

Inveralmond House
200 Dunkeld Road
Perth
PH1 3AQ

Dora Guzeleva
Head of Distribution Policy
The Office of Gas and Electricity Markets
9 Millbank
London
SW1P 3GE

14 December 2012

Dear Dora

Decision not to activate the Losses Incentive Mechanism in the Fifth Distribution Price Control

Scottish and Southern Energy Power Distribution (SSEPD) welcome the opportunity to respond to Ofgem's consultation on the decision not to activate the losses incentive mechanism in the fifth distribution price control (DPCR5).

While Ofgem have indicated that a response is not necessarily required, we consider it important to highlight some specific observations regarding the supporting documents as part of Ofgem's consultation.

Document B: Consultation on the methodology for closing out the DPCR4 losses incentive.

We consider the redrafting undertaken and proposed by Ofgem appears to be consistent with the decision not to activate the losses incentive.

We are not aware of any unintended consequence of removing this text.

Document C: Statutory consultation modifying CRC 7 to remove losses.

We consider the amendment to the algebra and text is consistent with the decision to remove the DPCR5 losses incentive.

Document D: Decision document to Establish Distribution Losses Reporting Requirement (DLRR).

We note Ofgem's proposal to introduce a DLRR. We consider the intended scope of the DLRR to be broadly acceptable. We also agree with Ofgem that it would not be reasonable to compare the activities of DNOs based upon the detail contained in any future DLRR, particularly given the potential issues with robust and comparable data for these purposes.

Document E: Statutory consultation on SLC44B accompanied by track changed version of SLCs.

We note that references to 'System Entry Volumes' and 'Units Distributed' are being removed from Condition 44B Appendix 1 A3 & A4. However, these terms remain in Condition 47 Appendix 1 A3 and we consider this should be corrected accordingly.

Document F: Consultation amending RIGs – accompanied by track changed version of RIGs.

We note the proposal to replace tables V15, V16 and V17 of the 'Cost and Volume' RIGs with an entirely different table V15a. While this appears to be consistent with the decision not to activate the losses incentive mechanism, tables R5, R6 and R11 of the 'Revenue' RIGs have not been amended to be consistent with these changes. We consider this should be corrected accordingly.

Document G: Consultation on restatement of 2009-10 data and closing out the DPCR4 losses incentive mechanism.

As Ofgem are aware, SSEPD forecast for a partial recovery of the PPL term in 2012/13.¹ For Southern Electric Power Distribution (SEPD), the 2012/13 tariffs included the PPL term at £11.9 million. For Scottish Hydro Electric Power Distribution (SHEPD), the 2012/13 tariffs included the PPL term at -£1.5 million.

We have previously written to Ofgem to advise we will be applying Ofgem's preferred position that the PPL term, not included in our 2012/13 tariffs, should be recovered over the regulatory years 2014/15 and 2015/16 only.²

¹ 'Losses Incentive Mechanism – PPL Term', Ofgem, 13 December 2011.

² 'Losses Incentive Mechanism', SSEPD, 5 December 2012.

However, following subsequent consultation with our stakeholders, including suppliers, we have been requested to apply the losses incentive as reported in our May 2012 DCP066 estimates. This will result in losses incentives of £1.7m (£1.5m for SHEPD and £0.2m for SEPD) being applied to our 2013/14 tariffs. Therefore, other than these adjustments, we propose to recover the remainder of the PPL term over the regulatory years 2014/15 and 2015/16.

Our full response to Document G will be provided under separate heading and by the required submission date of 14 January 2013.

If you would like to discuss this letter further, please contact me directly on 01738 455104.

Yours sincerely,

Paul Mitchell
Regulation Manager