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Dear Andy

**RESPONSE TO OFGEM CONSULTATION ON WHETHER TO ACTIVATE THE  
DPCR5 LOSSES INCENTIVE**

I attach the Northern Powergrid response to the Ofgem consultation on whether to activate the DPCR5 losses incentive.

In summary, we are supportive of the Ofgem proposal not to activate the DPCR5 incentive. The evidence is now overwhelming that the mechanism cannot operate to incentivise a rational DNO to take any action to minimise losses because the mechanism depends upon data that is dominated by the behaviour of suppliers and has almost nothing to do with the steps taken by the distributor. The DPCR5 mechanism, if activated, would simply generate random rewards and penalties for licensees and customers and a decision to activate the mechanism would be very hard to justify by reference to the principal objective of the Gas and Electricity Markets Authority.

In expressing our support for your position we are mindful of the fact that it is not good practice to depart from the terms of a regulatory settlement and in the vast majority of situations we would assert that the benefits of maintaining a regulatory commitment should be decisive in any argument on such an issue, a position that we would also expect to find Ofgem taking in the vast majority of cases where such a question arises. In this case, however, the circumstances are such, and the evidence of unfitness for purpose is so compelling, that it would be perverse to allow the incentive to activate. A decision not to activate the mechanism also has other advantages, in particular with respect to the dataset to be used in the interaction adjustment and the solution to the capped/un-capped asymmetry between the annual incentive and the interaction adjustment.

We are also supportive of Ofgem's proposals with respect to the changes to the timetable that is set out in the licence. It will be valuable for all participants if Ofgem is able to make proposals to resolve all the related losses issues in a single set of proposals so that interested parties can evaluate how the various components interact. Changes to the timetable that facilitate this are therefore sensible. Certainly we shall assess any proposals from Ofgem in the round and our support for individual components of the package will be conditional upon a settlement that gives a balanced outcome overall.

Yours sincerely



John France  
Regulation Director

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