Lesley Ferrando
Local Grids and Governance: Distribution
Ofgem
9 Millbank
London
SW1P 3GE

6 January 2012

Dear Lesley,

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

EDF Energy is one of the UK's largest energy companies. We provide 50% of the UK's low carbon generation. Our interests include nuclear, coal and gas-fired electricity generation, renewables, combined heat and power plants, and energy supply to end users. We have over five million electricity and gas customer accounts in the UK, including both residential and business users.

EDF Energy welcomes the opportunity to respond to this consultation. We are happy for this letter to be published on the Ofgem website.

The losses incentive utilises data that is used to ensure that energy is balanced rather than information directly related to network losses reduction. An incentive that measured investment on the network to improve losses would be more appropriate.

While we appreciate that the DPCR5 mechanism is already in place, we need to ensure that data used to calculate the losses incentive is a true reflection of a "normal" period. Trying to establish what is normal is a much more complex task when the settlements process allows for corrections to energy consumed up to 2 years after the settled period.

I hope you find these comments useful, however if you wish to discuss this response further please contact either of my colleagues Simon Vicary (simon.vicary@edfenergy.com 0203 126 2168) or Julia Haughey (julia.haughey@edfenergy.com 0203 126 2167).

Yours sincerely,

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Appendix 1

Chapter One

There are no Questions for chapter one.

Chapter Two

Question1: Do you think we have identified the main data/billing adjustment techniques used by electricity suppliers and their impacts?

Yes, the main data/billing adjustment techniques have been identified.

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

If a site becomes vacant the actual consumption will be zero, however settlements will continue to be based on the EAC of the last customer in the premises until the site is reoccupied or two consecutive "Vacant Site" No access notifications have been received (P196 requirements). The EAC will then be superseded by a zero AA from the initial reading provided by the new tenant or from a zero EAC if the Supplier follows the P196 "vacant site" process. This activity doesn't involve GVC but will result in the energy recorded at R3, RF and DF being much lower than that originally recorded for SF, R1 and R2.

It is worth noting that the GSP Group correction factor has not deviated significantly from 1 during the 2009-2010 period (i.e. settled and actual energy consumption have been very similar), and the question then has to be asked whether or not this would be the case if GVC adjustments were introducing significant error into the settlements process as suggested by this review.

CP1310 limited the period within which GVC could be applied and galvanised some suppliers to make corrections at the DF date whilst it was still allowed. These corrections were naturally for erroneous settlement data relating to prior periods and the assertion that the data in the baseline periods is more accurate than the 2009-2010 period could be challenged. It seems likely that distribution losses would have been understated during these periods when Suppliers were over-settling relative to the actual consumption of the affected sites. The implication is that some line loss factors or stated distribution losses are incorrect and probably have been for some time but the problem would have been masked by the inaccuracies in the settlement data. Again one has to question how relevant these issues are if the GSP group correction factor has been near unity for the entire period.

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 with the general principles and constraints and the aim of the methodologies to remove abnormal corrections. The issue we see is how to define what is abnormal.

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?

Yes.

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?

As both methodologies aim to remove abnormal corrections we would hope that the best points could be incorporated into one methodology.

Chapter Four

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

The important strengths and weaknesses of each option have been identified. Our major point on the weaknesses with both approaches is in our answer to Chapter two, question two above – shouldn't any significant variances be evident in the group correction factor?

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?

We don't think that impact of particular factors on SF data can be clearly identified. It is going to be very difficult with the timings involved to clearly identify when things have happened that differ from the usual as most sites at SF are settling on an EAC and the actual consumption is not known.

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

We can see no reason why they cannot.

Question 4: Should option 2 allow DNOs 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 DNOs? Would the selection of different 'normal' periods substantially affect the outcome?

It is hard to define what a "normal" period is. It very much depends on the amount of activity carried out by the supplier which will vary from year to year and GSP to GSP.

Selecting a standard 'normal' period does however ensure a consistent approach.

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

To ensure a consistent approach, a single methodology used by all DNOs is vital.

Question 6: Do you consider that option1 should be that single methodology? If not please give reasons for your response.

Option 1 has its own issues especially over the treatment of negative EAC's and the data used to calculate the adjustment i.e. R1–R3 data. This ignores the fact of normal data corrections that are inherent with trying to read meters in consumer's properties.

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?

We are no longer making GVC in the volumes that were seen in 2009-2010. The change to the BSC has galvanised the suppliers to get issues corrected which created a spike in the use of GVC in 2009-2010. The impact of P274 is currently being assessed however we currently cannot see any way of identifying cases where we have under settled during the crystallised period. This would lead to a distortion in settlements as all amendments will be in favour of the generators.

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?

To ensure a consistent approach we would agree.

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?

We currently see no reasons why they both could not be applied.

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

If Ofgem is stating that data in 2009-10 is an anomaly and needs adjustment then logically this should flow through into the setting of the DPCR5 ALP. If it doesn't we are using data to set targets that is not reflective of future levels.

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?

Adjustments to settlements data is part of the normal day to day business of the supplier. Using this data to calculate an incentive that is supposed to encourage investment in the network to reduce losses seems in appropriate. A different methodology, related to the amount of investment a DNO makes on new technology, that is proven to reduce the amount of losses on the network would seem far more practical.

EDF Energy
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