

RIIO-ED1 Losses Working Group Meeting

Discussion on Distribution Network Losses in the RIIO-ED1 Price Control Review	From Date and time of Meeting Location	Lesley Ferrando 4 May 2012 10:00 – 13:00 BIS Conference Centre, 1 Victoria Street, London SW1H 0ET	19 May 2012
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1. Present / Apologies

For a full list of attendees and apologies please see Annex A.

2. Introduction

Ofgem outlined the RIIO environment, and put in context the requirements of the working group in considering how any distribution network losses incentives can best be included in the RIIO-ED1 price control review.

A summary of the responses received to the February 2012 RIIO-ED1 open letter consultation highlights that most stakeholders query the existing losses incentive method's suitability in its current form. This is predominantly due to concerns around the quality of data available to measure losses, which could be further affected by the smart metering roll-out.

Any proposed approach to losses should consider key principles of proportionality; adaptability and commitment; consistency; clarity and controllability; transparency; and credibility.

3. Stakeholder presentations

A number of stakeholders made short presentations (Annex B) and answered related questions. Some of the key points mentioned in the discussions that followed were:

3.1. ENW

ENW questioned the purpose of a losses incentive, and what is actually meant by a mechanism to reduce losses. Non-technical losses should be taken account of. They proposed that in RIIO-ED1 stakeholders should be encouraged to tackle data concerns, and get the benefit from any technical solutions implemented. They also highlighted that data privacy issues would need to be considered in any approach.

3.2. WPD

WPD touched on the positives and negatives of the existing losses incentive mechanism. They provided some suggestions as to how losses could be approached in RIIO-ED1, including that the existing recording method should be kept in place, even if the mechanism is suspended. They suggest that there should be no DPCR5 close-out payment to improve revenue certainty.

3.3. Northern Powergrid

Northern Powergrid highlighted that the smart metering roll-out would lead to uncertainty but that the impact cannot be forecast. This could have a substantial impact on target setting. It could also help identify theft but would not eradicate it.

They propose that some sort of engineered model of losses should be considered, until sufficient post smart metering data is available. This could include a range of incentives targeted at actions to reduce losses, covering items such as assets (capex); theft; inaccurate meter readings.

They queried whether signals to reduce losses could be included in the structure of charges to encourage the correct customer behaviour, but this would require accurate data which is not necessarily available. The skew in a DNO's ability to control data could be considered in the structure of any incentive, and some incentive on suppliers to correct data could be included.

Some low carbon initiatives (such as connecting micro generation to the system) would cause losses to increase, and DNOs should not be penalised for this, otherwise an unintended consequence of such a losses mechanism could be to discourage some developing technologies. Smart metering systems will also use some energy, which could increase calculated losses figures.

3.4. SP

SP propose that due to the data concerns raised, the focus on losses in RIIO-ED1 should be to reduce technical losses. Alternative measurement options could include system modelling; a losses delta; or measuring losses by type (technical, data accuracy, theft). Each of these options has associated pros and cons.

A modelled approach for HV networks and a statistical approach for LV networks could be considered. While RIIO principles are embraced, a bad outputs measure is not necessarily superior to a good input measure.

A modelled approach measuring losses as a part of asset health could be developed.

3.5. BG

BG believe it is important for customers to have an effective losses incentive scheme, but that any scheme must be transparent and must benefit customers. They suggest that targets could reduce over time. However, while reducing losses may benefit the environment it does not necessarily benefit customers by reflecting in lower bills.

While a modelled approach may be considered, transparency is key and using a model where performance is not measured but rather motivated/justified by the DNO should be avoided. Different incentives placed on DNOs and suppliers can conflict.

4. General discussion and way forward

- 4.1. An open discussion session highlighted a number of possible approaches and points to be noted. Some general points were:
- 4.2. The ENA has established a DNO group to look into smart meters and losses and what might feed into a losses incentive. The government's current consultation on data accuracy and access and aggregation plans associated with the smart metering roll-out, could also affect any approach taken.

- 4.3. The group should consider targets, triggers, timeframes and tools when considering any options. For example, actions the DNO can implement to control losses generally have longer associated timeframes. In the design of any mechanism we need to consider when a DNO will receive any reward (or penalty) and the duration of any incentive.
- 4.4. Any proposed approach must be cautious about the data requirements. While various entities could obtain and manage / analyse data, the effort required measured against any benefit obtained must be proportionate.
- 4.5. Any approach should seek to minimise or optimise:
- Capex
 - Opex
 - Metering losses (data) and theft
 - Data accuracy (settlements)
- 4.6. Based on the above, some approaches could be:
- Presenting a capex business case (losses before / after)
 - Linking to asset health (what the investment will achieve)
 - Something similar to the innovation incentive, where projects are approved for funding
 - Some system modelling – difficult because the system is not static
 - A duty based approach, using a licence obligation to encourage reduction in losses and penalties if the duty is not fulfilled
 - Ofgem determine an optimal value for losses, with a post investment assessment
- 4.7. Some questions to ask are:
- Is using the price of carbon proportionate to all of these categories?
 - Is a pence/kWh approach to reward / penalise the right way to incentivise?
 - Is it right to provide a reward over the short term for assets which will deliver benefits over a longer period?
 - What are the risks?
 - Can we rely on an investment assessment made up front?
 - Who will carry out / audit appraisals?

5. Agreed actions

- 5.1. The group agreed that strawman proposals should be worked up on each of the possible approaches, based on a template paper to be circulated by Ofgem. Each paper should be circulated to the group by 23rd May 2012. The different approaches and responsibilities are set out below:

Approach / Topic	Responsibility
Investment Appraisal (pre investment)	Tony McEntee (ENW)
Post Investment Appraisal (cost assessment)	George Moran (BG)
Measurement / Assessment (Engineering approach), "Asset Health" type index	Allan Hendry (SP)
Duties Based Approach	John France (Northern Powergrid)
Metering, data and theft	Harvey Jones (Northern Powergrid)/Jonathan Purdy (UKPN)
"Innovation Stimulus" type approach	Lesley Ferrando (Ofgem)

6. Date of next meeting

The next meeting will take place on Monday 28th May 2012 from 12:00 to 17:00 at Ofgem's London offices.

Annex A – RIIO-ED1 Losses Working Group

Attendance

	Name	Organisation
1	George Moran	British Gas
2	Andy Manning	British Gas
3	Carl Bate	Consultant
4	Duncan Carter	Consumer Focus
5	Andrew Ryan	DECC
6	Julia Haughey	Edf Energy
7	Trent Hardman	Elexon
8	Richard Cullen	Engage Consulting
9	Mike Attree	ENW
10	Tony McEntee	ENW
11	Mike Harding	GTC (IDNO)
12	Harvey Jones	Northern Powergrid
13	John France	Northern Powergrid
14	Keith Noble-Nesbit	Northern Powergrid
15	Peter Collinson	Northern Powergrid
16	Helen Inwood	Npower
17	Dora Guzeleva	Ofgem
18	Andy Cormie	Ofgem
19	Lesley Ferrando	Ofgem
20	Tim Aldridge	Ofgem
21	Stephen Perry	Ofgem
22	Andy Tanner	Revenue Assurance
23	Mark Elmer	Revenue Assurance
24	Allan Hendry	SP
25	Garth Blundell	SP
26	Gerard Boyd	SP
27	Max Lalli	SSE
28	Paul Mitchell	SSE
29	Jonathan Purdy	UKPN
30	Matthew Shore	UKPN
31	Dave Wornell	WPD