

Dora Guzeleva
Head of Networks Policy
The Office of Gas and Electricity Markets
9 Millbank
London
SW1P 3GE

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Dear Dora

Consultation on the Methodology for Closing Out the DPCR4 Losses Incentive Mechanism

Thank you for the opportunity to comment on the above matter: I am writing on behalf of each of Northern Powergrid Holdings Company and its two licensed electricity distribution businesses, Northern Powergrid (Northeast) Ltd and Northern Powergrid (Yorkshire) plc.

In response to previous consultations Northern Powergrid has already stated that it would not oppose a decision by Ofgem to nullify the DPCR5 period losses incentive. The company also supports Ofgem's commitment to closing out the DPCR4 period losses incentive using a data set that mirrors as closely as possible the data which could have been expected to flow had energy supply businesses not initiated a major programme of retrospective data correction in the closing stages of the DPCR4 period.

The company therefore supports in principle Ofgem's proposals to revise the methodology for closing out the DPCR4 losses incentive. Our only further comments are therefore in relation to the specifics of the deletions Ofgem is proposing to make in its revised methodology for close out. These detailed comments are set out in an appendix below.

Yours sincerely



John France
Regulation Director

NORTHERN POWERGRID

is the trading name of

Northern Powergrid (Northeast) Limited (Registered No: 2906593) and Northern Powergrid (Yorkshire) plc (Registered No: 4112320)

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Appendix – Northern Powergrid’s detailed comments on Ofgem’s proposed methodology for closing out the DPCR4 losses incentive mechanism

We set out below Northern Powergrid’s views on Ofgem’s proposed methodology for closing out the DPCR4 period incentive, relative to the text in the DPCR5 Final proposals, where we feel comment is worthwhile. For the avoidance of any doubt, we have not commented on much of the text where we agree fully with Ofgem’s proposals.

Final proposals, ref 144/09

- Paragraph 2.12: Ofgem is proposing to delete this paragraph but it relates only to the DPCR4 incentive, including the price base it was specified in, and the financial flows under the annual incentive. As it does not relate to the DPCR5 incentive, it does not need to be deleted.
- Paragraph 2.13: Ofgem is proposing to delete this paragraph but the first sentence relates to difficulties of measuring losses under the DPCR4 period incentive. The first sentence should therefore be retained. The second sentence, which relates to the DPCR5 period incentive, should be deleted as Ofgem proposes.
- Paragraph 2.14: Ofgem is proposing to retain this paragraph without deletion, but the last sentence of the first sub-bullet relates to DPCR5 period targets, and the 2nd sub-bullet relates to the DPCR5 period incentive, so these should be deleted. The start of the first sub-bullet, which relates to investment in low loss-equipment, should be retained.
- Paragraph 2.6: The start of the sentence ‘These final proposals...’ is now redundant given Ofgem’s proposed deletion and can also be deleted.
- Paragraph 8.5: This paragraph, which Ofgem is proposing to retain unadjusted, states that losses will be included in business carbon footprint reporting. Given what is now known about the unreliability of the settlements data, and the fact the settlements based losses reporting requirement is being replaced by a losses reduction reporting requirement, this reference to losses should either be deleted, or replaced with a reference to reporting losses reductions.
- Paragraph 8.10: this paragraph, which Ofgem is proposing to retain unadjusted, states that losses will not be included in any business carbon footprint league table. This remains appropriate (even under the new reporting requirement relating to losses reduction actions) but the rationale for this should be adjusted to refer to the fact losses reduction actions may not be comparable, rather than referring to the fact losses are included in the (now removed) losses incentive.

Incentives and obligations document, ref. 145/09

- Paragraph 6.22: Ofgem is proposing to delete this paragraph but it relates to the DPCR4 incentive, and specifically concerns raised by DNOs over the potential volatility of the data and a lack of a common understanding over how the incentive would be implemented at the close of the DPCR4 period. It does not relate to the DPCR5 incentive. It should therefore be retained.
- Paragraph 6.31: The first sentence of this paragraph sets out Ofgem’s desire to encourage DNOs to improve the measurement of losses. It can therefore be retained (as opposed to being deleted, as Ofgem is proposing). The second sentence relates to how this could be rewarded via the DPCR5 period incentive and so can be deleted, as Ofgem is proposing.
- Paragraph 6.32: This paragraph relates to Ofgem’s expectations for DNOs to work collaboratively with other parties to reduce theft. It can therefore be retained, rather than deleted as Ofgem is proposing.
- Paragraph 7.10: The 2nd sub-bullet relates to the change in reporting methodology between the DPCR4 period close-out and the DPCR5 period incentive. Given that the content to which this sub-bullet relates is being deleted (paragraphs 7.15 go 7.17) this 2nd sub-bullet can also be deleted.

- Paragraph 7.19: The start of the sentence ('As with the calculation of the DPCR5 targets') relates to the DPCR5 period incentive and so should also be deleted.
- Glossary (Appendix 9), ALP: this definition relates to the DPCR5 incentive and so can be deleted, rather than being retained as Ofgem is proposing.

Cost assessment document, ref 146/09

- Paragraph 4.93: The last sentence refers to CE Electric UK's DPCR5 period losses targets and so should be deleted, rather than retained as Ofgem is proposing.

Cost assessment appendix document, ref 146a/09

- Paragraph 1.173 of Appendix 8: The last sentence of this paragraph refers to adjustments to the DPCR5 losses target. It should therefore be deleted, rather than being retained as Ofgem is proposing.
- Paragraph 1.194 of Appendix 8: The words 'but also increased their losses targets' relate to the DPCR5 targets and so should be deleted, rather than being retained as Ofgem is proposing.

Financial issues document, ref 147/09

- Table 1.2 at paragraph 1.16: We agree with Ofgem's proposed retention of the reference to losses in the table setting out RORE analysis. The purpose of this table was to establish the risk and reward encapsulated in the DPCR5 settlement as it was being finalised. This cannot now change as a matter of historical fact. Ofgem's decision not to activate the DPCR5 period incentive also came half way through the DPCR5 period, meaning that DNOs have been carrying the risk associated with the incentive until at least this point in time. Furthermore, for some DNOs (such as Northern Powergrid) the totality of the risk associated with the DPCR5 period incentive materialised before the DPCR5 period started, due to the change in supplier settlement behaviour between the DPCR4 period and the DPCR5 period. The removal of the DPCR5 incentive has no impact on a company's position in this situation. This means that Ofgem's original RORE analysis remains an appropriate assessment of the riskiness of the DPCR5 settlement.

Financial methodologies document, ref. 148/09

- Paragraph 4.18: As per our comment on paragraph 7.10 of the Incentives and Obligations document, the deletion of paragraphs 4.22 to 4.24 makes it clear that the 2nd sub-bullet of 4.18 should be deleted.