



Distribution Losses in ED1

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- ▣ What is the purpose of a losses incentive?
 - Encourage DNOs to reduce real losses on their networks?
 - Encourage DNOs to ensure all units entering or exiting their system are accounted for?

- What do we mean by a mechanism that encourages DNOs to reduce losses on the network?
 - Is this at an absolute level (e.g. Total Losses)?
 - Is this a relative level (e.g. Compared to Units Distributed)?
 - Is this from what they would have been had the DNO taken no action?

- Changes in load can cause changes in losses that mask the effects of underlying performance.
 - Loading up existing capacity causes total losses to increase, relative losses to decrease?(dependent on fixed/ variable ratio)
 - More peaky load causes total and relative to increase.
 - Location and volume of Distributed Generation.

- Any output approach may need to be adjusted for these effects.

Reducing Real Losses (2)

- May need some form of assessed benefits approach for ED1 for DNO losses initiatives with benefits audited.
- Are targets needed in order to ensure some minimum level of assessed improvement is achieved?

- Current data quality and the introduction of smart metering make a wholly output based approach unworkable for losses for ED1.
- One objective for ED1 should be to improve the measurement of losses.
- A low-powered output based approach may still have a role to play in ED1 to ensure all units are recorded.
 - DNO actions
 - Ensure all connections metered (correctly!)/ on an inventory
 - Tackle theft and ensure suppliers tackle theft
 - Scrutinise/ challenge supplier data and settlement processes
- A full output mechanism may still be appropriate in some form for ED2.