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| | 167/10 | 0117 933 2175 | 10th January 2011 |

Dear Anna

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

We are responding to the above Ofgem consultation letter dated December 20th 2011. This response is from the WPD South West and WPD South Wales licensed areas (WPD).

Our response follows the format of the consultation letter and considers each of the three issues raised in turn;

Should Second Tier LCN Projects be protected from IIS penalties and should this apply to both planned and unplanned interruptions?

WPD supports incentives to perform efficiently, to be innovative and to provide the best customer service. We are a top performer against the IIS targets, and have shown ourselves willing to put forward innovative LCN projects.

We support protection for LCN projects from IIS penalties. Trialling the use of new technology on DNO networks may involve interrupting supplies to individual customers for short periods of time during installation and decommissioning of equipment. Whilst planned interruptions are more likely to be associated with LCN projects, DNOs should not be precluded from seeking protection from unplanned interruptions. In order for DNOs to develop the best possible range of LCN projects, Ofgem should provide reasonable protection from IIS penalties. WPD supports incentives as the best way to ensure that interruptions are necessary and minimised, rather than pass through or ex-post assessment mechanisms.

As a further point, interruptions associated with LCN projects should be reported separately from other interruptions to provide visibility on the impact of LCN activity on customers. This will also enable Ofgem and customers to continue to make accurate comparisons between companies' performance on unplanned interruptions and planned maintenance interruptions. It will also maintain the incentive on DNOs to

improve their performance against their targets, without weakening opportunities for innovative LCN projects.

How should IIS protection be implemented for future projects?

Ofgem set out a range of options on how protection from IIS penalties should be applied to future LCN projects;

Option 1: Fund project IIS penalties through project funding.

Option 2: Fund project IIS penalties through the discretionary reward.

Option 3: Exempt project interruptions from IIS penalties.

We support Ofgem's preference for Option 1 as a long term approach to the impact of LCN projects on IIS performance. In order for the Expert Panel and the Authority to make a robust assessment of potential projects and arrive at a final decision without the need for iteration, the full cost of the project including IIS penalties should be included in DNOs project submissions. This would provide an economic cost of the inconvenience to customers. We agree that as with any bidding process, bidders need to balance cost recovery against cost effectiveness. Also customers in DNO areas experiencing a higher level of LCN interruptions will be compensated by slightly lower bills.

We do not support Option 2. We agree with Ofgem that Option 2 provides weaker incentives for DNOs to provide a full economic assessment of projects including customer impact or to minimise interruptions.

How should IIS protection be implemented for this year's projects?

Ofgem also set out two options on how protection from IIS penalties should be applied to current LCN projects;

Option A: Fund project IIS penalties through the discretionary reward.

Option B: Exempt project interruptions from IIS penalties.

As an interim solution, we support Option B. Option B works, as it maintains the incentive to minimise interruptions. The Expert Panel and the Authority were able to take account of the impact on customers and IIS penalties in their decisions as WPD included this assessment in its Second Tier LCN Project submission. However as this was not part of the cost calculation under the LCN governance requirements it could not be included in the funding award. Implementing the proposed licence modification for EDF and WPD will provide the better incentive to minimise customer interruptions.

We do not support Option A. We agree with Ofgem that Option A provides weaker incentives for DNOs to provide a full economic assessment of projects including customer impact or to minimise interruptions. It also disturbs the LCN governance arrangements, particularly for the first year.

If you would like to discuss this matter any further please do not hesitate to contact me on 0117 9332175.

Yours sincerely

A handwritten signature in black ink, appearing to be 'AS', written in a cursive style.

ALISON SLEIGHTHOLM
Regulatory & Government Affairs Manager