

Consultation on regulatory measures to address the effects of gross volume correction and other settlements data adjustments on the distribution losses incentive mechanism

Stakeholder Workshop
2 December 2011

Agenda

- 1000 Intro from Ofgem
- 1010 Presentations on methodology
 - 1010 – Northern Powergrid with Q&A
 - 1030 – Scottish Power with Q&A
- 1050 Ofgem: Clarity & Key Issues – to include discussion on the questionnaire
- 1110 Open discussion and general Q&A
- 1200 Close

Consultation on methodology used to normalise the losses position

Consulting on 2 elements:

- The final methodology that may be used to correct reported losses for any DNO that can demonstrate a significant level of settlements data adjustment has distorted their losses performance in 2009-10.
 - Relative strengths and weaknesses of each methodology
 - Appropriateness of using a standardised approach for all DNOs
- Adjusting the 2009-10 reported losses will potentially impact on the losses rolling retention mechanism (LRRM) and the determination of the DPCR5 losses targets (ALP). We are therefore consulting on proposed changes to the current mechanism set out in the DPCR5 Final Proposals (FP)
 - In FP we set out in detail how both are calculated using the DPCR5 methodology
 - Data adjustment correction process results in issues unforeseen at time of FP
 - While the LRRM should include any correction, there is a view that the ALP should not
 - We propose an adjustment to the calculation process such that the correct data set can be used

Points to note

- Industry has previously suggested that a “top-down” approach is the only option as there is insufficient data to unpick any changes.
- Variety of data correction actions (not just GVC or DMX)
- Two methodologies have been put forward to date - the ‘CE’ methodology (Northern Powergrid) also used by Electricity North West (ENW); and the Scottish Power ‘SP’ (Engage Consulting) methodology
- No alternate methodologies were identified despite extensive stakeholder interaction

Aim of the stakeholder workshop

- Provide clarity on any issues covered in the consultation
- Discuss any questions raised to date
- Discuss the way forward



FURTHER CONSULTATION ISSUES: Interaction with DPCR4 LRRM and DPCR5 targets 'ALP'

The issue arose with (and the corrections made to date have focussed on) the 2009-10 data, due to its key role in the LRRM and target calculations:

- 2009-10 Units Distributed (restated using DPCR5 methodology along with other years) are used in the calculation of the ALP targets for DPCR5.
- The LRRM uses 2009-10 losses (DPCR4 and DPCR5 methodologies) and the ALP.

The consultation therefore also sets out:

- how we propose to close out DPCR4 taking account of any abnormal settlement data in the calculation of the LRRM, and
- our view that abnormal settlement adjustment should not be removed from the data used to calculate the DPCR5 targets
- That this would therefore mean a change to the stated policy set out in DPCR5 Final Proposals ('ACL2')

Way forward proposed by consultation

- Any corrections to settlements data for 2009-10 would be for the purposes of correctly calculating the close-out position for DPCR4 on a like-for-like basis.
- The DPCR5 ALP is calculated as the average losses performance over DPCR4 (but restated based on the common methodology). If settlements corrections arose within the DPCR4 period, it may be appropriate to include them in the ALP calculation. The removal of these settlement adjustments in their entirety could create a DPCR5 ALP that is not aligned with a DNO's DPCR5 performance.
- This would therefore require a change to the ACL2 term as set out in Final Proposals.

Proposed timelines for consultation and further processes

- Consultation starts – 24 October 2011
- Stakeholder workshop – 2 December 2011
- DNOs submit comparative questionnaire – 6 December 2011
- Consultation closes – 20 December 2011
- Analysis of submissions
- Methodology Decision – 30 January 2012
- Additional applications (see questions)

Some Key Consultation Questions

Chapter 3:

Question 1: Do you agree with the general principles and constraints we have identified with respect to the correction of data used for the losses incentive scheme?

Question 2: Do you think we have identified the only two practical methodologies for normalising losses incentive data for 2009-10? If not, what other approaches do you think we should consider?

Chapter 4:

Question 5: Do you support our preferred approach to have a single methodology that would be used across all DNOs that have adequate evidence of abnormally high settlement data corrections?

Question 7: Are suppliers still undertaking significant levels of settlement data adjustments? What has been the impact of the changes to the BSC to limit the use of GVC, and what will be the impact of P274? Are ongoing settlement data adjustments likely to be on the same scale as those observed for 2009-10?

Chapter 5:

Question 1: Do you agree that in calculating the LRRM, the selected adjustment (**correction**) methodology should be applied to the 2009-10 losses reported under both the DPCR4 and DPCR5 methodologies?

Question 3: Do you agree that in setting the DPCR5 ALP we should not include any settlements data adjustment? (**correction**)

Queries regarding Appendix 2 - Questionnaire

Some points of clarity / correction:

- *Option 2 – Question 1*
 - In effect this means that the 'stable period' should be considered as 2005-06; 2006-07; and 2007-08
- *Option 2 – Question 2*
 - While this information would be useful, it is not pertinent to the comparison of the methodologies and can be omitted
- *Option 2 – Question 3*
 - The 'stable period' in Q 1 (2005-06; 2006-07; and 2007-08) is used to normalise the 2009-10 SF position. Therefore the wording '.... preceding three regulatory years' should not be read as immediately preceding but rather 'skipping' one year i.e. referring back to the three years in Q1.
- *Option 2 – Question 4*
 - With reference to the issue on Q2, this Question should EXCLUDE 'step 2' and instead refer to allocating the identified units in step 3 only to reconciliation run adjustments in 2009-10

Option 2

1) Number of units added to 2009 -10 by changing R1 to DF reconciliation adjustments applied to the average for a stable period between mid -2005 and August 2008	
2) Uplift to SF distribution levels for 2008-09 as a result of assuming that loss percentages should be the same as the average for the preceding three regulatory years	Not necessary for comparative purposes
3) Uplift to SF distribution levels for 2009-10 as a result of assuming that loss percentages should be the same as the average for the preceding three regulatory years (see-1 above)-(2005 -06; 2006 -07; 2007 -08)	
4) Number of units added to 2009 -10 by allocating the additional units identified in step s 2 and 3 to reconciliation run adjustments in 2009 -10	

Estimated revised number of units to be reported as distributed in 2009 -10:	
EHV	[same as original reporting]
HV	[same as original reporting]
LV1	
LV2	
LV3	

Comments:

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Some questions regarding the Questionnaire


- The consultation proposes that a summary of the key outcomes on the questionnaire will be published.

 *Is there any reason why the full questionnaires cannot be published? Is any of the information considered sensitive?*

 *Will the completed questionnaires give any indication of how the different DPCR4 losses reporting methodologies used by different DNOs will affect any settlement data adjustments?*

General questions


- Industry stakeholders had previously suggested that a “top-down” approach is our only option as there is insufficient data to unpick any changes.

 *While this may have been the case when the issue was first noted/raised, is this still the position?*

- Some stakeholders have indicated that they do not believe that any correction is in fact necessary.

 *Is there still consensus that there is a need to correct 2009-10 data?*

- The consultation states that our decision will include the further process to be followed by any DNOs seeking any adjustment to their 2009-10 data.

 *An indication from affected DNOs of the minimum time required to prepare any such application would be useful. Is it dependant on the methodology/ies approved?*



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