



Electricity Distributors and other interested parties

Promoting choice and value for all gas and electricity customers

Our Ref: Tim Aldridge
Direct Dial: 020 7901 7350
Email: tim.aldridge@ofgem.gov.uk

Date: 26 March 2013

Direction issued pursuant to Standard Condition 49 of the Electricity Distribution Licence to modify the Regulatory Instructions and Guidance

On 16 November 2012 we published a notice outlining our proposed modifications to the existing Regulatory Instructions and Guidance (RIGs).¹ The proposed modifications were to give effect to our decision not to activate the distribution losses incentive mechanism (DLIM) under Distribution Price Control Review 5 and to replace the incentive mechanism with the Distribution Losses Reporting Requirement (DLRR).²

In accordance with Standard Condition 49.12 of the Electricity Distribution Licence, the notice of 16 November 2012 set out the reasons for the proposed modifications and specified that any representations should be made within 28 days (that is, on or before 14 December 2012).

Representations and our decision

Five responses were received from the electricity distribution licensees each suggesting additional changes to the RIGs in light of our decision to replace the DLIM with the DLRR. Having carefully considered these representations, we are making several additional modifications to the RIGs, to remove redundant references and make clarifications. Details of the additional modifications are set out in the Annexes to the attached Direction. The changes are additional to the proposed modifications published on 16 November 2012 as Version 3.1. We will publish an updated version of the consolidated RIGs ahead of reporting for 2013-14.

One licensee requested that we reconsider whether the continuing requirement to report a losses estimate in the Business Carbon Footprint (BCF) table remains appropriate. We consider that changes to the BCF reporting are outside the scope of the changes necessary to give effect to our decision to replace the DLIM with the DLRR. Any such proposed changes would need to be considered in light of potential impacts on the government's guidance for company emissions reporting, of which losses are an integral part. We are therefore not making any changes to the reporting of a losses estimate for BCF reporting purposes.

The same licensee requested that we explicitly state that retrospective reporting under the DLRR for regulatory years prior to the regulatory year beginning 1 April 2013 is not required. We consider that the RIGs are sufficiently clear that the Specified Information for

¹ The notice can be found at: http://www.ofgem.gov.uk/Networks/ElecDist/Policy/losses-incentive-mechanism/Documents1/6F_Conletter_Modify_RIGS_Losses_Reporting_161112.pdf

² Our decision can be found at: <http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=755&refer=Networks/ElecDist/Policy/losses-incentive-mechanism>

the purposes of the DLRR must be collected during the regulatory years beginning 1 April 2013 and 1 April 2014. We are therefore not making the suggested amendment.

Another licensee requested that we include a requirement for licensees to provide an evaluation of whether their additional, beyond business as usual, losses reduction actions represent value for money. We are not making the suggested change as the DLRR guidance already includes an expectation that, in the majority of cases, there will be a positive cost benefit analysis undertaken prior to a decision to proceed with a losses reduction action.

We have published non-confidential responses on our website, alongside this letter.

Direction

Please find attached a direction issued under Standard Condition 49 of the Electricity Distribution Licence making the modifications to the RIGs necessary to replace the DLIM with the DLRR. The effective date for the modifications to the RIGs is 1 April 2013.

For more information regarding this Direction, please contact Tim Aldridge (Tim.Aldridge@ofgem.gov.uk).

Yours faithfully

Hannah Nixon
[Produced electronically]

Senior Partner
Smarter Grids and Governance (Distribution)