

**EVN-comments on the ERGEG position paper for public consultation
"Treatment of Losses by Network Operators"**

EVN welcomes the initiative of ERGEG to assess the treatment of losses and to enhance the level of convergence among Member States in Europe.

EVN operates electricity distribution grids in Lower Austria, Bulgaria and Macedonia. As we are solely active in distribution, our comments are mainly focused on this sector:

1. What is considered as an acceptable definition of losses?

Losses can be defined as the difference between supply and sales.

2. Should power losses refer only to technical losses or is it acceptable to include also non-technical losses?

The total of power losses needs to be covered. Therefore, also non-technical losses have to be included. Also, for practical reasons, it is the better solution not to separate technical and non-technical losses, as those components can hardly be divided.

3. Which are the key components of defining losses?

The components are technical and non-technical losses. Whereby technical losses should contain all losses and consumption related to the operation of the grid. In particular we see also consumption of the system operator and remote operation as technical-loss. All other losses, not related to the technical grid-operation, can be defined as non-technical losses.

Regarding public lightning, our experience shows that demand calculations are very accurate. Therefore, we do not consider any losses in relation to public lighting.

4. What ways exist to improve the evaluation of losses in distribution networks?

A model respecting the existing grid-topology, voltage levels, age of installations and grid load will lead to most accurate results. In countries with technically less developed grids, the installation of additional area-related metering equipment can improve the accuracy of the model calculation.

5. What should be a reasonable and acceptable level of power losses at the distribution level and the transmission level?

Because of different grid-specifics, as mentioned above, no simple, universal benchmark (e.g. percentage of sales) exists. As a general rule, a reasonable level of losses can be defined by ensuring that investments in loss-reduction are economically feasible. That means that investments dedicated to the reduction of total losses do not exceed the cost-reduction gathered by reduced procurement costs related to these investments. Any obligation in reduction of losses has to correlate with acknowledged investments. In this context it has to be noted that the typical timed of use is about 30-40 years.

6. Which types of losses could be most easily reduced?

The elasticity of losses caused by unauthorised consumption (theft) is much higher compared to other losses. Consequently, those losses could be reduced in a more simple way, assuming a supportive legislation in place.

7. Who should be responsible for procuring electric energy to cover losses?

As the procurement is based on a forecast on grid-load, it is most likely to be more accurate and efficient when the DSO procures the electricity for covering losses.

8. How should electric energy to cover losses be procured in a market oriented way? Which solution is the most efficient?

Energy to cover losses should be procured in a practical and transparent way via power exchanges or OTC. A public tender, based on clear rules, can ensure procurement at market prices. When the DSOs public tender complies with the foreseen rules (e.g. set by the Regulator) the costs have then to be fully acknowledged by the Regulator and incorporated within the grid-tariff.

However, in countries where electricity prices are still regulated, the DSO should be permitted to purchase total losses at the regulated price, especially when prices are regulated below market price.

9. Should the costs of losses be covered by a special tariff?

We do not see any advantage in separating components like losses or e.g. upstream-grid-costs from the tariff. A special tariff would not gain any added-value to the consumer and would even raise the level of complexity.

10. What are the advantages and disadvantages of the aforementioned incentive mechanisms?

The advantage of an effective and functioning system will be soonest possible reduction of losses, consequently together with all positive effects (e.g. environmental, cost efficiency etc.).

Disadvantages will occur once the conditions noted under point 11 are not fulfilled. Particularly, when costs for procurement of losses and investments in loss-reduction are not fully covered by the grid-tariff, the DSO runs into serious financial problems – very simply, the required investments can not be carried out. It is obvious that in such a case, especially in countries with a high rate of losses, security of supply is threatened. At least significant delay in implementation will be then the result, while knowing that additional costs in loss-procurement is lost capital related to investments for reduction of losses.

11. Which key elements should be considered when assessing different regulatory incentive mechanisms?

As a prerequisite for any effective and functioning system, the following conditions have to be fulfilled:

- the application of an incentive mechanism requires existing capabilities for improvements, while respecting that investments are economically feasible (as mentioned under point 5)
- all investments and costs related to the reduction of losses and the purchase of electricity to cover losses have to be acknowledged by the Regulator and incorporated within the grid-tariff.
- the actual, prevailing rate of losses has to be considered as the initial value for the mechanism.
- improvements should be achieved in a stepwise approach, while setting reasonable targets and a well balanced implementation schedule.

12. Are there advantages in setting separate mechanisms for technical and non-technical losses?

No separate mechanisms are needed. But targets to be set will depend on different parameters (e.g. social component for theft).

13. Are there advantages in setting separate mechanisms for transmission and distribution?

There won't be advantages in setting separate mechanisms. But priorities for transmission and distribution will be diverging. (e.g. theft, frequency of metering etc.)