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Dear Dora,

Consultation on the Methodology for Closing Out the DPCR4 Losses Incentive Mechanism (Document B)

Thank you for the opportunity to respond to this consultation. This is a non-confidential response on behalf of the Centrica Group excluding Centrica Storage.

- The proposed revisions to the methodology for closing out the DPCR4 losses incentive mechanism seem to us to reasonably capture the necessary changes to take account of Ofgem's decision to switch off the DPCR5 losses mechanism.
- However, based on information presented by Ofgem in the associated consultation documents (minded-to PPL values in document G), we are concerned that critical elements of DPCR5 Final Proposals seem to have been interpreted in two different, and contradictory, ways (Section on 'Adjustments arising from settlement corrections and provision accounts').
- If Ofgem believe the relevant section of Final Proposals is suitably clear then this interpretation needs to be applied to all DNOs. If, however, Ofgem believe there is ambiguity in this section of Final Proposals then Ofgem should remove such ambiguity in this revised document to ensure a single common treatment across DNOs.

Contradictory Interpretation of Final Proposals:

The section on 'Adjustments arising from settlement corrections and provision accounts' (paragraphs 4.19 to 4.21) in the original DPCR5 Final Proposals and unchanged in the proposed revised methodology provides details of the adjustments that are required to be made to the original reported 2009-10 losses data for the purposes of calculating the total value of the Losses Rolling Retention Mechanism (LRRM).

Based on the minded-to PPL values contained in Document G, it appears to us that Ofgem have permitted different interpretations of these critical paragraphs for different DNOs.

Paragraph 3.14 of Document G states: *In reaching a losses figure for close out, to acknowledge the basis on which DPCR4 reporting has been undertaken and targets set, we consider that DNOs should fully reconcile data on a basis consistent with their historical reporting. This is in accordance with*

Final Proposals, which refer to starting with DNOs DPCR4 reporting methodologies before removing provision accounting and fully reconciling settlement data. With the exception of SSE, all DNOs used settlement data for their historical reporting. All of these DNOs used settlement runs up to DF, apart from ENWL, which used settlement runs up to RF.

Ofgem's stated interpretation requires DNOs to "fully reconcile data on a basis consistent with their historical reporting", noting that this is to "acknowledge the basis on which DPCR4 reporting has been undertaken and targets set". We understand that this interpretation has been followed for all DNOs with the exception of SSE.

SSE did not use settlement data for their historical reporting, and targets were also set on this basis. Therefore under Ofgem's stated interpretation of Final Proposals settlement data reconciliations should have no effect on SSE's reported performance for the purposes of calculating the LRRM. However Ofgem's minded-to PPL value for SSE implies a different interpretation of DPCR5 Final Proposals, where the LRRM is calculated purely on the basis of settlement data. This is inconsistent with other DNOs and contradictory to paragraph 3.14 of Document G.

We consider that Final Proposals can only have intended one single approach to closing out the DPCR4 losses incentive, either:

- All DNOs would need to take account of settlement reconciliations in a manner that was consistent with their historical reporting and the basis of their targets; or
- All DNOs would need to recalculate 2009/10 losses based on pure settlement data regardless of whether this is consistent with their historical reporting and target setting.

If Ofgem believe the relevant section of Final Proposals is suitably clear then this interpretation needs to be applied to all DNOs. If however, Ofgem believe there is ambiguity in this section of Final Proposals then Ofgem should remove such ambiguity in this revised methodology document to ensure consumers are protected from the possibility of cherry picking of interpretations by different DNOs.

I trust these few comments are helpful, if you have any questions regarding any of the points raised in this response please do not hesitate to get in touch.

Kind regards,

Andy Manning
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[via e-mail]