

Rachel Fletcher  
Partner, Distribution  
Office of Gas and Electricity Markets  
9 Millbank  
London  
SW1P 3GE

Avonbank  
Feeder Road  
Bristol  
BS2 0TB

Telephone 0117 9332175  
Fax 0117 9332428  
Email [asleightholm@westernpower.co.uk](mailto:asleightholm@westernpower.co.uk)

Our ref

Your ref

Date

18 May 2011

Dear Rachel,

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

Further to my letter of 28th April, I am again writing on behalf of Western Power Distribution.

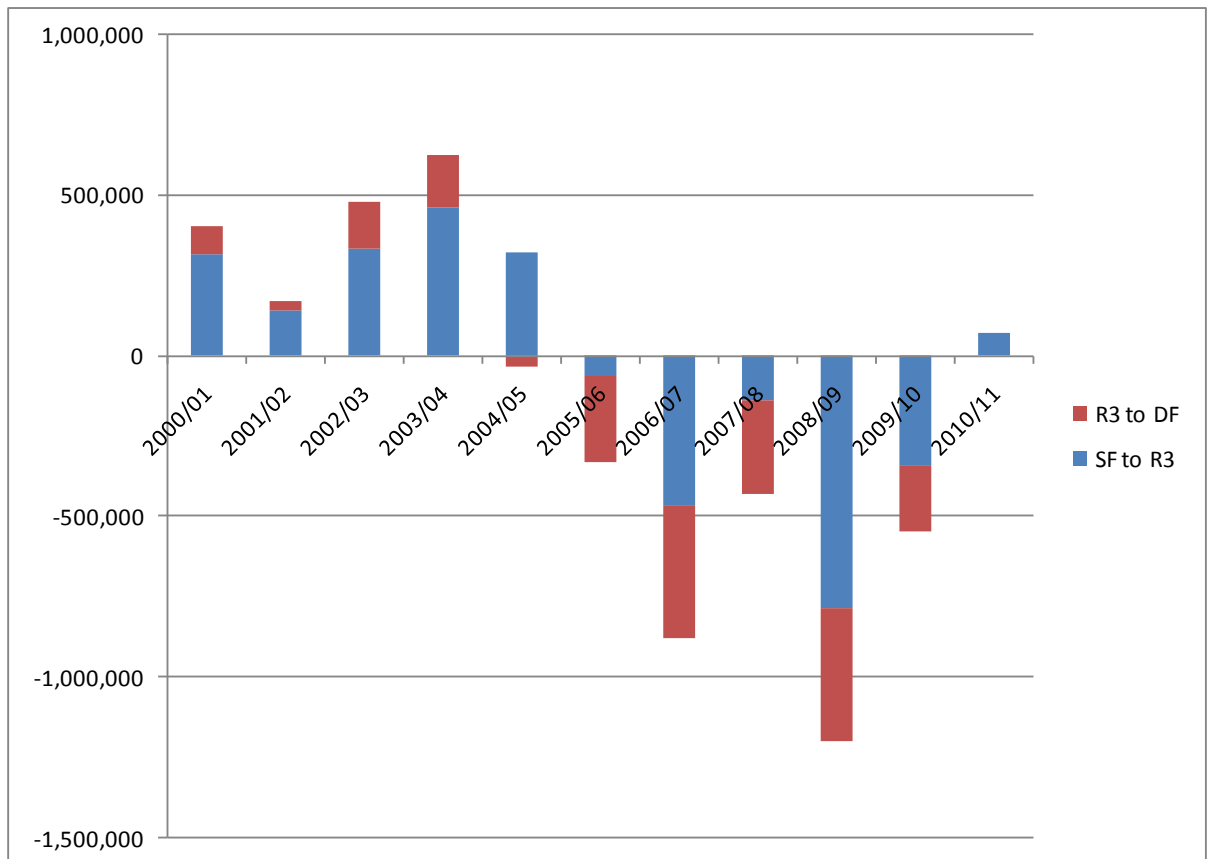
Following our analysis of some long-run data recently provided to us by Elexon, we are now in a position to provide further evidence of the effects of GVC activity in our four licensed areas.

We have analysed daily data on settlement reconciliations for the period spanning 2000/01 to 2010/11. Our analysis seems to reveal a material change in the pattern of reconciliations, first occurring around the mid-point of this period. This change is characterised by two notable effects:

- a switch from largely positive reconciliations (more volume in successive run types) to largely negative reconciliations
- a marked increase in the proportion of total reconciliation occurring in the later run types (RF and DF)

At the aggregate level, across our four licensed areas, the quantum (MWh) and pattern of this change is as shown below:

### Western Power Distribution – Overall Reconciliation Volumes (MWh)



The above data points strongly to a change affecting reconciliations for settlement periods from 2004/05 onwards, when we first see negative reconciliations from R3 to DF. However, it is important to note that this change may not have actually occurred in 2004/05, since reconciliation is open for about two years after any given settlement period. Changes in DF runs may have started around 2006/07, but affected settlement periods two years earlier. It appears that the whole of the DPCR4 period may have been affected by GVC activity, but the DPCR3 period appears not to have been affected in the same way. It is worth noting that some data from 08/09 onwards is still going through reconciliation, and should therefore be treated as interim.

Our analysis shows that similar changes occurred, to differing degrees, in all four of our licensed areas. I attach as appendices graphs similar to the above for our four individual areas.

As mentioned in my previous letter, the normal pattern of reconciliation reflects the progressive replacement of estimated consumption with actual metered consumption, and most such change (~90% by volume) is complete by R3. In the light of this it would be reasonable to expect settlement change after R3 to be relatively small, and this was the pattern historically, as shown above. Some adjustments at DF probably relate to the long-running settlement dispute over excessive EACs / AAs, but these should generally be diminishing over the period of the dispute and are unlikely to be the driver of the changes seen above. In principle it should be possible to obtain data from Elexon on the volumes of DF

corrections relating to resolution of authorised disputes, but this may require Ofgem's intervention.

As stated in my previous letter, is it our view that the pattern of reconciliation has changed materially, and this change has the potential to invalidate assumptions underlying the losses targets set for the DR4 period. It is important that the data used to set targets is consistent with that used to measure performance against those targets.

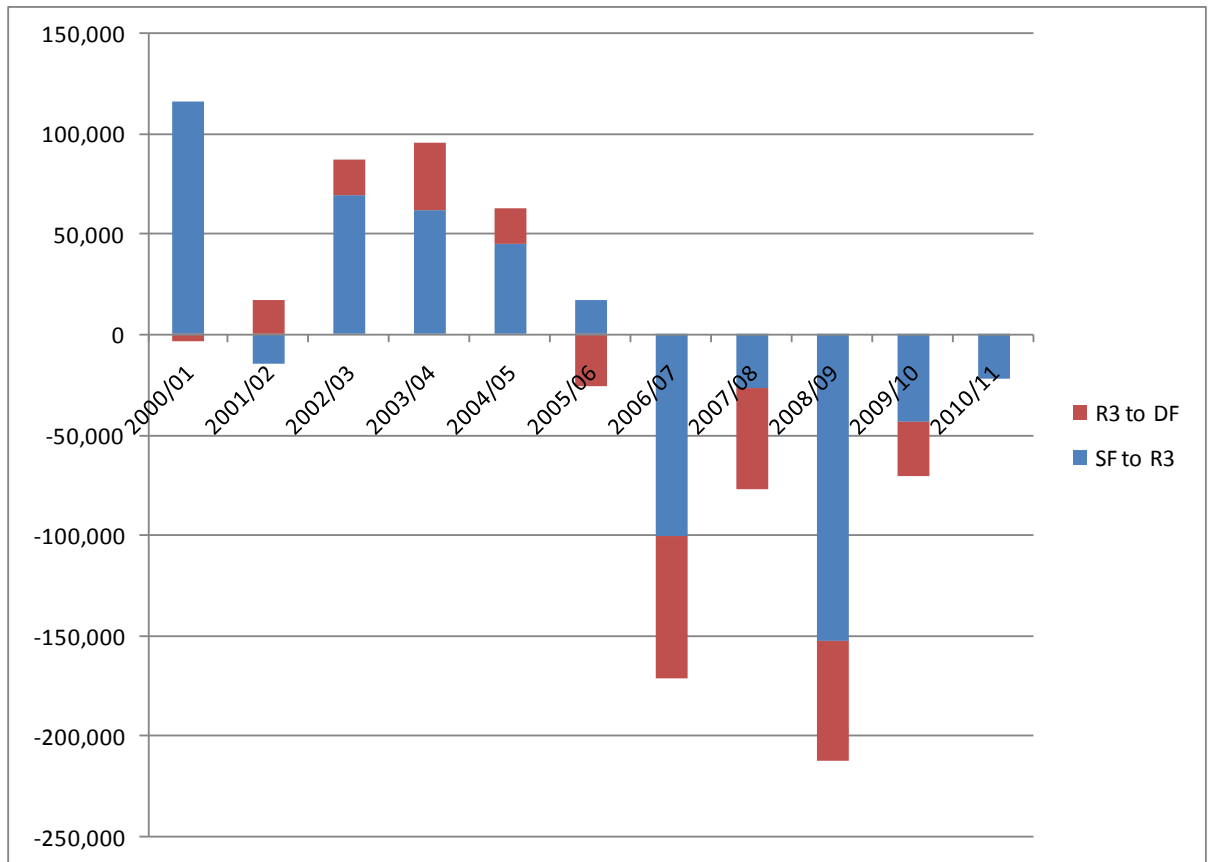
We would be happy to share with you in more detail the evidence that we have collected. Please let me know if we can be of assistance to you.

Yours sincerely

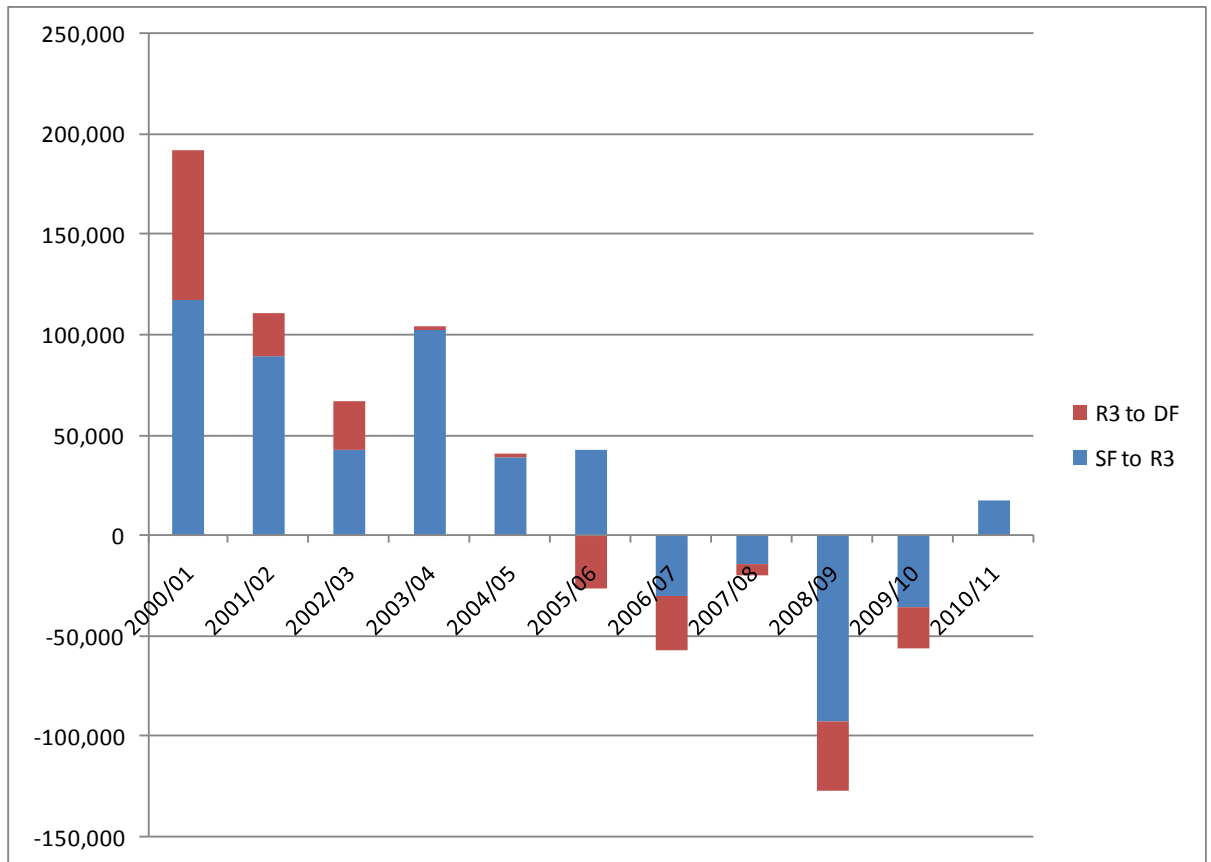
A handwritten signature in black ink, appearing to be 'AS', with a stylized flourish extending from the end.

ALISON SLEIGHTHOLM  
Regulation & Government Affairs Manager

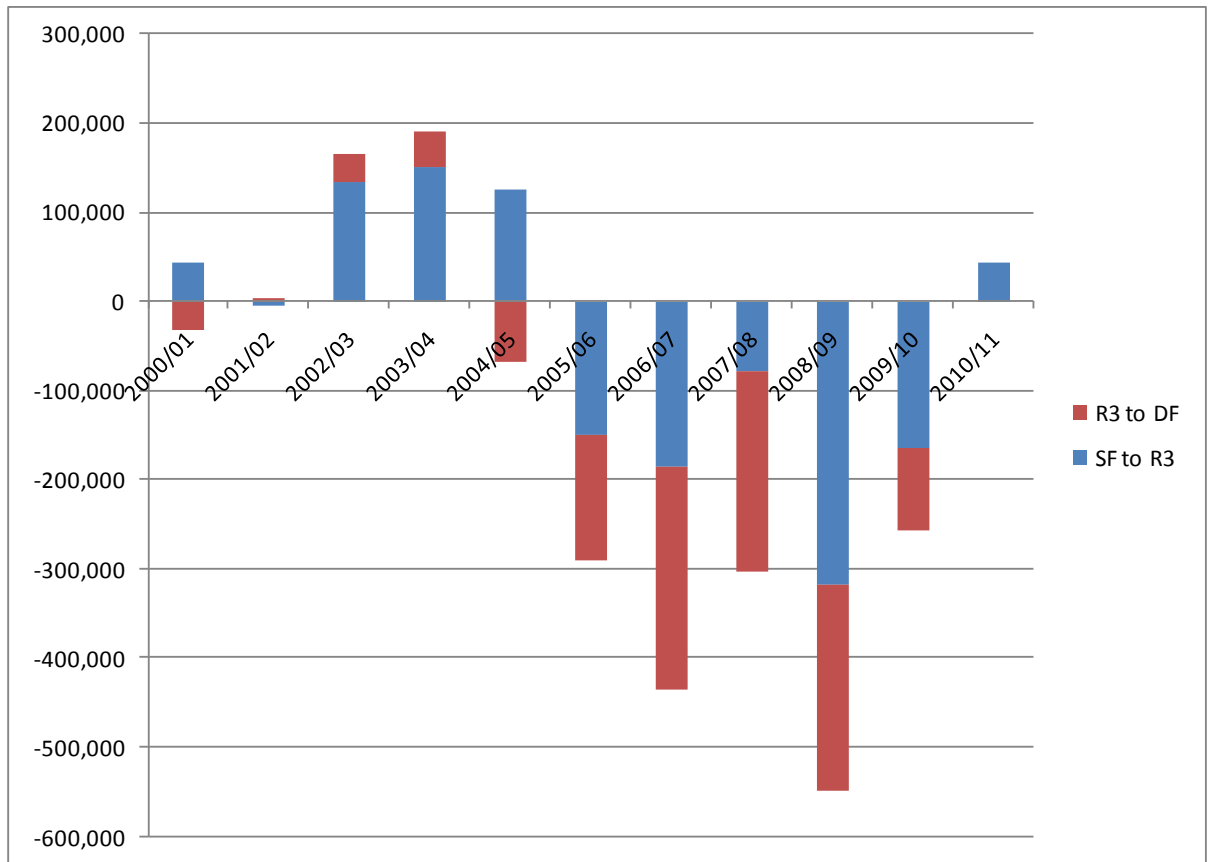
### Appendix 1 – Western Power Distribution (South West)



## Appendix 2 – Western Power Distribution (South Wales)



### Appendix 3 – Western Power Distribution (East Midlands)



#### Appendix 4 – Western Power Distribution (West Midlands)

