

By E-mail

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Date:
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Contact / Extension
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Dear Chris,

**Proposal to make modifications to the
Losses Discretionary Reward Guidance Document**

Thank you for the opportunity to comment on the changes to the Losses Discretionary Reward (LDR) Guidance Document for Tranche 3 submissions.

SPEN are committed to designing, building and operating our networks reliably, safely and efficiently. We are aware of the significance of losses as a cost borne by customers and recognise our role in delivering cost effective loss management activities that help mitigate the impact on customer bills and contribute to the reduction in carbon pollution.

The decentralisation of generation and increasing adoption of Low Carbon Technologies (LCTs) such as electric vehicles and heat pumps impact how our networks are used. The level and complexity of losses on networks can increase significantly as a result, requiring smart solutions and efficient network losses management.

With our LDR programme we explore beyond our Losses Strategy, and look at less established methods that have the potential to significantly increase the understanding and effectiveness of losses management. This process has embedded collaboration with external stakeholders, to share our own experiences, learn from others, and better understand the impact of innovative losses actions. Through this approach we are making a material difference to our understanding and effectiveness of losses management – for both technical and non-technical losses. Recognising the importance of the LDR to further our understanding and management of losses, we made the decision to re-invest the award we received to-date to fund our LDR initiatives.

We welcome the inclusion of “Processes to manage losses and proposals for RIIO-ED2” section asking DNOs to consider proposals for how losses incentives should be managed in RIIO-ED2. The ENA Technical Losses Task Group, chaired by SPEN, has undertaken significant work in this area and has developed options for a future regulatory approach. This includes consideration of a reputational incentive approach similar to that set-out by Ofgem in the RIIO-2 Sector Specific Methodology consultation and decision for RIIO-ET2.

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We recognise that some of the comments we have previously provided to Ofgem¹ have been incorporated into the revised guidance. We have included the key points below for further consideration.

Sufficient Evidence

Additional guidance on the level of evidence required would greatly assist the development of DNO submissions, especially as the level of detail that can be provided in the submission is limited by the specified page limit.

We welcome the inclusion of a supplementary question process in the revised guidance to facilitate further information requests if necessary.

Losses Incentive

We support Ofgem's revised guidance for DNOs to create proposals for how losses incentives should be managed in RIIO-ED2. The work being undertaken by the ENA Technical Losses Task Group to develop a RIIO-ED2 losses incentive will support this requirement.

We would recommend revising the requirement for "evidence of how DNO groups are preparing for a measureable losses incentive in RIIO-ED2" (para 3.8) as this may contradict the above and does not align with Ofgem's approach for RIIO-ED2.

Criteria

Ofgem may wish to consider if it is necessary to meet all the specified criteria. DNO's individual initiatives can provide significant industry benefit without meeting all criteria and the LDR contributes to continued investment in this area by companies.

Management of losses is a key part of the low carbon transition and we remain committed to continued innovation in this area.

Please do not hesitate to contact me if you wish to discuss any of the points included above.

Yours sincerely

Malcolm Bebbington
Distribution Networks Manager

¹ e-mail to Peter O'Neil on 8th February 2019