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Our ref	*Your ref*	*Date*
-		08 May 2012

Dear Dora

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

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 of 28th March 2012.

On reviewing the consultation I have set out below our thoughts on the questions raised in the consultation.

CHAPTER 2

Question 1: Which of the strengths and weaknesses we have suggested are most important to you as we consider options to resolve the conflict?

Setting the target using 10/11 allows a longer lag beyond the abnormal data cleansing activity known to have affected 2009-10 data.

Question 2: Are there any strengths weaknesses we have missed?

There would be no abnormal GVC effects in creating the target for DPCR5 if 2010/11 were used. Using 2010/11 would be a clean break from the DPCR4 which is full of anomalies from GVC. This would reduce the uncertainty in DPCR5 Distribution prices.

Question 3: What is your assessment of the options we have suggested? In providing your response, please consider the extent to which any option moves away from the original intention of the DPCR5 settlement.

	Intent of the DPCR5	Our assessement of this option
Option 1	Follows the original intent as there is not much change from the final proposals	Could create more uncertainty in the DPCR5 LRRM closeout if it exists. The target setting will include corrupted data from GVC activity.
Option 2	Follows the original intent as there is not much change from the final proposals	Could create more uncertainty in the DPCR5 LRRM closeout if it exists. The target setting will include corrupted data from GVC activity.
Option 3	Changes from the original intent	Create more certainty in prices for DPCR5 as the losses gains losses will be over four years. Would have less chance of data corruption due to GVC.
Option 4	Changes from the original intent	Could create more uncertainty in the DPCR5 LRRM closeout if it exists. The target setting will include corrupted data from GVC activity.
Option 5	Changes from the original intent	Could create more uncertainty in the DPCR5 LRRM closeout and the DPCR5 losses revenue. The target setting will include corrupted data from GVC activity. This will increase volatility risk which could impact the customers DUoS charges.

Question 4: Which is your preferred option for resolving the conflict and why?

2009/10 GVC created a problem for the original intent of the DPCR4 and DPCR5 losses incentive. So much so that it cannot be relied upon.

Please see the example below.

	2005/2006	2006/2007	2007/2008	2008/2009	2009/2010	2010/2011	2011/2012	2012/2013	2013/2014	2014/2015	Total	Interaction Adjustment	Overall
No GVC Asdjusted	5.0%	5.1%	5.20%	5.30%	6%	5.50%	5.50%	5.50%	5.50%	5.50%			
DPCR5 Target Using Average Of DPCR4						5.32%	5.32%	5.32%	5.32%	5.32%			
Diff						-0.18%	-0.18%	-0.18%	-0.18%	-0.18%	-0.90%	3.4%	2.50%
Using 2009/10 as Target						6.00%	6.00%	6.00%	6.00%	6.00%			
Diff						0.50%	0.50%	0.50%	0.50%	0.50%	2.50%	0	2.50%
Using 2010/11 as Target						5.50%	5.50%	5.50%	5.50%	5.50%			
						0.00%	0.00%	0.00%	0.00%	0.00%	0.00%		0.00%
GVC Adjusted In 2009/10	5.0%	5.1%	5.2%	5.3%	5%	5.50%	5.50%	5.50%	5.50%	5.50%			
DPCR5 Target Using Average Of DPCR4						5.12%	5.12%	5.12%	5.12%	5.12%			
Diff						-0.38%	-0.38%	-0.38%	-0.38%	-0.38%	-1.90%	-0.6%	-2.50%
Using 2009/10 as Target						5.00%	5.00%	5.00%	5.00%	5.00%			
Diff						-0.50%	-0.50%	-0.50%	-0.50%	-0.50%	-2.50%	0	-2.50%
Using 2010/11 as Target						5.50%	5.50%	5.50%	5.50%	5.50%			
						0.00%	0.00%	0.00%	0.00%	0.00%	0.00%		0.00%

The above example assumes that the DNO has not made any improvements or opposite in losses. The change is due only to the increase in GVC. The losses increase up to 2009/10 but then remain static for DPCR5 as the level of GVC has settled.

The first part shows what would happen with No adjustment for GVC and the second part shows what would happen if there is an adjustment for GVC in the targets. The first option shows a DNO getting a windfall gain if 2010/11 is not used and the second part is showing a DNO getting a windfall loss if 2010/11 is not used.

Therefore using 2010/11 is the only way to both correct the interaction adjustment issue and stop inaccuracies due to GVC.

Question 5: Are there any other options we should consider?

Use 2010/11 as the target and set the LRRM and the interaction adjustment to zero. This would have the effect of neutralising rewards or penalties received in DPCR4. This would seem to be the fairest outcome for customers in that their charges are not being influenced in any way by activity which is non-loss related. The aim of the losses incentive is to encourage DNOs to undertake activity which reduces losses. It seems unreasonable that customers are being charged/ credited for activities that do not reflect the incentive so in conclusion to back the DPCR4 credits or payments would seem fairest for customers.

CHAPTER 3

Question 6: Do you think that nominal or RPI-indexed values for incentives over DPCR4 should be used in the LRRM calculation? And do you have any other views on the 5 times E component?

The final proposals were not specific on this.

If the 5 X E component is used then it should be adjusted for GVC.

Question 7: What are your views on the reasons why losses positions might increase, remain at 2009-10 levels or reduce? What bearing should this have on the decision about whether DNOs should use a restated or un-restated ACL2 figure? Please provide evidence or analysis you consider necessary to support your position.

The integrity of the settlements data for calculating losses has been called into question in particular through the GVC but we still have no idea what else is affecting, changing or corrupting it. Therefore the assessment we can make from 2009-10 is that they are still moving in random ways.

Question 8: Do the options put forward for Chapter 2 have any bearing on question of whether to use a restated or un-restated ACL2?

For options 2 and 3 the interaction adjustment does not exist and therefore ACL2 does not exist.

Question 9: Should we use a restated or un-restated ACL2 for calculating the DPCR4 LRRM Interaction Adjustment?

If 2010/11 was used as the DPCR5 target then ACL2 would not exist. If any of the other options were taken then we believe ACL2 should be adjusted but only if 2009/10 is also adjusted in the DPCR5 part of the interaction adjustment.

Question 10: Do you think we should use restated or un-restated 2009-10 data for the purposes of calculating the DPCR5 target? Please consider your response to the previous question and to questions in Chapter 2 of this document in responding?

If 2010/11 was used as the DPCR5 target then this question is not necessary. If they are restated then it should be using SP's method on a settlement date process.

Question 11: Do you think either of these two options may successfully be used to restate units distributed in 2009-10 under the DPCR5 methodology? Can you offer an alternative method? Which method should be used for restating UD2009-10?

Both options seem overly complicated and seem to mix up settlement report date and settlement date. Therefore it is not entirely clear to us which method is the right one to use.

Question 12: Alongside your consideration of whether to use restated or un-restated 2009-10 data, we are seeking views on the degree of any departure from the DPCR5 settlement and any observations or concerns you may want to share with us.

We would like to see no close out payment at the end of DPCR5. This would reduce the uncertainty and volatility in prices effecting end customers.

DNO's could record losses in DPCR5 but not use this to drive an incentive.

Should you wish to discuss any aspects of our response please contact Dave Wornell (dwornell@westernpower.co.uk).

Yours sincerely

ALISON SLEIGHTHOLM
Regulatory & Government Affairs Manager