

Distribution network operators,
suppliers and other interested
parties

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Dear colleague

Timing of recovery of the PPL term for closing out the losses incentive mechanism of the Fourth Distribution Price Control Review (DPCR4)

We are publishing this letter to provide further clarity with respect to the timing of recovery of the PPL term. The PPL term is the residual value of the losses incentive mechanism for DPCR4 for each distribution network operator (DNO).

On 20 December 2012¹ we published a decision letter setting out that the PPL term should be recovered over regulatory years 2014-15 and 2015-16. We published that decision at that time to provide clarity to stakeholders ahead of relevant forecasts. Since then, we have received, and published, the responses to the 16 November 2012 consultation² on the close out values comprising the PPL term. We are in the process of addressing the issues raised in these responses and currently anticipate that a further consultation process may be necessary.

In our direction letter of 26 March 2013³, we set out the modifications to the licence condition for directing PPL term. This modification states: 'The Authority will direct the period over which the value of PPL_t is to be recovered taking account of the date on which the PPL_t direction is made.'

On 19 April 2013⁴ we published a letter to update stakeholders on the process for closing out the losses incentive mechanism for DPCR4.

To avoid any remaining ambiguity, this letter confirms that the Authority is revisiting its decision of 20 December 2012 that the PPL term should be recovered over 2014-15 and 2015-16. This is because of our current expectation that it will not be practicable to direct the PPL term before autumn and, therefore, we will not be able to direct recovery for 2014-15. Consequently, the first year of recovery is likely to be 2015-16, although we will not be able to confirm the precise recovery period until we direct the PPL term.

We continue to intend to take into account DNOs' PPL estimates for years prior to 2015-16 and will consider how the PPL term should be recovered (including its split between the years of recovery) when directing the final values to be recovered by each DNO.

¹ <http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=781&refer=Networks/ElecDist/Policy/losses-incentive-mechanism>

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

³ <http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=834&refer=Networks/ElecDist/Policy/losses-incentive-mechanism>

⁴ <http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=835&refer=Networks/ElecDist/Policy/losses-incentive-mechanism>

Yours faithfully

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[Produced electronically]

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