

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

Summary of resubmitted questionnaire responses

Reference: 137/11

Publication date: 4 January 2012

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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. This document presents a summary of the resubmitted questionnaire responses.

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 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 emissions¹. As part of the price controls DNOs are incentivised through the Distribution Losses Incentive Mechanism, to reduce these losses with a financial reward or penalty based on their performance.

Distribution losses are calculated as the difference between the volume of electricity entering the distribution network, and volume exiting for consumption. In the regulatory year 2009-10, high levels of reconciliations to settlements data by suppliers were observed (reducing the reported totals for units consumed). This had an effect on some DNOs' reported loss levels.

A number of DNOs requested the opportunity to restate their 2009-10 data for the purposes of the losses incentive mechanism. The requests put forward two different methodologies to address the effects of settlement data adjustments. Ofgem issued an open consultation on 24 October 2011, accompanied by a questionnaire to quantify the potential impact of the methodologies on units distributed. This document summarises the responses from DNOs to the questionnaire.

Associated documents

- 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/PRICECENTRLS/DPCR5/Documents1/Consultation on methodology to address losses settlement data.pdf](http://www.ofgem.gov.uk/NETWORKS/ELECDIST/PRICECENTRLS/DPCR5/Documents1/Consultation%20on%20methodology%20to%20address%20losses%20settlement%20data.pdf)
- Summary of consultation questionnaire responses concerning measures to address the effects of settlements data adjustments on the distribution losses incentive mechanism; 13 December, 2011 (Ref 137/11)
<http://www.ofgem.gov.uk/Networks/ElecDist/PriceCtrls/DPCR5/Documents1/Summary%20of%20questionnaire%20responses.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 presents a high-level summary of the changes to units distributed by licensees, by applying the two methodologies to 'normalise' 2009-10 reported losses data.
- 1.3. Figure 1 presents a summary of the *original* questionnaire responses; submitted by the DNOs on behalf of 12 licensees² by 6 December 2011. It shows the percentage increase in units distributed, by applying each of the two methodologies, on original reported units for 2009-10.

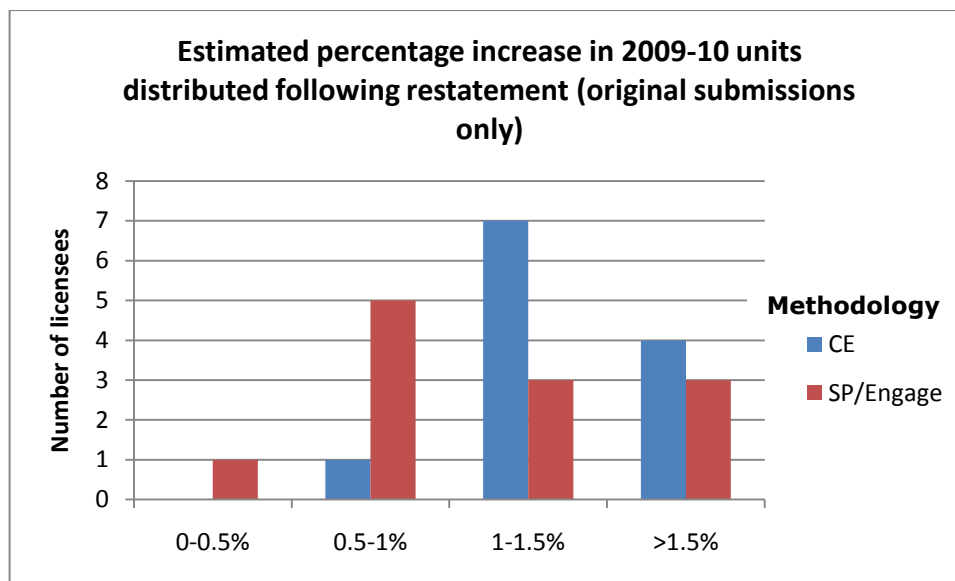


Figure 1 – Comparison of percentage increase in units distributed between the two methodologies, based on prescribed 'normal' periods

² Two licensees did not submit a response to the questionnaire. This chart is the same as that presented in the original analysis published on 13 December 2011.

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- 1.4. The original questionnaire prescribed fixed 'normal' periods for restating data for each of the two methodologies. However, some DNOs felt that a different 'normal' period would be more appropriate for their areas. Ofgem consequently gave DNOs the opportunity to resubmit their questionnaires based on this alternative 'normal' period, by 20 December 2011. Ofgem requested that such resubmissions should be accompanied with evidence for why a different 'normal' period is more appropriate.
- 1.5. In response, six licensees resubmitted their questionnaire with an alternative 'normal' period for the CE methodology, while four licensees resubmitted questionnaires with an alternative 'normal' period for the SP/Engage methodology. Ofgem has yet to critically examine how appropriate these 'normal' period selections are. It is noted that the selection of a 'normal' period is likely to influence the restatement position.
- 1.6. In addition, comparability between methodologies using the questionnaire responses is limited as, generally, licensees have resubmitted questionnaires with alternative 'normal' periods for one methodology or the other. This results in contrasting 'normal' periods between the two methodologies for some licensees.
- 1.7. In the charts that follow, original submissions have been replaced with resubmissions where appropriate. Where no resubmission for a particular methodology and licensee was received, we have included original submissions in the analysis. Figure 2 shows the percentage increase in units distributed, by applying each of the two methodologies, on original reported units for 2009-10. Figure 3 displays the equivalent data in gigawatt-hours (GWh) distributed.

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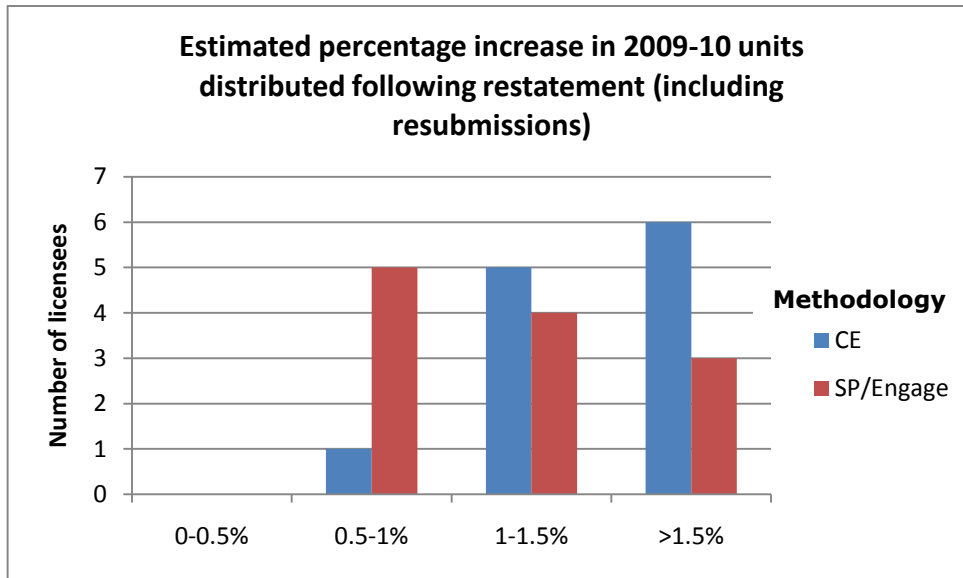


Figure 2 – Comparison of percentage increase in units distributed between the two methodologies, including revised 'normal' periods

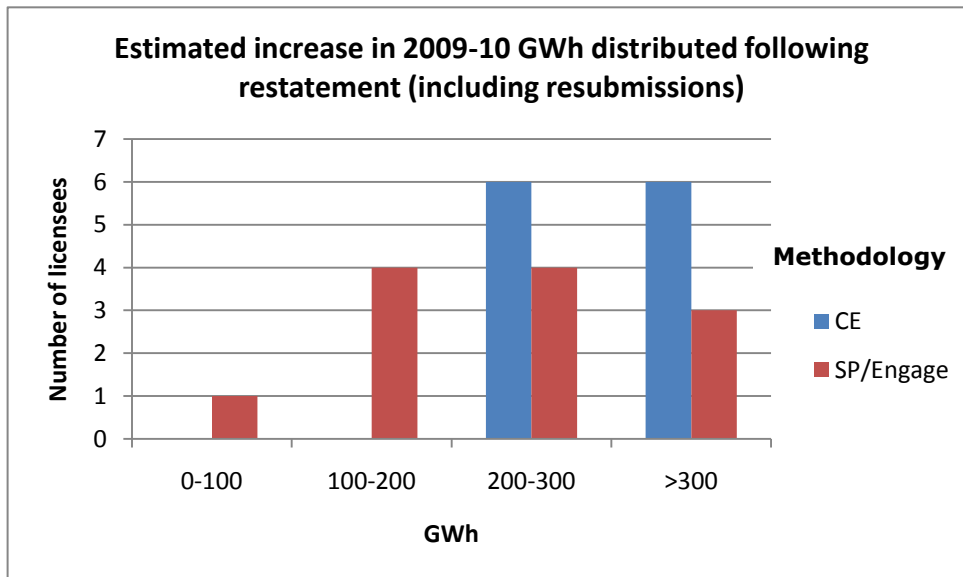


Figure 3 – Comparison of increase in GWh distributed between the two methodologies, including revised 'normal' periods

1.8. DNOs have made clear in their submissions that their questionnaire responses relate to that information specifically requested. They therefore do not include other changes to data necessary for calculation of the final position for 2009-10, such as the close out of provision accounting. Figures should therefore be treated as indicative only.