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9<sup>th</sup> May 2012

Dear Dora

**Consultation on conflicts in the Distribution Losses Incentive Mechanism and data to be used in calculating its components**

RWE npower welcomes the opportunity to comment on these proposals. This response is provided on behalf of the RWE group of companies, including RWE Npower plc, RWE Supply and Trading GmbH and RWE Npower Renewables Limited, a fully owned subsidiary of RWE Innogy GmbH.

We would like to cover the 2 issues raised in the consultation in reverse order:

**1 Data to be used for the DPCR4 LRRM and DPCR4 ALP**

DPCR5 Final Proposals very clearly state that it is 2009 / 10 **settlement data** that should be used:

*4.19. As stated in Initial Proposals we will require the DNOs to report corrections to the DPCR4 losses that take place after the end of the DPCR4 period, so that all the settlement data associated with DPCR4 has been accounted for and the DPCR4 annual reported losses have been revised accordingly. This includes subsequent corrections to DPCR4 settlement data and the 'closing out' of DPCR4 provision accounts. As we stated, this will ensure that all DNOs receive the losses incentive based on their absolute losses performance over DPCR4 and ultimately, that rewards/penalties under the DPCR4 scheme are not influenced by the different reporting bases that companies used.*

*4.20. However, the final year losses reported by the DNOs will probably include corrections in settlement data for prior years. In order to ensure that the LRRM works correctly, the final year losses figure adjusted in paragraph 4.17 above will exclude any corrections to prior years.*

*4.21. Therefore we will determine ACL<sub>2009/10</sub>, the reported losses in the last year of DPCR4, as the losses experienced in the final year, excluding any corrections to prior years, but with subsequent settlement corrections to the final year added in (including provision account adjustments to provide the actual final year losses). We will also determine LUD<sub>2009/10</sub> as the units distributed in the last year of DPCR4 excluding any corrections to prior years, but with subsequent settlement corrections to the final year added in.*

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The consultation assumes that the abnormal corrections to settlements data which took place during 2009/10 will affect the 2009/10 losses data. This is in fact not the case. While the settlement activity took place during 2009/10, it affected dates that were settling at DF and RF during that time. **This therefore means that the settlement dates affected are actually 28 or 14 months prior to 2009/10.**

To illustrate this point, excerpts from the Elexon settlement calendar are shown below:

- Settlement date 01/04/2009 settled at RF on 26/05/2010. The DF run is 14 months later i.e. Sept 2011.

Sett Da	Sett Co	DA Run Da	SVA Notification Da	VAR Da	Notif Da	Payment Da
01/04/2009	RF	20/05/2010	21/05/2010	24/05/2010	26/05/2010	01/06/2010

- Similarly, settlement date 31/03/2010 settled at RF on 26/05/2011. The DF run is 14 months later i.e. Oct2012.

Sett Da	Sett Co	DA Run Da	SVA Notification Da	VAR Run Da	Notif Da	Calendar Payment Da
31/03/2010	RF	20/05/2011	23/05/2011	24/05/2011	26/05/2011	01/06/2011

It has been generally agreed that the data coming through settlements after 2009/10 is 'normal' i.e. does not include the abnormal corrections due to GVC etc. This therefore means that it should be possible to use 2009/10 settlement data, as intended under the DPCR5 proposals, since it settled in 2010/11 at RF.

2009/10 settlement data should not be confused with the losses annual incentive data – which for many DNOs was measured using all the settlement runs coming through on dates during 2009/10. These flows would have included DF and RF for earlier settlement dates where GVC had been applied. For example:

- On 28/04/2009, settlement date 05/03/2008 (which may have had GVC applied) is settling at RF. This would have caused a reduction in the losses incentive data if the DNO methodology uses all settlement runs in their reporting base.

Sett Da	Sett Co	DA Run Da	SVA Notification Da	VAR Da	Notif Da	Payment Da
05/03/2008	RF	22/04/2009	23/04/2009	24/04/2009	28/04/2009	01/05/2009

The Settlement Calendars can be found on the Elexon Website:

<https://www.elexonportal.co.uk/article/view/1820?cachebust=qt5wzmo639>

### **In summary:**

***2009/10 settlement data should be 'clean' to use for the DPCR4 LRRM and DPCR5 ALP since it should not include the GVC data adjustments which were carried out in earlier periods. This is in line with the proposal in DPCR5 and the losses incentive methodology moving forward. This data should be available from Elexon for each DNO area. Restated data should not be used.***

## **2 Potential solutions to the conflict between the interaction adjustment and cap and collar**

Having established above that 2009/10 settlement data does not include the large number of GVC adjustments carried out in 2009/10, we believe that **Option 2 – Set 2009/10 data as the formal DPCR5 target** should be the approach.

Please feel free to contact me if you wish to discuss this response in more detail. This response is not confidential.

Kind Regards,

By email so unsigned

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