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Dear Lesley

Consultation on the way forward in dealing with the interactions between the electricity distribution losses incentive scheme and Gross Volume Correction (GVC) activity

RWE npower welcomes the opportunity to comment on these proposals. This response is provided on behalf of the RWE group of companies, including RWE Npower plc, RWE Supply and Trading GmbH and RWE Npower Renewables Limited, a fully owned subsidiary of RWE Innogy GmbH.

As you are aware, we have already raised with Ofgem our concerns regarding the calculations used for CE. However, we are raising these concerns again since we believe it is important that the issues on the CE calculations are addressed when handling future requests for consent to calculate distribution losses for 2009-10 on a basis that differs from that used for 2002-3. We would also urge that any resulting improvements made to the current methodology are implemented retrospectively for CE.

General Concerns:

It is difficult to comment on how suitable this methodology was for CE's reinstatement of units. We are concerned that there was a lack of transparency in the 17th December decision document regarding exactly how the numbers were calculated. There was no visibility of the assumptions behind the calculations. Suppliers and consumers are financially impacted by this methodology, yet they have not yet been provided with a detailed explanation on how the numbers have been derived. The CE numbers were presented in the decision document without formal consultation on the approach. We would request that the detail behind the calculations is fully documented and subject to a formal consultation process. This would therefore allow experts in the area of settlements and GVC to input into the process.

Given the lack of transparency and detail behind the methodology, we are concerned that the 2 additional DNOs who are applying for adjustments will be unable to follow a consistent approach for calculating the level of unit reinstatement.

We are also concerned that this approach focussed on only on areas of

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settlements that had a detrimental impact on calculated distribution losses. It does not seem appropriate to exclude items which improve calculated distribution losses e.g. large erroneous positive EACs, long term vacant etc. The overall settlements picture should be taken into account in any such calculations.

Specific Concerns:

We wish to raise a number of specific concerns regarding the calculations outlined in the decision document.

GVC:

The CE decision allowed the reported number of units distributed in 2009/10 to be increased by 183 GWh for NEDL and 395 GWh for YEDL.

The decision document stated:

9 *You have proposed an approach to correct for the undue impact of GVC on NEDL and YEDL in 2009-10 based on adjustments to reconciliation levels attributable to settlement runs after the initial (SF) settlement run as follows:*

(i) Reconciliation levels for runs 1, 2 and 3 to be 'normalised' to the average reconciliation level for the period from 2005-06 to 2008-09.

(ii) Reconciliation levels for the Final (RF) and Dispute (DF) runs to be set to zero.

- The methodology being used here is not at all clear. We are unsure what '*normalised to the average reconciliation level*' actually means? GVC is a process that is carried out at RF or DF runs only. R1, R2 and R3 runs are therefore completely unaffected by GVC. Why then are units being 'normalised' on runs not impacted by GVC. 'Normalisation', where applied, is this done by day, by month or on an annual basis?
- Units for the CE area were increased by a total of 578 GWh with no detail whatsoever on approach or methodology. We would like to understand how this number was calculated. How will other DNO's be calculating these adjustments?
- In discussions with Ofgem, we were informed that the intention was not to get to the 'right number through this process - getting to the right number will take much longer'. Our concern is that the approach for CE was implemented too quickly and with limited knowledge of the wider aspects of the settlement process. We believe that the methodology used should incorporate GVC information held by suppliers and incorporate the lessons learnt from the CE implementation.



Given the above, we believe that the approach, methodology and numbers should be reviewed, and a full consultation carried out with market participants. This will allow the settlements and GVC expertise available within the industry to input into the process in order to ensure that an accurate figure is obtained.

Negative EACs:

The decision document allows the reported number of units distributed in 2009/10 to be increased by 25 GWh for NEDL and 34 GWh for YEDL.

The decision document states:

6. Your review of settlement data in respect of GVC highlighted a significant number of instances where meter points had erroneously been ascribed a negative estimated annual consumption figure. The high incidence of GVC adjustments affecting data for 2009-10 is likely to have driven up the level of negative EACs because of a characteristic of the settlement calculation system (which has since been amended to address the effect).

We have a number of major concerns with this:

- We do not believe that negative EACs are a major issue in settlements. We requested a report from our own residential systems (NEEB and YELG identifiers) and found only 4 instances of negative EAC over a 3 month period (1 in NEDL, 3 in YELG). While recognising that this may be more of an issue for other suppliers, it is important to recognise that implementation of the GVC process ensures the production of a correct (thereby positive) forward looking EAC value. We would therefore dispute the statement that *The high incidence of GVC adjustments affecting data for 2009-10 is likely to have driven up the level of negative EACs because of a characteristic of the settlement calculation system.* Furthermore, when the next meter reading is received and processed in settlements, the EAC will be replaced by a positive Annualised Advance (AA) so EACs should not play a significant part in this process in later settlement runs.
- We are concerned that this approach takes no account of large positive EAC / AAs - of which we believe there will be more. Suppliers only work large erroneous EAC / AAs above a very high threshold value. There will therefore be many large erroneous EAC/AAs which are not identified because they fall below the threshold but they are still high.
- At our meeting with CE and Ofgem in January 2011, CE said they had obtained lists of negative EACs. We believe these reports may not be fit for purpose for the following reasons:
 - CE and Ofgem were unclear as to whether or not the list they had were valid EACs (many D0019s may be withdrawn if they fail validation or replaced)



- It was not clear if the EACs on the report had been used in settlements. Data aggregators perform additional validation checks on EACs and AAs and may not use them in settlements if they fail these checks. In conjunction with any EAC list, checks must be carried out against the error identification files (the Data aggregator sends a D0023 flow to Data Collectors and a D0095 flow is sent to Suppliers).
- There is already an Industry dispute (DA147) that covers erroneous EAC/AAs. Implementing this adjustment for DNOs runs the risk of double counting.
- In addition, as a result of the change to the settlement system in early 2010, this negative EAC issue will be self correcting as time moves on. It is therefore not appropriate to be including these numbers in the decision document and then carrying out additional reporting to ensure that double counting is not occurring.
- We are also concerned that the proposed methodology that we discussed with CE and Ofgem for reporting against double counting is flawed since it suggests taking monthly reports of negative EACs. Daily reporting using daily profile coefficients is essential and we would to assist in this area.

In summary, we do not believe that negative EACs are a major issue. We have concerns regarding the suitability of the report that CE were working from in order to calculate these numbers. This issue is self correcting. We are concerned that there is a risk of double counting and that the approach intended to ensure against double counting is inappropriate. In addition, if negative EACs are being used in the calculations, we believe that account should also be taken of large positive EACs.

Given the above, we would suggest that it is inappropriate to include adjustments for negative in the calculations.

Thurcroft:

The decision document allows an adjustment for a meter over-read at the Thurcroft GSP meter for 36.3GWh.

The decision states:

24. Whilst Elexon have advised that the Thurcroft over-read is being rectified through the reconciliation process, we agree that it is appropriate to adjust YEDL's 2009-10 figure for units entering the network.....

(ii) YEDL is to add units back to future totals for units entering its network to reflect settlement adjustments addressing the original over-read, keeping a record of these adjustments and reporting any difficulties in achieving them to Ofgem.



We were unhappy with this approach for a number of reasons:

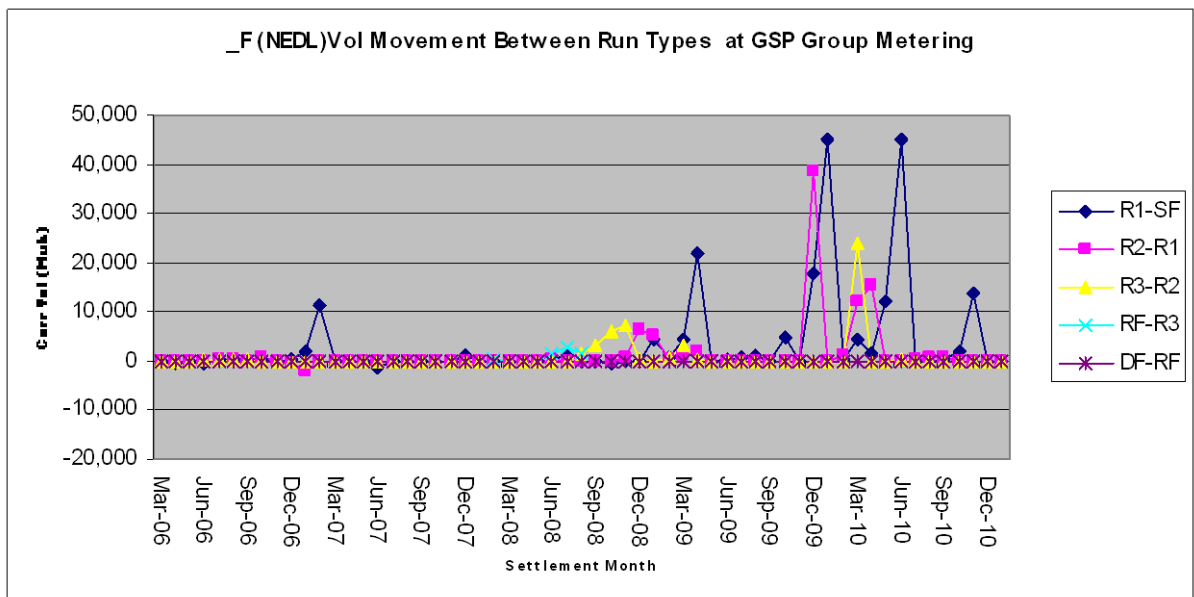
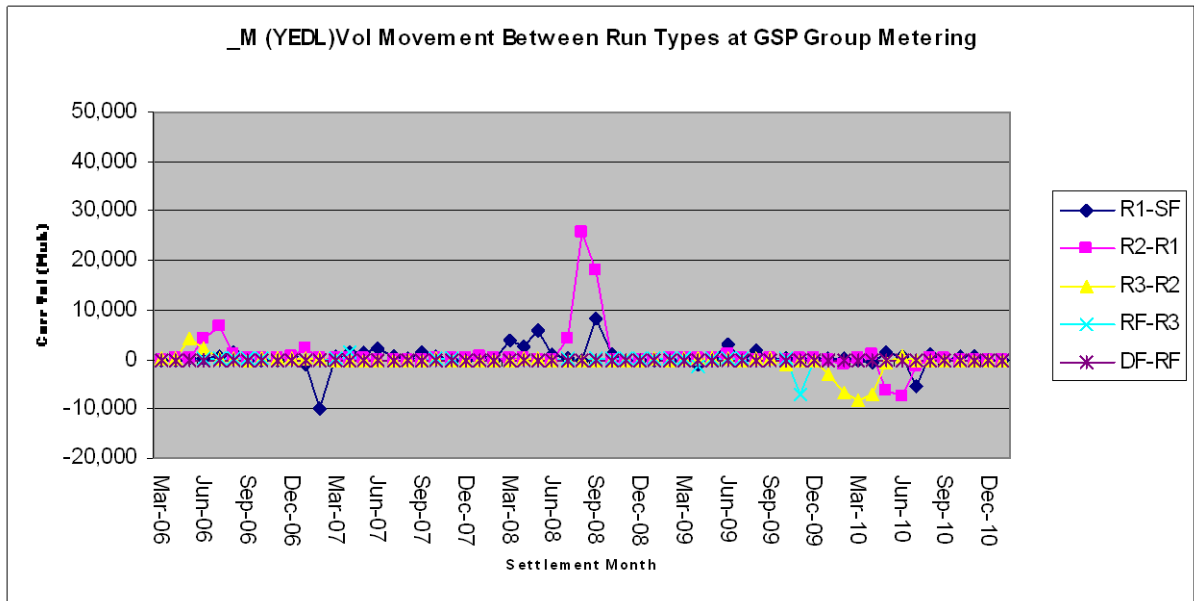
- Until this decision document was published, this GSP metering issue was not in the public domain
- This issue, like the negative EAC situation is now corrected in settlements. Elexon confirmed to us on 24th January 2011 that:

"Thurcroft GSP was settled on a pulse multiplier of 0.025 instead of 0.02 for the period 28 October 2009 to 17 August 2010. It was corrected on 19 August 2010.

- *28 Oct 09 to 20 Jan 2010 will be correct at RF. So far (according to our data) 28 Oct 09 to 2 Dec 09 has already been corrected.*
- *21 Jan 2010 to 3 May 2010 have already been corrected at R3.*
- *4 May 2010 to 6 July 2010 have already been corrected at R2.*
- *7 July 2010 to 2 August 2010 have already been corrected at R1.*

So a few more days still to be corrected at R1 and some at RF, but mostly already corrected".

- It is therefore not appropriate to be including these numbers in the decision document and then carrying out additional reporting to ensure that double counting is not occurring.
- Adjustments made on Thurcroft give CE a favourable losses adjustment in the YEDL area. However, our own analysis of data changes at the GSP meters show that adjustments in the opposite direction to Thurcroft have taken place in the NEDL area. These unfavourable adjustments to losses in NEDL were **not** been taken into account.
- The volume changes on monthly data measured at the GSP group metering for YEDL and NEDL, by run number, is shown below.
 - The YEDL graph clearly shows the Thurcroft changes coming through settlement at R1, R2, R3 and RF
 - However, the NEDL graph shows GSP metering data changes taking place in the opposite direction to Thurcroft. We are unclear as to the reasons for these changes – and it may be, like Thurcroft, changes will continue to come through in further settlement runs.



The volume changes (monthly GWh), by run type for each settlement month are shown in the table below:



Changes in GSP metering data, by run, for each settlement month:

		01/10/2009	01/11/2009	01/12/2009	01/01/2010	01/02/2010	01/03/2010	Total by Run
NEDL	R1-SF	4,767	-59	17,719	45,285	192	4,331	72,234
	R2-R1	-63	15	38,420	18	1,264	12,048	51,702
	R3-R2	52	24	-10	20	52	23,800	23,937
	RF-R3	29	35	0	0	0	0	64
Total		4,785	15	56,129	45,322	1,508	40,179	147,937

		01/10/2009	01/11/2009	01/12/2009	01/01/2010	01/02/2010	01/03/2010	Total by Run
YEDL	R1-SF	47	347	54	200	138	-2	784
	R2-R1	17	97	78	-15	-1,162	126	-859
	R3-R2	-1,046	13	8	-3,053	-6,675	-8,432	-19,185
	RF-R3	195.881	7217.362	0	0	0	0	-7,021
		-786	-6,761	140	-2,868	-7,699	-8,308	-26,281

We were concerned that the Thurcroft benefit was given to CE in the decision document but the GSP data changes in the NEDL area, which was a dis-benefit to the losses situation were not included.

In summary, we are uncomfortable that an issue that was not previously in the public domain was included in the CE decision notice. We believe the approach should take account of the positive data changes that are occurring on the NEDL identifier since this is the counter situation to Thurcroft. Thurcroft is already nearly corrected in settlements and we are concerned that there is a risk of double counting benefit.

Given the above, we would suggest that it is inappropriate to include similar adjustments in any future revenue calculations.

Summary:

I hope that the above commentary explains our concerns regarding the quality of calculations / assumptions and methodology.

- We have identified a number of areas where we believe that the assumptions / methodology are flawed.
- We are concerned that the methodology is not clear and it will be difficult for the other DNOs looking to go through this process now to follow a consistent and robust approach.
- We would request that the methodology is fully documented and is subject to consultation, thereby allowing settlements and GVC experts to input into the process.



- We believe that issues such as negative EACs and metering errors similar to Thurcroft should be excluded from the process since it is only addressing factors which are a dis-benefit to calculated losses. There are many other issues which provide benefit to losses – which this methodology ignores. The proposed methodology also runs the risk of double counting.
- We would urge Ofgem to reconsider the use of this methodology in any decision to allow the impact of the consumption volume restatements to flow into the Distribution Use of System (DUoS) final charges.
- Any enhanced methodology changes should be retrospectively applied to CE.

This letter is not confidential.

Yours sincerely

(by email so unsigned)
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