**Response to request for commentary on the factual evidence GVC has been applied in the Midlands areas.**

In response to Ofgem's request dated 12 September 2013, WPD sets out in this letter commentary to accompany the factual evidence provided to Ofgem in WPD's email of 2 August 2013.

***1. Factual Evidence***

WPD has received factual evidence from EON and Npower to the effect that GVC adjustments were made by those suppliers in the East and West Midlands areas over the period from 2004 to 2011. We enclose the factual evidence with this commentary.

This evidence includes:

1. A spreadsheet from EON showing GVC applied by it in the Midlands areas ("**EON GVC Spreadsheet**"). The spreadsheet is in the form in which EON provided it to WPD, except that, in order to assist Ofgem understand and process this data, WPD has:
   1. prepared a summary table which collates the raw data provided by EON; and
   2. included the columns labelled "Value of GVC", "Correction Read Year" and "GVC Performed Year" in the sheet entitled "GVC performed in 2009-10".

WPD explains in further detail below how the data in the summary table and the columns referred to above has been prepared.

1. A spreadsheet from Npower showing GVC applied by it in the Midlands areas ("**Npower GVC Spreadsheet**"). To assist Ofgem in understanding and processing this data, WPD has prepared a summary table which collates the raw data provided by Npower and has included a number of columns to group the raw data in a way to make it more apparent when GVC was in fact applied.

WPD explains in further detail below how the data in the summary table and the columns referred to above have been prepared.

1. An email from Glenn Sheern of EON to Dave Wornell and Simon Yeo of WPD dated 24 June 2013, which confirms that EON performed GVC throughout the DPCR4 period.

A spreadsheet prepared by WPD's IT department showing the number of EON MPANs in the each of WPD’s DNO areas ("**EON MPAN Spreadsheet**"). This data has been sourced from WPD’s MPRS (Meter Point Registration Service).These are the MPANs registered to the supply IDs currently owned by EON.

***2. Factual Evidence provided by EON***

*A. East Midlands*

EON has provided WPD with evidence of GVC corrections made by it during the period from 2004 to 2011 on a settlement date basis (please refer to the enclosedEON GVC Spreadsheet). We understand from EON (please refer to the email dated 24 June 2013), that the EON GVC Spreadsheet does not include all the GVC applied by EON during this period. For this reason, the evidence provided necessarily only demonstrates the minimum amount of GVC which was applied in the Midlands areas. We note that EON has refused to provide WPD with further data relating to GVC adjustments without payment. EON's position adds force to WPD's broader concerns with Ofgem's approach in requiring WPD establish GVC adjustments on the basis of data which it does not possess and cannot obtain. WPD sets out these concerns in detail in section 4 below.

In the East Midlands region there was a minimum of approximately 20GWHs (please refer to cell B40 of the summary in the EON GVC Spreadsheet). This amount has been determined by calculating the sum of the column labelled "Value of GVC" located in the "GVC performed in 2009-10" sheet. The "Value of GVC" has been calculated by: taking the data provided by EON in the "Number of days in MP" column; dividing it by 365 (the number of days in a year); and multiplying it by the raw data provided by EON in the "AA" column. Only raw data provided by EON has been used in these calculations.

As is apparent from the EON MPAN Spreadsheet, EON supplied approximately 39% of WPD's MPANs in the East Midlands region. When extrapolated (by dividing 20GWHS by 0.39), the minimum amount of GVC applied in the East Midlands region becomes 52GWHs. This is evidently a significant GVC adjustment to WPD's settlement data and has clearly contributed to a significant increase in WPD's reported losses over the 2009/10 year. The factual evidence therefore clearly demonstrates that GVC adjustments were made in 2009/10 and that a process for adjusting for GVC must be applied in order more accurately to reflect WPD's actual losses.

In Tim Aldridge's email to Dave Wornell on 12 September 2013, Ofgem requested that WPD identify the amount of GVC adjustments applied in 2010/11 but which affects data in 2009/10. To that end, WPD has identified that 14GWHs (out of the 20GWHs referred to above) was applied in 2010/11 which relates to 2009/10 (please refer to cell B48 of the summary table in the EON GVC Spreadsheet). This amount has been reached by calcualting the sum of the data in the Correction Read Year column and the GVC Performed Year column. WPD created these columns to respond to Ofgem's request referred to above. EON's raw data has not been manipulated in any way, it has simply been grouped differently to make it easier for Ofgem to see to which year the GVC relates.

*B. West Midlands*

In the West Midlands region, there was a minimum of approximately 2GWHs (please refer to cell E40 of the summary in the EON GVC Spreadsheet). As explained above, this amount has been reached by calculating the sum of the column labelled "Value of GVC" located in the "GVC performed in 2009-10" tab.

EON supplied approximately 12% of the MPANS in the West Midlands region. When extrapolated (by dividing 2GWHS by 0.12), the minimum amount of GVC applied in the West Midlands region becomes 16GWHs. Again this factual evidence clearly demonstrates that GVC occurred in 2009/10 and therefore a process for adjusting for GVC must be applied.

In response to Ofgem's question about the amount of GVC adjustment applied in 2010/11 which affects data in 2009/10. WPD has identified that 2GWHs was applied in 2010/11 relating to 2009/10 (please refer to cell B51 of the summary table in the EON GVC Spreadsheet). This amount has been determined in the same way as the 14GWHs described in section A above.

As is evident from the column "GVC by year", the data provided by EON also includes GVC that relates to 2006/07 and 2007/08.

*C. Summary*

In addition to the data referred to above, EON sent WPD an email on 2 July 2013 confirming that it had used the process of GVC throughout DPCR4. We provided you with this email on 2 August 2013.

The combination of this email and the raw data provided by EON not only demonstrates that restatement of WPD's data should be allowed for the East and West Midlands licence areas, but also demonstrates such a level of inconsistency between the evidence and the statistical test set out in Ofgem's paper dated 12 July 2013 that it shows that test to be seriously flawed.

It is WPD's view that Ofgem should therefore reconsider its statistical test. If it is the case that Ofgem cannot identify and implement an appropriate and statistically robust abnormality test, such an outcome would simply re-enforce our position that it would be wrong for Ofgem then to penalise DNOs over and above reclaiming the incentive payments received from Ofgem at the outset of DPCR4. In short, the incentive system relies on achieving a reliable measure of each DNO’s losses, and if this cannot be achieved then fairness requires that no DNO should stand to face a net loss on the basis of unreliable data.

***3. Factual Evidence provided Npower***

Npower have provided WPD with data relating GVC corrections made in 2009/10 which affects data in earlier years (please refer to the Npower GVC Spreadsheet).

Unfortunately, this is a very limited subset of the GVC applied by Npower and does not include for 2009/10 on a reconciled basis. We have requested Npower provide us with data relating to GVC corrections made in later years which affects data in 2009/10. However, such data has not been forthcoming.

To assist Ofgem in understanding and processing the data contained in the Npower GVC spreadsheet, WPD has prepared the summary sheet. WPD has also included column R onwards in sheet 2 of the spreadsheet. WPD has not manipulated any of Npower's raw data, it has only sought to group the data to make it easier for Ofgem to see when GVC has been applied. If Ofgem has any questions about WPD's approach in respect of this spreadsheet, we would be happy to talk you through it.

The Npower data demonstrates that GVC has been applied in the stipulated normal period of 2006/07 and 2007/08. As stated above, the data evidence from EON also demonstrates that GVC adjustments were made during OFGEM's stipulated normal period. In addition, the email from EON confirms that it was actively performing GVC corrections during 2006/07 and 2007/08.

This demonstrates that 2006/07 and 2007/08 were not normal years. This evidence underpins WPD's claims in its letter dated 17 September that Ofgem's current approach of stipulating a normal period is inappropriate and prejudices WPD's position.

***4. Failure of suppliers to provide WPD with GVC data***

On 24 June 2013, WPD requested all suppliers provide it with evidence of GVC adjustments occurring in 2009/10. Unfortunately, many of the suppliers did not respond to WPD's request or placed unreasonable conditions on the provision of such data.

As noted above, WPD also requested further data from EON and Npower in relation to the application of GVC adjustments in the Midlands areas. Neither supplier provided WPD with such further data.

We noted in our letter dated 16 September 2013, that it is unfair and unreasonable for WPD to be placed in the position of having to invite Ofgem to make an exception to the general rule laid down in the abnormality test set out in the July 2013 Decisions. The fact that WPD is essentially being forced to apply for an exception on the basis of data is does not possess and has no authority to demand further highlights the unfairness and unreasonableness of this approach.

The fact that EON and Npower supplied WPD with some data demonstrates that suppliers do possess data in relation to their GVC corrections. Given WPD has no authority to require suppliers to provide it with such data and given that such data is essential for WPD to be able to establish abnormality in 2009/10, fairness requires that Ofgem should provide it with any data Ofgem has received from suppliers relating to GVC corrections. If Ofgem does not currently possess such data, we consider that it should make a formal request for GVC data from suppliers.

If Ofgem cannot provide such data to WPD, this too would further reinforce WPD's position as to the unfairness and unreasonableness of WPD being placed in a position where it has to pay back several million pounds over and above the incentive payments received from Ofgem at the outset of DPCR4 on the basis of data acknowledged to be seriously flawed.

***5. Additional analysis provided on 2 Oct in response to Ofgem request***

I have updated the spreadsheet ["**EON GVC Spreadsheet**"] to include a further sheet entitled “Summary Report Date". This sheet includes three further summary tables.

As requested, these tables are based on the GVC performed date.

 First Table

 The first table is a summary of the information provided by EON of the GVC performed in each month.  We again note that this does not include all the GVC applied by EON during this period, and as such, necessarily only demonstrates the minimum amount of GVC which was applied in the Midlands areas.

 For the 2009/10 period, on a GVC performed date basis, there was a minimum of approximately:

* 23GWH in the East Midlands region; and
* 1GWH in the West Midlands region.

 For the 2010/11 period, on a GVC performed date basis, there was a minimum of approximately:

* 17GWH in the East Midlands region;  and
* 2GWH in the West Midlands region.

 Second Table

 The second table is a summary of the information provided by EON of the GVC performed in each month that related to 2009/10 correction date.

 For the 2009/10  period, on a correction date basis, there was a minimum of approximately:

* 6GWH in the East Midlands region; and
* 0GWH in the West Midlands region .

 For the 2010/11 period, on a correction date basis, there was a minimum of approximately:

* 15GWH  in the East Midlands region; and
* 2GWH in the West Midlands region.

 The 2010/11 data in the second table relates to GVC adjustments that effect the 2009/10 period.

 Third Table

 The third table has the same data as the first table but it is displayed in a different way. The Columns of Table Three represent the years in which GVC was performed and the rows in Table Three represent the months when GVC was performed**.**

 We again note that, as EON only has 39% of the MPANs in the East Midlands and 12% of the MPANs in the West Midlands, these numbers represent only a small percentage of the GVC applied in the Midlands licence areas. As stated in the commentary provided to Ofgem on 23 September 2013, WPD are unable to provide Ofgem with GVC data relating to other MPANs in the Midlands areas as the relevant suppliers have either refused to provide such data or have not responded to WPD's request for such data.