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James Veaney  
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Dear James,

**Consultation on the draft Losses Discretionary Reward Guidance Document**

We appreciate the opportunity to comment on the draft Guidance Document for the Losses Discretionary Reward. The draft is now clearer on the requirements and we understand and support Ofgem's detailed guidelines for the first tranche as a forward-looking assessment of DNO processes to understand and manage losses.

We appreciate that the wording now reflects the fact that DNOs are now undertaking activities to manage losses rather than achieve absolute reductions, as this is in line with licence obligations and there are factors which could result in an absolute increase in losses in some areas, despite DNO actions to reduce losses below what they would otherwise have been.

We note that there is a strong emphasis on use of smart meter data in the guidance. While we are preparing to become DCC users by DCC Live and support the use of smart meter data to manage losses in principle, we feel it is important to manage expectations in this area given the further delays to the implementation programme. Our current view is that there is unlikely to be sufficient data available to make significant use of smart meter data for this purpose before 2018 at the earliest.

Answers to the specific questions are provided in Appendix I. Please get in touch if you have any questions.

Yours sincerely

Jenny Rogers  
**Regulation Adviser, Networks**

## **Appendix I – Consultation questions and responses**

### **Is the Guidance clear and comprehensive, covering all relevant matters? If not, what specific information have we missed?**

Yes, we believe the guidance is clear. We appreciate that previous feedback has been incorporated and the document now generally refers to losses management rather than reduction (an absolute reduction may not always be achievable). In addition, we are pleased that this version appears to allow for activities detailed in licensees' losses strategies to be taken into account in assessment of the discretionary reward. We believe this, together with the specific incentive on knowledge sharing, is a positive approach as it encourages DNOs to produce and publicise high quality strategies which include innovative activities, as opposed to reserving information so it can be included in reward applications. This is our understanding of the current wording, provided it is accurate it would be helpful to have absolute clarity in the guidance that information in losses strategies is eligible for consideration in the reward.

### **We have provided details of how we envisage the focus of each tranche changing over the course of RIIO-ED1. Do you agree with what we are proposing?**

The indicative areas of focus are relatively clear and the flow appears logical. Maintaining the option to adapt the focus of tranches two and three is pragmatic due to the dynamic nature of this area. We understand the intention is that the focus, assessment criteria, weighting and allocation for tranche 1 will not be changed once the final version of the Guidance Document is published, but we would appreciate clarity on this in paragraph 3.1 to remove any uncertainty.

It would also be helpful for Ofgem to indicate a cut off for changes to criteria, weightings and allocation for the second and third tranches, such as a minimum amount of time before the submission deadline that the guidance will be updated. This will ensure DNOs have adequate time to adapt their plans and ensure any evidence required for applications is being captured in an appropriate format.

### **Is the submission process for the first tranche clear?**

Yes, the submission process appears clear.

### **Do you agree with the four criteria that DNOs will be required to provide evidence against?**

The assessment criteria are clearly defined and we agree with most of these. We do have some concerns on one aspect of b) "Effective engagement and sharing of best practice with stakeholders on losses". We agree that stakeholder engagement should inform our losses management activities and fully support the emphasis on demonstrating sharing of best practice. However, we do not feel that developing "relevant partnerships" with suppliers and generators, which may help manage losses, is a

useful criterion. As suppliers and generators are unlikely to engage in partnerships with DNOs for the primary purpose of reducing losses, we consider the criterion would be likely to reward a DNO for developing partnerships for an alternative purpose. For example, we might work with these groups on demand response to smooth network load profiles in order to reduce network constraints and defer/avoid reinforcement. While there could be associated losses reductions, it is unlikely this would be the primary driver for engagement on either side.

**Is the assessment process clear?**

The assessment process appears clear and fair, we agree with the intention to consult stakeholders.

**Do you agree with the process for allocating the reward amount between successful submissions?**

We agree with the process and believe this will encourage comprehensive submissions.