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

Dear Lesley

Thank for the opportunity to respond to this important consultation. This is a non-confidential response on behalf of the Centrica Group excluding Centrica Storage.

The consultation focuses on which methodology ('CE method' or 'SP method') should be used to adjust settlement data for 2009/10. However, our view is that it is unnecessary to make any adjustments to the data. This approach will result in the incentive scheme operating as originally intended (and as accepted by DNOs). Proceeding with either of the proposed adjustments to settlement data would be inappropriate, unnecessary and could lead to huge windfall gains by the DNOs, to the detriment of consumers.

It is **inappropriate** because DNOs accepted the losses incentive as part of the price control at DPCR4 and confirmed acceptance of the close out of the DPCR4 scheme when they accepted DPCR5. In doing so, they accepted the volatility associated with a settlements based output measure. The significant supplier adjustments to 2009-10 settlement data represent the correction of previous years where losses were understated (and DNOs over rewarded). Such volatility has always existed in settlements[1] . We provide a model with our response which shows that where supplier adjustments are made in 2009/10, the close out calculation as agreed at DPCR5 with no DNO restatements provides the correct net incentive payment. Therefore DNOs have not incurred any loss as a result of settlement data adjustments in 2009/10 but rather the adjustments simply provide the correct offset to the large gains made in previous years.

It is **unnecessary** because the close out calculation, as stated in DPCR5 Final Proposals, is driven by average losses in DPCR4 rather than 2009/10 alone. Ofgem have recognised in the consultation that any adjustments allowed by DNOs will need to be accompanied by a change to the close out calculation (the 'ACL2' term). We have provided Ofgem with a model which shows that the required

[1] See figure 1 in Appendix 1

adjustment to the close out calculation produces the identical net outcome for the losses incentive as the "no adjustment" approach we are advocating, simply applying the close out calculation as stated in Final Proposals. This approach also has the advantages of removing the need for additional licence changes and ongoing monitoring that would accompany the two adjustment methodologies proposed.

It could lead to **huge windfalls.** We understand some DNOs are arguing that they should be allowed to adjust the 2009/10 settlement data, ignore these adjustments for the purposes of DPCR5 target setting and apply the close out calculation as stated in Final Proposals. Our model shows that this option would provide the DNOs with huge windfall gains. Based on the summary DNO information Ofgem have published recently, we estimate that this windfall could be over **£1.2bn.** This is in addition to the **£200m** windfall that DNOs have already received relating to units associated with DPCR3 that were ignored in the targets set for DPCR4.

In DPCR5 Final Proposals Ofgem stated that they intended to take steps to ensure that there would be no windfall gains or losses to the DNOs arising from settlement data corrections when applying the Losses Rolling Retention Mechanism. Ofgem must be guided by this principle above all others. At a time when household budgets are being squeezed, and when consumers are already funding significant increases to network investment to facilitate the transition to the low carbon economy, it is imperative that they are protected from also funding unwarranted and unjustified windfalls for the network companies through an incentive that has provided at best modest reductions to carbon emissions.

The remainder of our response is structured as follows:

- Appendix 1 provides background on the DPCR4 losses incentive scheme and also provides further detail and evidence on the points above.
- Appendix 2 provides answers to the specific questions asked in the consultation.
- Appendix 3 is a spreadsheet model showing how settlement data errors and subsequent corrections feed through the losses incentive mechanisms from DPCR3 to DPCR5. In order to assess whether DNOs have made windfall gains or losses through the impact of settlement data corrections, it is necessary to understand the impact over time, not just the impact in a single year.

I trust our response is helpful to you in forming your decision in this important area. If you have any questions on any of the issues raised in this response please do not hesitate to get in touch.

Kind regards,

[Via email]

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Appendix 1: Further Detail and Background

1. Background: The DPCR4 incentive

At the time the DPCR4 losses incentive was set, Ofgem consulted many times on the way that losses should be measured. Ultimately, Ofgem proposed using aggregate volume of units distributed as the way of measuring losses.

Whilst DNOs expressed concerns at the time that this would be a volatile way of measuring losses, the networks ultimately accepted the losses incentive (and the associated volatility in the underlying measure) as part of the overall price control package.

Part of the reason the DNOs may have accepted the incentive was because their targets, using the average level from 1993/94 to 2003/04, were perceived as generous and allowed some DNOs to earn positive incentive payments from the scheme when losses were actually increasing year on year.

The structure of the incentive also allowed Networks to make windfall gains from any remaining units recognised after 2003/04 which related to DPCR3 years without any impact on their targets for DPCR4. In 2004/05 there was a step change (reduction) in losses reported by the networks as shown in Figure 1 below. We estimate this will have provided the networks with an incentive payment of over £100m for this year alone. This represents a windfall for the DNOs since there was no associated reduction in their targets for DPCR4. Furthermore, the DPCR4 incentive scheme also permitted DNO's to gain from any remaining units recorded through the settlement process during DPCR4 years that actually related to DPCR3 settlement years and Ofgem have indicated that the value of these payments has also been in the region of £100m[2]. Taken together, this amounts to gains of over £200m from the losses incentive which the DPCR4 scheme did not take account of in setting targets.

These windfalls, because they relate to DPCR3 units, are outside of the scope of the DPCR4 close out calculation and so represent gains by the DNOs that will not be clawed back. Nonetheless it is important to understand them to provide some context to the current consultation because we estimate that if Ofgem are persuaded by some DNOs to allow restatement of 2009/10 units without any change to the close out calculation there could be even further windfall benefits, of over £1.2bn, which the consumer will also need to pay for. This would represent an unacceptable outcome for the DPCR4 incentive where there is little evidence of DNO activity reducing carbon emissions.

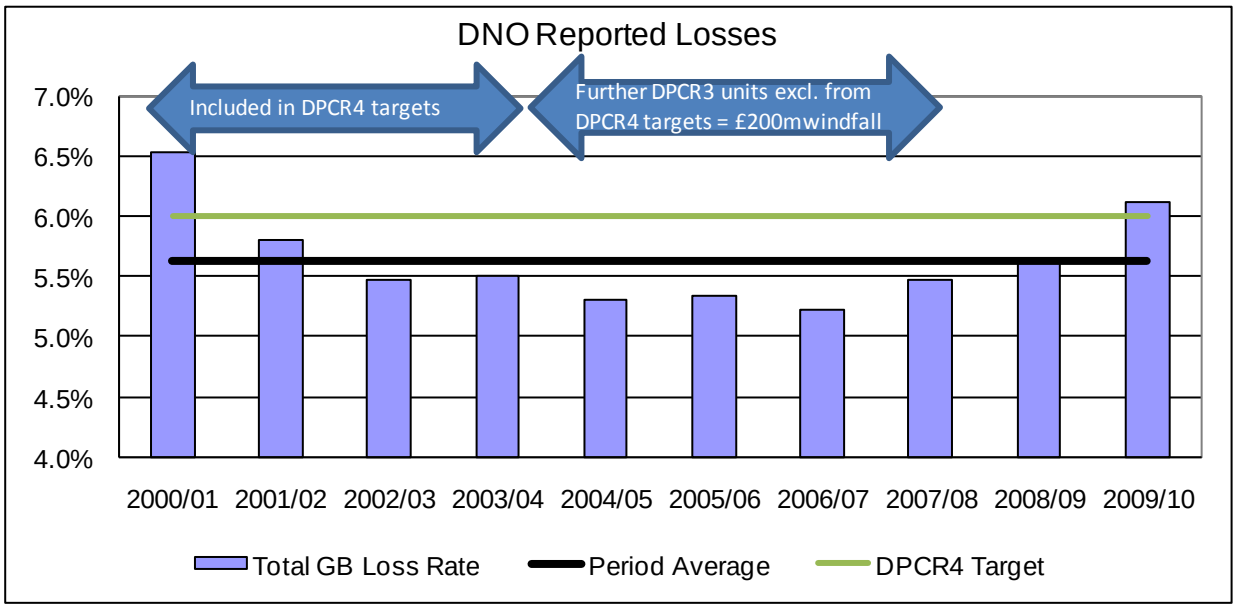
Figure 1 below shows the losses reported to Ofgem in DNO's revenue returns from 2000/01 through to 2009/10[3].

The chart shows that whilst reported losses did increase in 2009/10, this volatility is not out of the ordinary when compared with movements over the entire period.

[2] paragraph 2.86 of Electricity Distribution Price Control Review Policy Paper, ref: 159/08

[3] http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=76&refer=NETWORKS/ELECDIST

Figure1: DNO Reported Losses (total for 14 licences) 2000/01 to 2009/10



2. The DPCR4 Close Out

The Corrected Net LRRM incentive value as stated in DPCR5 Final Proposals and repeated in Ofgem's current consultation is given by the formula:

$$\text{Corrected Net LRRM} = 5 \times IR \times (TL_{2009/10} - ACL_{2009/10}) - 5 \times IR \times (TL_{DPCR5} - ACL2_{2009/10})$$
$$= 5 \times IR \times (TL_{2009/10} - TL_{DPCR5} - (ACL_{2009/10} - ACL2_{2009/10}))$$

If we assume, for simplicity, that there were no proposed changes to the losses methodology then the "$(ACL_{2009/10} - ACL2_{2009/10})$" term would net to zero and the final value of the Corrected Net LRRM would be driven simply by the difference in targets between 2009/10 and DPCR5. Since the targets for DPCR5 are calculated by the average performance during DPCR4, it is the average performance over DPCR4 that drives the final incentive outcome. Therefore any attempt to 'normalise' data in 2009/10, and so alter the ACL term will distort the overall value of the losses incentive schemes unless it is accompanied by an identical adjustment to the value of the ACL2 term or by including the adjustment in the calculation of the DPCR5 targets. Adjusting the calculation of the DPCR5 targets is a less favoured option since this would effectively be closing out the DPCR4 incentive via tougher targets in DPCR5. This is not ideal and we believe it is more appropriate to keep the close out of DPCR4 contained within the DPCR4 close out calculation. With this in mind, we are comforted to some extent to see that Ofgem recognise, in paragraph 5.9 of their consultation, the need to accompany any adjustment to ACL with a similar adjustment to ACL2.

3. The ACL2 adjustment

In paragraph 5.9 of the consultation, Ofgem state:
"*As stated above $ACL2_{2009/10}$ is the 2009-10 losses re-reported using the DPCR5 methodology. This means that any adjustment approved by Ofgem to normalise abnormal settlement corrections in*

2009-10 will need to be included in this figure. We therefore propose that the selected correction methodology is re-run using 2009-10 data reported according to the DPCR5 common methodology in order to give a revised $ACL2_{2009/10}$ for the purposes of the LRRM calculation. This will also give a revised figure for the units distributed in 2009-10 re-reported using the DPCR5 methodology - $UD_{2009/10}$."

This is an important recognition by Ofgem, and one which, if it is implemented correctly, should prevent the worst case windfall gains by DNOs. We include with our response an accompanying spreadsheet model which we have shared and discussed with Ofgem already. The model analyses losses incentive rewards received under a number of different scenarios over an extended time frame. The model looks at the incentive rewards received during DPCR3, DPCR4 and DPCR5 under difference scenarios of settlement data corrections by Suppliers with different treatments by Ofgem. The model shows that in order to arrive at the correct financial outcome the adjustment required to the ACL2 term must be the GWh value adjustment applied as part of the DNO restatement uplifted for the DPCR5 allowed loss percentage (ALP) (cell H53 of the 'D' options in our accompanying spreadsheet contains the required adjustment to the formula).

Whilst Ofgem recognise the need to adjust the ACL2 term if any restatement is permitted, we have concerns over the complications Ofgem may face in being able to implement this option. It is clear from paragraph 7.8 of Charge Restriction Condition 7 of the DNO licence that the value of the close out term (PPL) will be calculated in accordance with the methodology set out in chapter 4 of the Financial Methodologies document published as part of DPCR5 Final Proposals. Therefore, it seems to us that any change to that methodology will naturally require a change to the DNO Charge Restriction Condition 7. We are concerned that that Ofgem are proposing to make a decision on DNO restatements before any required licence changes.

This is highlighted by the fact that one of the DNOs (Northern Powergrid) that has already been granted permission to restate their 2009/10 losses (albeit via an interim decision only) has firmly argued, at Ofgem's recent GVC workshop, that there should be no adjustment to the ACL2 term of the close out calculation. This outcome is represented by the 'B' scenarios in our accompanying model and quite clearly results in windfall gains by the DNOs. It is this option that could produce windfall gains of over £1.2bn for the DNOs.

Within our model, the 'A' scenarios show the incentive results from not allowing any restatements. This option represents our preferred approach to arriving at the appropriate outcome for the close out of the DPCR4 losses incentive scheme. Our model shows that this approach produces the same losses incentive outcome as Ofgem's current proposal of allowing restatements and adjusting the ACL2 term. Our approach however has many advantages over Ofgem's current proposal.

- Our proposal does not require a licence change since it simply seeks to implement the close out of the DPCR4 losses incentive scheme in line with the methodology agreed at DPCR5 Final Proposals.
- Our proposal does not require the 'normalisation' of aggregated settlement data. Both of the proposed normalisation methodologies (CE or SP methods) have significant flaws. Our modelling however, shows that it is not necessary to normalise the 2009/10 settlement data and adjust the ACL2 term since the same outcome is arrived at by simply not adjusting the data in the first place.
- A further difficulty in allowing restatements of 2009/10 data and then adjusting the ACL2 term is the ongoing requirement throughout DPCR5 to continue to monitor settlement data in relation to negative EACs to ensure that there has been no double counting of benefit through the 2009/10 restatement and then through normal settlement data corrections.

Ofgem have made good strides in DPCR5 to minimise volatility and improve transparency in the losses incentive scheme by moving DNO's onto a common reporting methodology, building in sufficient lags in reporting, and introducing caps and collars. It would be a shame to move away from what has been achieved by adding a contentious element to the reporting that will always be subject to challenge. Our preferred approach avoids this.

The industry (Ofgem, DNO's, Suppliers and Elexon) have struggled to arrive at an appropriate normalisation methodology. This is not surprising given the complexities inherent in Settlements. These difficulties and also the regulatory burden associated with a licence change and additional complexities associated with the need for ongoing monitoring reinforce our view that the most appropriate solution is for Ofgem to make no restatements to 2009/10 data and to allow the incentive scheme to operate as intended and accepted by DNOs at the price control. As highlighted by our modelling, this will provide the same outcome as Ofgem's current proposal but will be much more transparent and easier to administer. This will require a reversal of the interim decisions already made by Ofgem but we believe that there has been sufficient learning by Ofgem and the industry since the original CE decision to warrant such a reversal.

Appendix 2 – Consultation Questions

CHAPTER: Two
Question 1: Do you think we have identified the main data/billing adjustment techniques used by electricity suppliers and their impacts?

Gross Volume Correction (GVC) and Dummy Meter Exchanges are the main data adjustment techniques used by suppliers.

Question 2: Are there any other factors you think we should take into consideration in assessing the impact of settlement data volatility?

We believe Ofgem should not be focusing on whether one year is more volatile than another. Settlement data volatility is an inherent feature of the Settlement system and the ability to perform GVC has existed within the settlements arrangements since 2000. Therefore when DNOs accepted the losses incentive arrangements, at both DPCR4 and DPCR5, they accepted a losses incentive that would be affected by both.

What is important, in relation to the impact of settlement data corrections over time, is whether the overall impact on DNO rewards/penalties through the losses incentives represents an appropriate outcome and that windfall gains or losses are avoided.

Our accompanying model shows that where supplier adjustments made in 2009/10 represent previous errors within the DPCR4 period, the close out calculation as agreed at DPCR5 with no DNO restatements provides the correct net incentive payment. Therefore we believe that DNOs have not incurred any loss as a result of settlement data adjustments in 2009/10 but rather the adjustments simply provide the correct offset to the large gains made in previous years.

CHAPTER: Three
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?

We agree that there are insufficient records of settlement adjustments made in 2009-10 to be able to accurately unpick them. However this is true of any settlement year and we disagree with the principle that any adjustment is necessary to the 2009/10 data. The settlement adjustments made in that year do not represent an issue for the working of the losses incentive since the value of the incentive scheme is driven by the average performance during DPCR4, not by the performance in 2009/10 alone.

The Corrected Net LRRM incentive value as stated in final proposals and repeated in Ofgem's current consultation is given by the formula:

$$\text{Corrected Net LRRM} = 5 \times IR \times (TL_{2009/10} - TL_{DPCR5} - (ACL_{2009/10} - ACL2_{2009/10}))$$

If we assume, for simplicity, that there were no proposed changes to the losses methodology then the "$(ACL_{2009/10} - ACL2_{2009/10})$" term would net to zero and the final value of the Corrected Net LRRM would be driven simply by the difference in targets between 2009/10 and DPCR5 (calculated by the average performance during DPCR4). Therefore any attempt to 'normalise' data in 2009/10, and so alter the ACL term will distort the overall value of the losses incentive schemes unless it is accompanied by an identical adjustment to the value of the ACL2 term or by including the

adjustment in the calculation of the DPCR5 targets. We are comforted to some extent to see that Ofgem recognise, in paragraph 5.9 of their consultation, the need to accompany any adjustment to ACL with a similar adjustment to ACL2. However we are concerned that changing ACL2 will require a licence, with the regulatory burden and complexities this will naturally bring.

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?

The approach we believe Ofgem should adopt is reverting to a policy of no adjustment to 2009-10 data. This will provide the same net DPCR4 losses incentive revenue as Ofgem's proposed approach in the consultation (where any adjustment to the calculation of 2009-10 data for the ACL term is accompanied with the same adjustment to the ACL2 term), however it has significant advantages over Ofgem's proposed approach:

1. It would represent the incentive mechanism accepted by DNO's at both DPCR4 and DPCR5 and so would not require any change to DNO's licence or DPCR5 Final Proposals.
2. It would prevent the potential difficulty of making a change to the calculation of ACL2, which in Charge Restriction Condition 7 states that it will be calculated in accordance with DPCR5 Final Proposals.
3. It is much simpler to implement.
4. It does not require Ofgem or the industry to produce a robust normalisation methodology.
5. It requires no ongoing observations of settlement data corrections with subsequent impacts on DPCR5 losses reporting

Of the two approaches suggested by Ofgem and DNO's for normalising 2009-10 data, neither represents a robust method and even if a new and robust approach was developed, again it would need to be accompanied by a corresponding adjustment to the ACL2 term which would arrive at the same net incentive reward as not making any adjustment in the first place.

Question 3: Do you agree that Options 1 and 2 are distinct approaches such that a hybrid incorporating the best points of each is unachievable?

We see no benefit in trying to produce further approaches for a normalisation methodology that should net itself out in the close out calculation.

CHAPTER: Four
Question 1: Have we identified the important strengths and weaknesses of each option? If not, what additional points should be considered?

We comment of Ofgem's strengths and weaknesses of each methodology below:

CE methodology

Ofgem Strengths	Comment
Easy to understand and can be easily replicated by other DNO's	The mechanics are easy to understand, but the principles are not. Why is R1-R3 data 'normalised' when GVC typically only occurs at RF or DF?
It makes use of observable data with limited assumptions in determining the percentage variation to be applied to each run type	The 'observable' data being used is likely to be the years in which the original errors in settlement data occurred therefore there is an inherent flaw in using these years to 'normalise' the year which corrects them.

It deals with negative EACs symptomatically when they arise	The source of negative EACs is not fit for purpose as it is simply a snapshot in time and there is no evidence that these EACs are actually being applied in settlements. Furthermore, negative EACs will be replaced by positive AAs naturally when the next meter reading takes place. This flaw alone should be enough to warrant a reversal of the interim decisions arrived at by Ofgem for CE and ENW.
The methodological results match expected performance	What have Ofgem determined to be the 'expected' performance? And does the test work all DNO's?

Ofgem Weaknesses	Comment
It sets all RF and DF settlement data to zero which could result in valid adjustments to settlement data being discarded	Agreed
If there is an observable recessionary impact, it does not specifically address the issue	Agreed, this criticism also applies to an energy efficiency impact and an impact due to response to increased retail prices of electricity.
There is an assumption within the methodology that the data from 2005-06 to 2008-09 is "normal" and that reconciliation data for 2009-10 is corrupt	Given that the majority of GVC correction in 2009-10 is likely to have corrected data in recent years, the methodology can not justifiably claim that the data from 2005-06 to 2008-09 is normal since these will be the years that contain the original errors. We note from data published on the Ofgem website that CE YEDL reported losses of 3.6% and 3.8% in 2005-06 and 2006-07 – such losses are unfeasibly low and to use these years as 'normal' is simply not sensible.
The treatment of negative EACs could also be considered a weakness as it is based on a "snap-shot" in time. Suppliers have also noted concerns about the availability of negative EAC data and the risk of negative EACs that have already turned positive being taken into account before they have in fact been included in the settlement total. In addition, while Elexon reports identify "high" negative EACs there may be many others which are smaller and therefore not included	Agreed. We believe the inclusion of negative EACs is flawed and asymmetric since no account is taken of erroneously large EACs.
DNO's need to monitor negative EACs which were included in the calculation of the adjustment to ensure that there is no "double counting" of units.	This represents an ongoing administrative burden and complication for the enduring losses incentive performance that will continue to be subject to challenge. This is unnecessary if Ofgem disallow any restatement of 2009/10 performance.

SP Methodology

Ofgem Strengths	Comment
The methodology takes a statistically	This is not how we interpret the methodology. The

modelled approach to identify a “normal” period	methodology allows the DNO to choose a period from which to statistically model the normalisation of data for 2009-10. The choice of ‘normal’ period in this option is key, and again it is likely to primarily reflect the years in which the erroneous data occurred and which the 2009-10 data corrects.
It seeks to pre-empt the effect of all negative EACs before they occur	
This approach acknowledges that other factors could have altered losses performance in 2009-10 and it specifically attempts to address the effect of the recession in 2009-10 SF data	It does not include factors such as the weather, energy efficiency and energy retail price rises.
It allows for a level of valid data adjustments to be applied to all settlements runs after SF	The ‘validity’ of the data adjustments is dependent on the ‘validity’ of the choice of ‘normal’ years, which is the choice of the DNO. This is not an appropriate basis for consumers to fund the close out of the DPCR4 losses incentive.
It is readily applicable to all DNO’s (with different reporting methodologies)	Given the dependence on the choice of the ‘normal’ period we do not believe this approach is appropriate.
SP used the services of an independent consultant, with extensive Elexon expertise, to develop a methodology that would address the weaknesses they considered were inherent in CE’s methodology.	

Ofgem Weaknesses	Comment
The assumptions around the choice of the “normal” settlement period based on observed patterns. While Option 1 also includes an assumption that the data for the years from 2005-06 to 2008-09 is normal, the difference is that for Option 2 the assumed normal period is a vital aspect of the methodology. The classification of a normal period is highly subjective and could differ between DNO’s. The impact in the calculation resulting from selecting a different normal period has not been tested, but there are concerns as to whether DNO’s using different “normal” periods would meet the requirement of like-for-like comparison. DNO’s might choose a period which gives them the most favourable result.	Agreed – the ‘normal’ period is key in the SP methodology and we can not see how the industry, let alone a DNO, can arrive at a robust ‘normal’ period given the complexities inherent in Settlements.
Although Option 2 factors in a recessionary impact on SF, it makes an	Agreed, this criticism also applies to an energy efficiency impact and an impact due to response to increased

assumption that the recession is the only "abnormal" impact and can be stripped out. It potentially leaves out of the account the impact of other valid factors (such as extreme weather conditions) which could have had a compensatory impact.	retail prices of electricity.

Question 2: Do you think that the impact of particular factors on SF data can be clearly identified? Can a recessionary impact be separated from other factors such as extreme weather? How important is it for the purposes of the adjustments methodology to also take account of other variables affecting SF data such as extreme weather conditions?

It is incredibly difficult to arrive at an accurate estimate of the 'normal' settlement data for 2009-10 that will not be subject to challenge. The recession, the weather, energy efficiency and energy price rises are all factors that could not possibly be correctly captured by initial SF consumption estimates in settlements.

Since the same normalisation adjustment is required (and proposed by Ofgem) to both ACL and ACL2 in the calculation of the net incentive adjustment there is also no need for Ofgem to subject itself to such potential challenge.

Question 3: Do you consider that both methodologies can deal equally well with all types of settlements data correction?

We believe neither methodology deals well with all types of settlement data correction, primarily since both are reliant, to differing degrees, on using data from the period when settlement data was erroneously overstated to 'normalise' 2009-10.

Question 4: Should Option 2 allow DNO's to select different "normal" periods or is there a case for setting a standard period? What would the benefits or drawbacks be of selecting a standard "normal period" across all DNO's? Would the selection of different "normal" periods substantially affect the outcome?

A standard period would reduce the likelihood of gaming by the DNO's, but the choice of standard period is critical to the outcome. As Ofgem recognise the need to adjust the close out calculation to ensure that any adjustment to ACL is also applied to ACL2, such difficulties are most easily avoided by reverting to a policy of disallowing any adjustments.

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

Our preferred approach is to apply neither methodology and not have any adjustments to 2009-10 data.

Question 6: Do you consider that Option 1 should be that single methodology? If not please give reasons for your response.

Our preferred approach is to apply neither methodology and not have any adjustments to 2009-10 data.

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?

Relative to activity in 2009-10, we are no longer undertaking significant levels of settlement data adjustments and volumes of ongoing adjustments are anticipated to be low, representing business as usual data corrections. This is primarily a direct result of the clarification surrounding the use of GVC which was provided by Elexon in 2010. This limited the use of GVC so that corrections could only be applied up to the RF settlement run, and could only correct for 'fluid' errors (i.e. those still having an effect on settlements) as far back as the DF date.
The impact of P274 (if approved) would be to prohibit the use of GVC altogether. However, this would simply lead to a large increase in the number of disputes raised for correction through the Trading Disputes Committee at significant additional cost to the industry. Such an approach would seem illogical and inefficient given that the current arrangements have reduced the volumes of GVC significantly.

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

This must be the case otherwise DNO's stand to make huge unwarranted windfall gains at the expense of the consumer. The adjustment under the DPCR5 methodology must be the value in GWh used for the adjustment to the DPCR4 methodology uplifted for the DPCR5 ALP to provide the correct adjustment. Our accompanying spreadsheet model contains the required correction to the algebra in the 'D' options and the calculations prove this correction produces the correct outcome.

Question 2: Do you believe that either Option 1 or Option 2 could be applied to the 2009-10 losses re-reported under the DPCR5 common reporting methodology?

To arrive at the correct adjustment, the value to be used must be the value in GWh used for the adjustment to the DPCR4 methodology uplifted for the DPCR5 ALP as illustrated in our accompanying spreadsheet.

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

Provided the above correction takes place to the 2009-10 losses re-reported under the DPCR5 common reporting methodology then there is no need to include the settlement data adjustments when calculating the DCPR5 ALP. If there is no adjustment to the ACL2 term in the close out calculation then the DCPR5 targets must include the settlement data adjustment.

Question 4: Do you believe that the type of adjustment (GVC, DMX or other) impacts how the targets should be calculated? If so, how should this be done?
No, if the ACL2 term in the losses close out calculation has the same (GWh) adjustment applied as the ACL term then there should be no impact on how the DCPR5 targets are set. Otherwise the targets must be set after including any settlement data adjustment.

Appendix 3 – See accompanying spreadsheet entitled:

GVC_consultation_response.xls