

13 October 2014

FAO: Maxine Frerk  
The Office of Gas and Electricity Markets  
9 Millbank  
London,  
SW1P 3GE

Dear Maxine

I am writing to you again on behalf of the DNOs, to draw your attention to what we believe are a couple of key misunderstandings concerning the smart meter benefits in DECC's Impact Assessment. We are concerned that if Ofgem continue to use the figures in the IA in their assessment of smart metering benefits to the DNOs' cost base it will result in an inappropriate adjustment in allowances.

## 1. Network Fault Cost Savings from Smart Metering

In the note issued by Ofgem on 11 September it has been made clear that Ofgem are extracting from DECC's analysis a saving, across all DNOs, of £89.4M, which is associated with the physical cost of repairing faults. Ofgem also recognize in this note that the DECC assumptions on timing are probably too optimistic and you say that you will review before the final determination.

However, the ENA slow-track DNOs are concerned that the quantum of this saving is a serious misjudgment on DECC's part with no corroborating evidence from DNOs that this level of saving is achievable from smart meters.

The description of these savings is provided in DECC's Impact Assessment published in January 2014 ([here](#)):

### 2. Reduction in operational costs to fix faults

*This captures operational savings to networks from being able to manage outages better, because with earlier notification and better knowledge of a likely cause technical teams can be deployed more efficiently and in a more targeted manner. Based on information from Ofgem detailing the total costs of resolving low voltage faults to Network Operators in 2008 / 2009, we estimate an approximate cost of £2400 per fault restoration. For this analysis we assume that these costs could be lowered by 10% in line with the reduction in CML, as quicker restoration of outages will also result in more efficient deployment of technical teams. We therefore assume that wages and staff time are the main drivers of the costs to fix faults – this approach ignores costs reductions in equipment and material. The benefit to Network Operators amounts to £0.66 per electricity meter per annum. The total present value benefit from the reduction in fault fixing costs is £166m.*

We have looked closely into this matter and it appears to us that DECC have taken the cost of LV fault repairs, and made an assumption that smart metering data will save 10% of these costs, and that this will be in line with CML savings. We suggest that this approach is incorrect and explain our reasoning below.

For the majority of LV faults we do not expect smart metering alarms to reduce the costs of repairing the faults. It is hard to see that there will be any benefit in this area in relation to overhead line faults. For underground faults, the majority of the cost is in the excavation and reinstatement of fault location. The fault finding techniques in use by DNOs are already very effective in locating faults and allowing fixes that only require one accurately located excavation. Whilst smart metering alarms might provide a little bit more information to help speed up fault location in a very small number of cases, the cost of location is only itself a very small component of fault costs. It must also be recognized that most LV faults will cause the operation of the fuse controlling the LV circuit meaning that all meters on the circuit will report a loss of supply, thus providing no information about where the fault actually lies. We therefore believe that DECC's assessment here is incorrect in proposing that smart meter data will give rise to savings in fault repair. On this basis, we propose that the benefits identified within the Impact Assessment should be excluded from the analysis.

## 2. Net/Gross Benefit Discrepancies

A further concern we have over the analysis of smart metering benefits is the underlying assumption that both DECC and Ofgem have made regarding the accounting for the implementation cost of data services to achieve the benefits. From reviewing the DECC Impact Assessment, we are of the view that the benefits identified within the Impact Assessment are at a gross level and do not account for the costs which DNOs will incur associated with the ongoing data transactions. The January 2014 Impact Assessment identifies costs separately (Section 3.3.3 - Suppliers' and other industry participants' system costs) from the benefits (Section 3.4.3 Network Benefits). From the information provided by Ofgem to date, we believe that the gross benefits have been used rather than the net benefits. This is inconsistent with other reductions that have been applied and significantly overstates the resultant benefits. The Impact Assessment identifies the present value forecast of operational expenditure for 'other industry participants' as £81m in the period covered by the Impact Assessment. Based on the current charges which are being levied by the DCC to Network Operators, this would appear to be a significant underestimate. The ENA analysis also compared the revised benefits from Smart Metering with the DECC benefits at a gross level.

We do not think the significance of the assumptions by DECC in item 1 above had been picked up by DNOs, particularly since the majority of key assumptions were not subject to discussion. DNOs emphasise that this particular assumption was not discussed with them. We appreciate that it may be difficult for you to dismiss DECC's Impact Assessment in this area. However, not to recognise both the erroneous assumptions on DECC's part, together with the discrepancy in Ofgem's smart meter benefit estimates, that does not account for the costs which DNOs will incur associated with the ongoing data transactions, would result in a serious underfunding of important DNO activities that are also of great importance to customers.

We are aware that Ofgem are still considering their final approach to assessing smart benefits and we trust that you will want to ensure that it is fair and correct. DNOs would appreciate further discussion with you on the above points at the meeting on Tuesday where they will be able to provide any further clarification you require.

Yours sincerely



David Smith  
**Chief Executive**

Energy Networks Association  
PA: Laura Beever  
Tel: + 44 (0) 20 7706 5112  
Fax: + 44 (0) 20 7706 5101  
Email: [david.smith@energynetworks.org](mailto:david.smith@energynetworks.org)