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By email only to: christopher.haworth@ofgem.gov.uk

12 September 2019

Dear Chris

Proposal to make modifications to the Losses Discretionary Reward Guidance Document

Thank you for the opportunity to comment on the proposed changes to the above document ahead of the Tranche 3 LDR submission. 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 the UK's largest electricity Distribution Network Operator (DNO) group, dedicated to delivering a safe, secure and sustainable electricity supply to 8.3 million homes and businesses. This response is not confidential and may be published on the Ofgem website.

We have reviewed the proposed changes to the LDR guidance document, and have listed our comments and drafting corrections in the accompanying Annex. We note that the process for Tranche 3 has started later than expected and we would be supportive of an extension of the Tranche 3 submission date to at least 2 March 2020.

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

Yours sincerely



James Hope
Head of Regulation & Regulatory Finance
UK Power Networks

Copy: Nick Carter, Lead Power Quality & Losses Engineer, UK Power Networks
Paul Measday, Regulatory Returns & Compliance Manager, UK Power Networks
David Pang, Regulation Analyst, UK Power Networks

Annex

Comments:

- 4.1 – The deadline for submission is 29 February 2020 which is a Saturday – we propose this is extended to the end of the next working day i.e. Monday, 2 March 2020. Furthermore, clarity would be welcomed regarding whether if “*by April 2020*” means the start or end of April. Given the timescales and delays involved, we would prefer this to be the end of April;
- 4.4 – With reference to the last point under section “*a – Understanding of Losses*”, should the reference regarding progress be inclusive of Tranches 1 **and** 2, as it stands, it only references Tranche 2;
- Table 2 – We support the proposed changes to the weightings;
- Table 2 – With reference to the third point, “*Processes to manage losses and proposals for RIIO-ED2*”, we prefer this to be split into two separate criteria, such that there are five criteria instead of four as currently drafted: Processes to manage losses; and proposals for RIIO-ED2;
- Table 2 – Furthermore, with respect to “*Proposals for RIIO-ED2*”, we would welcome clarity on what Ofgem means and expects for this RIIO-ED2 criterion. Therefore, the corresponding description in 4.4c should be amended and clarified accordingly;
- 5.1 – We welcome clarification as to when Ofgem are inviting such arguments and when will Ofgem make its final decision;
- 5.9 – Although this would break with the process undertaken in earlier tranches, we believe that the reward given to a DNO group should be spread by the number of customers in each DNO in that group such that customers are paying the same amount whichever licensee in a group they are connected to;
- 5.10 – As this paragraph is currently worded, it suggests that the assessment and allocation of the Tranche 3 reward is not yet finalised;
- 5.11 – When in September will Ofgem published a revised version of the Guidance Document; and
- We welcome clarification as to why the page limits have changed. The main submission page limit has increased to 25 from 20, and the appendix page limit has decreased from 20 to 15. Whilst we welcome the additional pages to the main document, we do not believe that a consequent reduction in the appendix is warranted.

Drafting corrections:

- There is an inconsistency between the usage of “DNO group” and “DNOs” in the guidance document. When referring to the effort of DNOs, use of “DNO group” would be appropriate however when referring to the breakdown and allocation of the reward, it would be appropriate to use “DNO”, especially if this is calculated by customer numbers;
- 3.7 – “*potential for **awards***”, should be “*potential for **rewards***”;
- 3.7 – “... *there is still the potential for awards to be made in tranche 3 if a DNO group shows that it has fully met all the four criteria for the work already undertaken, and for how that will feed into RIIO-ED2.*” We believe this can be deleted as paragraph 3.8 repeats this;
- 3.7 – With respect to the last sentence, please note there is no reference to an appendix in the guidance document – we suggest this is deleted;
- 3.9 – “*We recognise that in both tranches two and tranche three we will also need to assess the **potential** for DNO groups to have undertaken additional cost-effective actions with the differences in local distribution networks in mind. In all three tranches we expect the sharing of best practice and stakeholder engagement to remain key criteria.*” – We seek clarity as to how will Ofgem assess **potential** here?
- 3.10 – “... with evidence in **a** DNO group’s submission”;
- 4.4 – this paragraph contains a typo, i.e. “the**o**”;
- 5.10 – We have the following suggestion: “*A DNO’s past performance in **a** prior tranches will not affect how we assess subsequent submissions*”. That is, “*a DNO’s past performance in prior tranches will not affect how we assess subsequent submissions.*”;
- 5.10 – We believe that the first sentence is now superfluous as this document sets out the process and allocation of reward pot, i.e. “*The assessment process and allocation of the reward pot between DNO groups may change for tranche 3*”?
- 5.11 – This is circular by the time the updated guidance document is published – we suggest this is deleted;
- Table 2 header refers to Tranche two, we believe this should be Tranche three; and
- Figure 2 – the dates need to be updated.