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Date: 1<sup>st</sup> May 2015

Dear James

## **RIIO-ED1: Consultation on the draft RIIO-ED1 Losses Discretionary Reward Guidance Document**

Thank you for the opportunity to respond to the above consultation. National Grid Electricity Transmission plc (NGET) is the owner of the electricity transmission system in England and Wales and the System Operator (SO) for Great Britain. This response is on behalf of NGET and is not confidential.

We fully support reducing losses on distribution systems provided that doing so does not increase costs for consumers elsewhere. In particular, it is important to ensure that well-intentioned measures on a distribution system do not increase costs on the transmission system.

As set out in our RIIO-ED1 consultation response dated 26<sup>th</sup> September 2014<sup>i</sup>, we are aware that certain measures to reduce losses on one party's network, if not co-ordinated, may result in operational challenges on another party's network, potentially resulting in increases to overall network costs. For example, one of the potential contributing factors to high transmission voltages is the implementation of loss reduction strategies that can take place on distribution networks. These can contribute to the need for National Grid to take actions to reduce transmission system voltages, by investing in voltage control equipment, or using operational techniques such as constraining generation, either of which have the effect of increasing transmission costs.

It is important that an increasingly co-ordinated approach is taken going forwards when setting incentives, both generally and specifically in relation to seeking to reduce network losses, to ensure investment delivers cost-effective results for the consumer. It is further critical that the network consequence of any losses incentive is clearly visible to the Distribution Network Operators (DNOs), Transmission Owners (TOs) and the SO in a suitable planning horizon (at least three years). This should facilitate appropriate investment decisions across the DNOs and TOs that complement any loss reduction strategies. These considerations form the basis of our interest in the Losses Discretionary Reward (LDR) Guidance Document. In particular, we are keen that the process sufficiently allows for wider network implications to be taken into account when considering how to better understand losses and the impacts of potential actions that seek to address them.

The proposed tranche process seems to be a sensible approach given the considerable changes to information capabilities expected from the anticipated roll-out of relevant technologies (e.g. smart meters and smart grids). Likewise we expect joint industry understanding of holistic network requirements to improve going forwards and the suggested approach would allow any developments in this thinking to be incorporated into the LDR assessment process. Therefore, we agree with the intention stated in the Guidance Document<sup>ii</sup> that ‘adaptability’ is key to the approach. We welcome the emphasis of the initial tranche focusing on how to estimate and improve understanding of losses and the processes for managing them, which should facilitate an opportunity for wider impacts to be considered.

Of the four assessment criteria: (a) understanding losses and (b) engagement with stakeholders will be valuable mechanisms for providing assurance that wider network implications can be drawn into the scope of the LDR incentive. The inclusion of these is therefore particularly helpful within the assessment alongside incentives on measures to address losses (provided under (c) and (d)). As a discretionary reward, it is important that all assessment criteria are supported by evidence for a successful submission to be awarded an allocation of funding and we are keen that stakeholder engagement is thoroughly undertaken and demonstrable as part of this.

Through regular discussions between National Grid and the DNOs, appreciation of these concerns and similar issues regarding unintended interactions is improving. It is crucial that the incentive mechanisms used to address network losses reflect this deepening understanding and full consideration of the impacts of operational measures or investment on other distribution and transmission networks is taken into their assessment. Timely data exchange and processes supporting co-ordination should support the avoidance of counterproductive measures that might otherwise cause higher consumer costs. As networks and systems become more interactive and complex to operate, a co-ordinated approach should drive better overall value outcomes for the consumer.

In summary, whilst an overarching incentive that seeks to minimise losses over the GB system as a whole is unlikely to be practical, incentives (discretionary or otherwise) should take into account whether appropriate co-ordination has taken place and only reward where it has done.

Please contact me if you have any further questions relating to this response.

Yours sincerely

[by email]

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<sup>i</sup> RIIO-ED1: Draft determinations for the slow-track electricity distribution companies  
<https://www.ofgem.gov.uk/ofgem-publications/90654/ed1draftdetngetresponsefinalnationalgrid.pdf>

<sup>ii</sup> Paragraph 3.9