

**To: Electricity North West Ltd
Northern Powergrid (Northeast) Ltd
Northern Powergrid (Yorkshire) plc
London Power Networks plc
South Eastern Power Networks plc
Eastern Power Networks plc
SP Distribution plc
SP Manweb plc
Scottish Hydro Electric Power Distribution plc
Southern Electric Power Distribution plc
Western Power Distribution (West Midlands) plc
Western Power Distribution (East Midlands) plc
Western Power Distribution (South Wales) plc
Western Power Distribution (South West) plc**

Direction under Part C of Charge Restriction Condition (CRC) 2G (the Losses Discretionary Reward) to modify the Losses Discretionary Reward Guidance Document.

Each of the companies to whom this document is addressed is the holder of an electricity distribution licence granted or treated as granted under section 6(1)(c) of the Electricity Act 1989 (the Act).

In accordance with Part C of CRC 2G (the Losses Discretionary Reward) the Authority¹ gave notice on 14 July 2017 (“the Notice”) to consult on proposed changes to the Losses Discretionary Reward (“LDR”) Guidance Document². The Notice set out the reasons for the proposed changes and required any representations to be made on or before 14 August 2017.

Prior to the close of the consultation period in respect of the Notice, we received three responses. Two responses have been published on our website. The third response notes a typographical error within the guidance.

We have carefully considered all representations received and Annex 1 sets out our responses and the further amendments we have made.

In accordance with Part C of CRC 2G, we hereby issue the modified LDR Guidance Document as contained in Annex 2. This decision will take effect on and from 8 September 2017.

This document constitutes a direction issued by the Authority under paragraph 2G.11 of CRC 2G and notice under section 49A of the Act.

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Grant McEachran
Head of RIIO Electricity Distribution
Duly authorised on behalf of the Authority
8 September 2017

¹ The terms “we”, “us”, “Ofgem” and “the Authority” are used interchangeably in this letter. The Authority is the Gas and Electricity Markets Authority. Ofgem is the Office of the Authority.

² <https://www.ofgem.gov.uk/publications-and-updates/notice-proposing-modifications-losses-discretionary-reward-guidance-document>

Annex 1 – Responses to the representations received and further amendments

We had three responses to the consultation, one of which raised no issues other than a typographical error. A summary of the responses and our views are noted below.

Weightings and reward allocation

- One respondent noted their concern around the weightings used for allocation of the reward. Although they welcomed the clarity around the weightings, they noted that the DNOs should be encouraged to explore the most beneficial actions to better understand and manage losses without the constraints of ensuring criteria weightings are met in all cases.

Another respondent noted that rather than capping the DNO group to a potential reward of £10m x 1/n, n being the number of successful applicants, if a DNO group exceeds expectations and the performance of their peers, a greater reward should be allocated.

We note these concerns, however we do not consider it appropriate to make changes to the weightings or the cap on the reward per DNO group at this time. No DNO groups in tranche one provided strong enough responses to allow them to be rewarded the full reward under any criteria and we see no justification for making a change to the reward allocation. Furthermore, the weightings for tranche two were altered to reflect where we believe more attention should be given. However, that is not to say that DNO groups should not be encouraged to look into the most beneficial areas. We would expect DNO groups to be doing this in any case in all areas with or without the higher weightings.

- Another respondent noted that although they agree that tranche two should be assessed on individual merit, they noted their concern that a successful DNO group in tranche one should not be penalised where they reference the tranche one material that they have developed in the interim.

We acknowledge this point and it is expected that DNO groups will reference tranche one material, as we see this tranche as forward and backward looking. We want to see the progress that has been made from what was set out in tranche one.

Criteria

- One respondent noted their concern around the reward causing a delay in collaborative working. We note this concern; however, we would expect the DNO groups to work together on losses management and continue to do so. A sub-criterion introduced for clarity for tranche two, under 'Effective engagement and sharing of best practice with stakeholders on losses', requires DNO groups to identify the collaborative working carried out.
- One respondent noted that the guidance and criteria should recognise certain areas, for example; low carbon transition impacts and various aspects of the road map to a potential ED2 incentive. Whilst we have not amended the guidance to expressly refer to these, this does not mean that the DNO group should not include this (or any other) detail if relevant to their submission. The reward is discretionary and DNO groups can present additional information if they consider it relevant to the criteria, as noted in the guidance.

Additional

- One respondent noted that emphasis should be on preparing for future activities however, the guidance states it will be forward and backward looking. Although we expect the DNO groups to be preparing for future activities, we also want to see the progress made from tranche one and how the DNO groups have carried work forward.
- One respondent sought confirmation that the guidance for tranche two is complete following the addition to the criteria. We do not expect to make any additional changes to the guidance for tranche two, but DNO groups may present additional information they consider relevant to meeting the criteria.
- One respondent welcomed a discussion on the guidance for tranche two. We will discuss with the relevant party.
- A few respondents noted some housekeeping errors. These have been updated.
 - Section 4.1, typographical error – this should read tranche two rather than tranche one.
 - Inconsistency between the use of the terms 'DNOs' and 'DNO group(s)'
 - Paragraph 4c does not read correctly. This has been updated.
 - The date in the timeline for the issue of the guidance has been updated.
- A minor amendment has been made to paragraph 5.2 to make clear that DNO groups need to pass all criteria to be entitled to any of the reward.

Annex 2 – Losses Discretionary Reward Guidance Document

The Losses Discretionary Reward (LDR) Guidance Document is available on the Authority's website at:

<https://www.ofgem.gov.uk/publications-and-updates/direction-make-modifications-losses-discretionary-reward-guidance-document>