Impact Assessment and Consultation response:

Electricity Distribution Allowed Loss Percentages -
Representation by ScottishPower EnergyNetworks

To:

Paul Darby
Regulatory Finance Team
Ofgem

From:

SP Energy Networks
SP Distribution Ltd and SP Manweb plc

SP Energy Networks (SPEN) has requested an increase in the allowed electricity loss percentages for SP Distribution (SPD) and SP Manweb (SPM) on the basis that we believe there is objective justification and the means for the Regulator to make this amendment.

SPEN's response to Ofgem's impact assessment and consultation is detailed below and presents a summary of why Ofgem's refusal to address our losses targets and the resultant penalties is not consistent with its duties. Our response to the questions in the impact assessment and consultation are contained in Appendix A.

1 Introduction and Background: SPEN Perspective

1.1 SPEN identified that during the period 2002 to 2005 the actual reported losses suggested by the settlements system were exceptionally low and hence sales higher than anticipated. SPEN therefore adopted a prudent approach to accounting for this energy in accordance with sound commercial and accounting practice. Ofgem were made aware of the SPEN losses methodology and "lead" units in the 1 April 2004 condition B returns and the downward trend in losses was highlighted in our HBPQ/FBPQ returns as part of DPCR4. It should also be emphasised that in adopting our accounting policy, in the context of the rolling mechanism that applied at the time, there was no financial benefit to SPEN from doing so.

1.2 SPEN could not have been reasonably expected to know, either during this period or at the time of agreeing to the revised targets, that the period on which our revised targets were set arose as a result of pronounced volatility in settlements data. This volatility appears not only to be symptomatic of a period where the BSC Audit Reports carried a qualified audit opinion, but also work conducted by Elexon has identified that the volatility in SP Manweb was particularly pronounced and unique in the industry.

1.3 SPEN consistently highlighted and documented our concern at the adoption of a target, which applied an adjustment on the basis of 3-year data, since the trend over the period 2002 to 2004 was unlikely to be representative of the longer-term trend. SPEN also highlighted that preliminary settlements data at that point in time indicated that losses were increasing.

1.4 Despite these concerns, SPEN accepted the proposed target in good faith and took confidence in the knowledge that the Authority could change the Allowed Loss Percentage (ALP) in light of a material change whether an improvement or a deterioration (under Special Condition C1). We would emphasise that we are not seeking to undermine the revision of the target itself but rather to state that in light of the information that has been gathered now, which is demonstrably of a higher quality the target should be adjusted to be symmetric, in line with the original objective of the losses incentive mechanism.

1.5 Now that we are 4 years into the current review we can demonstrate robustly that losses percentages have reverted towards a longer term average and that the existing targets in both SPD and SPM are statistically biased towards penalties. We do not believe that this was Ofgem's intention at the time.

1.6 At this point the compounded effect of these penalties is having a severe financial impact on our businesses as identified by Ofgem's work on the Return on Regulatory Equity (RORE), conducted for DPCR5. Further, this means that we are not able to earn the base level of revenue which Ofgem identified was necessary to operate and finance our business efficiently. Despite this, our businesses deliver upper quartile performance in terms of customer interruptions with SPM being a frontier performing business and SPD being identified in Ofgem's latest cost review as being the second most efficient DNO in terms of regulatory opex in the United Kingdom. These standards have been maintained despite significant reductions in demand that have affected the whole industry and in SPEN's case have uniquely compounded the negative impacts of the losses incentive mechanism.

1.7 We are therefore extremely concerned about Ofgem's reluctance to amend SPEN's ALPs and what that means for the objectivity of regulatory processes going forward. This will undoubtedly have a bearing on our ability to conclude other regulatory settlements including DPCR5.

2 Consumer Impact

2.1 As highlighted by Ofgem in the Electricity Distribution Price Control Review Policy Document (5 December 2008), Electricity Distribution costs account for around £3.6 billion annually and makes up around 14 percent of domestic consumers' electricity bills. For a typical electricity domestic customer the distribution element of the annual would be approximately £63.

2.2 In our letter to Steve Smith dated 4 November 2008 we put forward a ‘Limited Correction’ option which still results in a penalty of £20m for SP. This option would go someway towards mitigating the effect of the 2005 revision to targets, which is forecast to penalise SP by £74 million in DPR4 and £93M in total when we include the roller. This compromise was proposed by SPEN and significantly reduces the impact on consumers in comparison to full correction, to which we believe we would be entitled, if we were to be treated consistently with our industry peer group.

2.3 In addition the charges to SP’s customers will still be significantly lower than allowed in the Distribution Price Control 4 (DPC4) settlement for the period 1 April 2005 to 31 March 2010.

2.4 The *net* level of reward for all DNOs in just 2007/08 totalled £76m. It is hardly surprising therefore, that other DNOs have not approached Ofgem with representations about the quality of data.

2.5 We recognise Ofgem’s principal objective is to protect the interests of existing and future consumers and in carrying out these duties, **Ofgem is required to have regard to a number of important factors including the need to secure that licence holders are able to finance their regulated activities**. If they do not, they adversely impact the businesses ability to serve the customer and therefore the customer too. In this instance, the SPEN companies would not be gaining by the adjustment, but rather recouping the base level of revenue that Ofgem deemed an efficient company required to meet its costs.

3 SPD’s EHV Adjustment

3.1 The ‘limited correction’ also reflects correction for a separate error in SPD’s target. We are also requesting an adjustment in relation to EHV units, which were erroneously included in the target calculation following a restructure of the industry. The target has therefore been set at too low a level which consequently leads to higher financial penalties than would have been the case had the target been calculated correctly. It would be inconsistent and inequitable to restrict the full correction of the data and recalculation of the losses penalty/incentive. As such fully backdating the EHV data correction is indisputably the equitable proposal that is consistent with Ofgem’s objectives. Any refusal to backdate on grounds that the error should have been visible to SPEN is inconsistent with the precedent set by the case of Electricity North West where they were allowed to recoup earnings in relation to DPC3.

3.2 Losses targets should not only be adjusted if it results in reductions in allowed revenue. Ofgem has made the assertion that it ought to have been visible to SP, however the same assertion could be applied to the other DNO whose targets have been revised due to data issues.

3.3 The duty to protect customers does not extend to the Regulator refusing to adjust targets where a manifest error exists, as is patently the case in respect to the EHV issues, simply because the error appears to be in the customers favour. This would represent a “heads we win, tails you lose” approach to regulation.

3.4 Ofgem is bound by the Internal Markets Electricity Directive 2003/54 article 3(1) (IMED) and as regulator has a duty to “not discriminate between these undertakings” in relation to the electricity market. SPEN considers that failure to fully correct a manifest error amounts to discrimination.

4 Special Condition C1 (SC C1)

4.1 Special Condition C1 is an appropriate basis for revising SP’s loss targets. Ofgem has used SC C1 in two other instances to effect a change in targets. This licence condition clearly states it can be applied if “there has been a material change (whether an improvement or deterioration) in the quality of the information”.

4.2 We consider that Ofgem are discriminating against SPEN and acting inconsistently against the context of the licence where specific data issues are identified and the Authority is willing to apply this special licence condition to reduce targets. Furthermore the examples which Ofgem has proffered by way of mitigation do not amount to an objective justification for the discrimination, for example, administrative inconvenience and regulatory uncertainty caused by re-opening the price control.

4.3 Ofgem asserts in section 5.9 of the consultation document that there has not been a material change in the quality of the data used to set the revised ALPs. However no justification is provided for this bold assertion. This suggests that Ofgem believes that SC C1(7) only applies if there is a change in the actual data used to determine the ALPs. This is incorrect. The paragraph in the Licence states that all that is required is that the Authority is satisfied that there has been a “material change….in the quality of information used to derive the adjusted system entry volumes or units distributed”.

4.4 We have asserted that a number of factors demonstrate there has been a material improvement in the quality of information used to derive both SPD and SPM’s adjusted system entry volumes or adjusted units distributed. These are as follows:

1) Reports by the auditor of Elexon in respect of settlement data for 2001/02 to 2004/05 were qualified. The auditor found that there were significant volumes of errors within settlements for those years. The reports by the auditor for 2005/06 onwards were not qualified. The auditor's report for March 2007 notes a marked improvement in previously identified issues.
2) In the period 2001/02 to 2004/05 the number of meter reads was considerably less than the current benchmark of 97%.
3) Analysis conducted by Elexon noted that the level of distribution losses on SPM/SPD's areas were unusual over the period examined compared to other DNOs.
4) Analysis by Elexon set out in a paper *"Standing Issue 34 Report"* dated 6th June 2008 showed there was a high level of data error in settlement data in respect of SPM in the year 2003/04. That data error was 6.3% as compared to an industry average error of 2.1%. That level of error has significantly improved. In 2004/05 the SPM data error was 2.1% as compared to an industry average of 2.1%, in 2005/06 the figures were 0.9% and 1.3% respectively, in 2006/07 the figures were -1.6% and 0.7% respectively and in 2007/08 0.3% and 0.7% respectively.

4.5 To illustrate the extent of the concern raised over the BSC Audit we draw attention to "ELEXON'S INITIAL RESPONSE TO THE BSC AUDITOR'S REPORT FOR THE YEAR ENDED 30 SEPTEMBER 2003" where the Performance Assurance Board notes "The Audit Opinion presented by the BSC Auditor in December 2003 for the year 1 October 2002 to 30 September 2003 is qualified. This reinforces the previously expressed deep concerns of the BSC Panel and the Performance Assurance Board (PAB) regarding the quality of data in the Supplier Volume Allocation Market and the failure of suppliers to take effective remedial action. In addition Ofgem's assumption that SPEN, the distribution company, can provide an insight into the behaviour of the settlements systems is unreasonable as we are not market participants. We can only point to the opinion of Elexon and their auditors.

4.6 We further note that Ofgem suggests (paragraph 5.39) that if they accept that there has been a material change in data that this implies that other ALPs would have to be reopened. The fact that this matter may raise wider difficulties does not, of itself, justify refusal to examine the matter.

4.7 Furthermore SPEN fundamentally disagrees with the view expressed by Ofgem that a change in the status of the BSC audit does not demonstrate a change in the quality of data. Throughout the last eighteen months, we have requested that Ofgem explain or make clear what constitutes a material change in the quality of data from their perspective and to date no written response or satisfactory explanation has been provided.

5 Other Regulatory Precedents

5.1 Regulators should and do adopt, as good practice, regular reviews of incentive mechanisms and associated targets. For example, the Water Industry Regulator recently outlined how they have reviewed targets in light of new information and better data:

5.2 "Good regulatory practice requires that we keep our methodologies under review to ensure they remain fit for purpose. Earlier this year discussions with colleagues at the EA and DEFRA identified some areas where it might be worthwhile to review leakage management practice and target setting in the light of new information and better data." Dr Melinda Acutt, Director of Network Regulation

5.3 In addition the Gas and Electricity Markets Authority (GEMA) has modified targets in the gas sector. On the 20 June 2008 the Authority directed that "The current Uniform Network Code arrangements are based on shrinkage being related to throughput. If the UNC arrangements are not modified GDNs will remain exposed to windfall gains and losses". Further, GEMA also recognised in this instance the importance of correcting for asymmetric targets.

5.4 The 19 December 2008 Uniform Network Code (UNC) 225: Revised Timescales for LDZ Shrinkage Arrangements stated:

5.5 "Our estimate of the effect of this proposal is that the discrepancy between the shrinkage volumes incurred under UNC and the GDPCR allowed shrinkage volumes will be reduced by approximately 1 to 1.5%. This will reduce the GDNs' costs by avoiding their need to purchase the excess volumes."

5.6 We believe that the combination of good practice and precedent gives rise to a reasonable expectation that Ofgem should look to revise the SPEN ALP targets.

6 Investigation into SPEN's Losses Reporting

6.1 SPEN accepted the revised targets based on settlement information at that point in time and in the knowledge that SC C1 existed for changes in the quality of data and circumstances such as those experienced subsequent to the adjustment of SPEN's loss targets.

6.2 In Appendix 1 to the letter dated 12 October 2007 it can be seen that the highest and lowest reported losses prior to 2002/03 for both SPD and SPM were between **6.15% to 6.63% and 5.93% to 7.81%** respectively. The movement in reported losses is mainly attributable to settlement volatility as actual technical losses on the system can only fluctuate by a limited amount year on year. However, in 2002/03 reported losses in SPD and SPM dropped to **4.68% and 5.20%** and in 2003/04 dropped to **4.26% and 4.54% respectively**. The 2003/03 and

2003/04 reported losses were believed to be erroneous due to the material shift from prior years and the fact that when compared to external consultants' calculations of underlying actual technical losses, these were also lower than this benchmark. Due to the reported losses being lower than is believed to be technically feasible, it suggests the possibility of a systemic error during this period.

6.3 SPEN fully expected subsequent settlement reconciliations, which occur for up to 28 months, to result in corrections in the data and reported losses to correct to a level at least above technical losses. After discussion with external auditors it was agreed that in the interests of prudence the reported settlement volumes should be adjusted and provisional accounts utilised for the billing, which was believed to be excessive. At that time the adjustment to reported losses also had the impact of reducing the amount earned from the DPC3 losses incentive therefore reducing consumers charges. In addition for the DPC3 period the losses incentive mechanism was a rolling mechanism.

6.4 Subsequently the settlements system did not correct losses to a level consistent with years prior to 2002/03 and 2003/04 and the billing was confirmed through the Settlements process.

6.5 In the consultation Ofgem states that SPEN *" …had switched to using settlement data flows".* As advised and detailed in the correspondence at the time of the investigation, the switch related only to the measurement of final units distributed. However we made it clear to Ofgem at the time when we trued up to final settlement flows at the end of the settlement process**.** We made greater use of settlement flows for the interim estimates of units distributed from 2003/04 for SPM and 2004/05 for SPD.

7 Revised Targets

7.1 Ofgem state that their motivation for revising the targets was that had they not, SPEN would have obtained significant financial gains. In recognition of the significant financial losses we are currently incurring from the revised loss targets we expect Ofgem to act consistently and reset the allowed loss target at an appropriate level. This is also consistent with Ofgem's requirement to ensure licence holders can finance their business.

7.2 The approach to setting the restated targets deviated from a ten-year average calculation was based on a three-year approach, which compared reported units against restated units in the period 2001/02 to 2003/04. The difference between the two was used to adjust the target and Ofgem have stated they "sought to ensure that SPEN's ALPs going forward generated an appropriate benchmark". As a consequence of focusing on these three years, it has produced a vastly different target from a ten-year average and in the process has amplified the impact of the low reported losses for these years as highlighted above.

7.3 This methodology adopted to set the revised losses incentive targets (2005/06 **SPD 5.41%, SPM 5.85%**; 2006/07 to 2009/10 **SPD 5.13% and SPM 5.32%**) assumed the level of losses experienced between 2002/03 and 2003/04 was representative of the future long term average. We note Ofgem's comment in paragraph 5.11 of the Consultation. However we cannot see how a regulator, acting reasonably, could not conclude that in a series of measurements taken on a fundamentally stable engineering system, that the three years on which the target is based can be caused by anything other than a systemic and extraneous factor. SPEN considers that a regulator acting reasonably would not ignore this conspicuous trend but rather take action to redress the impact of this narrow sample of data used to set the target.

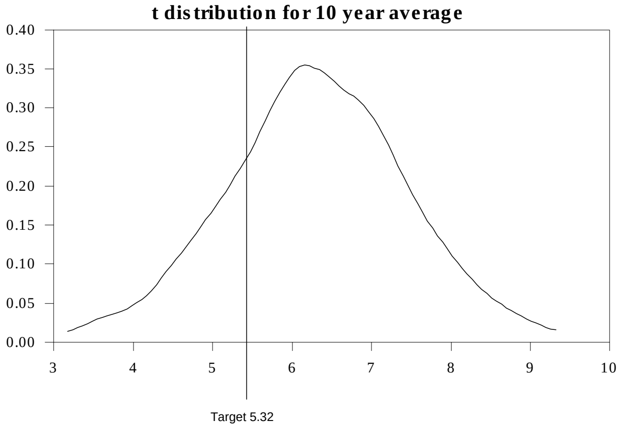
7.4 In DPC4 reported losses from 2005/06 to 2007/08 for SPD and SPM are between **5.88% to 6.15%** and **5.69% to 6.20%** respectively. The reported losses for SPM were **6.2%** in 2005/06.

8 Objective of the Incentive Scheme

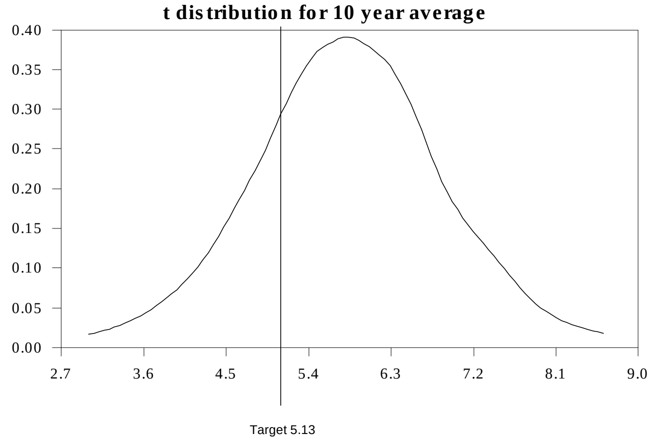
8.1 The stated intention of the incentive scheme is to create a "symmetrical" incentive. The probability of SPD/SPM achieving the target set, based on 2001/02 to 2003/04 reported losses, is so substantially diminished that it distorts the incentive scheme so as to create an asymmetrical position which results in only penalty for SPD and SPM.

8.2 The graphs below compare the current targets of SPM 5.32% and SPD 5.13% to losses data for the last 10 years. This demonstrates the revised target is well below the average based on the distribution of reported losses.

SP Manweb losses target



SP Distribution losses target



8.3 The revised targets set a benchmark that cannot be justified in the context of the objectives of the DPCR4 losses incentive.

8.4 This is inconsistent with the DPCR4 proposal documents that clearly state the objective of the losses incentive is to encourage DNOs to earn incentive payments in order to invest in low loss equipment, more effective network configuration and projects to encourage energy efficiency.

8.5 In the consultation Ofgem suggests that correction of SPEN's targets would diminish the incentive to contain losses. In addition Ofgem states "just a 1% increase in the current level of total distribution losses would equate to roughly 97,000 tonnes of CO2 per annum or 7,000 tonnes per DNO". On average over the period we forecast that we will be 0.75% over the targets.

8.6 Ofgem highlight the estimated annual distribution losses to be 18,000 GWh. In order to achieve a 1% reduction in this figure (180GWh) associated with technical losses into perspective, we estimate that the industry would need to invest more than £1 billion in lower loss equipment and other measures to achieve this reduction.

8.7 To put this in further context, it is worth considering that a 1% movement in wholesale prices would amount to approximately a £220m impact on customer prices.

8.8 A 1% reduction in losses for SPEN equates to a 115 GWhs per annum in the DPC4 period. Based on the current targets our 'losses incentive' penalty for DPC4 is forecast to be at a minimum £93 million (including the roller) for reasons wholly unconnected to technical losses. The forecasted penalty is due to reported losses being in aggregate 1300 GWhs over the target for the DPC4.

8.9 Further, a reward may not even crystallise if a 1% reduction in total technical losses was achieved. The audit materiality threshold for the British Settlement Code is currently 1.65 TWh, which represents approximately 0.5% of the total annual electricity supplied across Great Britain. The BSC Auditor will 'Qualify' its audit opinion if it cannot provide reasonable assurance that the total level of error in Settlement is less than the Materiality Threshold. A 0.5% error in settlements could present at a maximum 10,000 GWh movement in reported losses, which compares with 115 GWhs for a 1% reduction in DPCR4 technical losses quoted above. The existing losses incentive reward or penalty does no correlate to actual CO2 reductions as movements in technical losses are swamped by settlement errors.

8.10 The scale of the investment required to mitigate the losses as a result of the difference between our reported losses and the current targets is clearly not economic or feasible in the DPC4 period. Thus while a company earning a reward has an incentive to recycle that reward toward lower loss equipment, revenue protection activities or better environmental objectives a company incurring penalties has no option but to incur the penalties and has no financial facility to better achieve environmental objectives.

8.11 As stated in the 4 November 2008 letter, the losses targets are leading to an adverse impact on our Return on Regulatory Equity of around 100 basis points across the 5-year period of DPC4. With such a negative bias it would also be impossible to persuade an investor to fund such a programme in the first place.

8.12 We believe that an unintended consequence of the revised allowed loss percentage is that these unachievable targets that are reducing the funds available to invest in loss reduction and environmental measures and consequently CO_2 emissions, all other variables being equal, will actually remain constant.

9 Return on Regulatory Equity

9.1 In a comparison of RORE produced by Ofgem SPD and SPM faired worst of all DNOs with SPM earning a RORE considerably below the allowed return of 7.5%. The losses penalty reduces the RORE by 1% for both SPD and SPM. The losses incentive provides a 384 basis point benefit to another DNO and therefore the spread between the lowest and the highest RORE is almost 500 basis points.

9.2 The reduction in revenues and therefore funds available to this business to invest is particularly acute as the cost of raising new debt has risen significantly due to the turmoil in the world's financial markets.

10 Conclusion

10.1 In conclusion we disagree with Ofgem's minded to position for the following reasons:-

10.2 **Ofgem**: current ALPs for SPD/SPM were appropriately reset.
SPEN: We do not contest the revision to the targets, rather we believe that in light of what we now know and could not have reasonably known at the time, the targets are negatively biased and that this was an unintended consequence of Ofgem's process

10.3 **Ofgem:** analysis by SPEN and Elexon has not identified any issues with the quality of data used to reset ALPs and that Ofgem do not currently believe that the quality of information since 2006 has materially changed;
SPEN: We have established that a number of factors demonstrate there has been a material improvement in the quality of information used to derive both SPD and SPM's adjusted system entry volumes or

adjusted units distributed. We disagree with Ofgem's view that a change in the status of the BSC audit does not demonstrate a change in the quality of data. In addition, the volatility of our reported losses, for the years in which the target is based, is greater than the level which could be accounted for technically. The losses for the years 2001/02 to 2003/04 are significantly lower than both the years immediately preceding and those following.

10.4 **Ofgem:** SPD and SPM openly agreed on an informed basis changes to their ALPs in 2006.
SPEN: we consistently highlighted and documented our concern at the adoption of a target, which applied an adjustment on the basis of 3-year data, since the trend over the period 2002 to 2004 was unlikely to be representative of the longer-term trend. The Company also highlighted that preliminary settlements data at that point in time indicated that losses were increasing.

Despite these concerns, we accepted the proposed target in "good faith" and took confidence in the knowledge that the Authority could change ALP, in light of a material change whether an improvement or a deterioration (under special condition C1). Special condition C1 is an appropriate basis for revising SP's loss targets.

We also believe that there is strong regulatory precedent that highlights that this change should be effected.

10.5 **Ofgem:** The losses incentive is effective whether the DNO is receiving rewards or penalties;
SPEN: The losses incentive is completely undermined by the lack of correlation between actions and investment to reduce technical network losses and the vagaries of the settlements system. Actions to reduce technical losses are swamped by errors in settlement.

The scale of the investment required to mitigate technical losses as a result of the difference between our reported losses and the current targets is clearly not economic or feasible in the DPC4 period.

We believe that an unintended consequence of the revised allowed loss percentage is that these unachievable targets that are reducing the funds available to invest in loss reduction and environmental measures and consequently CO_2 emissions, all other variables being equal, will actually remain constant.

10.6 **Ofgem:** although SPEN has seen significant financial penalties as a result of the current levels of ALPs, the impact on its RORE should be offset depending on the result of its separate claim for recovery of uncertain costs relating to ESQCR requirements;
SPEN: We believe that this conclusion is fundamentally flawed. ESQCR is cost pass through mechanism, embedded within the allowance that allows for the recovery of costs associated with

mandatory Health and Safety compliance costs on an ex post basis. Even accepting that analysis, the table on page 27 highlights that in the case of SPD this amounts to no more than a 5 basis point benefit against the minus 100 basis point impact from losses.

10.7 **Ofgem:** There will be a significant impact on consumers if SPEN is allowed higher ALPs.
SPEN: We recognise Ofgem's principal objective is to protect the interests of existing and future consumers and in carrying out these duties Ofgem is required to have regard to a number of important factors including the need to secure that licence holders are able to finance their regulated activities. If they do not, they adversely impact the businesses ability to serve the customer. In this instance the SPEN companies would not be gaining by the adjustment rather recouping the base level of revenue that Ofgem deemed an efficient company required to meet its costs.

Ofgem sets the base regulatory revenue following a detailed consultation and seeks to protect the best interests of consumers whilst providing sufficient revenue to allow the distribution business to finance their activities and comply with all their obligations. This base revenue was determined to ensure that the providers of finance earn an adequate return on their investment. DNO's need to attract finance to fund investment in the network to secure the long term interests of customers. Ofgem's reluctance to correct the losses targets will undermine investor confidence which will limit the availability of finance available for network investment.

In addition the charges to SPEN's customers under the 'limited correction' option, proposed by SPEN, will still be significantly lower than allowed in the Distribution Price Control 4 (DPCR4) settlement for the period 1 April 2005 to 31 March 2010.

10.8 **Ofgem:** ALP adjustments have been fully backdated in the two previous data correction instances. Ofgem is currently considering whether SPEN's adjustment should be backdated partially or in full. Increasing SPEN's ALPs will have an adverse effect on consumers through increased charges.
SPEN: Fully backdating the EHV data correction is indisputably the equitable proposal that is consistent with Ofgem's objectives. Losses targets should not only be adjusted if it results in reductions in allowed revenue. It would be inconsistent and inequitable to restrict the full correction of the data and recalculation of the losses penalty/incentive.

Another DNO has benefited from the correction of data which was backdated and additional earnings from DPC3 were allowed to be recouped.

Ofgem has a duty to “not discriminate between these undertakings” in relation to the electricity market under Internal Markets Electricity Directive 2003/54 article 3(1).

10.9 We have set out in considerable detail in submissions to Ofgem that the current losses incentive mechanism is inherently flawed, and effectively serves as a tax on DNOs that are on the wrong side of their ALP. We accept that there will be an impact on charges if SPEN is allowed a more balanced set of ALPs, but we have put forward means of mitigating the impact of that. We have also suggested a more practical and fair mechanism for incentivising loss reduction in our response to the December DPCR5 policy paper.

APPENDIX A

SUMMARY OF QUESTIONS AND RESPONSES

CHAPTER: Three

Question 1: Do you think that the ALPs agreed to by SPM and SPD in 2006 should be revisited in light of information now available from SPEN?

Response: Reference is made to sections 1, 4-9 of SPEN's response

Question 2: What are your views on the recalculated ALPs proposed by SPEN?

Response: Reference is made to section 2 of the SPEN response

Question 3: Do you think a change to SPEN's ALPs, if made, should be backdated?

Response: Yes, reference is made to sections 8 + 9 of SPEN's response

Question 4: What are your views on the approach suggested by SPEN to mitigate the effects of changes on suppliers and consumers?

Response: Refer to section 2 of the SPEN response

CHAPTER: Four

Question 1: Do you think an increase in the ALP for SPD in respect of transmission-connected EHV units should be backdated? And if so should this be partial or full backdating?

Response: Full backdating – reference is made to section 3 of SPEN's response

CHAPTER: Five

Question 1: What are your views on Ofgem's 'minded to' position in respect of the main ALP issue?

Response:
Reference is made to SPEN's response in its entirety

Question 2: What are your views on whether an adjustment to the ALP for SPD in respect of transmission-connected EHV units should be partially or fully backdated?

Response:
Fully backdated – reference is made to section 3 of SPEN's response

Question 3: Which option do you think Ofgem should pursue in responding to SPEN's representation for higher ALPs?

Response:
SPEN refers to options within consultation response

Question 4: Do you think there are any additional options/factors Ofgem should consider?

Response:
Reference is made to SPEN's response in its entirety