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Date
9th August 2012

Dear Andy

Please find below WPD's responses to questions 2 to 8 and 10 and 11 of the consultation, "Whether to activate the Distribution Losses Incentive Mechanism in the Fifth Distribution Price Control Ref 87/12". Questions 9 and 12 were answered on 17th July.

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.

We do not believe the current incentive system is incentivising DNOs to reduce losses. The mechanism is too unpredictable and is outside the control of DNOs, to enable any rational decision on investing in low loss equipment to be made.

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

It should not be activated – see answer above. Also, the reliability and robustness of the data it relies on has over the last 18 months or so been brought into question. The on-going difficulties with the GVC data re-submission, highlights this. The settlements data the losses incentive uses is not primarily there to calculate losses – it is there for the purpose of settling purchase costs of electricity. As such, as we have found over the last 18 months, the data is not fit for the purpose of calculating losses.

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.

Not entirely. One further option would be to close out DPR4 by merely reversing gains/losses to DNOs, in effect leaving DPR4 losses at a neutral position. This would seem to be the right thing to do for customers; in the absence of hard evidence that DNOs investment plans have been altered by the losses incentive, it would seem perverse that DNOs have gained or lost financially as a result of the incentive.

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

See answer to 3 above

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

Yes, given data quality issues and as previously mentioned the fact that the data is not for this purpose, to not activate the DPR5 mechanism is sensible and the correct way forward.

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.

This would seem to be a sensible way forward. It would seem appropriate to base a reporting mechanism on the specification of assets installed and the way in which investment decisions take account of the lifetime value of losses.

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.

It should be based on actual assets installed and a comparison of their losses level versus alternatives that could have been bought.

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.

At this point this would seem appropriate. This needs to be sorted and correctly – the extra time would ensure this.

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.

To minimise price disturbance for customers it should be settled by altering the ED1 allowance. This would allow for a smoother transition for prices.

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.

For clarity this decision should be reached as soon as possible – i.e. the decision to not activate the DPR5 losses incentive mechanism could be made now and hence the need for DPR5 targets is redundant.

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.

If there are any aspects of this letter that you would like to discuss then please contact David Wornell on 0117 933 2032.

Yours sincerely

A handwritten signature in black ink, appearing to be 'AS' or similar, written in a cursive style.

ALISON SLEIGHTHOLM
Regulatory & Government Affairs Manager