the annual exposure to IIS which all DNOs have accepted. We would therefore expect that the calculation of recompense for LCN activities would take this into account to ensure the exposure is maintained.

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For the reasons set out above regarding future projects, it is our view that the same principles should be applied to those LCN projects, for which funding was agreed in 2010, i.e. Option A, funding through the discretionary reward mechanism.

I hope you find these comments useful. If you have any questions arising from this consultation response, please do not hesitate to contact me.

Yours sincerely

**Chris Goodhand**  
**Innovation Manager**