

Andy Burgess  
Associate Partner – Electricity Distribution  
Smarter Grids and Governance  
Ofgem  
9 Millbank  
London  
SW1P 3GE

7 September 2015

Dear Andy

**Notice as required under Part C of Charge Restriction Condition (CRC) 2G (The Losses Discretionary Reward)**

Thank you for the opportunity to respond to the above Notice dated 7 August. This letter should be treated as a consolidated response on behalf of UK Power Networks' three distribution licence holding companies: Eastern Power Networks plc, London Power Networks plc, and South Eastern Power Networks plc. It is not confidential and can be published via the Ofgem website.

We note the feedback you published alongside the notice and our thoughts on points raised in that also form part of this response. We are pleased that some of the points we raised have been taken on board but conversely are disappointed that a number of the issues we identified remain. These are outlined in the following paragraphs:

- **Assessment Process**  
Whilst we acknowledge that the allocation of a reward under this incentive is discretionary, we believe it is incumbent on Ofgem to develop, with stakeholders, transparent and objective guidance for those making submissions under the scheme. With this in mind we do not believe that the current assessment process is clear and objective. Specifically it is unclear whether a scorecard process is being used to assess the submissions, or if one isn't being used, on what objective basis the pass/fail criteria are being implemented such that a licensee or other interested party could take a view on the objectivity and fairness of the process Ofgem go through. The publishing, post event, of the reasons for the decisions is not a substitute for transparent and objective guidelines up front. We propose that the inclusion of a scorecard with weightings on each question/requirement forms part of the guidance document as this will bring transparency and objectivity to the process. It is worth noting that there may be minor consequential changes required to other parts of the guidance (for example section 4.6) as a result of this change.
- **Allocation of Rewards**  
As noted in our original response the proposed allocation of rewards would result in different impacts per customer for different sized companies, should the reward be split purely on the number of DNOs, rather than their relative size. We continue to support an allocation of rewards on a value per customer basis.

- Clarification of 'Business as Usual' Condition  
Ofgem's expectation is that DNOs would be able to provide evidence of actions they have taken 'outside of business as usual activities' to improve their operations in respect of managing losses. Clearly it would be inappropriate for a DNO to be advantaged simply by replicating an action by another DNO as an 'outside of business as usual activity' if that other DNO was precluded from also including that action in their submission simply because they were further advanced in embedding actions as business as usual.

We propose, therefore, that Ofgem amends the 'business as usual' criteria and instead considers any effective action not already specifically funded through a DNO's RIIO-ED1 settlement to be eligible. This change would then line the guidelines up with the verbal confirmation Ofgem have given us on this matter. Moreover, if a company is able to demonstrate that they are pursuing actions described in a well-documented losses management strategy, that company should be given favourable consideration in terms of meeting the LDR criteria

- Other feedback  
At the end of our response to your March consultation we noted a number of other points which have not been addressed, nor covered in your feedback letter issued in parallel to the Notice. We believe these are still valid and look forward to them being addressed.

If any part of our response requires further explanation or clarification, please do not hesitate to contact me.

Yours sincerely



Keith Hutton  
Head of Regulation  
UK Power Networks

Copy: Paul Measday, Regulatory Returns & Compliance Manager, UK Power Networks  
Matthew Berry, Ofgem