



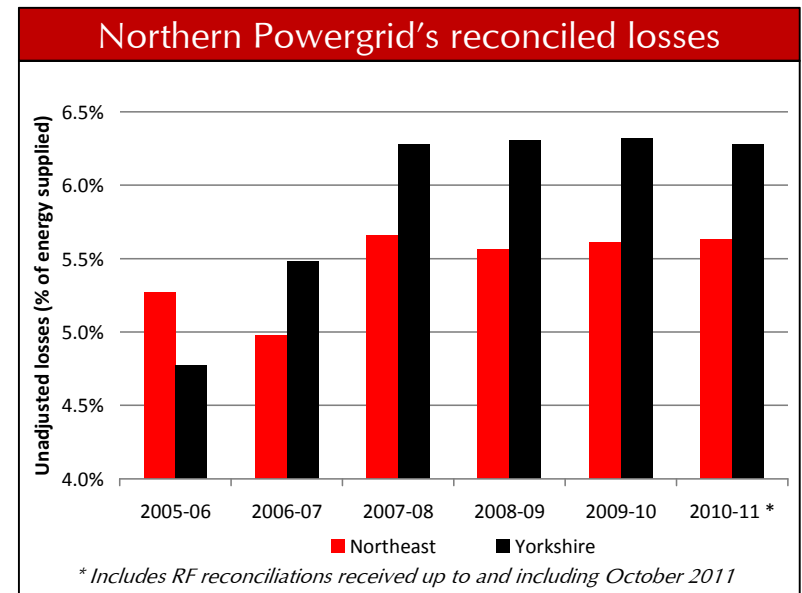
## The RIIO-ED1 losses incentive

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4<sup>th</sup> May 2012

# The DPCR5 losses incentive will not be fit for purpose at the start of RIIO-ED1

- The DPCR5 losses incentive takes as its starting point settlements data which inherently relies on estimated consumption
  - There have already been material issues with consistency over time in DPCR4 settlements data as historical errors have been corrected
  - While the data should have been improved by RIIO-ED1, there is no guarantee an end point has been reached
  - The roll-out of smart meters during RIIO-ED1 is likely to uncover further material errors, and material discontinuities as these are corrected
- Establishing incentive targets and consistent measurement will be extremely challenging
- Any efforts DNOs can make to reduce actual electrical losses will be drowned by changes in measurement error, which is not an effective starting point for any incentive.

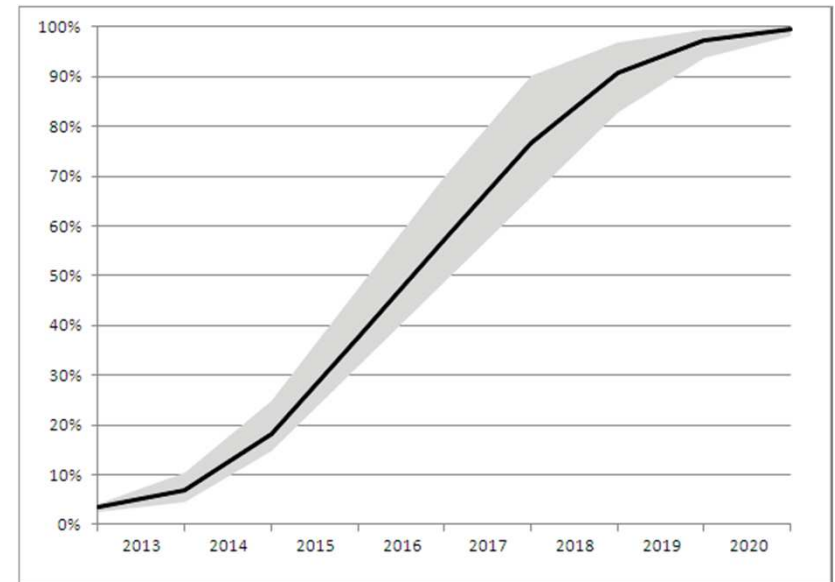


*An alternative must be found if Ofgem is to be able to implement a credible incentive to reduce electrical losses from the start of RIIO-ED1*

## Smart meters should improve losses data but will need to be rolled out and bedded in first

- Smart meters should bring material benefits to the operation of networks
- This should include the ability to measure electrical losses on the network with much greater accuracy, provided that the :
  - technical specification of the meters and data transmission network is good enough; and
  - roll-out covers a large enough proportion of currently non half hourly metered sites
- But the rollout will take time...
- ... It might cause the data to get worse before it gets better...
- ... and we will need to have enough stable data available before targets can be set...
- Critically, we cannot forecast what the impact of the rollout will be when setting targets

Range of cumulative smart meter rollout volumes – DECC Impact assessment 30/03/2011



*While smart meters should help, they will not provide an answer soon enough for the start of RIIO-ED1*

## During the transition, an alternative way to incentivise electrical loss reduction is needed

- Although direct measurement and incentivisation of electrical losses would be ideal, this is not possible
- The best available proxy is required, and we have seen that the current settlements data is not fit for purpose
- This leaves the obvious alternative as an engineering model of electrical losses on the network which would:
  - provide a consistent measure of losses and changes in losses over time
  - be a sound basis for a relatively high powered incentive to encourage the installation of low loss equipment
- Any proxy arrangements should then be reviewed in future once the smart meter roll-out is completed and sufficient post roll-out data is available to establish target levels.
- This may possible at the mid-period review of outputs for RIIO-ED1, provided that sufficient data following the smart meter roll-out is available.

*An engineering model of losses is the most obvious candidate, at least until enough data is available from smart meters*