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Summary of consultation questionnaire responses concerning measures to address the effects of settlements data adjustments on the distribution losses incentive mechanism

Summary of questionnaire responses

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Overview:

Ofgem's consultation on regulatory measures to address the effects of gross volume correction and other settlements data adjustments on the distribution losses mechanism included an estimated outcome questionnaire for DNOs. The summary responses presented provide a comparison of the different methodologies to help inform final submissions to the consultation, which closes on 20 December 2011.

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Context

Electricity distribution networks carry electricity from the transmission systems and some generators to industrial, commercial and domestic users. There are 14 licensed distribution network operators (DNOs) in Great Britain (GB) and six independent network operators. The DNO businesses are natural monopolies and Ofgem protects consumers' interests by independently regulating GB distribution activity. As part of our role we have a suite of incentives that are designed to encourage DNOs to improve performance, and we regulate the charges customers pay through periodic price controls.

Electricity losses from the distribution networks are a significant source of greenhouse gas (GHG) emissions representing approximately 1.5 per cent of total GB GHG emissions[1]. As part of the price control we incentivise the DNOs to reduce these losses. Distribution losses are calculated as the difference between the volume of electricity entering the distribution network, and volume exiting for consumption.

The data used to calculate losses can be affected by changes to the number of units recorded by the balancing and settlements system as having been consumed. In the regulatory year 2009-10 high levels of reconciliations to settlements data by suppliers were observed (reducing the reported totals for units consumed), which affected some DNOs' reported loss levels.

This document summarises the responses from DNOs to the questionnaire return appended to the original consultation.

Associated document

- Consultation on regulatory measures to address the effects of gross volume correction and other settlements data adjustments on the distribution losses incentive mechanism; 24 October, 2011 (Ref 137/11) http://www.ofgem.gov.uk/NETWORKS/ELECDIST/PRICECNTRLS/DPCR5/Documents1/Consultation_on_methodology_to_address_losses_settlement_data.pdf

1 http://www.ofgem.gov.uk/Media/FactSheets/Documents1/SD%20and%20Electricity%20Distribution%20Factsheet.pdf

Questionnaire response analysis

1.1. DNOs have proposed two methodologies to address the effects of settlement data adjustments in 2009-10:

- CE methodology (proposed by Northern Powergrid)

- SP/Engage methodology (proposed by Scottish Power and Engage Consulting Limited).

1.2. This document offers a high-level comparison of the magnitude of the changes to units distributed by licensees, by applying the two methodologies to 'normalise' 2009-10 reported losses data.

1.3. DNOs have been given the opportunity to resubmit their questionnaires by 20 December if they believe a more appropriate 'normal' period exists. Any resubmissions should be accompanied with evidence for why a different 'normal' period is more appropriate. This analysis therefore only presents provisional results and will be updated following resubmission of questionnaires.

1.4. Figure 1, below, presents a summary of the responses received from 12 licensees[2]. It shows the percentage increase in units distributed, by applying each of the two methodologies, on original reported units for 2009-10. The current picture suggests that, overall, applying the CE methodology results in a greater increase in units distributed than for the SP/Engage approach.

[2] Two licensees did not submit a response to the questionnaire.

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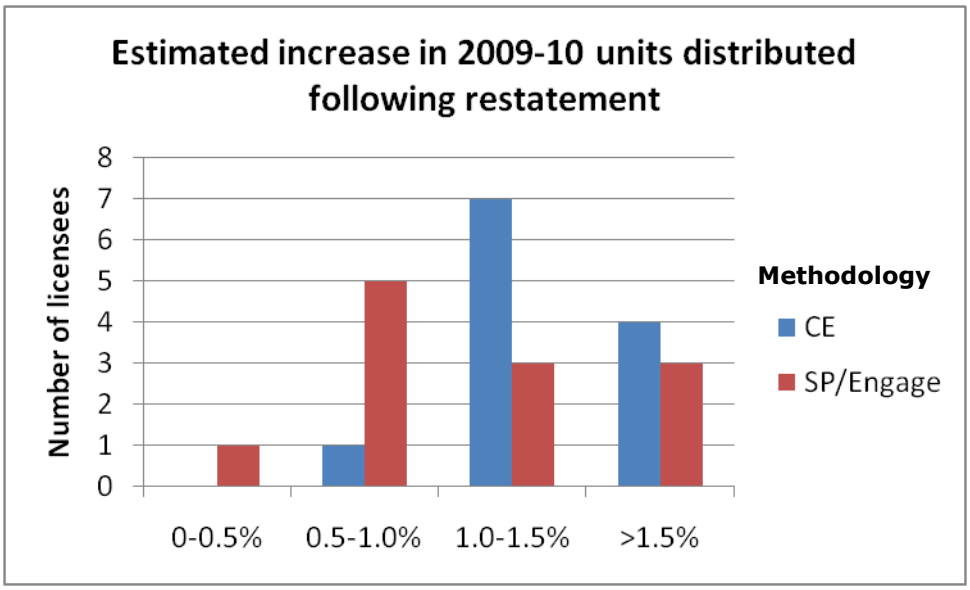

Figure 1 – Comparison of increase in units distributed between the two methodologies