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Direct Dial: 020 7901 1850  
Email: [dora.guzeleva@ofgem.gov.uk](mailto:dora.guzeleva@ofgem.gov.uk)  
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Dear colleague

### **Update on closing out the losses mechanism of the Fourth Distribution Price Control Review (DPCR4)**

In recent weeks, each distribution network operator (DNO) has been contacted by the independent data experts who we have appointed to audit the data provided to close out the DPCR4 losses incentive mechanism. In the last week or so a number of stakeholders have contacted us seeking information on the next steps in this process. This letter is intended to help clarify the situation.

In our direction letter of 26 March 2013<sup>1</sup>, we set out the modifications to the licence condition for directing the residual values of the DPCR4 losses incentive, or 'PPL term'. This modification states: 'The Authority will direct the period over which the value of PPL<sub>t</sub> is to be recovered taking account of the date on which the PPL<sub>t</sub> direction is made.'

The delay to directing the PPL term is to give us sufficient time to consider the responses to the 16 November 2012 consultation<sup>2</sup> on the close out values. These raised certain issues, including concerns over the credibility of the underlying data used and the application of suitable statistical tests. We are in the process of addressing these issues, including through the appointment of the independent data experts referred to above, as well as a separate independent critique of the statistical analysis. Based on preliminary findings, we currently anticipate that a further consultation process may be necessary.

Therefore, we will not be able to publish the final PPL terms by the end of April in order to inform May DCP066 forecasts for 2014-15. We expect that this email, along with the documents referred to above, will be taken into account by DNOs when setting forecasts. When we come to direct the final values we will prescribe a recovery period in sufficient time to provide clarity to stakeholders ahead of relevant forecasts.

Our current expectation is that we will be directing the PPL terms in autumn of this year. We trust you appreciate the need to get this process right given the level of contention that surrounds this issue.

Yours faithfully

Dora Guzeleva  
[Produced electronically]  
**Head of Networks Policy**

<sup>1</sup> <http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=834&refer=Networks/ElecDist/Policy/losses-incentive-mechanism>

<sup>2</sup> <http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=762&refer=Networks/ElecDist/Policy/losses-incentive-mechanism>