

Annex: Reasons for direction and determination under Special Licence Condition G – Aquila Networks plc

1. Introduction

1.1 This document sets out the reasons for the draft directions under Special Licence condition G (“the Condition”) of a licence (“the Licence”) treated as granted to Aquila Networks Plc (“Aquila”) under section 6(1)(c) of the Electricity Act 1989. The direction adjusts Aquila’s 2001/2 performance for the number and duration of interruptions. The document also contains an explanation of the determination of Aquila’s interim targets.

1.2 The structure of the rest of this document is as follows:

- Section 2 sets out the reasons for the direction under paragraph 8 of the Condition to adjust Aquila’s 2001/2 reported performance for inaccuracy;
- Section 3 sets out an explanation of the determination under paragraph 7 of the Condition to define Aquila’s interim targets;
- the Appendix includes the revised version of Annex A of the Condition incorporating all of the adjustments.

2. Reasons for direction under paragraph 8 of the Condition - Adjusting 2001/2 performance data for inaccuracy

Examiners report

2.1 The Authority appointed Mott MacDonald and British Power International (together known as “the examiner”) to provide an audit opinion on the rebasing of IIP targets for certain electricity distribution companies. The report of the examiner¹ shows that Aquila’s data for both the number and duration of interruptions is below the minimum overall and LV levels of accuracy specified in the Regulatory Instructions and Guidance (“the RIGs”) due to over-reporting at HV and under-reporting at LV. Under paragraph 8 of the Condition the Authority may therefore, in accordance with the provisions of that paragraph, make adjustments to Aquila’s data to mitigate against the effects of this inaccuracy.

Additional information submitted by Aquila

2.2 Aquila submitted additional information to the Authority on 16 January 2003 regarding the accuracy of its 2001/2 reported performance. The key points are set out below.

2.3 During the period April to August 2002, Aquila reviewed a sample of 48 HV faults in detail. The sampling selection was generally based upon the most significant

¹ “Information and Incentives Project – Audit of incident reporting for 2001/2 - Appendix B Aquila Networks PLC”, Mott-MacDonald and British Power International, February 2003

faults each month, which tended also to be the most complex. Whilst the internal audit commenced immediately following the year in question, no changes to its processes were made during or prior to this and hence Aquila believes it is representative of 2001/2 arrangements.

2.4 The results of Aquila's audit show that, out of 48 HV faults reviewed, 35 contained no errors whilst the remainder generally involved human errors of the type which should reduce through greater awareness, future training and audit. Overall, the results reveal that reporting is basically accurate at HV with an over-reporting of CMLs of only 1% and an under-reporting of CIs of less than 4%. Its CIs have tended to be less accurate as re-interruption reporting only started in April 2002. This was accounted for by an adjustment of 3.5% to its performance figures before they were reported to the Authority.

Authority's draft direction

2.5 The Authority has considered the evidence contained in the examiner's report, the additional evidence presented by Aquila and other relevant circumstances. In the light of these, and of its principal objective and general duties the Authority considers that it is appropriate to exercise its power under paragraph 8 of the Condition to adjust Aquila 2001/2 data for the number and duration of interruptions.

2.6 The Authority is satisfied that Aquila's additional evidence shows that it is inappropriate to make adjustments to Aquila's HV data. The Authority therefore proposes that the adjustments to Aquila's data for the number and duration of interruptions should only relate to incidents at LV and should be based on the accuracy figures set out in Table A-1 of the examiner's report.

2.7 The Authority therefore proposes the following adjustments to Aquila's performance data, calculated in Table 2.1 below.

Table 2.1: Adjustments to 2001/2 performance data for inaccuracy

	Disaggregated reported performance figures for 2001/02		Estimated % change due to inaccuracy		Adjusted disaggregated performance figures for 2001/02	
	CI	CML	CI	CML	CI	CML
HV & above	104.17	95.26			104.17	95.26
LV	15.77	26.95	22.79%	13.59%	19.36	30.61
NGC or other transmission co	0.00	0.00			0.00	0.00
Embedded generators	0.00	0.00			0.00	0.00
Other connected systems	0.00	0.00			0.00	0.00
Total unweighted CI/CML	119.94	122.21	3.00%	3.00%	123.54	125.87
Total weighted CIIS/CMLIS	119.94	122.21	3.00%	3.00%	123.54	125.87

- CIIS for the year commencing 1 April 2001 should be adjusted upwards by 3% from 119.94 to 123.54
- CMLIS for the year commencing 1 April 2001 should be adjusted upwards by 3% from 122.21 to 125.87

2.8 In reaching its decision the Authority took into account the fact that the customer numbers used in Aquila's 2001/2 reporting were based on the number of customers connected to the relevant distribution substation (obtained from its HV connectivity model) divided by the number of outgoing LV feeders. Therefore special considerations applied. In future years with reporting based on its LV connectivity systems, which provide detailed information on the numbers of customer attached to each LV feeder, it may be appropriate to use an alternative approach to calculating adjustments for inaccuracy.

DNO response to paragraph 10A consultation

2.9 The company made no comments on the draft direction.

Authority's final direction

2.10 The Authority is therefore satisfied that the adjustments set out in the draft direction are appropriate.

3. Explanation of draft determination under paragraph 7

3.1 Under the mechanism set out in paragraph 7 of the Condition the (interim) targets TA_t and TB_t for the years 2002/3 and 2003/4 will be the higher of:

- $CIIS_t$ and $CMLIS_t$ respectively for the year 2001/2 adjusted for inaccuracy; and
- TAt and TBt respectively for 2004/5 set out in Annex A of the licence condition.

3.2 Given the direction under paragraph 8:

- TAt for the years commencing 1 April 2002 and 2003 are determined as being 131.0.
- TBt for the years commencing 1 April 2002 and 2003 are determined as being 125.87.

Appendix – Further Information

Revised Annex A

Relevant year Commencing:	1 April 2002	1 April 2003	1 April 2004
TA _t	131.0	131.0	131.0
IRA _t (£ million 2000/01 prices)	0.03	0.06	0.06
RLA _t	0.25	0.5	0.5
RLOPA			0.6
TB _t	125.87	125.87	116.9
IRB _t (£ million 2000/01 prices)	0.04	0.10	0.10
RLB _t	0.5	1.25	1.25
RLOPB			1.4
RLD _t	0.1	0.125	0.125