

The background features a large, stylized white arrow pointing to the right, set against a blurred image of a modern building with a glass facade and a large, glowing, multi-layered circular structure resembling a light fixture or a stylized sun. The overall color palette is dominated by blues, oranges, and whites.

RIIO-ED1 Distribution Losses

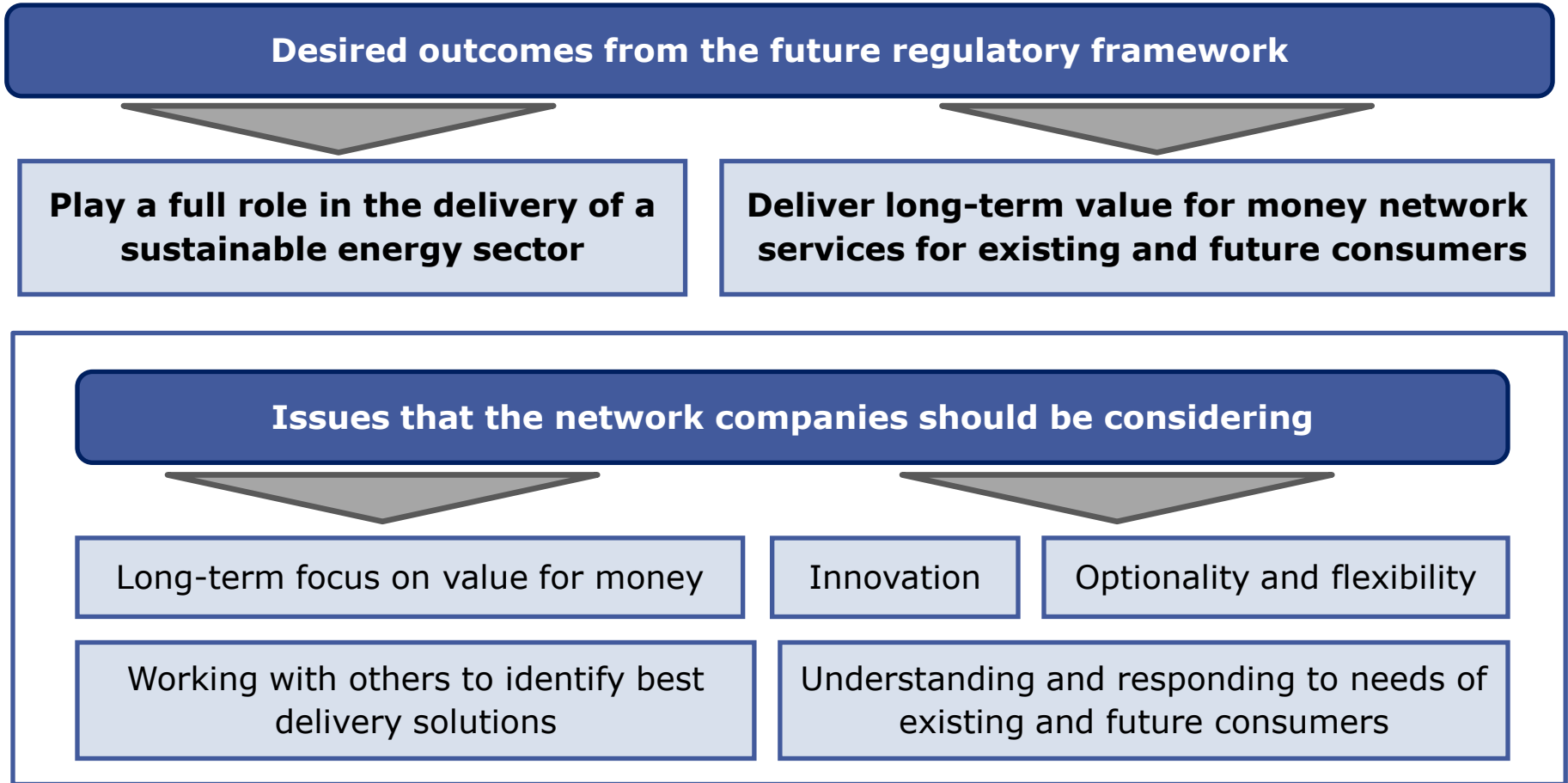
LWG discussion 4 May 2012

The Goal: To consider the approach to Distribution Network Losses in RIIO-ED1

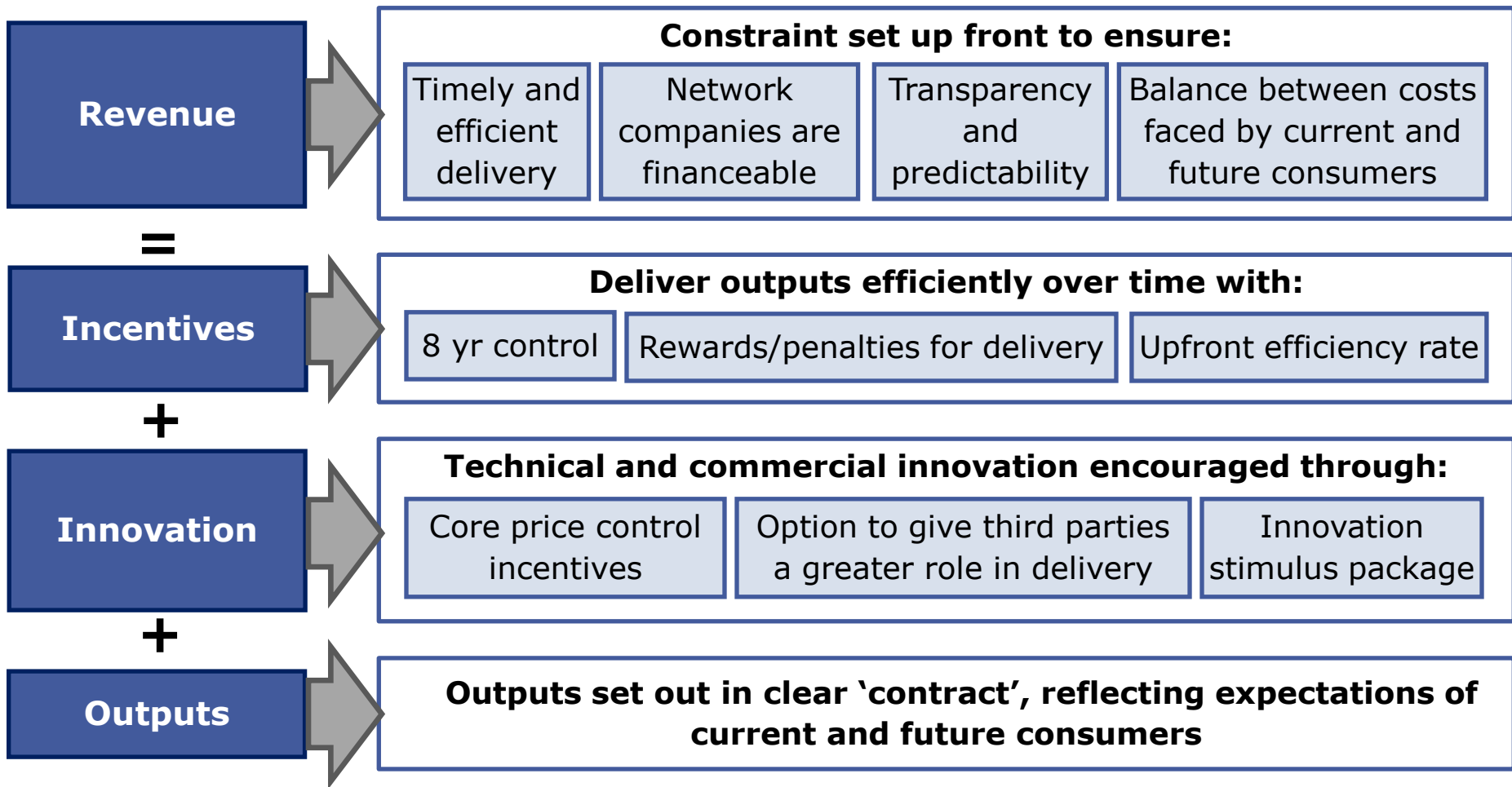
What do we want to achieve?

- High level understanding of the RIIO approach
- Recap of the current losses approach
- Overview of feedback from RIIO-ED1 February 2012 consultation
- Listening to stakeholder views
- Questions to consider
- Way forward

What is RIIO seeking to achieve?



RIIO: A new approach to regulation



The current approach to losses

- Why do we do anything about losses?
 - To encourage DNOs to manage distribution network losses (network efficiency and reduce emissions)
- How can DNOs manage network losses?
 - network investment (efficient equipment)
 - optimising network operation
 - Encouraging users to control losses
 - Improved quality of data
 - Actions to reduce theft
- Key requirements
 - Reporting (data) integrity
 - Consistency over time

Summary of RIIO-ED1 Open Letter responses

- Question asked in the open letter published in February 2012
 - *Which of the DPCR5 outputs and incentives do you consider to be fit for purpose, or require minimal amendment, for RIIO-ED1?*
- Responses summary
 - Of 26 responses, 9 refer to the losses incentive directly, and 4 indirectly
 - Those that refer to it specifically are
 - Four DNOs
 - Three suppliers
 - REA
 - Consumer Focus

What do respondents say about the losses mechanism?

- ALL responses query the mechanism's suitability in its current form
 - Smart metering roll-out and its impact on quality of data
 - DNO efforts to reduce losses negated by measurement errors no incentive →
 - DNO/Supplier Working group concluded mechanism fundamentally flawed and settlement data is not appropriate for measuring distribution losses
 - No evidence of reduced carbon
 - Windfall gains / losses outside of DNO control
 - Suggest incentive should be limited to technical losses, and/or incentive strength substantially reduced
 - A mechanism to assess improvements based on technical interventions
- Other stakeholders refer to it indirectly
 - Low carbon a priority
 - Impact of the incentive on other stakeholders / tariffs
 - IDNO participation in incentives
 - Link to innovation and its effect on the network

STAKEHOLDER PRESENTATIONS

Some concepts and principles to consider in going forward

Proportionality

Adaptability and
Commitment

Consistency

Clarity and
Controllability

Transparency

Credibility

Some questions

- Is there still a rationale for trying to reduce distribution losses?
- Do DNOs have enough direct control to undertake adequate actions to reduce losses?
- If the current mechanism isn't fit for purpose – do we walk away from it?
- Does the approach taken focus on a) the right stakeholders, and b) the right data?
- Has the current approach improved the losses position / carbon emissions in any measurable way?
- Incentive vs penalty approach?
- Who pays for it? Should they?

Way Forward

The background of the slide is a composite image. On the left, there are rows of solar panels under a bright sun. On the right, a hand is shown holding a white document. In the bottom left corner, a blue gas burner is visible. The overall theme is energy and customer service.

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Promoting choice and value
for all gas and electricity customers