

**DPCR4 losses close out**  
Key issues from October consultation

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18/11/13

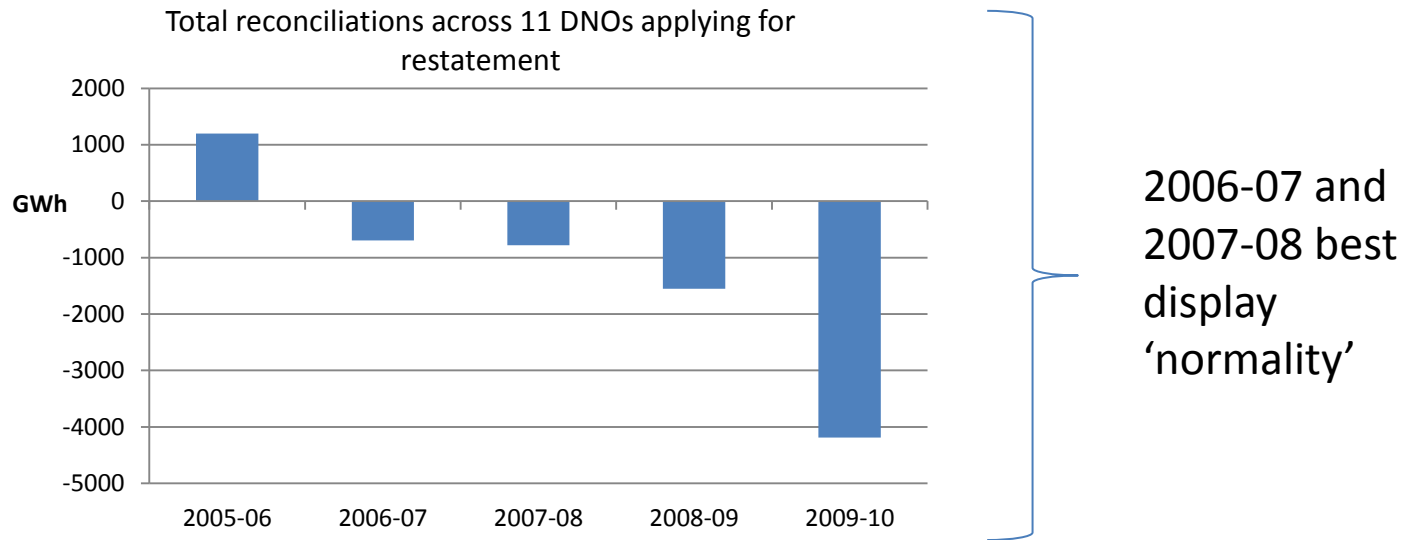
ofgem

- Normal period
- Other evidence for abnormality
  - For 2009-10
  - For post 2009-10 years
- Credibility cap
- Comments on submissions and assessments
- Process for recovery
- Next steps

**There will be opportunities for discussion at each stage**

(All analysis shown is based on data available with the consultation)

- July decision requested application based on stipulated normal period of 2006-07 and 2007-08



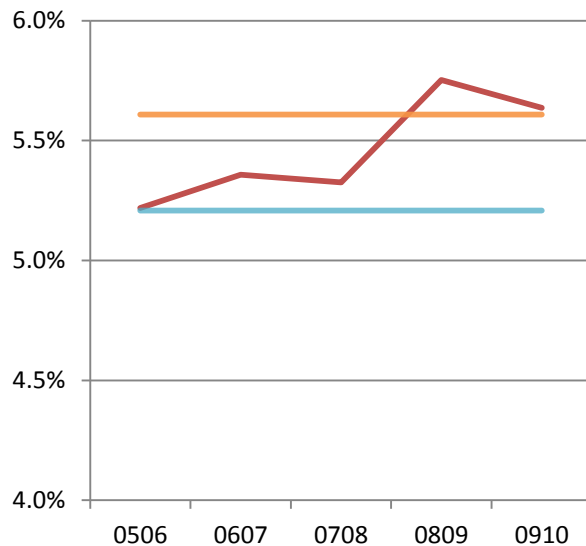
- Removes DNOs' discretion and avoids 'cherry-picking'
- We consider this to be the most equitable approach
- However, concerns were raised that stipulating a common normal period could be unfair for some licensees

- We may consider additional evidence to support an alternative normal period, provided the new normal period meets two principles:
  - it is within DPCR4 and
  - it does not include historically low one-off losses.
- The consultations seeks views on three issues, on which we welcome your thoughts:
  - The principle of allowing an alternative normal period and the nature of the evidence used to support such a case
  - The suitable alternative normal period to be used for restatement
  - The suitable normal period to be used in the credibility threshold
- Any other comments

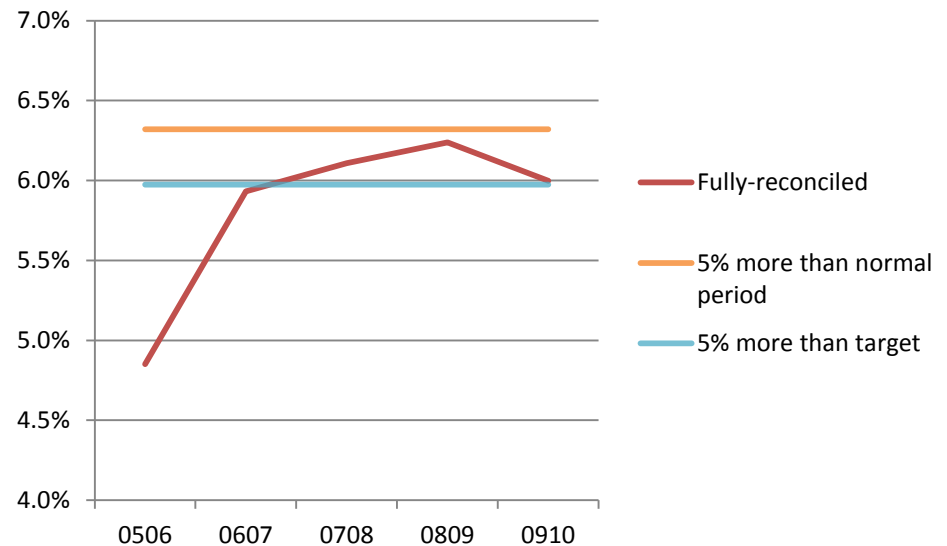
# Other evidence for abnormality in 2009-10 – background

- Two licensees applied for restatement that did not identify abnormality in the statistical test for 2009-10
- Evidence to support abnormality included:
  - Levels of GVC affecting later years of DPCR4
  - RF and DF runs becoming increasingly negative
  - Maximum network demand reduction

- Should fully-reconciled 2009-10 data above the reciprocal cap lead to restatement (using stipulated normal period)?



Above  
reciprocal cap



Below  
reciprocal cap

- The consultation presents alternative outcomes, including the ‘vanilla assessment’ of permitting restatement for the licensee above the reciprocal cap for 2009-10
- The consultations seeks views on this issue, on which we welcome your thoughts:
  - Do you consider that permitting restatement based on exceeding the reciprocal cap is fair and appropriate?
  - Do you have any comments on the additional evidence provided?
  - Do you have any comments on our assessment?
- Further evidence from other parties for abnormality or otherwise in 2009-10

# Other evidence for abnormality post 2009-10 – background

- Four licensees applied for some post 2009-10 years that were not identified as abnormal in statistical test

Year	A	B	C	D
2010-11	X	X	X	X
2011-12		X		
2012-13	X	X		

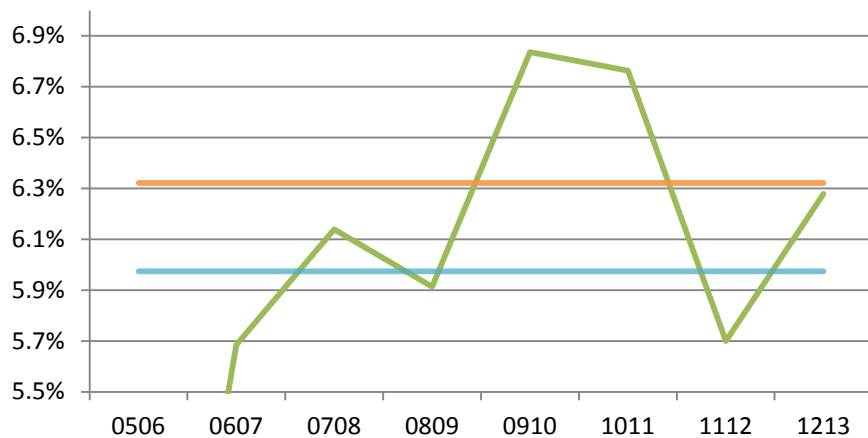
- Evidence to support this includes:

<ul style="list-style-type: none"> <li>SF adjustment applied post 2009-10</li> <li>Losses pattern over time</li> <li>Tests on calendar year</li> <li>Suppliers' evidence of post 2009-10 GVC</li> <li>Enduring effects of GVC on losses</li> </ul>	<ul style="list-style-type: none"> <li>Levels of GVC affecting later years of DPCR4</li> <li>RF and DF runs becoming increasingly negative</li> <li>Maximum network demand reduction</li> </ul>
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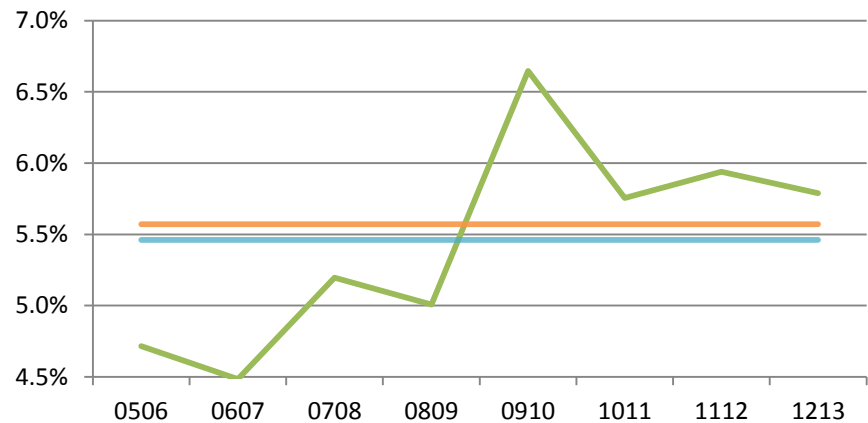


# Post 2009-10 abnormality – analysis

- The consultation included the possibility of comparing ‘reported-equivalent’ data for post 2009-10 years with the reciprocal cap



Only 2010-11  
above the  
reciprocal cap



All post 2009-10  
years above the  
reciprocal cap

Key: — Reported-equivalent — 5% above normal — 5% above target

- In the consultation, we presented different outcomes based on a vanilla assessment and on accepting the DNOs' applications for post 2009-10 abnormality
- The consultations seeks views this issue, on which we welcome your thoughts:
  - Should we allow additional evidence to support abnormality for post 2009-10 years?
  - Should reported-equivalent data be used in comparison with the reciprocal cap to help identify abnormality?
  - Do you have any comments on the evidence provided?
- Further evidence from other parties for abnormality or otherwise for the affected DNOs post 2009-10
- Any other comments?

- Capping is applied if restated losses are below both thresholds:
  - 5% less than the target losses
  - 5% less than the normal period losses
- The normal period losses are lower than the target losses for all DNOs capped under the vanilla assessment

		Cap applied? (vanilla assessment)	Lower threshold
ENWL	ENWL	Y	Normal
NPg	NPgN	N	Target
	NPgY	Y	Normal
WPD	WMID	N	Target
	EMID	N	Target
	SWEST	N	Normal
UKPN	EPN	Y	Normal
	LPN	Y	Normal
	SPN	Y	Normal
SP	SPD	N	Target
	SPMW	N	Target

# Credibility cap - questions

- The consultations seeks views on this issue, on which we welcome your thoughts:
  - Do you have any views on the application of the proposed credibility cap in relation to the restatement applications?
  - Do you agree that the cap has been applied equitably?
- Any other comments?

# DNO submissions and Ofgem assessments

- The consultation presents different outcomes based on the framework we have established and those issues still open to consultation
- Any further comments on the submissions or our assessments that we have not covered already?

- PPL
  - RPI-indexation for incentives already received/incurred up to 2009-10
  - We are seeking views on indexation, time value of money and period of recovery
- Growth term
  - We will be asking for resubmission of revenue returns
  - We are seeking views on indexation and the time value of money when revenue changes are recovered

Date	Milestone
2 December 2013	Consultation closing date
Early 2014	Direct PPL Decision on growth term impacts DNOs resubmit 2009-10 revenue returns
2015-16	Earliest first year of PPL recovery

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