

Andy Cormie
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Dear Andy,

17 August 2012

Whether to activate the Distribution Losses Incentive Mechanism in the Fifth Distribution Price Control

ScottishPower Energy Retail Ltd welcomes the opportunity to respond to this consultation. We are encouraged and supportive of Ofgem's minded to position to remove the losses mechanism from DPCR5. Please note this response is not confidential and can be published on the Ofgem website.

We have detailed our response to the consultation questions within Appendix 1.

If you wish to discuss any of the points raised in this letter further, please feel free to contact me, using the details above.

Yours sincerely,

Lorna Mallon
Energy Commercial
ScottishPower

Appendix 1

CHAPTER: Two

Questions 1: Do you have views on whether the existing losses mechanism is effectively incentivising DNOs to reduce losses? Please explain your answer.

The current mechanism cannot effectively incentivise DNOs to reduce losses as it is based on data outwith their control, i.e. settlement data.

Question 2: Do you have views on whether or not the DPCR5 losses mechanism should be activated? Please explain your answer.

We agree with the minded to position within this consultation, which is the DPCR5 losses mechanism should not be activated. However, if it were to be put in place it should not be based on settlement data.

CHAPTER: Three

Question 3: Do you agree with our position that we should not allow retrospective changes to be made to the DPCR4 mechanism? Please explain your answer.

Although, as stated previously, our preferred option had been the retrospective change to the mechanism, we now accept that DPCR4 must be closed out as soon as practically possible and as such agree with the Ofgem position not to allow retrospective changes.

Question 4: Are there other options we should have considered?

We are not aware of any other options worth considering.

Question 5: Do you agree with Ofgem's preference for Option 3? Please explain your answer.

We support Ofgem's preferred option to not activate the DPCR5 losses mechanism. This removes a significant area of risk and volatility within the DUoS forecasts.

Question 6: Do you have views on our proposal to introduce a reporting requirement for DNOs to inform us of actual measures they are taking to reduce losses? Please explain your answer.

As a supplier we support a reporting requirement but are not in a position to comment on the specific elements of a reporting mechanism.

Question 7: Do you have views on the detail of what DNOs would be required to report and the approach to publishing details? Please explain your answer.

As a supplier we support a reporting requirement but are not in a position to comment on the specific elements of a reporting mechanism.

CHAPTER: Four

Question 8: Do you have views on our proposal to move the date by which a direction is required on the value of PPL from 30 November 2012 to 1 April 2013? Please explain your answer.

We understand and accept the rationale for the 1st April 2013 date.

~~**Question 9:** Do you think that DNOs should set the value of PPL to zero in their July 2012 DCUSA forecasts for 2013-14 or leave current estimates in place? Please explain your answer and respond on this point by 24 July 2012.~~

Question 10: Do you have views about whether the PPL term, when set, should be recovered over the single remaining year of DPCR5, over two years running into RIIO-ED1 or in the first two years of RIIO-ED1? Please explain your answer.

Our preferred option would be for the PPL term to run over two years into the RIIO ED1. This reduces the risk to suppliers and customers of a large change to DUoS charges while allowing DNOs to recover any DPCR4 allowed revenue as soon as possible.

Question 11: Do you have views on whether we should move the date by which a direction is required on the DPCR5 targets from 30 November 2012 to 1 April 2013? Please explain your answer.

We understand and accept the rationale for the 1st April 2013 date.

~~**Question 12:** Do you have views on whether DNOs should set to zero, their forecasts for recovery of annual incentive in 2013-14? Please explain your answer and respond on this point by 24 July 2012.~~