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By Email only

14 December 2012

Dear Dora,

Response to Ofgem Consultation Documents of 16 November 2012

Thank you for the various consultation documents relating to the decision not to activate the DPCR5 Losses Incentive Mechanism, the methodology for closing out the DPCR4 Losses Incentive Mechanism, the implementation of a new DPCR5 Losses Reporting Requirement and your specific question regarding the timing of the recovery of the PPL term. Our comments on each of the relevant documents are provided below.

Document B Consultation on the methodology for closing out the DPCR4 Losses Incentive Mechanism

Question 1: *Do you agree that our draft retained text, including the indicated removal of text, results in a methodology which correctly implements our decision not to activate the DPCR5 losses incentive mechanism and which correctly calculates the PPL term?*

We note that the approach taken to drafting has been to make the minimum change necessary to remove references to the implementation of the DPCR5 losses incentive and its interaction with the DPCR4 LRRM. We agree that the drafting correctly reflects the non-activation of the DPCR5 losses incentive mechanism and its removal from the calculation of the PPL term.

We have a minor point regarding the Financial Methodologies – 148/09 document, paragraph 4.18 where we believe that the second bullet point “changes in reporting methodology” should be deleted as well as the third bullet. This would be consistent with the deletion of paragraphs 4.22, 4.23 and 4.24 which relate to this issue.

Question 2: *Do you have views on whether any effects, other than the intended correction for the discontinued losses incentive mechanism in the PPL term, would result from the indicated removal of text and the draft retained text?*

We do not believe that there will be any unintended consequences arising from the proposed text. We note the statement made at paragraph 1.3: “For the avoidance of doubt, we propose that any text remaining in FPs that is contrary to our decision, or needs to be removed to implement our decision, will no longer be in effect, even if we have not directly indicated that it is to be deleted. Similarly, any text which has been removed whose removal is not necessary for implementation of our decision, will remain in effect.”

Document C Statutory consultation on changes to CRC7 for not activating the DPCR5 Losses Incentive Mechanism

We do not wish to make any representations regarding the proposed modifications as set out in Appendix 1 to the notice.

Document E Statutory consultation on changes to SLC33, SLC44B, SLC47 and SLC49 to implement the Distribution Losses Reporting Requirement

We note that Appendix 1 of SLC47 includes the requirement (at A3b) to report System Entry Volumes and Units Distributed whereas the definitions for these quantities have been deleted from Appendix 1 of SLC44B. We believe that the intention, supported by the redrafted RIGs, is to withdraw this reporting requirement and consequently A3b in Appendix 1 of SLC47 should be deleted.

We do not wish to make any representations regarding the proposed modifications to SLC33, SLC44B or SLC49.

Document F1 Consultation letter on proposal to modify existing Regulatory Instructions and Guidance to implement the Distribution Losses Reporting Requirement

Document F2 Consultation on modifications to existing Regulatory Instructions and Guidance to implement the Distribution Losses Reporting Requirement

Document F3 Distribution Losses Reporting Requirement Template V15A

The RIG document, paragraph 4.102, final bullet point refers to a cost benefit analysis being undertaken prior to a decision to proceed with an action. It is not clear what basis should be used for such analysis following the decision not to activate the DPCR5 losses incentive mechanism.

In paragraph 4.103 of the same document the word “report” and its derivatives have been replaced by “provide” etc. We are not sure of the reason for this, given that the opposite change has been made in the draft SLC44B.

We suggest that the template V15A should follow Ofgem’s normal naming convention and become a CM table and appear in the memo pack. In this case the costs would remain in the main CV tables and this table would be a re-presentation of costs listed elsewhere to a different level of detail. The alternative approach of making the template a CV table would introduce unnecessary complexity to avoid double counting across the suite of CV tables. We note in this context the level of detail required by the Losses Reporting Requirement is expected to lead to a significant number of asset replacement projects, from within different overall programmes, being reported in this table.

We note that the Glossary document will need to be updated with definitions of the terms used in the table eg cost, cost of standard.

Document G Consultation on restatement of 2009-10 data and closing out the Distribution Price Control Review 4 (DPCR4) losses incentive mechanism

Question 8: *Do you agree that, in light of the timing of this consultation, the PPL term can be recovered over 2014-15 and 2015-16? Please respond by 14 December 2012 if you have any concerns with this proposal.*

We do not have any concerns with this proposal in the light of the timing of the consultation and the PPL values proposed.

Please contact me or Mike Attree if you wish to discuss this or any related matters.

Yours sincerely,



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