

Louise Deighan
Senior Analyst
Ofgem
3rd Floor, Cornerstone,
107 West Regent Street,
Glasgow,
G2 2BA

By email only to: Louise.Deighan@ofgem.gov.uk

11 August 2017

Dear Louise

Proposal to make modifications to the Losses Discretionary Reward Guidance Document

Thank you for the opportunity to comment on proposed changes to the above document. 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.

We are broadly comfortable with the changes but have a number of comments/suggestions in the Annex.

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

Yours sincerely



James Hope
Head of Regulation & Regulatory Finance
UK Power Networks

Copy: Sotiris Georgiopoulos, Head of Smart Grid Development, UK Power Networks
Paul Measday, Regulatory Returns & Compliance Manager, UK Power Networks
David Pang, Regulation Analyst, UK Power Networks

Annex

Comments:

- There is an inconsistency between the usage of “DNO group” and “DNOs” in the guidance document;
- Regarding 4c, the final paragraph appears to be missing an “if”, furthermore this paragraph, as currently worded, would elicit a “Yes/No” answer. If it is Ofgem’s intention to encourage DNO groups to expand their answer beyond a “Yes/No” answer, then perhaps re-wording this paragraph should be considered; and
- The timeline currently shows that the final guidance will be issued in July 2017, this is no longer possible, we suggest this is changed.

Substantive suggestions:

- 5.9 states ‘A DNO group’s performance in a prior tranche will not affect how we assess subsequent submissions.’ We agree with this sentiment and feel that tranche 2 submissions should be assessed on individual merit. However, given the requirement of 3.5 which requires DNO groups to ‘demonstrate how they have built upon the processes set out in tranche one’, we believe that the two tranches are intrinsically linked. A DNO group that was successful in tranche 1 is likely to have significant material on which to build and we are keen to ensure that successful DNO groups aren’t penalised where they reference the tranche 1 material that they have developed in the interim; and
- 1.2 states that ‘We believe a strong incentive is required to ensure that DNOs place an appropriate level of focus on losses activities.’ UK Power Networks strongly agree with this statement. We believe that Ofgem could go further than they have proposed in 5.6. Rather than capping DNO groups to a potential reward of £10m x $1/n$, where n is the number of successful applicants, we believe that no cap (other than the £10m figure) should exist. Where a DNO group significantly exceeds expectations, and the performance of their peers, we believe a strong message to the wider community could be achieved if reward allocation greater than $1/n$ is awarded. The total reward across the applicants should still be limited to a total of £10m.