

Inveralmond House
200 Dunkeld Road
Perth
PH1 3AQ

jenny.1.rogers@sse.com

Matthew Berry
Ofgem
9 Millbank
London SW1 3GE

7 September 2015

Dear Matthew,

Statutory consultation on the draft Losses Discretionary Reward Guidance Document

We appreciate the opportunity to comment on the revised Guidance Document for the Losses Discretionary Reward (LDR). We appreciate the changes that have been made to improve clarity in several areas.

The recognition of differences in local distribution networks and the fact this will influence the potential to implement different actions and their cost effectiveness in paragraph 3.8 is welcome. We believe this will allow DNOs to demonstrate the value of actions on their own networks using the most appropriate measures.

Our understanding of the assessment criteria is that quite rightly, DNOs will not be rewarded through the LDR for activities which have already been funded or could be rewarded under other mechanisms such as the Network Innovation Allowance or Stakeholder Engagement Incentive. We would expect though that if an NIA project identified losses reduction actions as viable, then subsequent implementation of such actions at the DNO's own expense would be eligible for the LDR, where this goes beyond the minimum licence requirement. It would be helpful to clarify in the guidance that work to *further investigate* or *implement* solutions, which utilises outputs from work funded under other mechanisms, is eligible for the LDR.

Indicative timings have now been provided for revision of the guidance document to finalise the assessment criteria for tranches 2 and 3. However, this process will start in the January of the year before submissions are due and an updated version of the document will not be published until September. There is no statement on expected submission deadlines for the following year. If the intention is that tranche 2 and 3 submissions will be due in January of the following year (as for tranche 1) this allows DNOs very little time to act in response to changes in the focus of the subsequent tranches, particularly as they are partly or wholly backwards looking. While we agree it

should be possible to adapt the focus of tranches 2 and 3 after publication of this initial version of the Guidance Document, greater certainty regarding exactly what will be rewarded further in advance is likely to make the LDR a more effective incentive and generate better outcomes.

We note that there is still a strong emphasis on use of smart meter data in the guidance for the earlier tranches. While we understand these tranches are forward-looking and we intend to use smart meter data to understand/manage losses once it is available, we reiterate our view that given delays to the roll out programme, there is unlikely to be sufficient deployment for DNOs to make significant use of data to inform losses management activities before 2018 at the earliest (i.e. after the first two tranches are awarded).

If you have any questions please do not hesitate to contact us.

Yours sincerely

Jenny Rogers

Regulation Adviser, Networks