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Dear Matthew

Draft DNO Losses Discretionary Reward Guidance Document

Thank you for the opportunity to respond to the above draft guidance document.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

While DNO networks were predominantly passive networks with only gradual developments taking place the degree of interactions between them and transmission networks was not strongly evident. However, as DNO networks evolve in response to rapid and significant volumes of embedded generation connections it is becoming clear that there can be material interactions. As a result we recognise that we need to make even greater efforts to engage and coordinate effectively with DNOs and other transmission network owners to ensure that the overall development and operation of the electricity network in GB is optimised. This is essential in order for us to ensure that consumers receive maximum value for money.

We therefore welcome the overall approach adopted by Ofgem in the draft guidance document. We have noted in our response to the previous consultation on this issue that we had become concerned that DNO losses reduction strategies may have contributed in the past to higher voltages on the transmission system, necessitating operational measures (including constraining generation on to provide voltage control) and investment to assist in transmission voltage control.

We welcome the emphasis set out in the criteria, to be used to assess DNO submissions, regarding the need to demonstrate a coordinated and/or holistic approach. We believe this will help to avoid the risk that a DNO seeking to improve its losses performance might do so in such a way that it has adverse impacts on other networks.

While obviously drafted in relation to the Losses Discretionary Reward arrangements, the criteria provide a useful set of principles that can be applied to network operational and development activities where there is the possibility of interactions and unexpected adverse impacts.

More generally we believe that it will become increasingly important to develop a co-ordinated approach when designing incentive mechanisms for network companies generally. As the interactions between networks become more common, the need for coordination between them will increase, and incentive schemes need to recognise this and ensure that they do not create situations where one network has an incentive to outperform at the expense of giving rise to adverse impacts on other parties. Designing incentives that ensure appropriate alignment between different network companies so that they deliver the best overall outcome to customers as they seek to meet the challenges they face will not be straightforward. This is an area of work which we feel would merit further consideration and we would welcome the opportunity to work with Ofgem and our DNO colleagues on this in the future. We also note that there is a risk that the ITPR regime could lead to situations where the interests of some TOs diverge from those of others or from the TSO due to differences in the incentives they face. As the networks evolve, well aligned incentives will become an increasingly important consideration in optimising the outcomes for customers.

We will continue to work with DNOs through regular meetings and discussions to ensure that the necessary coordination takes place in all aspects of network development and operation. Please contact me if you have any further questions relating to this response.

Yours sincerely

[by email]

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