



Distribution Network Operators
and other interested parties

*Promoting choice and value for
all gas and electricity customers*

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Notice under section 11A of the Electricity Act 1989 - Proposed modifications to Standard Licence Conditions 33 and 44B, Annex 1 of Standard Licence Condition 47, and Appendix 1 of Standard Licence Condition 49 of the Electricity Distribution Licence in accordance with the Authority's decision not to activate the Distribution Losses Incentive Mechanism contained in the fifth Distribution Price Control Review (DPCR5)

The Authority¹ proposes to modify Standard Licence Conditions 33 (SLC33) and 44B (SLC44B), Annex 1 of Standard Licence Condition 47 (SLC47), and Appendix 1 of Standard Licence Condition 49 (SLC49) of the Electricity Distribution Licence (the Licence) to amend sections of the condition which relate to the losses incentive mechanism in the fifth electricity distribution price control period (DPCR5). The amendment proposes replacing the current distribution losses reporting regime with a distribution losses reporting requirement (DLRR).

On 6 July 2012 we consulted on whether to activate the losses incentive mechanism in the DPCR5 period.² This was prompted by a range of issues that have emerged in recent years which raised concerns that the losses mechanism cannot operate as intended, nor incentivise appropriate action by Distribution Network Operators (DNOs).

Having considered the responses to the July consultation, which are available on the Ofgem website alongside the consultation document, we are issuing our decision not to activate the DPCR5 distribution losses incentive mechanism³. This decision includes replacing the distribution losses reporting regime with the DLRR.

The implementation of this decision requires modifications of the terms of SLC44B which relate to the distribution losses reporting regime, to SLC33 which contains definitions, to Annex 1 of SLC47 which sets out price control revenue information, and to Appendix 1 of SLC49 which sets out a table of correspondence.

The reasons for the proposed modifications are set out in the associated document – Document D: DPCR5 Distribution Losses Reporting Requirement (Ref 149d/12).⁴ Readers are directed to paragraphs 4.3 and 4.4 in particular which relate to SLC44B.

¹ The terms 'the Authority', 'Ofgem' and 'we' are used interchangeably in this document. Ofgem is the Office of the Gas and Electricity Markets Authority.

² www.ofgem.gov.uk/Networks/ElecDist/Policy/losses-incentive-mechanism/Documents1/Consultation%20-%20whether%20to%20activate%20the%20DPCR5%20losses%20mechanism.pdf

³ http://www.ofgem.gov.uk/Networks/ElecDist/Policy/losses-incentive-mechanism/Documents1/1A_Decision_Losses_DPCR5_161112.pdf

⁴ http://www.ofgem.gov.uk/Networks/ElecDist/Policy/losses-incentive-mechanism/Documents1/4D_Decision_Losses_Reporting_DPCR5_161112.pdf

We are now conducting a formal (statutory) consultation on the proposed modifications which are set out in Appendix A to this Notice.

The effect of the modifications would be to replace any clauses pertaining to the distribution losses reporting regime with clauses which pertain to the DLRR.

Interested parties may make representations with respect to the proposed modifications and we will take those representations into account in coming to its decision. Any such representations should be made in writing and sent to us by 14 December 2012, by e-mail to dora.guzeleva@ofgem.gov.uk or by post to Dora Guzeleva at Ofgem, 9 Millbank, London, SW1P 3GE.

Should our decision be to proceed with the modifications, the modifications will come into effect 56 days after the publication of our decision.

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[Produced electronically]

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Appendix A – Proposed modification to licence conditions with respect to reporting distribution losses

Condition 33. Definitions for the Section B standard conditions

- 33.1 Most of the defined words and expressions (all of which begin with capital letters) that are used only in the standard conditions of Section B of this licence are set out below, alongside their definitions.
- 33.2 But where defined words and expressions are used only in a particular standard condition of Section B, their definitions are included in that condition.

Definitions in alphabetical order

- 33.3 In the standard conditions of Section B of this licence, unless the context otherwise requires:

Appropriate Auditor	means: <ul style="list-style-type: none">(a) in the case of a licensee that is a company within the meaning of section 1 of the Companies Act 2006 a person appointed as auditor under Chapter 2 of Part 16 of that Act;(b) in the case of any other licensee that is required by the law of a country or territory within the European Economic Area to appoint an auditor under provisions analogous to those of Chapter 2 of Part 16 of that Act, a person so appointed; and(c) in any other case, a person who is eligible for appointment as a company auditor under Part 42 of that Act.
Business Carbon Footprint RIGs	means Regulatory Instructions and Guidance issued by the Authority under standard condition 46A (Business Carbon Footprint Reporting) which provide for the requirements as described in that condition in relation to the Business Carbon Footprint Report.
Compliance Statement	means the licensee's statement produced in accordance with paragraph 2 of standard condition 42 (Independence of the Distribution Business and restricted use of Confidential Information) for the purpose of describing the practices, procedures, and systems adopted by the licensee to ensure compliance with its obligations under that condition.

Cost Reporting RIGs	means Regulatory Instructions and Guidance issued by the Authority under standard condition 48 (Reporting of Price Control Cost Information) in relation to the collection and reporting of Price Control Cost Information.
DG RIGs	means Regulatory Instructions and Guidance issued by the Authority under standard condition 46 (Incentive schemes for innovation funding and Distributed Generation) in relation to the collection and reporting of Specified Information as defined in that condition.
Distributed Generation	means an installation comprising any plant or apparatus for the production of electricity that is directly connected to the licensee's Distribution System or is connected to that system through one or more electricity networks (other than an onshore Transmission System) that is or are directly connected to it.
Distribution Losses Reporting RIGs	means Regulatory Instructions and Guidance issued by the Authority under standard condition 44B (Distribution Losses Reporting <u>Requirement Regime</u>) in relation to the collection and reporting of Specified Information as defined in that condition.
LCN Fund RIGs	means Regulatory Instructions and Guidance issued by the Authority under standard condition 44C (Low Carbon Networks Fund reporting) in relation to the collection and reporting of Specified Information as defined in that condition.
Network Outputs RIGs	means Regulatory Instructions and Guidance issued by the Authority under standard condition 44A (Network outputs regime) in relation to the collection and reporting of Specified Information as defined in that condition.

New Transmission Capacity Charges	<p>means those elements of Transmission Connection Point Charges that:</p> <p>(a) are attributable (in whole or in part) to connection assets first becoming energised on or after 1 April 2010 pursuant to a requirement of the licensee for the provision of new or reinforced connection points between the GB Transmission System and the licensee’s Distribution System; and</p> <p>(b) accordingly fall within the category of Specified Information set out at paragraph A2(c) of Appendix 1 of standard condition 45A of this licence (Incentive scheme for Transmission Connection Point Charges).</p>
Price Control Cost Information	<p>means information as defined at paragraph 19 of standard condition 48 (Reporting of Price Control Cost Information) that the licensee is required to collect and submit to the Authority for the purposes of that condition.</p>
Price Control Revenue Information	<p>means the information detailed at Appendix 1 to standard condition 47 (Reporting of Price Control Revenue Information) that the licensee is required to collect and submit to the Authority for the purposes of that condition.</p>
Quality of Service RIGs	<p>means Regulatory Instructions and Guidance issued by the Authority under standard condition 45 (Incentive scheme for quality of service) in relation to the collection and reporting of Specified Information as defined in that condition.</p>
Regulatory Instructions and Guidance	<p>means any of the Regulatory Instructions and Guidance (“RIGs”) issued by the Authority under standard condition 15A (Connection Policy and Connection Performance), standard condition 44A (Network outputs regime), standard condition 44B (Distribution Losses Reporting Regime Requirement), standard condition 44C (Low Carbon Networks Fund reporting), standard condition 45 (Incentive scheme for quality of service), standard condition 45A (Incentive Scheme for Transmission Connection Point Charges), standard condition 46 (Incentive schemes for innovation funding and Distributed Generation), standard condition 46A (Business Carbon Footprint Reporting), standard condition 47 (Reporting of Price Control Revenue Information), and standard condition 48 (Reporting of Price Control Cost Information).</p>

Revenue Reporting RIGs

means Regulatory Instructions and Guidance issued by the Authority under standard condition 47 (Reporting of Price Control Revenue Information) in relation to the collection and reporting of Price Control Revenue Information.

Specified Information

for the purposes of standard condition 44A (Network outputs regime), standard condition 44B (Distribution Losses ~~Reporting Regime Requirement~~), standard condition 44C (Low Carbon Networks Fund Reporting), standard condition 45 (Incentive scheme for quality of service) standard condition 45A (Incentive scheme for Transmission Connection Point Charges), and standard condition 46 (Incentive schemes for innovation funding and Distributed Generation), has the meaning given to that term in each of those conditions respectively.

Transmission Connection Point Charges

means the sum of:

- (a) charges payable by the licensee that are levied by a Transmission Licensee as connection charges by direct reference to the number or nature of connections between the licensee's Distribution System and the GB Transmission System, and includes any associated Transmission Use of System Charges and any remote Transmission Asset Rentals payable by the licensee; and
- (b) charges payable by the licensee to another Authorised distributor in respect of units transported from that person's network and which are recoverable by the licensee from users of its Distribution System in its Use of System Charges.

Transmission Connection Point Charges RIGs

means Regulatory Instructions and Guidance issued by the Authority under standard condition 45A (Incentive scheme for Transmission Connection Point Charges) in relation to the collection and reporting of Specified Information as defined in that condition.

Condition 44B. Distribution Losses Reporting Regime Requirement

Introduction

- 44B.1 This condition applies on and after 1 April 2010~~3~~ and requires the licensee to collect, record and provide report to the Authority with Specified Information, ~~on a common basis with all other Distribution Services Providers, and to an appropriate degree of accuracy, so as to:~~
- ~~(a) facilitate the establishment and operation of a Distribution Losses Reporting Regime that will enable the Authority to monitor and publish details of the actions taken by the licensee to reduce distribution losses on their network's performance in relation to the Distribution Losses Incentive Scheme established under Charge Restriction Condition 7 (Adjustment of licensee's revenues to reflect distribution losses performance); and~~
 - ~~(b) identify any unintended consequences that arise from the operation of that scheme and the Charge Restriction Conditions of this licence.~~

Licensee's obligations

- 44B.2 Unless and so far as the Authority otherwise consents, the licensee must have and maintain appropriate systems, processes, and procedures to enable it:
- (a) to ~~measure and~~ record the information detailed in the Schedule of Specified Information set out at Appendix 1, which is part of this condition; and
 - (b) to provide report such information to the Authority in respect of such periods and within such timeframes as may be specified in or determined under that Schedule.
- 44B.3 In fulfilling its obligations under paragraph 44B.2, the licensee must at all times act in accordance with any Regulatory Instructions and Guidance issued by the Authority for the purposes of this condition (“the Distribution Losses Reporting RIGs”).
- 44B.4 The Distribution Losses Reporting RIGs may include, or make provision for, any of the matters specified at paragraph 44B.5.

Contents of the Distribution Losses Reporting RIGs

- 44B.5 Subject to paragraph 44B.6, the matters that may be included, or for which provision may be made, in the Distribution Losses Reporting RIGs are these:
- (a) a statement of the objectives of the Distribution Losses Reporting Regime Requirement, and a description of how its ~~requirements~~ contributes to the achievement of those objectives;
 - (b) instructions on the ~~establishment of systems, processes, procedures, and ways for~~ of recording and reporting Specified Information;
 - (c) provision with respect to the meaning of words and phrases used in defining Specified Information;
 - (d) requirements as to the form and manner in which, and the frequency with which, Specified Information must be provided to the Authority;

- (e) requirements in respect of any commentary to be provided by the licensee when providing Specified Information;
- (f) requirements as to the form and manner in which, and the standards of accuracy and reliability with which, Specified Information must be estimated, ~~measured,~~ and recorded; and
- (g) requirements as to the scope and conduct of any audit required by the Authority in relation to the licensee's collection, recording, and reporting of Specified Information.

44B.6 The provisions of the Distribution Losses Reporting RIGs must not exceed what is reasonably required to achieve the purposes of this condition.

Procedure for issuing Distribution Losses Reporting RIGs

44B.7 Before issuing any Distribution Losses Reporting RIGs, the Authority, by Notice given to all Distribution Services Providers, must:

- (a) state that it proposes to issue the RIGs and specify the date on which it proposes that they should take effect;
- (b) set out the text of the RIGs and the Authority's reasons for proposing to issue them; and
- (c) specify the time (which must not be less than a period of 28 days from the date of the Notice) within which representations or objections with respect to the proposal may be made.

44B.8 The Authority must consider any representations or objections that are duly made and not withdrawn.

Modification of Distribution Losses Reporting RIGs

44B.9 The Distribution Losses Reporting RIGs may be modified at any time on or after the day on which they come into force in accordance with the procedures and subject to the other provisions specified in standard condition 49 (Modification of RIGs in force under Chapters 4 and 12 and overarching RIG structure).

Statement of Compliance

~~44B.10 The licensee is required within six months after the effective date of the Distribution Losses Reporting RIGs to submit to the Authority for its approval a Statement of Compliance that explains in detail how the licensee will comply with its requirements of this condition and those RIGs.~~

~~44B.11 Where the licensee subsequently changes how it will comply with the requirements of this condition and the Distribution Losses Reporting RIGs, it must submit a revised Statement of Compliance to the Authority for its approval before the changes are made.~~

RIG references

44B.12 As explained in Part E of standard condition 49 (Modification of RIGs under Chapters 4 and 12 and overarching RIG structure), references in this licence to the Distribution

Losses Reporting RIGs are to be taken as references to the corresponding RIG documents as specified in Appendix 1 to standard condition 49.

Interpretation

44B.13 The requirements of paragraphs 44B.7 and 44B.8 may be satisfied by action taken before, as well as by action taken after, the commencement of this condition.

44B.14 For the purposes of this condition (including, in particular, Appendix 1), any words and expressions appearing in it that are defined, explained, or further elaborated under any provision of the Distribution Losses Reporting RIGs have the meaning given by, or are to be read in accordance with, that provision.

44B.15 Appendix 1 follows immediately below.

Appendix 1

Schedule of Specified Information

A1. As provided for at paragraph 44B.2, this Schedule details the Specified Information that the licensee must ~~measure~~, record and report under this condition, the periods in respect of which the licensee must collect it, and the timeframes within which the licensee must give it to the Authority.

Specified Information Category 1

A2. ~~This information comprises the actions taken by the licensee, which may be physical or non-physical actions, to reduce losses on its Distribution System. This information comprises the System Entry Volumes, Units Distributed and DG Losses Adjustment, which are the primary inputs into the calculation of Adjusted Distribution Losses for the purpose of Charge Restriction Condition 7 (Adjustment of licensee's revenues to reflect distribution losses performance).~~

~~A3. System Entry Volumes are the Volumes of Energy entering the licensee's Distribution System through any and all of the following Entry Points:~~

- ~~(a) Grid Supply Points,~~
- ~~(b) Distribution System Connection Points,~~
- ~~(c) Balancing Mechanism Unit Connection Points,~~
- ~~(d) Half hourly Settled Connection Points,~~
- ~~(e) Non half hourly Settled Connection Points, and~~
~~Non-DSP Connection Points.~~

~~A4.A4. Units Distributed are Volumes of Energy leaving the licensee's Distribution System through the following Exit Points:~~

- ~~(a) Grid Supply Points,~~
- ~~(b) Distribution System Connection Points,~~
- ~~(c) Balancing Mechanism Unit Connection Points,~~
- ~~(d) Half hourly Settled Connection Points,~~
- ~~(e) Non half hourly Settled Connection Points, and~~
~~Non-DSP Connection Points.~~

~~A5. The DG Losses Adjustment is the allowed adjustment to the calculation of Adjusted Distribution Losses to take account of the effect caused by distributed generators connected to the Distribution System with a Loss Adjustment Factor less than 0.997.~~

~~A6. The methodology for measuring the Volumes of Energy entering and exiting the licensee's Distribution System through the Entry Points and Exit Points is set out in the Distribution Losses Reporting RIGs.~~

- A7. The licensee must report annually ~~provide an annual update~~ to the Authority, of the information provided under paragraph A2 in accordance with such rules and requirements as are set out in the Distribution Losses Reporting RIGs.

Specified Information Category 2

- A8. This information comprises such commentary and analysis as the Distribution Losses Reporting RIGs may require the licensee to produce to accompany the Specified Information ~~provided~~ reported to the Authority under Category 1 above.

Specified Information Category 3

- A9. This category comprises such other information as may from time to time be specified by the Authority in a direction given under this condition to the licensee and all other Distribution Services Providers as if it were a direction issued under and subject to the provisions of standard condition 49 (Modification of RIGs in force under Chapters 4 and 12 and overarching RIG structure) to modify the Distribution Losses Reporting RIGs.

Collection periods and reporting timeframes

- A10. All of the Specified Information detailed under this Schedule must:
- (a) be collected (with effect from and including 1 April 2010~~3~~) in respect of the period comprising each Regulatory Year; and
 - (b) be ~~provided~~ reported to the Authority on or before 31 July in the ~~second~~ Regulatory Year following the Regulatory Year to which the information relates.

Condition 47. Reporting of Price Control Revenue Information

Appendix 1

Schedule of Price Control Revenue Information

- A1. As provided for at paragraph 47.2, this Schedule details the Price Control Revenue Information that the licensee must measure and record under this condition, the periods in respect of which the licensee must collect it, and the timeframes within which the licensee must give it to the Authority.

Meaning of Price Control Revenue Information

- A2. For the purposes of this condition, Price Control Revenue Information means such items referred to in the Charge Restriction Conditions of this licence as the Authority considers are necessary to monitor, to an appropriate degree of accuracy, compliance with those conditions and will, in particular, include the items specified below.

Items for Use of System Charges

- A3. These items comprise, in relation to the restriction on Demand Use of System Charges and Generation Use of System Charges:
- (a) Regulated Combined Distribution Network Revenue;
 - (b) System Entry Volumes and Units Distributed;
 - ~~(c) Distribution Losses; and~~
 - (d) Combined Allowed Distribution Network Revenue and its associated terms.

Items in relation to other matters

- A4. These items comprise:
- (a) in relation to the restriction of charges for the provision of Legacy Metering Equipment, the charges for that service;
 - (b) a breakdown of revenue from charges for Excluded Services;
 - (c) details of the licensee's De Minimis Business and associated income; and
 - (d) such other information as is specified in the Revenue Reporting RIGs, or as may from time to time be specified in a direction given to the licensee and all other Distribution Services Providers under this condition as if it were a direction issued under and subject to the provisions of standard condition 49 (Modification of RIGs in force under Chapters 4 and 12 and overarching RIG structure) to modify the Revenue Reporting RIGs.

Collection periods and reporting timeframes

- A5. With the exception of information under paragraph A4(d), all of the Price Control Revenue Information specified under this Schedule must be collected (with effect from and including 1 April 2010) in respect of the period comprising each Regulatory Year.

- A6. Price Control Revenue Information collected in accordance with this Schedule or any requirement of the Revenue Reporting RIGs must be provided to the Authority:
- (a) in the case of information specified in Template A (“the detailed return”) included in the Revenue Reporting RIGs, by no later than 31 July in the next Regulatory Year following the Regulatory Year under report; and
 - (b) in the case of information specified in Template B (“the forecast return”) included in the Revenue Reporting RIGs, by no later than 31 October of the relevant Regulatory Year under report, being the licensee’s estimates of those specified items made after 31 July of that year.
- A7. Price Control Revenue Information referred to under paragraph A4(d) must be collected:
- (a) where such information is specified as a requirement of the Revenue Reporting RIGs in force on 1 April 2010, from and including that date; and
 - (b) where such information has been specified by the Authority in the direction referred to in paragraph A4(d), in respect of such period and from such date as is specified in that direction.

Interpretation

- A8. For the purposes of this condition (including this Schedule):
- (a) words and expressions appearing in the condition that are defined under any provision of the Charge Restriction Conditions of this licence have the meaning given by that provision; and
 - (b) any words and expressions appearing in the condition that are defined, explained, or further elaborated under any provision of the Revenue Reporting RIGs have the meaning given by, or are to be read in accordance with, that provision.

Condition 49. Modification of RIGs in force under Chapters 4 and 12 and overarching RIG structure

Appendix 1

Table of correspondence

RIG (see paragraph 49.2)	Corresponds to following RIG document or documents (see paragraph 49.14)
Connection RIGs	NADPR RIG document CSR RIG document CRR RIG document
Network Outputs RIGs	NADPR RIG document
Distribution Losses Reporting RIGs	NADPR RIG document CRR RIG document
Low Carbon Network Funds RIGs	CRR RIG document
Quality of Service RIGs	NADPR RIG document CSR RIG document
Transmission Connection Point Charges RIGs	NADPR RIG document CRR RIG document
DG RIGs	NADPR RIG document CRR RIG document
Business Carbon Footprint RIGs	NADPR RIG document
Revenue Reporting RIGs	CRR RIG document
Cost Reporting RIGs	CRR RIG document