

Annex: Explanation of Authority's reasons for the direction and determination under Special Licence Condition J – Scottish Power Distribution Limited

1. Introduction

1.1 This document sets out the reasons for the directions under Special Licence condition J (“the Condition”) of a licence (“the Licence”) treated as granted to Scottish Power Distribution Limited (“SPD”) under section 6(1)(c) of the Electricity Act 1989. The directions adjust SPD’s 2001/2 performance for the number and duration of interruptions. The document also contains an explanation of the determination of SPD’s interim targets.

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

- Section 2 explains the Authority’s decision not to make any adjustments to SPD’s 2001/2 reported performance for exceptional event claim event one (26-27 June 2001);
- Section 3 sets out the reasons for the direction under paragraph 10 of the Condition to adjust SPD’s 2001/2 reported performance for exceptional event claim two (28 December 2001);
- Section 4 sets out the reasons for the direction under paragraph 10 of the Condition to adjust SPD’s 2001/2 reported performance for exceptional event claim three (28 January-01 February 2002);
- Section 5 sets out an explanation of the determination under paragraph 7 of the Condition to define SPD’s interim targets; and
- The Appendix includes the revised version of Annex A of the Condition.

2. Reasons for not adjusting performance for exceptional event claim one under paragraph 10 of the Condition (26 and 27 June 2001)

Claim

2.1 SPD notified the Authority on 10 April 2002 that it considered the lightning storm of 26 – 27 June 2001 to have been exceptional and to have had a material and adverse impact on its performance.

Summary of event

2.1 The Meteorological Office report and the DNO’s lightning activity data both show that a severe lightning storm occurred over SPD’s geographic area during 26 June 2001 and 27 June 2001. 6,323 separate lightning strikes were recorded during the period of the storm, which caused 165 incidents on its network. The

event affected 9 of SPD's districts and created incidents on SPD's measurement systems between 02:00 on 26 June 2001 and 23:30 on 27 June 2001.

- 2.3 SPD proposed that the following faults relating to the event and their associated impact in terms of number and duration of interruptions should be excluded from the 2001/2 performance data.

Table 2.1: Impact of 26-27 June lightning storm

	Number of incidents	CI	CIIS*	CML	CMLIS*
Transmission	3	1.75	0.00	0.07	0.01
EHV	11	0.12	0.12	0.09	0.09
HV	148	1.33	1.33	1.53	1.53
LV	3	0.00	0.00	0.00	0.00
Event totals	165	3.21	1.45	1.69	1.63

*Where the columns CIIS and CMLIS show the recommended adjustments after taking into account any contribution in the SPT&D claim for CI and CML that are due to incidents on the SPD transmission system as provided for in the incentive scheme.

Note that the columns may not add due to rounding errors.

Examiners' report

- 2.4 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 examiner's report¹ finds that this event was exceptional, with 111 incidents at higher voltages being recorded in a 24 hour period, against a threshold² figure of 75.48 but did not have a material and adverse impact having caused only 1.46 CIs and 1.62 CMLs against thresholds of 1.66 and 2.19 respectively. The examiner therefore recommends that no adjustments should be made to SPD's 2001/2 performance data.

Authority's draft direction

- 2.5 The Authority has considered the recommendation of the examiner and other relevant circumstances and is satisfied that event one was exceptional. Under paragraph 10 of the Condition the Authority may therefore, in accordance with the provisions of that paragraph, make adjustments to SPD's data in respect of that event.
- 2.6 As discussed in paragraph 2.4, the examiner has found that the event did not have a material and adverse impact on SPD's performance. In the light of this, and of its principal objectives and general duties, the Authority is satisfied that it is inappropriate to exercise its powers under paragraph 10 of the Condition and make an adjustment for this exceptional event claim.

¹ "Information and Incentives Project – Report on the examination of the validity of SP Distribution's exceptional event claim – Severe Lightning Storm during 26 and 27 June 2001", Mott-McDonald and British Power International, February 2003.

² "Information and Incentives Project – Process to Evaluate Exceptional Event Claims Caused by Severe Weather", Mott-McDonald and British Power International, February 2003.

DNO response to paragraph 10A consultation

- 2.7 SPD made no comments on the draft directions.

Authority's Final Direction

- 2.8 The Authority is therefore satisfied that is inappropriate to make an adjustment for this exceptional event claim as explained for the draft direction.

3. Reasons for direction under paragraph 10 of the Condition – Adjusting 2001/2 performance for exceptional event claim two (28 December 2001)

Claim

- 3.1 SPD notified the Authority on 10 April 2002 that it considered the gales on 28 December 2001 to have been exceptional and to have had a material and adverse impact on its performance.

Summary of event

- 3.2 The Meteorological Office report shows that strong gale force winds swept over SPD's geographic area on 28 December 2001, with the mean wind speed exceeding 45 knots and with gusting up to 69 knots. The event affected 9 of SPD's districts and detailed information listing 8 primary substations showed that each suffered between 3 and 5 separate HV incidents.
- 3.3 SPD proposed that the following faults relating to the event and their associated impact in terms of number and duration of interruptions should be excluded from the 2001/2 performance data.

Table 3.1: Impact of 28 December 2001 Gales

	n° of incidents	CI	CIIS*	CML	CMLIS*
EHV	3	0.12	0.12	0.00	0.00
HV	96	0.78	0.78	2.64	2.64
LV	87	0.02	0.02	0.10	0.10
Event totals	186	0.91	0.91	2.74	2.74

Examiners report

- 3.4 The examiners report³ finds that this event was exceptional, with 99 incidents at higher voltages being recorded in a 24 hour period, against a threshold figure of 75.48 and had a material and adverse impact having caused 2.74 CMLs against the threshold of 2.19 CMLs. SPD was also found to have taken appropriate mitigating actions. The examiner therefore recommends that SPD's 2001/2

³ "Information and Incentives Project – Report on the examination of the validity of SP Distribution's exceptional event claim – Severe Gales on 28 December 2001", Mott-McDonald and British Power International, February 2003.

performance should be adjusted to exclude the impact of the incidents set out in Table 3.1 above.

Authority's draft direction

3.5 The Authority has considered the recommendation of the examiner and other relevant circumstances and is satisfied that the event was exceptional. Under paragraph 10 of the Condition the Authority may therefore, in accordance with the provisions of that paragraph, make adjustments to SPD's data in respect of that event.

As discussed in paragraph 3.4 the examiner found that the event had a material and adverse impact on performance and that SPD took reasonable actions to mitigate the impact of the event. In the light of this, and of its principal objectives and general duties, the Authority is satisfied that it is appropriate to exercise its powers under paragraph 10 of the Condition and adjust SPD's performance data to fully exclude the impact of the incidents set out in Table 3.1 above.

3.6 The impact of the changes relate to overall company performance and the adjustment to price control revenue under the incentive scheme, rather than protection of individual customers. The Authority therefore considers it reasonable and pragmatic to apply the adjustments to the annual performance data rather than at a more detailed level. The Authority is satisfied that if the impact of the event were applied at a more detailed level it would result in the same adjustments.

The adjustments to the annual performance data are calculated in Table 3.2 below.

Table 3.2: Adjustments to 2001/2 performance data for exceptional event claim two (28 December 2001)

	Reported performance figures for 2001/02		Estimated change for exceptional event claim two		Performance figures for 2001/02 adjusted for exceptional event claim two	
	CI	CML	CI	CML	CI	CML
HV & above	59.80	72.42	-0.90	-2.64	58.90	69.78
LV	6.66	12.61	-0.02	-0.10	6.64	12.51
NGC or other transmission company	9.81	2.43	0.00	0.00	9.81	2.43
Embedded generators	0.00	0.00	0.00	0.00	0.00	0.00
Other connected systems	0.00	0.00	0.00	0.00	0.00	0.00
Overall CI & CML for 2001/2	76.27	87.46	-0.92	-2.74	75.35	84.72
Overall CIIS & CMLIS for 2001/2	66.47	85.28	-0.92	-2.74	65.55	82.54

3.7 The Authority proposes that;

- CIIS for the reporting year commencing 1 April 2001 should be reduced by 0.92 from 66.47 to 65.55
- CMLIS for the reporting year commencing 1 April 2001 should be reduced by 2.74 from 85.28 to 82.54

- 3.8 The Authority notes that in reaching its decision it took into account the fact that this event related to severe weather, which caused a large volume of faults across a widespread area. Further, SPD was able to break down the incidents by causation. Where an exceptional event claim relates to other types of event or detailed information on causation is not available, it may be appropriate to use an alternative approach.

DNO response to paragraph 10A consultation

- 3.9 SPD made no comments on the draft direction.

Authority's Final Direction

- 3.10 The Authority is therefore satisfied that the adjustments set out in the draft directions are appropriate.

4. Reasons for direction under paragraph 10 of the Condition – Adjusting 2001/2 performance for exceptional event claim three (28 January – 01 February 2002)

Claim

- 4.1 SP Distribution notified the Authority on 10 April 2002 that it considered the gales of 28 January – 01 February 2002 to have been exceptional and to have had a material and adverse impact on its performance.

Summary of event

- 4.2 The Meteorological Office report shows that storm force winds swept over SPD's geographic area between 28 and 31 January 2002, with the mean wind speed exceeding 50 knots and with gusts up to 79 knots. SPD's detailed information showed that the storm affected the whole of the DNO's area, affecting all operational units. The central and northern parts of the region were particularly badly affected. SPD provided detailed information which listed 9 primary substations and showed that each suffered between 7 and 9 separate HV incidents.
- 4.3 SPD proposed that the following faults relating to the event and their associated impact in terms of number and duration of interruptions should be excluded from the 2001/2 performance data.

Table 4.1: Impact of 28 January – 01 February 2002 Gales

	n° of incidents	CI	CIIS*	CML	CMLIS*
Transmission	1	1.48	0.00	0.18	0.02
EHV	26	0.99	0.99	1.12	1.12
HV	418	4.48	4.48	15.98	15.98
LV	485	0.15	0.15	1.67	1.67
Event totals	930	7.10	5.62	18.95	18.79

*Where the columns CIIS and CMLIS show the recommended adjustments after taking into account any contribution in the SPT&D claim for CI and CML that are due to incidents on the SPD transmission system as provided for in the incentive scheme.

Note that the columns may not add due to rounding errors.

Examiners' report

- 4.4 The examiner's report⁴ finds that this event was exceptional, with 304 incidents at higher voltages being recorded in a 24 hour period, against a threshold figure of 75.48 and had a material and adverse impact having caused 5.62 CIs against the threshold of 1.66 CIs. SPD was also found to have taken appropriate mitigating actions. The examiner therefore recommends that SPD's 2001/2 performance should be adjusted to exclude the impact of the incidents set out in Table 4.1 above.

Authority's draft direction

- 4.5 The Authority has considered the recommendation of the examiner and other relevant circumstances and is satisfied that the event was exceptional. Under paragraph 10 of the Condition the Authority may therefore, in accordance with the provisions of that paragraph, make adjustments to SPD's data in respect of that event.
- 4.6 As discussed in paragraph 4.4, the examiner has also found that the event had a material and adverse impact on performance and that SPD took reasonable actions to mitigate against the impact of the event the Authority. In the light of this, and of its principal objectives and general duties, the Authority is satisfied that it is appropriate to exercise its powers under paragraph 10 of the Condition and adjust SPD's performance data to fully exclude the impact of the incidents set out in Table 4.1 above.
- 4.7 The impact of the changes relate to overall company performance and the adjustment to price control revenue under the incentive scheme, rather than protection of individual customers. The Authority therefore considers it reasonable and pragmatic to apply the adjustments to the annual performance data rather than at a more detailed level. The Authority is satisfied that if the impact of the event were applied at a more detailed level it would result in the same adjustments.

⁴ "Information and Incentives Project – Report on the examination of the validity of SP Distribution's exceptional event claim – Severe Gales between 28 January and 01 February 2002", Mott-McDonald and British Power International, February 2003.

4.8 The adjustments to the annual performance data are calculated in Table 4.2 below.

Table 4.2: Adjustments to 2001/2 performance data for exceptional event claim three (28 January to 01 February 2002)

	Performance figures for 2001/02 adjusted for exceptional event claim two		Estimated change for exceptional event claim three		Performance figures for 2001/02 adjusted for exceptional event claim three	
	CI	CML	CI	CML	CI	CML
HV & above	58.90	69.78	-5.47	-17.10	53.43	52.68
LV	6.64	12.51	-0.15	-1.67	6.49	10.84
NGC or other transmission company	9.81	2.43	-1.48	-0.18	8.33	2.25
Embedded generators	0.00	0.00	0.00	0.00	0.00	0.00
Other connected systems	0.00	0.00	0.00	0.00	0.00	0.00
Overall CI & CML for 2001/2	75.35	84.72	-7.10	-18.95	68.25	65.77
Overall CIIS & CMLIS for 2001/2	65.55	82.54	-5.62	-18.79	59.93	63.75

4.9 The Authority proposes that;

- CIIS for the reporting year commencing 1 April 2001 should be reduced by 5.62 CIISs from 65.55 to 59.93
- CMLIS for the reporting year commencing 1 April 2001 should be reduced by 18.79 CMLISs from 82.54 to 63.75

4.10 The Authority notes that in reaching its decision it took into account the fact that this event related to severe weather, which caused a large volume of faults across a widespread area. Further, SPD was able to break down the incidents by causation. Where an exceptional event claim relates to other types of event or detailed information on causation is not available, it may be appropriate to use an alternative approach.

DNO response to paragraph 10A consultation

4.11 SPD made no comments on the draft direction.

Authority's Final Direction

4.12 The Authority is therefore satisfied that the adjustments set out in the draft directions are appropriate.

5. Explanation of determination under paragraph 7 of the Condition

5.1 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 exceptional events; and

- TA_t and TB_t respectively for 2004/5 set out in Annex A of the Condition.

5.2 Given the direction under paragraph 10 of the Condition:

- TA_t for 2002/3 and 2003/4 is determined as being 66.4; and
- TB_t for 2002/3 and 2003/4 is determined as being 87.7.

Revised Annex A

Relevant year Commencing:	1 April 2002	1 April 2003	1 April 2004
TA_t	66.4	66.4	66.4
IRA_t (£ million 2000/01 prices)	0.07	0.13	0.13
RLA_t	0.25	0.5	0.5
RLOPA			0.6
TB_t	87.7	87.7	87.7
IRB_t (£ million 2000/01 prices)	0.06	0.14	0.14
RLB_t	0.5	1.25	1.25
RLOPB			1.4
RLD_t	0.1	0.125	0.125