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Rachel Fletcher
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Our ref	Your ref	Date
-		19 December 2011

Dear Rachel

Ofgem 137/11 : Consultation on regulatory measures to address the effects of gross volume correction and other settlements data adjustments on the distribution losses incentive mechanism

I am writing on behalf of Western Power Distribution (South Wales) plc, Western Power Distribution (South West) plc, Western Power Distribution (East Midlands) plc and Western Power Distribution (West Midlands) plc in response to the above consultation

We have also attached our preferred way forward which uses a different normalisation period to that used by Ofgem. As such we have completed a new Appendix 2 questionnaire.

We would welcome opportunity to discuss this with your team in the New Year. If you wish to discuss further please contact Simon Yeo (syeo@westernpower.co.uk) on 0117 9332349.

Yours sincerely

ALISON SLEIGHTHOLM
Regulatory & Government Affairs Manager

Ofgem 137/11 : Consultation on regulatory measures to address the effects of gross volume correction and other settlements data adjustments on the distribution losses incentive mechanism

Response Date: 20/12/11
Western Power Distribution Response

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

We believe so, but as we are a DNO and not supplier, we can't be certain.

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

Cyclical nature of the losses. For example losses are always abnormally low in November.

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?

Generally yes, except evidence points to the fact that these techniques were being used more aggressively earlier than 09/10 and given this impacts on the DPCR4 close out payment earlier years must be considered.
Indeed we believe that data we have provided shows a marked upturn in GVC activity prior to 09/10; as far back as 06/07. We have provided further data on this which accompanies the response.

Also the period used to calculate normal behaviour is full of abnormalities and therefore DPCR3 should be used as normal.

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?

We should consider a variation of the CE method that adjusts settlement data that goes back prior to 2009/10 and uses DPCR3 as the Normalisation period.
Also the current CE method uses settlement report data whereas using settlement date and including the correct reconciliation runs would bring this into line with the method of calculating the close out payment.

It may be the right answer to apply the removal of the RF and DF runs from a different set of years to applying the normalisation of SF to R3 for the CE method.

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?

Yes

CHAPTER: Four

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

Not completely. It is not highlighted that GVC creates losses reporting anomalies prior to 2009/10. Also the period used to calculate normal behaviour is full of anomalies and therefore DPCR3 should be used as normal. The data we have submitted provides evidence for this.

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?

The settlements system does include an element of weather correction; but the extreme weather conditions we have seen in the last couple of years has tended to be very cold weather thereby raising billings (units distributed) so masking any settlement correction that reduces billings i.e. the impact of GVC could be even greater.

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

It is a top down approach, and creates an estimate.

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?

The selection of normal periods in identifying abnormal variations is critical. Periods with abnormal behaviour should not be selected as normal. Therefore DPCR3 should be included as normal behaviour. The target was based on DPCR3 performance.

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

May not be appropriate, but as far as possible yes. It should not limit/constrain the need to get to the right answer. The choice of normalisation periods or the application of correction across years prior to 09/10 in the DPCR4 period should depend entirely on the DNO area and the data. It may be the right answer to apply to remove the RF and DF runs from a different set of years to the normalisation of SF to R3 for the CE method.

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

Option 1 or the CE methodology is much more simple to follow and for DNO's to apply. There should be variations as to the normalisation years and the years that it applies too.

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?

P274 would add clarity on what is not being applied and this in itself should enable better understanding of what may be happening.

We believe this activity, from looking at the data, is on-going but probably not to the same extent.

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?

For calculating the LRRM the selected adjustment should be applied to all the years affected not just 2009/10 and DPCR4 and DPCR5.

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?

You have to be careful not to get a mismatch between settlement report date using prior reconciliation runs and settlement date using its own reconciliation runs. The LRRM uses settlement date using its own reconciliation runs.

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

For the purpose of the LRRM we need to adjust DPCR5 ALP.

For the purpose of setting the DPCR5 target we need to adjust DPCR5 ALP only if things are going to change in DPCR5. The fact that we are in DPCR5 and GVC is still going on may mean that the target should not be adjusted.

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?

For the purpose of setting the DPCR5 target we need to adjust DPCR5 ALP only if things are going to change in DPCR5. The fact that we are in DPCR5 and GVC is still going on may mean that the target should not be adjusted.