



Distribution Network Operators  
and other interested parties

*Promoting choice and value for  
all gas and electricity customers*

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### **Decision regarding Question 8 of the Consultation on restatement of 2009-10 data and closing out the DPCR4 losses incentive mechanism**

On 16 November 2012, we published our decision not to activate the losses incentive mechanism in the Fifth Distribution Price Control Review (DPCR5).<sup>1</sup> Alongside that decision, we published a consultation on the values for closing out the losses incentive mechanism for the Fourth Distribution Price Control Review (DPCR4).<sup>2</sup> The close out value represents the residual incentive of the mechanism for each distribution network operator (DNO), known as the 'PPL term'.<sup>3</sup>

The consultation sought views on the assessment and calculation of the close out values for all DNOs for the DPCR4 losses incentive mechanism. We invited responses to the questions posed in the consultation by 14 January 2013 (now extended to 28 January), except for Question 8.

Question 8, which concerns the time over which the close out value (the PPL term) should be recovered, may affect existing and future forecasts of distribution use of system charges. We requested views on this question by 14 December 2012 to enable us to provide DNOs with certainty about the PPL term recovery timeframe as early as possible.

We requested responses from stakeholders concerned about our proposal to recover the PPL term over 2014-15 and 2015-16. We received seven responses to Question 8: five from DNOs and two from suppliers. Non-confidential responses are published on our website, alongside this letter.

The five DNOs supported our proposal. One supplier maintained its previous position that the PPL term should be recovered over 2015-16 and 2016-17 due to concerns over the remaining uncertainty over the PPL values consulted on.

The other supplier stated that, in directing the final PPL term, we should take into account DNO assumptions of the recovery of the PPL term for 2013-14. This supplier offered two alternative approaches as to how the PPL term might be profiled, over two or three years, taking into account DNO estimates for 2013-14 and the overall value of the amount to be recovered for each DNO. One of the options this supplier presented is compatible with our proposed approach to recover the PPL term over 2014-15 and 2015-16.

<sup>1</sup> [http://www.ofgem.gov.uk/Networks/ElecDist/Policy/losses-incentive-mechanism/Documents1/1A\\_Decision\\_Losses\\_DPCR5\\_161112.pdf](http://www.ofgem.gov.uk/Networks/ElecDist/Policy/losses-incentive-mechanism/Documents1/1A_Decision_Losses_DPCR5_161112.pdf)

<sup>2</sup> [http://www.ofgem.gov.uk/Networks/ElecDist/Policy/losses-incentive-mechanism/Documents1/8G\\_Con\\_200910data\\_lossess\\_DPCR4\\_161112.pdf](http://www.ofgem.gov.uk/Networks/ElecDist/Policy/losses-incentive-mechanism/Documents1/8G_Con_200910data_lossess_DPCR4_161112.pdf)

<sup>3</sup> PPL is an acronym with no derivation.

One of the DNOs (supporting our proposal) also considered that the final directed values for PPL should take account of the estimated values used by DNOs for 2012-13 and 2013-14.

In summary, five respondents supported our proposal while only two respondents expressed concerns with the proposed approach, and one of these suggested an alternative approach consistent with our proposal.

After carefully considering these responses, we have decided that the PPL term should be recovered over regulatory years 2014-15 and 2015-16, as proposed in our consultation. Spreading recovery over two years is appropriate given the values involved. We consider that publishing the decision now gives sufficient notice in advance of the first year of recovery, 2014-15.

After considering the responses received, we intend to take into account DNOs' PPL estimates for years prior to 2014-15 and will consider how the PPL term should be split between 2014-15 and 2015-16 on a DNO-by-DNO basis when directing the final values to be recovered by each DNO. Special Licence Condition CRC7 allows for the recovery of the PPL term to take account of both prior DNO estimates and individual DNO circumstances.

We will not direct a final value for the PPL term until we have considered responses to all of the other questions raised in our consultation. This early decision on the timeframe for recovery of the PPL term is intended to assist DNOs in setting forecasts for the purposes of 2014-15.

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[Produce electronically]

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