

Request from SP Manweb (SPM) and SP Distribution (SPD) for consent to restate distribution losses for 2009/10 for the purposes of closing out the DPCR4 losses incentive mechanism and for the 2009/10 annual incentive

1 Summary

1.1 This request is in response to Ofgem's decision document (Reference: 119/13), of 12 July 2013, which requested data for the close out of the fourth distribution price control review (DPCR4) losses incentive mechanism. Ofgem's decision document set out the approach DNOs should take when they seek to have units distributed for 2009/10 restated for the purposes of this close out and for the 2009/10 annual incentive.

1.3 In this application we address the following:

- We provide statistical evidence that establishes that abnormal data correction activity affected reported losses data for 2009/10 for each of SPM and SPD;
- We normalise losses data for 2009/10 using Ofgem's specified normal period of 2006/07 and 2007/08;
- We apply appropriately the "SP methodology" to each of SPM and SPD; and
- Confirm that this results in credible losses performance in 2009/10.

1.4 We confirm that this restatement application conforms to the restatement processes as set out in the Appendices to Ofgem's decision document of 12 July 2013, namely:

- The restatement process (Appendix 1);
- Statistical analysis for restatement applications (Appendix 2);
- Approach to restatement for close out (Appendix 3); and
- Approach to restatement for the 2009/10 annual incentive (Appendix 4).

1.6 Restated units distributed, at DF, in 2009/10, are:

Restated units distributed in 2009/10	SPM GWh	SPD GWh
EHV	1940.6	477.26
HV	3836.83	4742.54
LV1	792.90	878.61
LV2	646.02	1598.95
LV3	9162.79	12674.18
Total units Distributed	16379.14	20371.54

1.7 This request for restatement is structured as follows:

- 1 Summary of our request

- 2 Approach to restatement for close out
- 3 Approach to restatement for 2009/10 annual incentive
- 4 Application of revised statistical test
- 5 Correction of reported losses
- 6 Request to the Authority for restatement

Appendix 1A – Statistical test data and analysis at DF for SPD

Appendix 1B – Statistical test data and analysis at DF for SPM

2 Approach to restatement for close out

2.1 Appendix 3 of Ofgem’s decision document, of 12 July 2013, sets out the approach to restatement for close out.

2.2 We have applied the approach as described in that Appendix.

2.3 Because HH sales and purchases are subject to continual revision (e.g. for metering errors) for several years we have used that data as at 30 June 2013, which is the latest available at the time of preparing this submission.

2.4 SPEN’s historic DPCR4 reporting methodology is to close out provision accounts and fully reconcile data.

2.5 As we close out provision accounts and fully reconcile data, no units are reported after March 2010 for the purposes of the “restatement” tabs in the spreadsheets which form the appendices to this request.

3 Approach to restatement for 2009/10 annual incentive

3.1 Appendix 4 of Ofgem’s decision document, of 12 July 2013, sets out the approach to restatement for the 2009/10 annual incentive.

3.2 We have applied the approach, as described in Appendix 4, for reporting on the basis of settlement data directly, which is consistent with our DPCR 4 reporting methodology.

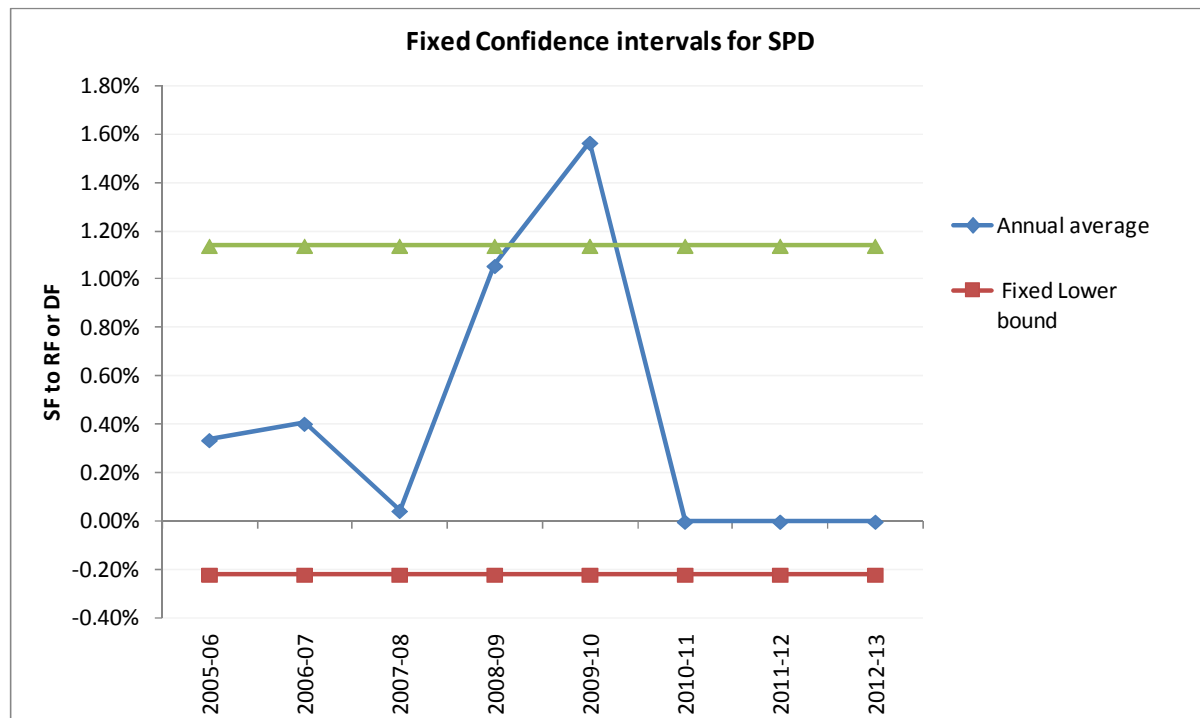
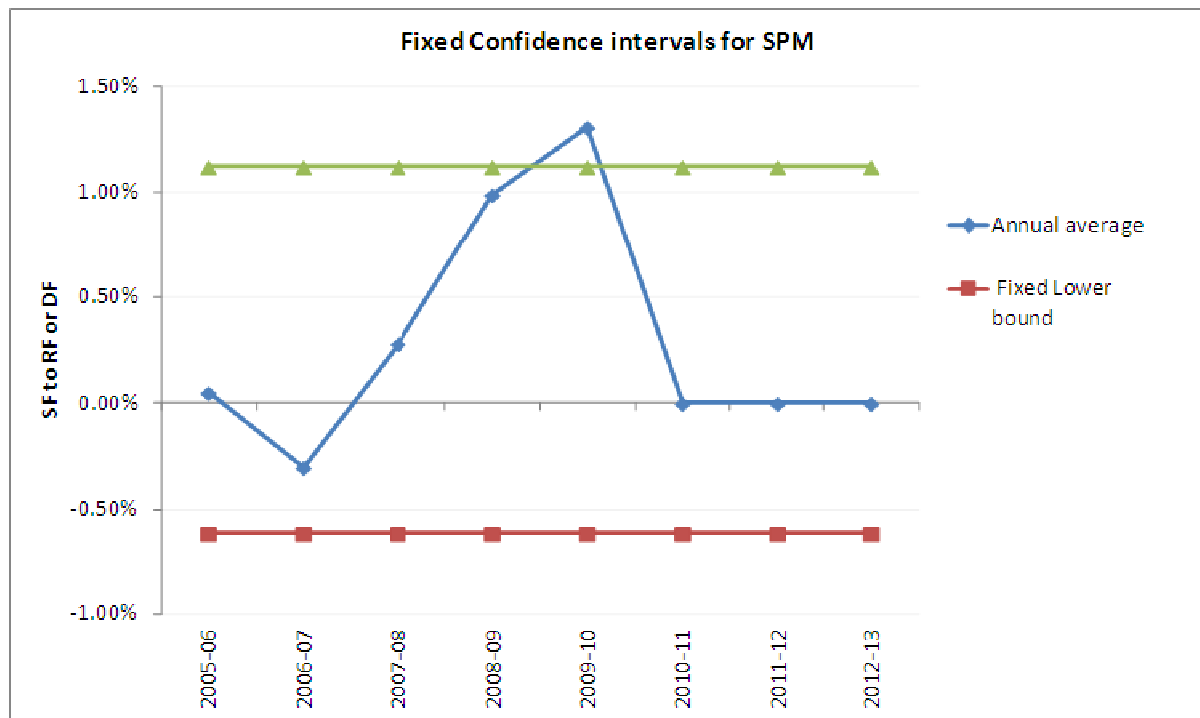
4 Application of revised statistical test

4.1.1 We have undertaken the statistical analysis for restatement applications as set out in Appendix 2 of Ofgem’s decision document, of 12 July 2013, using the template in the spreadsheet which Ofgem provided.

4.1.2 As required, we have applied this test using monthly energy data.

4.2 Establishing abnormality for 2009/10

4.2.1 Ofgem's prescribed test clearly identifies 2009/10 as abnormal for both SPM and SPD.



4.2.2 We provide the raw data and calculations for our statistical tests in Appendices 1 and 2.

4 Conformity to Ofgem's decision document

4.1 We are only requesting restatement of 2009/10 data for SPM and SPD.

4.2 We use the common normal period of 2006/07 and 2007/08 for normalising both SF losses and the post-SF reconciliations, as prescribed in Ofgem's decision document of 12 July 2013,

4.3 The restatement results in losses performance for SPM and SPD in 2009/10 of:

Restated Losses	SPM	SPD
2009/10	6.16%	5.96%

4.3 These demonstrate credible levels of losses for SPM and SPD in 2009/10, after restatement.

4.5 Customers still benefit from reductions in allowed revenues relative to the base revenues for DPCR4, as the restated losses percentages remain above the target levels for 2009/10 for both SPM and SPD.

5 Correction of reported losses

5.1 Below, we apply the SP methodology. This remains consistent in principle with our original submission of 12 April 2011 and subsequently approved by the Authority in the decision letter of 9 March 2012, but follows the additional guidance provided by Ofgem in the Decision Document of 12th July 2013.

5.1 Normalisation of the SF position

5.1.1 The SF position for regulatory year 2009/10 was normalised. This was done for each licensee, by assuming that the average percentage losses at SF for these regulatory years – as measured using SF NHH sales reconstructed from Settlement data¹ – should have been the same as the average percentage losses for 2006/07 and 2007/08 (AL) – again, as measured by using SF Settlement data for NHH sales.

5.1.2 The normalised and un-normalised SF NHH Units Out were then differenced. This indicates that the un-normalised SF values, used in the determination of the volume of abnormal Settlement run type variations (described in section 5.2) are understated (negative) by the following amounts:

Regulatory Year	SPM	SPD
2009/10	-118.2GWh	-177.4GWh

5.1.3 We provide the data and calculations in Appendices 1A and 1B.

¹ We take NHH sales at SF and HH Sales at 30 June 2013 to remove HH adjustments from the normalisation.

5.2 Abnormal Run Type Variation Quantification

5.2.1 For each of the two licensees, a Percentage Natural Variation (PNV) in energy from non-half-hourly (NHH) read meters was determined for each combination of run type and RF/DF, for each month in the historical period (with the same month in different years being considered together).

5.2.2 Then, for each month on and after April 2009, Abnormal Variations (AV) between SF and RF/DF that had taken place were determined as:

$$AV_{m,sf-rf/df} = OV_{m,sf-rf/df} - (NHH_{m,sf} * PNV_{m,sf-rf/df})$$

(where *OV* is the observed variation before normalisation)

5.2.3 The resulting abnormal settlement variations between SF and DF for SPM and SPD for 2009/10 are:

Regulatory Year	SPM	SPD
2009/10	-112.1GWh	-115.0GWh

5.3 Resultant quantification of total abnormal adjustments

The magnitude of the abnormal adjustments is the abnormal run type variances described in section 5.1 minus the abnormal SF starting position as described in section 5.2.

These figures give net abnormal adjustment volumes:

Regulatory Year	SPM	SPD
2009/10	230.3GWh	292.4GWh

6 Request to the Authority

6.1 SP Manweb and SP Distribution each request the consent of the Authority to calculate distribution losses for regulatory year 2009/10, for the purposes of close out of the DPCR4 losses incentive mechanism and the 2009/10 annual incentive, in accordance with the approved SP methodology and Ofgem's decision document of 12 July 2013.

6.2 This will result in the reported number of units distributed being increased by 230.3GWh for SPM and 292.4GWh for SPD in 2009/10.