

Annex Reasons for direction and determination under Special Licence Condition G – United Utilities Electricity plc

1. Introduction

1.1 This document sets out the reasons for the draft direction under Special Licence condition G (“the Condition”) of a licence (“the Licence”) treated as granted to United Utilities Electricity Plc (“United Utilities”) under section 6(1)(c) of the Electricity Act 1989. The direction adjusts United Utilities’ 2001/2 performance for the number and duration of interruptions. The document also contains an explanation of the determination of United Utilities’ 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 United Utilities’ 2001/2 reported performance for inaccuracy;
- Section 3 sets out an explanation of the determination under paragraph 7 of the Condition to define United Utilities’ 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 United Utilities’ data for both the number and duration of interruptions is below the minimum overall and LV levels of accuracy specified in the RIGs due to under-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 United Utilities’ data to mitigate against the effects of this inaccuracy.

Additional information submitted by United Utilities

2.2 United Utilities did not submit any additional information to the Authority regarding the accuracy of its 2001/2 reported performance.

¹ “Information and Incentives Project – Audit of incident reporting for 2001/2 - Appendix L United Utilities Electricity plc (United Utilities)”, Mott-MacDonald and British Power International, February 2003

Authority's draft direction

2.3 The Authority has considered the evidence contained in the examiner's report and other relevant circumstances. In the light of these, its principal objectives and general duties the Authority considers that it is appropriate to exercise its power under paragraph 8 to adjust United Utilities' data for the number and duration of interruptions based on the accuracy figures set out in Table A-1 of the examiner's report.

2.4 The Authority therefore proposes the following adjustments to United Utilities' 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	42.39	41.51	3.51%	2.19%	43.87	42.42
LV	6.96	12.77	80.61%	72.28%	12.58	21.99
NGC or other transmission co	0.00	0.00			0.00	0.00
Embedded generators	0.00	0.00	3.51%	2.19%	0.00	0.00
Other connected systems	0.01	0.01	3.51%	2.19%	0.01	0.01
Total unweighted CI/CML	49.36	54.29	14.39%	18.67%	56.46	64.42
Total weighted CIIS/CMLIS	49.35	54.28	14.39%	18.68%	56.45	64.41

- CIIS for the year commencing 1 April 2001 should be adjusted upwards by 14.39% from 49.35 to 56.45
- CMLIS for the year commencing 1 April 2001 should be adjusted upwards by 18.68% from 54.28 to 64.41

2.5 In reaching its decision the Authority took into account the fact that United Utilities' 2001/2 reporting was partially based on old measurement systems and therefore that special considerations applied. In future years with the new measurement systems in place, it may be appropriate to use an alternative approach to calculating adjustments for inaccuracy. The new measurement systems, provide connectivity down to the LV feeder level and therefore provide much more robust information on the number of customers affected by faults at each voltage level.

DNO response to paragraph 10A consultation

2.6 United Utilities note that the results of the IIP audit at HV indicate corrections of no more than 2% and 3% in reported CML and CI figures respectively. Although the effect of the adjustments is small, it has a concern about their appropriateness given the accuracy that can be achieved with an audit of only 50 events.

Authority's final direction

- 2.7 As United Utilities had separate connectivity models for higher voltage and low voltage incidents the examiner carried out separate statistical sampling to derive the appropriate sample of incidents for each of these voltage levels. The analysis was designed to obtain audit samples that were representative of the full population of incidents at the 90% confidence level.
- 2.8 Given the separate sampling there was a substantially larger audit sample for United Utilities than the majority of the other DNOs. Taking this into account the examiner is satisfied that the adjustments to performance set out in the draft directions are appropriate, including the adjustments at HV.
- 2.9 However, Ofgem recognises the importance of continuing to develop the audit framework and will therefore carry out further work with the examiner to consider whether the sampling can be improved this year, including whether additional HV incidents should be audited and whether the sample should be stratified by the number of restoration stages.

3. Explanation of determination under paragraph 7 of the Condition

- 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
 - TA_t and TB_t respectively for 2004/5 set out in Annex A of the Condition.
- 3.2 Given the direction under paragraph 8 of the Condition:
- TA_t for the years commencing 1 April 2002 and 2003 are determined as being 56.45.
 - TB_t for the years commencing 1 April 2002 and 2003 are determined as being 68.2.

Appendix – Further Information

Revised Annex A

Relevant year Commencing:	1 April 2002	1 April 2003	1 April 2004
TA _t	56.45	56.45	54.8
IRA _t (£ million 2000/01 prices)	0.06	0.13	0.13
RLA _t	0.25	0.5	0.5
RLOPA			0.6
TB _t	68.2	68.2	68.2
IRB _t (£ million 2000/01 prices)	0.06	0.15	0.15
RLB _t	0.5	1.25	1.25
RLOPB			1.4
RLD _t	0.1	0.125	0.125