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Whether to activate the Distribution Losses Incentive Mechanism in the Fifth Distribution Price Control

Consultation

Reference:	87/12	**Contact:**	Andy Cormie
Publication date:	6 July 2012	**Team:**	Distribution Policy Team
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		Email:	andy.cormie@ofgem.gov.uk

Overview:

The Distribution Losses Incentive Mechanism aims to incentivise Distribution Network Operators (DNOs) to reduce losses of electricity on their networks. A range of issues that have arisen in recent years have raised concerns that the mechanism is not operating as intended or incentivising appropriate action by DNOs. In response to requests from a range of stakeholders, this consultation considers whether to activate the losses incentive mechanism in the Fifth Electricity Distribution Price Control (DPCR5).

In doing so, this consultation sets out a number of options and considers the implications for existing work.

Responses to questions 9 and 12 of the consultation may affect existing and future forecasts of Distribution Use of Systems charges. We are therefore requesting views on these questions only to be submitted **by 24 July 2012**.

Responses to all other issues are requested **by 17 August 2012**.

Contents

1. Introduction

Chapter summary

This chapter introduces the Distribution Losses Incentive Mechanism and the key issues for consideration in this consultation. It also sets out the structure of the consultation document and the date by which responses are required to questions, noting that answers to some questions are requested sooner than others.

Issues for consideration

1.1. Lost electricity from GB's electricity system represents a cost to consumers in terms of lost electricity that still has to be paid for, and a cost to the environment from the carbon released when that lost electricity is generated. Recent figures suggest that around 5-8% of the electricity flowing through the electricity distribution networks is lost.

1.2. Driving activity to reduce losses of electricity is consequently an important part of the regulatory framework for both the transmission and distribution systems, and has been for a number of years. At the distribution level, Distribution Network Operators (DNOs) are incentivised through the Distribution Losses Incentive Mechanism to reduce losses on their networks.

1.3. To reflect the cost of losses to consumers and the environment, the incentive rate is linked to the price of electricity and the price of carbon; £48/MWh under the DPCR4 mechanism. This places a material financial incentive on DNOs to reduce losses. For example, the first four years of the DPCR4 losses incentive resulted in a net reward to the DNOs of circa £250m.

1.4. Towards the end of DPCR4, a period of data cleansing activity undertaken by suppliers had an effect on settlement data and the losses mechanism itself (considered in Chapter 2). Work to resolve the effects of the data cleansing has further delayed the closing out of the DPCR4 mechanism and the activation of the DPCR5 mechanism, which had already been put back to accommodate the introduction of a new consistent reporting methodology for DPCR5.

1.5. This consultation document considers whether problems with data and issues affecting the mechanism have reduced the incentive on DNOs to such an extent that it is no longer effective. The fundamental question it asks is whether a decision should be taken not to activate the losses mechanism in the Fifth Electricity Distribution Price Control (DPCR5).

1.6. The document then goes on to consider whether delays, including as a result of this consultation and because of the uncertainty such delays create, mean it is appropriate to move back two dates in the Distribution licence. The two dates apply to the requirement to set the value of the "PPL term" and the DPCR5 targets in directions by 30 November 2012.

RIIO-ED1[1]

1.7. Whether or not we activate the DPCR5 losses mechanism, ensuring DNOs recognise the importance of managing losses will remain a fundamental part of Ofgem's regulatory framework. Consequently, it is also a key feature of the new RIIO framework. Ofgem is engaged in discussions with representatives from the industry to understand how best to manage losses in RIIO-ED1 (the first Electricity Distribution price control to be undertaken using the RIIO framework from 2015).

1.8. Recognising the likely impact of smart metering, those discussions are already considering whether there are alternative means of incentivising reductions in losses that do not rely on settlement data. This means it is likely that the losses incentive mechanism will not take its current form from 2015.

Responding to this consultation

1.9. This document sets out a number of specific questions that we are seeking stakeholder responses to.

1.10. Questions 9 and 12 of the document may affect current and future forecasts of Distribution Use of System (DUoS) charges. The need to provide certainty of the scale and impact of such charges is one of the factors driving the timing of this consultation. We are keen to be in a position to provide certainty ahead of further DUoS forecasts at the end of July 2012. To enable us to do this **we require answers to questions 9 and 12 of this consultation by 24 July 2012**.

1.11. **Responses to the remainder of the consultation are requested by 17 August 2012.** We will publish a response on Questions 9 and 12 as soon as practicable after we have received views. An overall response to the consultation will also be provided as soon as practicable after 17 August 2012.

1.12. Annex 3 provides details of how to respond to this consultation.

Structure of the document

1.13. The remainder of this document is structured as follows:

- Chapter 2 summarises the mechanism and considers the issues affecting it in more detail. It also sets out some of the recent action we have taken to mitigate these in response to these issues, and the views of stakeholders with particular regard to problems with settlement data.
- Chapter 3 sets out the options for activating the DPCR5 mechanism and considers the pros and cons. It also sets out Ofgem's preferred approach and in recognition of the importance of reducing the impact of losses on

[1] RIIO-ED1 is the new price control review process for the Electricity Distribution system: Revenue = Incentives + Innovation + Outputs.

consumers and the environment, suggests the introduction of a new reporting requirement in the case that the DPCR5 mechanism is not activated.

- Chapter 4 goes on to consider the impact of our preferred approach on existing work. It suggests moving two dates in the current Distribution licence, and puts forward a number of proposals affecting the recovery of residual incentive from the DPCR4 losses mechanism and Distribution Use of Systems Charges.

- Chapter 5 sets out the next steps.

1.14. Questions on which we would appreciate views are set out at the beginning of each chapter, throughout the document and are also collated in Annex 2.

2. Issues with the losses mechanism and views of stakeholders

Chapter summary

This chapter provides background to the losses mechanism and summarises a number of issues that have emerged. It also summarises the views of stakeholders with particular regard to the issues around settlement data.

Chapter questions

Questions 1: Do you have views on whether the existing losses mechanism is effectively incentivising DNOs to reduce losses? Please explain your answer.

Question 2: Do you have views on whether or not the DPCR5 losses mechanism should be activated? Please explain your answer.

Background to the losses mechanism

2.1. The Distribution Losses Incentive Mechanism is a financial incentive on Distribution Networks Operators (DNOs) to manage losses of electricity on their networks. The incentive is reviewed at each distribution price control review. This creates a distinction between the mechanism that applies from one price control to the next. That distinction is amplified by the fact that with each review of the mechanism, each licensee receives a new target against which their losses performance will be measured throughout the period. To date, the target for each new price control period has been calculated as the average of a licensee's performance in the previous periods.

2.2. DNOs report losses performance to Ofgem annually for each licence area and, based on their performance against the target, receive a financial reward or penalty. The financial incentive this creates is intended to drive DNOs to take action to reduce losses on their networks, for example by investing in low-loss transformers.

2.3. The amount of financial reward or penalty a DNO will receive is linked to the value of the losses incentive, which is set by Ofgem. To reflect the cost of losses to consumers and the environment, the incentive rate is linked to the price of electricity and the price of carbon. In the Fourth Distribution Price Control Review period (DPCR4) from April 2005 to March 2010 the incentive rate was set at £48/MWh. In the Fifth Distribution Price Control Review period (DPCR5) from April 2010 to March 2015 the incentive rate was set at £60/MWh.

2.4. In DPCR4, DNOs reported their losses performance to Ofgem based on their own methodology. This allowed them flexibility to align their reporting methodology with their internal systems and processes. However this approach made it difficult to compare performance between DNOs. So to improve consistency, the DPCR5 review of the mechanism introduced a new common reporting methodology for use by all DNOs, based on settlement data.

2.5. Settlement data is used to tell us the amount of energy that has gone into a distribution network compared to the amount of energy that has been taken out. The difference is lost electricity. The accuracy of settlement data improves as more meters are read (and as errors are corrected) through a process known as reconciliation. The reconciliation process takes 14 months to provide settlement data that is accurate to an acceptable level.

2.6. So to allow the DPCR5 mechanism to use accurate settlement data, a two year reporting lag was introduced after DPCR4. This put back the start of the DPCR5 losses incentive mechanism. This means that, to date, the DPCR5 mechanism has not been activated: no targets have been set and no losses have been reported. It also means that the DPCR4 losses mechanism has not yet been completed (or closed-out) as a result of final data not becoming available until June 2012.

2.7. During the two year reporting lag, a number of problems with settlement data came to light. In particular, a period of data cleansing activity undertaken by suppliers had the effect of changing some DNOs losses positions (see below). Though starting in 2008-09, the impact of this abnormal activity was most obvious in 2009-10.

2.8. As discussed below, we are part way through a process of removing the effects of this activity from DNOs' 2009-10 losses positions. However, it has delayed our work to close out the DPCR4 losses mechanism and to activate the DPCR5 mechanism. A problem we have yet to address is the effect of this period of instability in settlement data and losses positions on our ability to set fair and proper targets for the DPCR5 mechanism. This is because, as per paragraph 2.1, the targets of a future mechanism are currently set as the average of a DNO's performance in the previous period.

2.9. Our primary concerns however, which are the focus of this consultation document, are that these issues have affected the incentive on DNOs to take action to reduce losses and, that we cannot be certain to what extent any action taken by DNOs to reduce losses has been cost effective or that any future financial impact on DNOs, their customers and consumers will be fair.

Issues affecting the losses mechanism

2.10. This consultation document is about whether to activate the DPCR5 losses mechanism. However, in considering the rationale and the approach that would need to be taken if it was not activated, it is also necessary to consider the DPCR4 mechanism. This is because some of the issues affecting the losses incentive mechanism originated at the end of the DPCR4 period. It is also because the DPCR4 and DPCR5 mechanisms, though distinct, are linked together by a calculation in the DPCR5 Final Proposals. This calculation, which closes out DPCR4 and facilitates the transition to DPCR5, is referred to in this document as the 'DPCR4 close out calculation'.

Data cleansing

2.11. During the latter part of DPCR4 and in response to an industry change proposal (CP1310), which imposed restrictions on the use of a technique known as Gross Volume Correction, a number of suppliers began intensive, desk-based exercises to cleanse settlement data. The requirement for all DNOs to use settlement data for measuring losses was not introduced until DPCR5 Final Proposals. However, since many of the DNOs were already using settlement data to measure losses on their networks in DPCR4, the supplier data cleansing activity resulted in spikes in some DNOs' losses positions.

2.12. The nature of the data cleansing meant that where DNOs were affected, their losses positions usually suffered, exposing them to a penalty. But because the data cleansing identified errors which had been in place for a number of years, the corrections made by suppliers resulted in spikes of a scale beyond that which would normally have been expected. As a consequence, three DNOs applied to Ofgem for relief from the penalty rate of interest for over recovery of revenue.[2]

2.13. Over the past 2 years, Ofgem has been working with the industry to better understand the impact of the data cleansing, as part of developing an approach that removes the effect it had on DNOs' 2009-10 losses positions. On 9 March 2012[3], Ofgem issued a letter confirming that DNOs who met a number of statistical tests could use a prescribed methodology to remove the effects of data cleansing activity from their 2009-10 losses positions. Applications have been received from 5 of the 6 DNOs. Ofgem is currently assessing these applications.

2.14. Until this process is complete DNOs will not know how they have performed in 2009-10. Given the size of the spikes seen in some cases, this represents a significant uncertainty. However this uncertainty is exacerbated by the importance of the 2009-10 regulatory year in closing out the DPCR4 losses mechanism and in setting DPCR5 targets (discussed below).

Applying the results of applications to remove the effects of data cleansing

2.15. The DPCR4 close out calculation and the DPCR5 target setting calculation both use data relating to losses positions in 2009-10 (the final year of the DPCR4 losses mechanism). However the applications which DNOs have submitted to Ofgem (referred to in paragraph 2.13), will result in successful DNOs having two values for their 2009-10 losses positions: one value which includes the effects of data cleansing, and one restated value where the effects have been removed.

2.16. The DPCR4 close out and DPCR5 target setting calculations were not developed with a view to there being different values for 2009-10. Moreover it is not

[2] www.ofgem.gov.uk/Networks/ElecDist/Policy/Documents1/Decision%20on%20interest%20rate%20adjustments.pdf

[3] www.ofgem.gov.uk/Networks/ElecDist/PriceCntrls/DPCR5/Documents1/Decision%20letter%20-%20losses%20data%20cleansing%20consultation.pdf

straightforward which value should be used. Indeed it is possible that both values may be needed within the same calculation.

2.17. Ofgem consulted on options in respect of these issues in March 2012.[4] The results of this consultation remain outstanding and, for some DNOs, represent a potentially significant impact in financial terms. Before we decide whether to use one value or another it is impossible to run the DPCR4 close out calculation or set the DPCR5 targets. However, we also do not believe it would be appropriate to make decisions on such matters while considering, in this document, whether or not to activate the DPCR5 mechanism.

Conflicts between the Interaction Adjustment and the Cap and Collar

2.18. Along with closing out DPCR4, a secondary objective of the DPCR4 close out calculation is facilitating the transition to the DPCR5 mechanism. This is achieved by the inclusion of an 'interaction adjustment'. The 'interaction adjustment' is needed to protect against a situation where a DNO[5] benefits financially in the first years of DPCR5 without having to take action to reduce losses. This situation might arise because the DPCR5 targets are set as the DNOs average performance under DPCR4 mechanism. Hence, if a DNO's losses position at the end of 2009-10 (the last year of DPCR4) was better than the four years preceding it, their losses position at the start of DPCR5 would already be better than the target, resulting in a financial reward.

2.19. Separately, the DPCR5 losses mechanism also includes a 'cap and collar' on the amount a DNO can receive or be penalised by each year. This was introduced in response to concerns that the size and volatility of the rewards and penalties seen under the DPCR3 and DPCR4 losses incentives were difficult to predict or manage.

2.20. Currently the 'interaction adjustment' and the 'cap and collar' would work in isolation. But together, we believe they have the potential to create a conflict which if not addressed, would undermine any incentive to reduce losses and result in unmerited financial loss or gain for DNOs. Ofgem consulted on options to address the conflict in March 2012[4]. We are currently considering responses.

2.21. Depending on which option is chosen, there may be a need to change policy associated with the 'interaction adjustment', the 'cap and collar' or the DPCR5 targets. This means that until we have come to a decision, we cannot run the DPCR4 close out calculation or set the DPCR5 targets.

Views of stakeholders in relation to the losses mechanism

2.22. Particularly since the emergence of problems associated with data cleansing, there have been concerns that the losses incentive is not operating as it should. The majority of these concerns have been raised in response to consultations, but also in

[4]www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=691&refer=Networks/ElecDist/PriceCntrls/DPCR5

[5] In practice, the interaction adjustment and DPCR5 targets apply to individual licensees, rather than DNO groups. The term DNO is used here for consistency with the wider document.

a cross-industry letter to Ofgem in August 2011 from the Losses and Gross Volume Correction Working Group (made up of DNOs and suppliers). Consultation responses particularly raising concerns with the losses mechanism can be seen on the Ofgem website in relation to:

- October 2011 consultation on removing the effects of data cleansing,[6]
- February 2012 open letter consultation on the RIIO-ED1 price control,[7]
- March 2012 consultation on resolving conflicts between the interaction adjustment and the cap and collar.

2.23. Most comments relate to the use of settlement data, emphasising that the settlement system was not designed for calculating distribution losses. It is often asserted that the high level of volatility in settlement data means that investment in losses reductions does not always lead to better reported losses performance. More specifically, it has been suggested that movements in settlement data are (in large part) outside of the influence of the DNO. One DNO commented at a recent stakeholder workshop that the incentive amounts to a "high stakes lottery", where the money invested bears no relation to the result; other DNOs broadly agreed with this characterisation.

2.24. Similar comments from some suppliers reference nervousness resulting from data volatility. While it is recognised that the 'cap and collar' ought to limit exposure in DPCR5, there remain concerns that the volatility of settlement data may result in financial impacts, through DUoS charges, that are difficult to manage and impossible to predict.

2.25. Additional points raised in discussion with industry participants relate to the need to protect consumers from unfair charges. Such comments also point to the importance of a clear understanding of the cost effectiveness of any actions taken to reduce losses.

2.26. The main concerns of the majority of stakeholders therefore, are the use of settlement data to measure losses and the impact of its volatility on revenue. However these concerns are compounded by the range of complex, contentious and high value issues affecting the losses mechanism, discussed above.

2.27. The effect of this settlement data volatility, in their opinion, is that the losses mechanism is now not delivering an effective or appropriate incentive on DNOs to reduce losses on their distribution networks. The result is that DNOs currently lack the certainty with which to make investment in loss reduction programmes or initiatives; this pause in investment or activity is supported by anecdotal evidence from discussions with the industry.

2.28. Looking ahead to DPCR5, DNOs have raised further concerns about how the DPCR5 targets will be set. Notwithstanding the difficult decisions required on existing issues affecting the losses mechanism, there are questions of confidence with targets

[6] www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=607&refer=Networks/ElecDist/PriceCntrls/DPCR5

[7] www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=1&refer=Networks/ElecDist/PriceCntrls/riio-ed1/consultations

that are set during a period of instability and change. Looking beyond DPCR5, DNOs and suppliers have both highlighted the forthcoming roll-out of smart meters as an event that will cause even greater disruption to settlement data, further limiting the effectiveness of the losses mechanism.

2.29. The suggested solution from stakeholders has commonly been to suspend the DPCR5 Distribution Losses Incentive Mechanism in its entirety and to review fundamentally how it operates. Responses to the RIIO-ED1 open letter consultation and the March 2012 ‘cap and collar’ consultation again called for a review of the mechanism, but also suggested that the DPCR5 mechanism be switched off.

2.30. These fresh calls not to activate the DPCR5 losses mechanism were brought to the attention of a recent industry working group on 28 May 2012. Participants were broadly supportive and put forward a number of options that are discussed further in Chapter 3.

Questions 1: Do you have views on whether the existing losses mechanism is effectively incentivising DNOs to reduce losses? Please explain your answer.

Question 2: Do you have views on whether or not the DPCR5 losses mechanism should be activated? Please explain your answer.

3. Options analysis and Ofgem's preferred approach

Chapter summary

This chapter considers whether any action taken in respect of the DPCR5 mechanism should also be extended retrospectively to apply to DPCR4. It then sets out options for the approach that could be taken to activating or not activating the DPCR5 losses mechanism. It considers the pros and cons of these options and sets out Ofgem's preferred approach.

Chapter questions

Question 3: Do you agree with our position that we should not allow retrospective changes to be made to the DPCR4 mechanism? Please explain your answer.

Question 4: Are there other options we should have considered?

Question 5: Do you agree with Ofgem's preference for Option 3? Please explain your answer.

Question 6: Do you have views on our proposal to introduce a reporting requirement for DNOs to inform us of actual measures they are taking to reduce losses? Please explain your answer.

Question 7: Do you have views on the detail of what DNOs would be required to report and the approach to publishing details? Please explain your answer.

The DPCR4 losses mechanism

3.1. Requests for the DPCR5 losses mechanism not to be activated were discussed at a recent industry working group on 28 May 2012. Since the DPCR4 close out calculation includes elements which look back to DPCR4 as well as forward to DPCR5, the mechanics of not activating the DPCR5 losses mechanism are not straightforward. The working group put forward a number of options.

3.2. Some of the options put forward considered changes to the DPCR4 mechanism, for two suggested reasons. First, because many of issues affecting losses originated in DPCR4. Second because the mechanism has still to be closed out and the total financial incentive calculated. This, in the view of some stakeholders, provides an opportunity to make changes which reflect or limit the effect of events which took place during the DPCR4 period.

3.3. The options put forward ranged from not running the DPCR4 close out calculation to clawing back all of the incentive rewards and penalties that had been made throughout the DPCR4 period. There was also consideration of whether the process of allowing qualifying DNOs to remove the effects of data cleansing from 2009-10 losses performance should be continued or not.

3.4. We are keen that any action taken in respect of the DPCR5 mechanism is fair and is undertaken in a way that provides certainty. In our view, this means avoiding changes to the DPCR4 losses mechanism which have retrospective effect on the penalties or rewards that DNOs or their customers might have been expecting by virtue of their performance against the DPCR4 losses target. For this reason, we are not proposing consideration of options which have an effect on the DPCR4 losses mechanism. That is to say, that the process of removing the effects of data cleansing from 2009-10 will be continued and the DPCR4 mechanism will be closed out as intended.[8]

Question 3: Do you agree with our position that we should not allow retrospective changes to be made to the DPCR4 mechanism? Please explain your answer.

Options in respect of the DPCR5 mechanism

3.5. Taking account of our preference for avoiding changes to the DPCR4 losses mechanism, the options for activating or not activating the DPCR5 mechanism are as follows:

	Option	High-level explanation of the option (not exhaustive)
1	Activate the DPCR5 mechanism as intended	Continue with DPCR5 mechanism and all other current work as intended. This means a resolution will be needed to all of the issues discussed in Chapter 2 before then running the DPCR4 close out calculation and setting the DPCR5 targets. The mechanism would then be operated as intended.
2	Activate the DPCR5 losses mechanism and turn off part way through	This option suggests activating the DPCR5 mechanism and then suspending it part way through. This option recognises that we are already in the third actual year of DPCR5, even though the two year reporting lag means that the mechanism has not been activated: no losses have been reported and no targets have been set by which to measure performance. This would require making decisions on all of the issues set out in Chapter 2, closing out the DPCR4 incentive and setting DPCR5 targets. It would also require annual incentives to be awarded for any years of DPCR5 that had passed by the time the mechanism was suspended. Current work to allow qualifying DNOs to remove the effects of data cleansing from 2009-10 data would also still need to be completed.
3	Do not activate the DPCR5 losses mechanism	This would close out the DPCR4 losses mechanism, but would stop short of setting targets for DPCR5. This means that there would be no need for the 'interaction adjustment' part of the close out calculation to be run. It would have the effect of turning off the DPCR5 mechanism before any incentive payments or penalties are made. Decisions on the

[8] For clarity, while the interaction adjustment is part of the DPCR4 close out calculation it has no bearing on the rewards or penalties a DNO will receive under the DPCR4 mechanism. This means that a decision not to activate the DPCR5 mechanism is not conflicting with the decision of whether to run the DPCR4 close out as intended.

		issues discussed in Chapter 2 would not be required, though current work to allow qualifying DNOs to remove the effects of data cleansing from 2009-10 data would still be completed since it relates to DPCR4.

3.6. Options 2 and 3 would represent a departure from the current DPCR5 settlement and are likely to require a licence modification.

Question 4: Are there other options we should have considered?

Assessment of options

3.7. A possible benefit of Option 1 is that the regulatory framework that seeks to incentivise DNOs to reduce losses on their networks would continue. This would avoid making changes to policy that has already been agreed, and also avoid any suggestion that the overall commitment to the importance of reducing losses had changed.

3.8. This benefit would not apply to Option 2 given the lack of clarity and long term certainty that would come from activating the mechanism, only to turn it off almost immediately. Turning the mechanism off part way through may have the potential for limiting any misplaced financial impact on DNOs and their customers in later years. However the option fails to deal with problems that might give rise to misplaced rewards or penalties in the early years of DPCR5 when data, according to some DNOs, may still be particularly volatile as it recovers from the effects of data cleansing at the end of DPCR4.

3.9. There are a number of key disadvantages applying to both Options 1 and 2. By maintaining the existing losses mechanism (even for a few years), both fail to deal with the volatility of settlement data which appears to be reducing significantly or removing the incentive on DNOs to manage losses on their networks. This problem of data volatility raises three important issues:

- First, as highlighted above, issues with the losses mechanism carry a high cost for some DNOs. But they also mean that misplaced rewards represent unfair cost to the consumer. So given that the first four years of the DPCR4 mechanism resulted in a net reward to the DNOs of circa £250m, the suggestion that the current mechanism is not incentivising reductions in losses while leading to arbitrary penalties or rewards of this scale is a major concern.

- Second, DNOs are likely to have very little certainty on the effect of current or future losses performance on their revenue. We do not expect that significant investment decisions can or will be taken against a background of such uncertainty. This is particularly true of the first years of the DPCR5 mechanism and is supported by discussions we have had with the industry.

- Third, we will continue to be unable to identify whether action that is taken is either delivering benefits or is cost effective. This means that we will be unable to tell whether the incentive on DNOs is appropriate. But importantly, it also means that we will be unable to tell whether financial rewards or penalties are misplaced or what impact such unmerited incentives might have on consumers.

3.10. Concerns raised by some DNOs are that this volatility may be especially prevalent in the early years of the DPCR5 period as settlement data continues to recover from the effects of data cleansing activity. But they also point to the beginning of the roll out of smart meters as having potential to create volatility towards the end of the period.

3.11. Options 1 and 2 are also likely to encounter problems in respect of the DPCR5 targets. The effect of data cleansing in the final years of DPCR4 and settlement data volatility throughout the period is that DNOs are unlikely to have certainty that their DPCR5 targets have been set on the basis of stable data. Not only does this make it difficult to set appropriate targets, it is also likely to further undermine the extent to which DNOs are willing to invest in losses reduction measures going forward.

Ofgem's preferred approach

3.12. A fundamental part of Ofgem's approach to regulating electricity networks is the need to reduce losses of electricity with the objective of limiting carbon emissions and reducing cost to consumers. We are concerned however, that a range of problems – led chiefly by the volatility of settlement data – means we are unable to identify accurately whether the current mechanism is achieving either. We are also concerned with the prospect of activating a mechanism where we cannot be certain that the impact on DNOs, their customers or consumers is fair.

3.13. Taking the analysis of options and stakeholder views into account, Ofgem is minded to agree that we should not activate the DPCR5 distribution losses incentive mechanism. Our preference therefore is Option 3.

3.14. We recognise that this will have the effect of removing the direct financial incentive on DNOs to reduce losses for a period of two years. However we believe that work underway on a mechanism for RIIO-ED1 as well as the reporting requirement discussed below, are likely to mean that there is a low risk of losses increasing significantly in the remaining years of the DPCR5 period. We would also expect that actions taken and purchasing strategies implemented during DPCR4 will continue to deliver reductions in losses that will be sustained throughout DPCR5.

Question 5: Do you agree with Ofgem's preference for Option 3? Please explain your answer.

Requiring DNOs to report losses measures

3.15. We do not believe it would be efficient to develop an alternative incentive mechanism to replace the DPCR5 losses mechanism for only one or two years ahead of the RIIO-ED1 mechanism in 2015. However, we remain concerned about the impact of losses on consumers and the environment. We are therefore proposing that, if the decision is taken not to activate the DPCR5 mechanism as previously intended, a new reporting requirement be placed on DNOs to inform us of the actual measures they are taking to reduce losses on their networks.

3.16. This may include, for example, programmes to install low loss equipment across their networks. We would require that DNOs report information on:

- All individual measures or programmes of measures they will take to reduce losses on their networks in each of the remaining regulatory years of DPCR5;
- The cost of each individual measure; and,
- The expected effect on losses.

3.17. DNOs would be required to report this information for each of their license areas. We would publish the information as a league table at the beginning of the 2013-14 regulatory year.

3.18. DNOs would then be required to provide updates of what actions they had taken during the 2013-14 year. At the same time they would be able to update what measures were planned for the final 2014-15 year. All information would again be published. There would be a final requirement to report against delivery in 2014-15, which would be published.

Question 6: Do you have views on our proposal to introduce a reporting requirement for DNOs to inform us of actual measures they are taking to reduce losses? Please explain your answer.

Question 7: Do you agree with the detail of what DNOs would be required to report and the approach to publishing details? Please explain your answer.

4. Implications of our preferred approach

Chapter summary

This chapter sets out our proposals for handling a number of issues that arise from our preferred approach of not activating the DPCR5 losses mechanism. It suggests moving two dates in the current Distribution licence, and puts forward a number of proposals affecting the recovery of residual incentive from the DPCR4 losses mechanism and Distribution Use of Systems Charges.

Chapter questions

Question 8: Do you have views on our proposal to move the date by which a direction is required on the value of PPL from 30 November 2012 to 1 April 2013? Please explain your answer.

Question 9: Do you think that DNOs should set the value of PPL to zero in their July 2012 DCUSA forecasts for 2013-14 or leave current estimates in place? Please explain your answer and respond on this point by 24 July 2012.

Question 10: Do you have views about whether the PPL term, when set, should be recovered over the single remaining year of DPCR5, over two years running into RIIO-ED1 or in the first two years of RIIO-ED1? Please explain your answer.

Question 11: Do you have views on whether we should move the date by which a direction is required on the DPCR5 targets from 30 November 2012 to 1 April 2013? Please explain your answer.

Question 12: Do you have views on whether DNOs should set to zero, their forecasts for recovery of annual incentive in 2013-14? Please explain your answer and respond on this point by 24 July 2012.

Handling the PPL term

4.1. As described in Chapter 2, even though DPCR4 ended in March 2010 it has not yet been closed out. This is because of the introduction of a two-year reporting lag between DPCR4 and DPCR5 to allow for the use of accurate settlement data in setting targets and measuring losses under the DPCR5 losses mechanism. Closing out the DPCR4 losses mechanism involves calculating whether there is any residual financial incentive that has not been applied, for each DNOs licence area, when taking account of the whole of the price control period. The DPCR4 close out calculation results in a value known as the "PPL term"[9] and is made up of a number of elements:

- the sum of the incentive paid or penalised over the DPCR4 period
- the Losses Rolling Retention Mechanism (LRRM)[10]
- the interaction adjustment

[9] The acronym "PPL" has no derivation.
[10] The LRRM is designed to encourage loss reduction initiatives to be undertaken at any time over the price control period.

4.2. The Electricity Distribution Licence provides at CRC 7.8, that the value of the PPL term is set to zero for the first two years of DPCR5 and that subsequent values are to be set in a direction to be issued by the Authority by 30 November 2012. The value of PPL arising from the DPCR4 period would then be recovered by DNOs in the remaining years of the DPCR5 period, as part of their Distribution Use of Systems (DUoS) charges. The DUoS charges are recovered by DNOs over each regulatory year, but to allow suppliers to take account of them in structuring their business activities, are also set out in forecasts.

4.3. In response to requests from suppliers and to help them with structuring their business activities (notwithstanding the licence requirement for a direction on the value of PPL by 30 November 2012), we have previously committed to providing an indication of the likely PPL figures by July 2012. This was to allow the July 2012 Distribution Charging Use of Systems Agreement (DCUSA) forecasts to include an amount of the value of PPL in the forecasted DUoS charge for 2013-14.

4.4. We cannot resolve all of the issues discussed in Chapter 2 until a decision is reached in response to this consultation, to do otherwise would prejudice this consultation. As a result, we will not be able to undertake work on the value of the PPL term. This means we will not be able to meet our commitment to provide suppliers with an indication of the value of PPL in time for the July 2012 DCUSA forecasts.

4.5. If a decision is taken in favour of Option 1 or 2, we will have already been significantly delayed in our work setting and consulting on the value of PPL. The scale of the delay is such that even meeting the 30 November 2012 licence obligation would be difficult.

4.6. If a decision is taken in favour of Option 3 there would be no need for the 'interaction adjustment', significantly affecting the value of PPL. While a licence modification would be required to give effect to Option 3, the scale of the task associated with not activating the DPCR5 mechanism is unclear. As with Options 1 and 2, it may be difficult to undertake all of the necessary work in time for 30 November 2012; we would certainly have passed the July 2012 point at which suppliers have informed us that they take their investment decisions.

4.7. We are therefore proposing undertaking a licence change to move the 30 November 2012 date in the licence back to 1 April 2013. We are interested in views on this proposal.

Question 8: Do you have views on our proposal to move the date by which a direction is required on the value of PPL from 30 November 2012 to 1 April 2013? Please explain your answer.

Managing the effect on DUoS charges of proposals to move the direction on the PPL term

4.8. We recognise that the 2013-14 regulatory year was expected to be one of the years in which DNOs would recover their PPL term. Notwithstanding the level of current uncertainty, a number of DNOs have therefore included estimations of PPL in their 2013-14 DUoS forecasts. If the proposal to move the date in the licence in respect of PPL is implemented however, there will be no direction on the value of PPL by 30 November 2012.

4.9. Our broad view is that it is not appropriate for DNOs to be recovering estimations of PPL in 2013-14 DUoS charges. This is particularly because of the outstanding applications from DNOs for removal of the effects of data cleansing in 2009-10. We would be inclined to suggest therefore, that all DNOs set their 2013-14 DUoS forecasts in respect of PPL to zero. However we also recognise that for some DNOs (and respectively some suppliers), such a proposal would have a potentially significant impact. This is because some of the current DCUSA forecasts anticipate recovery of large values of PPL. We are therefore also prepared to consider that DNOs use the forecasts made in the May 2012 DCP066 reports, in respect of any estimations of the value of PPL.

4.10. We would like to take a consistent approach on this issue but recognise that further forecasts are due by the end of July 2012. We are therefore requesting that respondents consider this issue and respond directly by 24 July 2012. We will issue a letter by as soon as practicable after that date, confirming the way forward.

Question 9: Do you think that DNOs should set the value of PPL to zero in their July 2012 DCUSA forecasts for 2013-14 or leave current estimates in place? Please explain your answer and respond on this point by 24 July 2012.

4.11. We recognise that this means DNOs would have only one remaining year of the DPCR5 period to recover their PPL term once it is known. Accordingly, we are also considering whether DNOs should be permitted to spread that recovery over two years, recognising that one of those years would be within the RIIO-ED1 price control period. We would also be willing to consider an option where the PPL term is recovered entirely in the first two years of RIIO-ED1 i.e. in regulatory years 2015-16 and 2016-17.

Question 10: Do you have views about whether the PPL term, when set, should be recovered over the single remaining year of DPCR5, over two years running into RIIO-ED1 or in the first two years of RIIO-ED1? Please explain your answer.

Setting targets for the DPCR5 losses mechanism

4.12. There is an additional obligation in the licence at CRC 7.12, which requires that the DPCR5 targets are set by 30 November 2012. As with the PPL term, the outcome of this consultation may represent a departure from what was intended when the licence was drafted. We believe that, at this stage, setting targets by 30 November 2012 for a mechanism that may not be activated would be inappropriate. We are also mindful of the delay that this consultation will create for resolving a number of outstanding issues with the losses mechanism (discussed in Chapter 2), if the decision is taken to activate DPCR5.

4.13. We are therefore also proposing moving the date by which a direction on the DPCR5 targets is required from 30 November 2012 to 1 April 2013. As with the PPL term, the need to move the 30 November date may be required regardless of which of Option 1, 2 or 3 is chosen.

Question 11: Do you have views on whether we should move the date by which a direction is required on the DPCR5 targets from 30 November 2012 to 1 April 2013? Please explain your answer.

Recovering DPCR5 annual incentive through DUoS charges

4.14. The annual incentive that a DNO would expect to recover during each year of DPCR5 is also included as part of suppliers' DUoS charges. As a result of the two year reporting lag, as explained in paragraph 2.6 and subsequently, targets for DPCR5 have not yet been set by Ofgem and are not required to be set until 30 November 2012.

4.15. To account for this, DNOs set the value of annual incentive being recovered by DUoS charges to zero in the first two regulatory years of DPCR5. In expectation of the DPCR5 incentive operating as intended, most DNOs included an estimated value of annual incentive in their 2012-13 DUoS charges. Without a losses target around which to measure performance, the common approach taken was to set that estimate at or around the cap or collar for each licence area.[11]

4.16. If the proposals in this document are implemented and the DPCR5 losses mechanism is turned off, we will need to claw back the annual incentive estimated by DNOs in their 2012-13 DUoS charges. To limit the amount of money that needs to be clawed back and because we do not consider it is appropriate to recover estimations of annual incentive associated with a losses mechanism that we are simultaneously consulting on turning off, we are proposing that all DNOs set their 2013-14 DUoS forecasts for annual incentive to zero.

[11] The 'cap and collar' was introduced in DPCR5 Final Proposals to limit volatility for DNOs and suppliers and is set individually for each licensee in an annex to the Distribution licence.

4.17. We recognise that this affects existing and future forecasts. In order to provide certainty ahead of future forecasts we are therefore requesting that respondents consider this issue and respond directly by 24 July 2012. We will issue a letter as soon as practicable after that date, confirming the way forward.

Question 12: Do you have views on whether DNOs should set to zero, their forecasts for recovery of annual incentive in 2013-14? Please explain your answer and respond on this point by 24 July 2012.

DPCR5 annual losses reporting

4.18. We are aware of an inconsistency between Standard Licence Condition 44B and the Regulatory Instructions and Guidance in respect of when DNOs should be reporting losses performance for DPCR5. SLC44B suggests that data for the regulatory year 2010-11 should be reporting in July 2012, whereas the RIGs make clear such information should be provided in July 2013. In view of the proposals considered in this consultation, we believe that the most sensible approach is to use the definition provided in the RIGs – that losses data for 2010-11 should be reported in July 2013.

5. Next steps

Chapter summary

This chapter sets out the next steps and reiterates the dates by which decisions are required on questions in this consultation.

Chapter questions

There are no questions in this chapter.

5.1. Response to questions 9 and 12 of this consultation document will have an effect on current and future forecasts of 2013-14 Distribution Use of Systems charges. We are therefore requesting answers to these questions as soon as possible, but **by 24 July 2012**. We will issue a letter setting out our position as soon as practicable thereafter.

5.2. Questions 7 and 10 of this consultation document consider moving the date by which a direction is required on the value of the PPL term and by which the DPCR5 targets should be set from 30 November 2012 to 1 April 2013. As discussed, this may be necessary regardless of whether Option 1, 2 or 3 is chosen in respect of whether to activate the DPCR5 losses mechanism. In line with the requirements of the Third Package, this consultation marks the first stage in the process to move those dates. Depending on responses received, we will then undertake the necessary statutory consultations and begin the cooling off period.

5.3. Apart from questions 9 and 12, responses to the questions in this consultation document are requested **by 17 August 2012**. We will publish all responses on the Ofgem website – unless clearly marked confidential – and undertake analysis of the results. Ofgem's response to the consultation will be published as soon as practicable after the close of the consultation.

5.4. In the case that Options 1 or 2 are chosen, we will resume the process of resolving issues set out at Chapter 2, of closing out the DPCR4 mechanism and of setting the targets for the DPCR5 mechanism. In the case that Option 3 is chosen, we will begin work on the necessary licence change.

5.5. The process for removing the effects of data cleansing from qualifying DNOs 2009-10 losses positions is required under all of the Options set out in this consultation. We will therefore be working towards completing this work in parallel with this consultation.

5.6. To reiterate paragraph 4.18 of this consultation, we are not expecting DNOs to report losses performance for 2010-11 under the Regulatory Instructions and Guidance until July 2013.

Appendix 1 - Impact assessment

1. Under section 5A of the Utilities Act 2000, subject to certain exceptions, we are required to carry out an impact assessment where we consider a proposal to be "important" within the meaning of that section.

2. We consider that the proposals for not activating the DPCR5 losses mechanism under consideration in this consultation fall within the definition of what is important under the Act. We have therefore undertaken this Impact Assessment upon which we are now consulting through this consultation document in accordance with the provisions of s5A(8) of the Utilities Act.

3. This appendix considers the costs, benefits and potential impact of the options discussed in Chapter 3 of this document and seeks stakeholder views on the matters raised herein.

Key objectives and summary

4. Our impact assessment has been informed by the purpose of the distribution losses incentive mechanism, which is to incentivise DNOs to reduce losses on their distribution networks.

5. The impact assessment compares the option of activating the mechanism as intended with the preferred option of not activating the mechanism. For the purposes of this impact assessment, the option of activating the mechanism as intended is referred to as the 'do nothing' option. There are a number of unresolved issues, themselves the subject of earlier consultation and discussed in Chapter 2, affecting the DPCR5 losses mechanism. For clarity and simplicity, the 'do nothing' option assumes that the DPCR5 mechanism operates as set out in Final Proposals.

6. The do nothing option may result in DNOs being protected from circa £100m penalties during DPCR5 based on 2009-10 losses continuing. Not activating the DPCR5 incentive would result in any incentives relating to the DPCR5 period being foregone. Part of the difficulty in conducting this impact assessment is the unpredictability of the settlement data used to measure losses. So any do nothing scenario may equally see DNOs unable to receive their full rewards due to a cap on their financial incentives, or indeed that performance fluctuates between the cap and collar from year to year. It is this volatility that the option of not activating the mechanism seeks to avoid.

Policy options

7. The consultation sets out our preferred option (Option 3) in a box on page 13, describing it as follows:

> This would close out the DPCR4 losses mechanism, but would stop short of setting targets for DPCR5. This means that there would be no need for the 'interaction adjustment' part of the close out calculation to be run. It would have the effect of turning off the DPCR5 mechanism before any incentive payments or penalties are made. Decisions on the issues discussed in Chapter 2 would not be required, though current work to allow qualifying DNOs to remove the effects of data cleansing from 2009-10 data would still be completed since it relates to DPCR4

8. We have modelled the potential impact of the do nothing option on aggregate revenues from the losses incentive mechanism for DNOs.[12] For simplicity we have made the following assumptions:
   - that the 2009-10 data used to calculate the interaction adjustment and targets is un-restated
   - that this un-restated performance continues at the same level throughout DPCR5 and
   - that the conflict within the conflict between the interaction adjustment and cap and collar remain unresolved.

   In addition, we have excluded the DPCR4 LRRM from our calculations.

9. Under these assumptions, the do nothing option results in DNOs receiving circa £200m in the interaction adjustment, but penalties during DPCR5 are capped at circa £100m. DNOs are protected from a potential penalty of circa £100m. Asymmetrical revenue exposure may further reduce incentives to improve losses performance.

10. In light of discussion in the consultation document, the second assumption is particularly unhelpful. The data problems that we have described mean that the losses performance is likely to be volatile and therefore difficult to predict and model.

11. In contrast to do nothing, there is no conflict between the interaction adjustment and the cap and collar under the option for not activating the mechanism, and so no risk of asymmetrical revenue exposure. Indeed, there are no incentives based on settlement data so the affects of the data volatility are removed. Furthermore, there is no risk of unmerited rewards or penalties during DPCR5.

12. The following sections consider the impact of these options in more detail.

Impacts on consumers

- If we do nothing, then the DNOs could receive a windfall revenue gain of circa £100m. This windfall revenue gain in the DNOs' allowed revenue position may be funded by an increase in use of system charges of around £20m per year, potentially leading to a rise in consumers' bills.[13] Increases in final bills are likely to put undue pressure on consumers given the current economic climate.

- The absence of losses incentives over DPCR5 will remove this exposure to customers. The removal of volatility will mean that the distribution losses component of consumer bills will be more predictable.

- The do nothing option may result in DNOs having no incentive to improve losses performance during DPCR5, which could lead to increased losses during DPCR5. To compensate for increased losses, additional energy needs to be

[12] This is based on latest information available to Ofgem. All costs are estimates and are reported in 2009-10 prices.
[13] If this increase in charges is passed on in full it would amount to less than £1 per household per year.

generated, creating an additional cost to consumers (and an adverse environmental impact through the consumption of fuel in generation that would otherwise have been avoided and through the release of additional greenhouse gases).

- In the absence of financial incentives, the same criticism may be levelled at the approach which sees the mechanism not activated. However, the continuation of a reporting may result in a stronger incentive on DNOs to reduce losses than measurement relying on volatile data.

- Under both options however, we believe that work underway on a mechanism for RIIO-ED1 as well as the reporting requirement proposed in Chapter 3, are likely to mean that there is a low risk of losses increasing significantly in the remaining years of the DPCR5 period. We would also expect that actions taken and purchasing strategies implemented during DPCR4 will continue to deliver reductions in losses that will be sustained throughout DPCR5.This should limit the impact of any increased losses on consumers.

Impacts on competition (including effects on small businesses)

- DNOs do not compete directly with one another in the provision of electricity networks.

- In making our decision, we are required to take into account our principal objective under s3A of the Electricity Act 1989 which, in summary, is to protect the interests of existing and future consumers in relation to electricity and to carry out our functions in a manner by promoting effective competition in the generation, transmission, distribution or supply of electricity. In the context of this decision we are specifically required to carry out our functions in a manner that we consider is best calculated to promote efficiency and economy on the part of DNOs and the efficient use of electricity conveyed by distribution systems.

- Our decision may have more of an effect on competition in the supply market. This is because a decision not to activate the mechanism will affect DNOs' forecasts differently depending on their expected performance during DPCR5. This will inevitably mean that certain suppliers will face more significant changes to forecasts of DUoS charges than others. While it is feasible that this may affect a supplier's market position, the limited impact on individual consumers (as highlighted above) should equally limit the impact on suppliers.

- Market participants, suppliers in particular, rely on a certain level of stability and certainty to ensure they are able to effectively plan ahead and attract/maintain appropriate levels of investment. The option not to activate off the mechanism would alter the DNOs' forecasted allowed revenue over the next five years. In the short term, this may have the effect of reducing financial certainty. However, over the longer term, the removal of uncertainty created by an incentive based on volatile data should support a levelling the playing field for all.

Impacts on the environment (and sustainable development more generally)

- The distribution losses incentive mechanism exists to incentivise the reduction of losses on the distribution network. This contributes to Ofgem's objective to have regard to the need to contribute to the achievement of sustainable development. In particular, the mechanism seeks to contribute to three of Ofgem's sustainable development themes: reducing carbon emissions, promoting energy savings and ensuring a secure electricity supply. The main impact on sustainable development of this decision is the extent to which the DNOs continue to be incentivised to invest in loss reduction activities, at a time when distribution losses are estimated to contribute around 1.5 per cent of GB greenhouse gas emissions.

- The do nothing option (owing to data volatility) and the not activating option (because of the absence of financial rewards/penalties) may result in there being no incentive for DNOs to improve losses performance during DPCR5. While the not activating option does remove financial incentives, the reporting requirement that replaces it will maintain a responsibility on DNOs to continue to invest in loss reduction activity. Continuing with a settlement data approach to losses measurement may potentially lead to DNOs concentrating on data management at the expense of investment in loss reduction activities.

- As with impacts on consumers, we believe that work underway on a mechanism for RIIO-ED1 as well as the reporting requirement proposed in Chapter 3, are likely to mean that there is a low risk of losses increasing significantly in the remaining years of the DPCR5 period. We would also expect that actions taken and purchasing strategies implemented during DPCR4 will continue to deliver reductions in losses that will be sustained throughout DPCR5. For both the do nothing and preferred options, this will limit the impact of any increased losses on the environment.

- Minimising losses on the distribution network is also an important component of ensuring secure and reliable electricity.

Impacts on health and safety

- We do not consider there to be an impact on health and safety.

Post-implementation review

- Following the implementation of the chosen solution, Ofgem will continue to monitor industry performance on losses and on the volatility of settlement data.

Conclusion

13. We believe that the option of not activating the losses mechanism for DPCR5 would be more appropriate than for it to operate as originally intended. We are seeking the views of stakeholders in this consultation.

Appendix 2 - Summary of questions

CHAPTER: Two

Questions 1: Do you have views on whether the existing losses mechanism is effectively incentivising DNOs to reduce losses? Please explain your answer.

Question 2: Do you have views on whether or not the DPCR5 losses mechanism should be activated? Please explain your answer.

CHAPTER: Three

Question 3: Do you agree with our position that we should not allow retrospective changes to be made to the DPCR4 mechanism? Please explain your answer.

Question 4: Are there other options we should have considered?

Question 5: Do you agree with Ofgem's preference for Option 3? Please explain your answer.

Question 6: Do you have views on our proposal to introduce a reporting requirement for DNOs to inform us of actual measures they are taking to reduce losses? Please explain your answer.

Question 7: Do you have views on the detail of what DNOs would be required to report and the approach to publishing details? Please explain your answer.

CHAPTER: Four

Question 8: Do you have views on our proposal to move the date by which a direction is required on the value of PPL from 30 November 2012 to 1 April 2013? Please explain your answer.

Question 9: Do you think that DNOs should set the value of PPL to zero in their July 2012 DCUSA forecasts for 2013-14 or leave current estimates in place? Please explain your answer and respond on this point by 24 July 2012.

Question 10: Do you have views about whether the PPL term, when set, should be recovered over the single remaining year of DPCR5, over two years running into RIIO-ED1 or in the first two years of RIIO-ED1? Please explain your answer.

Question 11: Do you have views on whether we should move the date by which a direction is required on the DPCR5 targets from 30 November 2012 to 1 April 2013? Please explain your answer.

Question 12: Do you have views on whether DNOs should set to zero, their forecasts for recovery of annual incentive in 2013-14? Please explain your answer and respond on this point by 24 July 2012.

Appendix 3 - Consultation response

1.1. Ofgem would like to hear the views of interested parties in relation to any of the issues set out in this document.

1.2. We would especially welcome responses to the specific questions which we have set out within each chapter and which are replicated above at Annex 2.

1.3. Responses are requested to questions 9 and 12 of the consultation by 24 July 2012 and to the overall consultation by 17 August 2012. In both cases they should be sent to:

Andy Cormie
Distribution Policy
Ofgem
9 Millbank
London
SW1P 3GE
0207 901 1852
andy.cormie@ofgem.gov.uk

1.4. Unless marked confidential, all responses will be published by placing them in Ofgem's library and on its website www.ofgem.gov.uk. Respondents may request that their response is kept confidential. Ofgem shall respect this request, subject to any obligations to disclose information, for example, under the Freedom of Information Act 2000 or the Environmental Information Regulations 2004.

1.5. Respondents who wish to have their responses remain confidential should clearly mark the document/s to that effect and include the reasons for confidentiality. Respondents are asked to put any confidential material in the appendices to their responses.

Appendix 4 - Feedback questionnaire

1.1. Ofgem considers that consultation is at the heart of good policy development. We are keen to consider any comments or complaints about the manner in which this consultation has been conducted. In any case we would be keen to get your answers to the following questions:

1. Do you have any comments about the overall process, which was adopted for this consultation?
2. Do you have any comments about the overall tone and content of the report?
3. Was the report easy to read and understand, could it have been better written?
4. To what extent did the report's conclusions provide a balanced view?
5. To what extent did the report make reasoned recommendations for improvement?
6. Please add any further comments?

1.2. Please send your comments to:

Andrew MacFaul
Consultation Co-ordinator
Ofgem
9 Millbank
London
SW1P 3GE
andrew.macfaul@ofgem.gov.uk