



Registered Office:  
Newington House  
237 Southwark Bridge Road  
London SE1 6NP

Company:  
UK Power Networks  
(Operations) Limited

Registered in England and Wales No: 3870728

Anna Rossington  
Ofgem  
9 Millbank  
London  
SW1P 3GE

By email only to [anna.rossington@ofgem.gov.uk](mailto:anna.rossington@ofgem.gov.uk)

24 January 2011

Dear Anna

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

Thank you for the opportunity to comment on the above consultation. This response should be regarded as a consolidated response on behalf of UK Power Networks' three distribution licence holding companies: Eastern Power Networks plc, London Power Networks plc, and South Eastern Power Networks plc.

We have considered Ofgem's proposal carefully and support its view that second tier LCN Fund projects should be protected from IIS penalties. As not all of the DNOs are participating in second tier LCN Fund projects, those DNOs taking part should not be penalised for IIS penalties generated through the projects.

It is our view that LCN Fund projects are exploiting the frontier of technology and are higher risk by nature; therefore there should be a clear means of offsetting the impact of IIS penalties, without the DNOs taking on any additional risk. We believe that protection from IIS penalties should include planned and unplanned incidents of the LCN Fund project and that because it is difficult to estimate the value of the IIS penalties associated with projects, especially for unplanned interruptions of supply, using a logging up mechanism is appropriate.

We believe that a refinement of Option 2 will provide the best solution to this issue – namely using the discretionary reward funding mechanism to fund these costs, with a refinement of funding the costs on an annual basis and not at the end of the project.

Finally, it is our view that it is also important that any CIs or CMLs incurred as a direct consequence of an LCN Fund project are separately recorded and reported – including in Ofgem's annual performance report. Similarly, in terms of a DNO's overall DPCR period 'output' performance, such LCN Fund project incurred interruptions should be excluded from performance appraisal and any benchmarking.

Additionally, in respect of your final question, we have considered which of the two options proposed by Ofgem is best for LCN Fund projects which have already been approved. We support Option A, to use the discretionary reward funding mechanism to fund the IIS penalties for those projects which have already been approved. This is the most efficient method of achieving the aim.

If I can be of any further assistance in respect of this response, please do not hesitate to contact me on 01293 657853.

Yours sincerely

Paul Measday  
Regulation Manager  
UK Power Networks