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Dear Andy

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

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.

In summary, we are supportive of the proposal not to activate the DPCR5 Losses Incentive Mechanism since it does not incentivise DNOs to invest in their network to reduce technical losses. We also agree that DPCR4 should not be changed retrospectively. This was the mechanism that was agreed under the Price Control and it should not be reopened because some DNOs are now seeing unfavourable numbers. We also support the implementation of a new losses reporting requirement for DNOs to inform of measures they are taking to reduce losses during the DPCR5 period.

The PPL values will not be known in time for publication of 2013/14 tariffs. Ofgem have already instructed DNOs to use the May 2012 PPL forecasts in their DCP066 reporting statements. However, it has not yet been made clear that these numbers need to be used in the revenues underpinning the published 2013/14 tariffs. We understand that some DNOs are planning to use something different. The intention of the Ofgem decision was to avoid significant price changes in later years – yet by not defining that DNOs should use the May 2012 PPL forecasts in tariffs, this is exactly what will happen. The current situation is now even more confusing than before and leaves suppliers in the situation that they do not know what DNOs will be using. **We request Ofgem to instruct DNOs that the PPL term reported in the DCP066 statements (May forecast) must be also be used in the 2013/14 indicative and final tariffs. Any subsequent adjustments to PPL should then be published in April 2013, and recovered over the first 2 years of RIIO-ED1.**

Suppliers need the same clarity over the DPCR5 numbers. **Again, we request clear instructions from Ofgem that DNOs must use the forecasts in their DCP066 statements in the 2013/14 indicative and final tariffs. Subsequent adjustments would then be published in April 2013 and recovered over the first 2 years of RIIO-ED1.**

Please contact me if you need any further clarification. This response is not confidential.

Kind regards

Helen Inwood
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(By email so unsigned)

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APPENDIX 1

CONSULTATION 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.*

The existing losses mechanism is not incentivising DNOs to manage losses. The settlement system and data within it cannot be used to measure technical losses. This data reflects not only losses but data cleansing activities taking place by suppliers (e.g. improvements for RF performance, long term no access, metering data error correction, GVC etc). The DNO has no influence over these activities but are being penalised or rewarded purely on the basis of the way losses are measured through the incentives mechanism.

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

The mechanism is clearly flawed and is not incentivising DNOs to invest in equipment to reduce losses. We believe DPCR5 should not be activated.

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.*

We agree that DPCR4 should not be changed retrospectively. This was the mechanism that was agreed to under the Price Control. It should not be reopened because some DNOs are now seeing unfavourable numbers. The restatement of 2009/10 data needs to be consistent and fair to all DNOs. The cost to consumers should be a fair reflection of expected performance. The DPCR4 losses incentive should be closed out as intended.

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

No

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

We agree that Option 3 is the best option for the reasons given above.

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.*

Yes, we agree that a reporting requirement to inform of actual measures they are taking to reduce losses is a good solution. The experience gained from this may also shape the RIIO-ED1 losses incentive.

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 proposed details are appropriate. We would also request that some analysis is provided of actual losses saved as a result of the action taken. Again, this experience gained may also shape the RIIO-ED1 losses incentive.

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.*

We would prefer the decision to be made in November 2012. However, we fully recognise that this may not be practical. DNOs are currently using their May 2012 PPL forecast for their DCP066 statements. However, it is not clear that these forecasts need to be used in setting Indicative and Final Tariffs for 2012/13. Given that the PPL term will not be known until 1 April 2013, **we would request that Ofgem provide clear guidance to DNOs that they should fix PPL at the May 2012 forecast in their Indicative and Final Tariffs for 2013/14 tariffs.** This will give increased certainty to suppliers over the revenue numbers for the 2013/14 tariffs and prevent a tariff step change that Ofgem are seeking to avoid. This will also provide Ofgem more time to undertake the analysis and consult with the Industry. Inevitably the outturn PPL numbers will be different to those included in final tariffs, leading to adjustments. These adjustments should then be recovered in later years (see Q10).

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.*

The PPL term should be recovered over the first 2 years of RIIO-ED1. This provides suppliers with transparency and allows time for these impacts to be reflected in consumer contracts.

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.*

We would prefer the decision to be made in November 2012. Currently, Ofgem are allowing DNOs to decide what they use for their DCP066 statements. This causes uncertainty for suppliers and consumers. We would like to see DPCR5 treated in the same way as DPCR4 i.e. the May forecasts used in the latest DCP066 statements and 2013/14 tariffs and any subsequent adjustment recovered in the first 2 years of RIIO-ED1.