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24 January 2010

Dear Anna,

**Impact of the Interruptions Incentive Scheme (IIS) on Second Tier Low Carbon Networks (LCN) Fund projects**

SSE welcomes the opportunity to comment on the appropriate approach to any increases in a DNO's interruption performance as a consequence of Low Carbon Network (LCN) trials on its network.

The accompanying annex sets out our responses to the specific questions asked. In short, we believe it is important that DNOs continue to be incentivised to keep interruptions and customer disruptions to a minimum. We believe this is best achieved by retaining the existing quality of service incentives. However, we do not believe that the interruption incentives should preclude more innovative ways of implementing LCN trials. Therefore, if a DNO is able to demonstrate *ex post* that it has taken all reasonable endeavours to keep interruptions to a minimum in rolling out its LCN trial, but interruptions have nevertheless increased, we believe steps could be taken to recompense the DNO for those increased interruptions.

As always, we hope this is useful. Should you wish to discuss any of the above in more detail, please do not hesitate to contact me.

Yours sincerely,

Aileen McLeod  
**Head of Regulation, Networks**

## ANNEX

### ***Views on whether projects funded under the second tier of the LCN Fund should be protected from IIS penalties and whether this protection should apply to all interruptions or only planned interruptions.***

It is our view that customers should not be knowingly subject to deteriorating service levels as a consequence of the LCN trials. By removing or relaxing the existing interruptions incentive we are concerned that DNOs will be less inclined to consider and take all possible steps to keep interruptions to an absolute minimum. Moreover, we believe it would be very difficult to accurately identify LCN-linked supply interruptions upfront in order to exclude them from a DNO's performance.

### ***Views on the best way to implement protection for LCN Fund projects from IIS penalties (if appropriate).***

As stated above, we do not believe it is entirely appropriate to lend unconstrained protection to DNOs for increased interruptions as a result of LCN trials. It is our view that DNOs should be actively encouraged to maintain quality of service levels during any innovative network trial and we believe that this is best achieved by retaining the existing Interruption Incentive Scheme.

That said, we recognise that there may be instances where it is appropriate to lend some degree of protection to the DNOs against rising interruptions. Where a DNO is able to demonstrate *ex post* that it has taken all reasonable endeavours to keep interruptions to a minimum in rolling out its LCN trial, but interruptions have nevertheless increased, we believe steps could be taken to recompense the DNO for those increased interruptions. For example, we believe there are emerging techniques that could be deployed to mitigate or avoid customer interruptions during any trials. By lending some protection to DNOs that are prepared to trial these more innovative techniques, DNOs would be more prepared to pilot these initiatives. We believe this is a better way forward than simply excluding LCN-triggered interruptions.

To this end, in terms of the options set out in your letter dated 20 December, we support elements of both options 1 and 2. We believe DNOs should be asked to set out, as part of their LCN bids, the estimated value of IIS penalties associated with their project and to go a step further and set out their actions in terms of keeping interruptions to a minimum. We agree that it is important to assess the bids on a consistent cost basis and that this approach provides a strong incentive on the DNOs to do all they can to prevent interruptions. However, in terms of funding any interruptions, we believe this should be on an *ex post* basis. The DNO would therefore log-up IIS penalties associated solely with the project during the period. Where the DNO is able to demonstrate that it has taken all reasonable steps to mitigate interruptions, the DNO would be recompensed for the associated penalties. We believe this could be funded through either any remaining LCN Fund or the discretionary reward.

***Views on which of the options should be implemented for this year's LCN Fund projects.***

We previously expressed concern about retrospectively adjusting the basis on which LCN projects would receive funding. We felt that the late changes to the licence to facilitate certain projects were not consistent with the overall intent of the Low Carbon Network Fund or customers' best interests. Of the two options set out in your letter dated 20 December, we would therefore favour Option A: use the discretionary reward funding mechanism to fund IIS penalties *ex post*. As per our response above, we would suggest that UK Power Networks and Western Power Distribution are required, ahead of any funding being made available, to demonstrate that they have taken all reasonable endeavours to minimise customer interruptions and, only where this is the case and interruptions have nevertheless increased exclusively as a result of the LCN trials, should the DNOs be recompensed.