

Rachel Fletcher
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Ofgem
9 Millbank
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Your ref

Our Ref AH280411

Date 28th April 2011

Contact / Extension

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Dear Rachel,

With reference to your letter dated 21st March regarding the electricity distribution losses incentive please find attached our suggestions and comments regarding the methodological approach set out in the 17th December 2010 letter due by 2nd May 2011.

In summary we are supportive in principle of a pragmatic approach to correct for the distortion to apparent DNO losses performance caused by Suppliers' actions.

You will be aware that SP submitted an alternative methodology, although similar in principle, to that developed by CE Electric, on 21st April 2011. This was provided also in response to your letter of the 21st March 2011. This was developed in conjunction with Engage Consulting and was informed by discussions with Elexon and other Supplier stakeholders. We remain hopeful that this may provide a workable standard solution.

I would be happy to discuss this submission or this response further with yourself or your team at your convenience.

Yours sincerely,

Allan Hendry

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

1 Summary

- 1.1 This submission is made in response to Ofgem's invitation to provide suggestions and comments regarding any improvements which could be made to the methodological approach set out in its 17th December 2010 letter.
- 1.2 In summary we are supportive in principle of a pragmatic approach to correct for the distortion to apparent DNO losses performance caused by Suppliers' actions. If Ofgem were to use its powers to elicit information from Suppliers an empirical, absolute correction could be calculated in theory for any affected DNO. However it is our opinion that a reasonable and pragmatic correction methodology represents a more practical and no less realistic solution given the difficulties in collecting all of the necessary data to carry out such an empirical solution.
- 1.3 You will be aware that SP submitted an alternative methodology, although similar in principle to that developed by CE Electric, on 21st April 2011. This was provided also in response to your letter of the 21st March 2011. This was developed in conjunction with Engage Consulting and was informed by discussions with Elexon and other Supplier stakeholders.

2 "Background to Request"

2.1 GVC

SP have consulted with Suppliers, DNOs and Elexon and we conclude that whilst the use of GVC is prevalent amongst some Suppliers it is only one of several means which Suppliers use to adjust settlements data and inadvertently distort the purpose of the losses incentive mechanism. For example the use of dummy meter exchanges has the same effect in derecognising units distributed. This technique seeks to minimise previous errors but does not compensate for them; and to correct the situation going forward from a point in time.

There is no clear obligation upon Suppliers to maintain accurate records of these which makes identification of these, and quantification of them, directly in any solution difficult. However any evidence of their existence corroborates the view that Suppliers' actions are impacting the losses mechanism but that correction inevitably relies on some form of reference to 'normal' periods, a feature of the CE methodology and of SP's.

2.2 Negative EAC Values

We agree that negative EACs result in a reduction in the number of units reportable as having been distributed.

2.3 Thurcroft GSP Meter Error

This instance is a CE Electric specific issue but we believe that the case for, and application of a correction, is appropriate.

3 “CE’s proposals to rectify the reporting position” and “The Authority’s decision on CE’s proposal”

3.1 We fully support Ofgem’s conclusion that there has been a material change in the quality of the information used by CE Electric to derive distribution losses for NEDL and YEDL in 2009/10 and that corrections are necessary.

3.2 GVC

We support, in principle, an approach that seeks to correct for the undue impact of GVC or any other Supplier adjustment with reference to earlier normal periods. We believe that CE have successfully neutralised abnormal data impacting 2009/10 whilst recognising that a background level of volatility exists in settlement data in any case, to which a ‘normal’ level of GVC could be expected to be a contributory factor.

3.3 Negative EAC Values

We understand that replacement by profile averages corrects for the resultant reduction in units distributed. Without understanding more of the detailed methodology we are unable to comment on any potential interdependency with the separate correction for GVCs.

We also note that Ofgem require ongoing monitoring of settlements data. This may present considerable challenges due to data issues and lack of visibility of reliable data. Dealing with secondary impacts upon target setting for the DPCR5 losses incentive will require careful consideration under any correction methodology to avoid unwarranted rewards or penalties.

3.4 Thurcroft GSP Meter Error

Again we view this as a CE Electric specific issue but believe that the case for, and application of a correction, is appropriate.

4 Concluding Remarks

- 4.1 We understand that Ofgem have been cognisant of the purpose of the losses incentive scheme in DPCR4 and believe that the stated three key principles relevant to the operation of the losses incentive scheme have been appropriately considered.
- 4.2 SP's own investigations have greatly enhanced our understanding of how Suppliers can impact Settlements data. However it has proved impossible to gather a full audit trail of actual adjustments or the means by which these adjustments are effected with any certainty. However it is clear to us that Suppliers' actions have had a major impact on our reported losses whether this be by means of GVC by its strict definition or any other means of adjusting volumes.
- 4.3 If Ofgem were to use its powers to elicit information from Suppliers an empirical, absolute correction could be calculated in theory for SP and any other individual DNO. However it is our opinion that a reasonable and pragmatic correction methodology represents a more practical and no less realistic solution. We believe that the methodology that we have set out in our submission dated 21st April 2011 meets these criteria.