

To: Electricity Distribution Network
Operators; interested stakeholders

Email: RIIO.ED1@ofgem.gov.uk

Date: 6 May 2016

Dear stakeholder,

Consultation on the Losses Discretionary Reward submissions for tranche 1

This letter is to notify you of, and seek your views on, the submissions for tranche 1 of the Losses Discretionary Reward (LDR) from the electricity distribution network operators (DNOs).

The LDR aims to encourage and incentivise DNOs to undertake additional actions to better understand and manage electricity losses. The reward is worth up to £32m across all DNOs within three tranches over the eight years of the RIIO-ED1 price control. The reward is discretionary and therefore the Authority may decide that it is not appropriate to award any money to DNOs under this scheme. The LDR Guidance¹ details our² indicative views on the main areas of assessment for each tranche.

Tranche 1, which we are assessing now, has a maximum reward value of £8m across all applications and is predominantly forward looking. It focuses on the processes the DNOs have, or will, put in place to both better understand losses and to significantly shift expectations of what they are capable of doing to manage losses.

We received 6 submissions, one from each DNO group to be considered under tranche 1 of the LDR. The submissions are published on our website.³

Context

DNOs do not pay for electricity lost on their network and therefore have no inherent incentive to manage losses efficiently. Standard Licence condition 49⁴ (SLC 49) requires DNOs to keep losses as low as reasonably practicable on their Distribution System. In doing so, DNOs are required to act in accordance with their Distribution Losses Strategy⁵, which they must maintain and keep under review. In reviewing their strategies we expect DNOs to modify and update them to reflect the latest development in losses management and to accommodate lessons learnt and stakeholder feedback. The LDR is not intended to reward DNOs for the activities associated with the ongoing review of their Distribution Losses Strategy, but will reward DNOs that significantly shift expectations of what they are capable of doing to manage losses.

¹[Losses Discretionary Reward Guidance](#)

² The "Authority", "Ofgem", "we" and "our" are used interchangeably in this document. The Office of Gas and Electricity Markets (Ofgem) supports the Authority in its day to day work.

³ <https://www.ofgem.gov.uk/publications-and-updates/consultation-losses-discretionary-reward-submissions-tranche-1>

⁴ [Electricity Distribution Standard Licence conditions](#)

⁵ This is available on the DNOs website as per SLC 49

Tranche 1 assessment process

In tranche 1, we are judging the DNOs submissions against four criteria:

1. Understanding of losses

- How are the DNOs improving their understanding of losses and are they considering the network in a holistic manner?

2. Effective engagement and sharing of best practice with stakeholders on losses

- How are DNOs engaging with stakeholders and have they got the processes in place to share their own best practice?

3. Processes to manage losses

- Have the DNOs considered processes and methods to manage losses on their networks?

4. Innovative approaches to losses management and actions taken to incorporate these approaches into business as usual activities

- How are the DNOs planning on using innovative approaches to manage losses and how will they incorporate these into business as usual activities?

Each criterion in tranche 1 has equal weighting. The DNOs must therefore provide an appropriate level of evidence under each category to be considered for a reward.

To date, we have reviewed each submission and sought clarity from the DNOs on aspects of the submissions via a Q&A session over a four week period. We have published non-confidential responses to the Q&A session on our website⁶ alongside the submissions.

With respect to the LDR submissions and Q&A responses, referenced above and the consultations questions outlined below, we would welcome views from any interested party.

Following this consultation, we will review responses received and determine what proportion of the total £8m available (if any) should go to each DNO. We expect to make a decision in summer 2016.

Consultation questions

The six consultation questions below are relevant to all six submissions; therefore in your response please ensure that you indicate the submission(s) to which your responses relate. Where possible, please also consider and advise how you rate the submissions against each other overall and when considering the questions set out below. Note that we welcome comments from stakeholders on any other parts of the submissions that they think are relevant to our assessment.

1. Do you consider that the processes proposed by any of the DNOs will significantly shift the expectations of what DNOs are capable of doing to manage losses? Where possible, please provide examples.
2. Have you seen a change in the engagement of DNOs on losses?

⁶ <https://www.ofgem.gov.uk/publications-and-updates/consultation-losses-discretionary-reward-submissions-tranche-1>

3. Do you think the DNOs have considered or put in place effective processes to work, where appropriate, in a collaborative way to avoid inefficient duplication of effort and to consider losses across the networks?
4. Do you think DNOs provide clear processes for how they will effectively use smart meter data to develop specific actions to manage losses?
5. Do you consider that the DNOs' proposed processes may help enhance what DNOs can do to manage non-technical losses, such as theft of electricity?
6. Do you think any of the submissions provide evidence that DNOs are working towards contributing to the development of a RIIO-ED2 losses incentive mechanism?

Responding to this consultation and next steps

Responses to this consultation should be received by 6 June 2016 and should be sent preferably by email, to RIIO.ED1@ofgem.gov.uk or in writing to:

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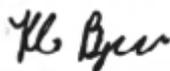
Unless marked as confidential, all responses will be published on our website at www.ofgem.gov.uk. Respondents may request that their response is kept confidential. We shall respect this request, subject to any obligations to disclose information, for example, under the Freedom of Information Act 2000 or the Environmental Information Regulations 2004.

Respondents who wish to have their responses remain confidential should clearly mark the document to that effect and include the reasons for confidentiality. Respondents are asked to put any confidential material in the appendices to their responses and if possible include a non-confidential summary of their response.

Having considered the responses to this consultation, we intend to publish our decision on the LDR this summer.

If you have any queries regarding this letter, please contact Louise Deighan at louise.deighan@ofgem.gov.uk or on 0141 331 6363.

Yours faithfully,



Kersti Berge
Partner, Networks