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Your ref  
87/10  
Our Ref

Date  
31 August 2010

Contact / Extension  
Garth Blundell  
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Dear Paul

### **Ofgem's minded-to position re over-recovery, GVCs and losses reporting**

I am writing, on behalf of SP Distribution and SP Manweb, in response to your minded to position on "Requests for relief from the consequences of over-recovery on the basis that accelerated gross volume corrections may have distorted losses reporting", dated 20 July 2010.

#### Ofgem's Minded-To Positions

Overall, we agree with your proposed approach to mitigating the financial impact of over-recoveries that appear to arise from the unanticipated use of Gross Volume Corrections (GVCs).

We will be keen to understand what information should be provided to isolate these particular impacts and satisfy Ofgem that "those adjustments are unrelated to actual network performance and are outside its control", as proposed in sub-paragraph 17(ii). In addition, as you know we continue to have serious concerns regarding the quality and transparency of settlements data.

We also agree that DNOs should not have to reduce their use of system charges in October 2010, where this is due to these matters for the reasons outlined. Further, we recognize that DNOs should take account of their allowed revenue positions as of April 2011, when setting charges for 2011/12.

#### Settlement Information Issues

In our experience, GVCs are not the only factor which causes sharp movements in settlement data, which affects reportable losses. We have noted a recent increase in the magnitude of revisions to settlement data which occur up to RF possibly due to this matter and other Supplier actions. However, Elexon have advised us it is even more difficult to identify the cause of such movements than in the case of post-RF adjustments. This makes predicting the position at RF virtually impossible, as past revisions may no longer be an adequate guide to likely future revisions.

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We note the provision in CRC7 sub-paragraph 14(b) that relates to quality of information in the context of the losses incentive. We would encourage Ofgem to consider further how this would potentially apply to unanticipated revisions in settlement data and other changes in the quality of information.

More generally, as noted above, we continue to have concerns about the use of settlements data as the basis for estimating losses.

I hope that this is helpful, but please contact Garth Blundell if you would like to discuss.

Yours sincerely

Allan Hendry  
Regulatory Economics Manager