SP ENERGY NETWORKS

Engage Consulting Limited

Settlements Adjustment Consultation Workshop

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Background

- Since the summer of 2010 we saw unusually high reductions in Settlement units between successive reconciliation runs for SP's distribution service areas
- Target losses @ 5.2% - actual losses heading towards 7.5%
- Now known to be a wider issue
- We investigated the problem with stakeholders
- Supplier Questionnaire response
  - No auditable records of their corrections
  - Some data on GVCs
  - Adjustments being carried out but not just GVC
- Developed a correction methodology in conjunction with Engage Consulting
- Sought to address concerns with CE methodology which had been raised by Suppliers

Background

- Case for restatement submitted 28th April - method
  - Similar in principal to CE's
  - Addressing the same underlying causes and consequences

- No interim decision from Ofgem as seen to be sufficiently different

- DCMF summer workshops
  - Suppliers confirmed many different data issues being corrected by various means
  - Elexon confirmed data availability rules out 'bottom up' solution
  - No 'silver bullet' data set exists to isolate true losses from settlements data
  - ....and concerns about settlements data as a means to measure losses

- Initial thoughts on the consultation
  - Surprised at the preference for CE

Engage / SP Method

- Objectives
  - to quantify abnormal Settlement movements
  - in a manner founded on robust rationale
- Abnormal
  - compared to situation when the targets were set
  - not suggesting Supplier adjustments are improper
  - just materially different
- Two Stages
  - quantify abnormal SF-RF/DF run type variations
  - normalise SF position against which run type variations are measured

Engage / SP Method

- Published
  http://www.ofgem.gov.uk/Networks/ElecDist/PriceCntrls/DPCR5/Documents1/SP%20Methodology%20Paper%20by%20Engage%20Consulting%20App%201.pdf

- Slide pack handout today – or email for an electronic copy:
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- Focus today on:
  - a comparison of the features of each method
  - addressing some of the points raised in the consultation documentation

Engage / SP Method

- Features / Components of Methods

Engage / SP Method	CE Method
Normal Period	Normal Period
SF-LRT Abnormal Variations	Pre-R3 Abnormal Variations
SF Normalisation	Post R3 Cap
	Negative EACs

Normal Period / Abnormal Variations

- Both methods rely on a “normal period”
- Engage / SP – provides for selecting most appropriate “normal period”
- Cited as a disadvantage
- We believe that this is an advantage
  - normal period has to be normal
  - Supplier activity each network has been different
- Results from both methods are sensitive to the normal period
- Important we get the normal period right
- This issue is common to both methods

Engage / SP SF Normalisation

- Abnormal Variations are common to both methods
  - Engage / SP – SF to latest run type
  - CE – SF to R3
- For both
  - SF position against which these are measured is altered materially by
  - recession – SF EACs being over-stated
  - impact of prior year adjustments – SF EACs being under/over stated
- Engage / SP method addresses this
  - normalising the SF position
  - overs and unders treated equitably

Engage / SP SF Normalisation

- SF Normalisation cited as a disadvantage
- Vital – as the impact on SF EACs is very material
- Does take into consideration temperature
  - to the same extent Settlements does
  - based on profiled data
  - derived from temperature dependent profile co-efficients

CE R3 Cap

- Assumes all R3-DF changes are abnormal
- Doesn’t recognise natural movements post R3
- Most normal R3-DF movements are downward
- Hence - likely to overstate the issue

CE Negative EACs

- Unsure why negative EACs are added in - wildcard ingredient
- Quantified from P222 data sets
  - different dates - some before negative EAC creation ceased; some after
  - DNOs often have subset of P222 files
  - requires merging of files created at different points & extrapolation
  - results in a very different quantification basis for DNOs
- Significant logistical issues and overheads in monitoring those that disappear

Conclusion

- No easy answer to this difficult industry issue
- Both methods – seek to address the issue in this context
- We believe the Engage / SP method
  - founded on more robust rationale
  - more likely to result in figures that are appropriate
  - based on data that is readily available to all DNOs
  - doesn’t have logistical post adjustment monitoring issues