**Purpose of the SP Method in removing the GVC**

**Back Ground And Application Of The SP Method**

OFGEM issued a data request where DNO’s were invited to submit 2009/10 losses with adjustments using Approach C.

The intention of this process is to identify GVC where it occurred and using the SP method to remove it.

The DPR4 losses close out calculation crucially depends on the 09/10 performance on a fully reconciled settlement date data basis. GVC has impacted this 09/10 performance and the intent by using the SP/Engage GVC methodology is to attempt to calculate this impact. In order to do this the data used in the GVC calculation should be on a consistent basis with the final reconciled 09/10 data.

Further to this, the SP GVC method requires the use of settlement data and in particular data that is based on EACs/AAs in the NHHM market.

The SP Method has been specifically designed to identify and remove the influence of GVC from settlement data. The method is broken into 2 parts. The first is SF normalisation where the losses calculated in 2009/10 at SF are replaced with the losses calculated at in the normal period at SF level. The second part is the abnormal variance. For approach C if GVC is identified in 2009/10 and some of the subsequent years for reconciliation runs that relate to 2009/10 settlement date then these differences are replaced with the average from the normal period by month for each reconciliation type.

In order to identify and calculate the actual GVC the data has to be clean. If the data has been altered for accounting purposes then these alterations have to be removed for the SP Method to work. Otherwise the GVC will be masked when the clean data would show it. The calculation of final reconciled settlement date data for 2009/10 to either DF or RF in the close out does not have any accounting provisions. Therefore these provisions are irrelevant to the final number and should not be included.

**Problems With Using The WPD SLC47 Data Return**

The Mid West and Mid East SLC47 revenue return include provision accounting. This is where the NHH sales were based on a method using the GSP Group correction factor. This use of GSP Group correction factor would have had the effect of masking the actual EACs/AAs used in the settlement process and so would make the test for GVC obsolete. In effect GSP correction factor has neutralises any errors in the underlying settlement data. The reported volumes also included the release of the provision from the NHH sales from 4 years prior in the Mid East and 3 years prior in the Mid West. This also creates the problem of identifying the value and position of the provisionally accounted SF, R1 runs etc. as they do not relate to billing in the years in which they were entered into the SLC47 data returns.

In the South West and South Wales the SLC47 is left open to include up to subsequent months billing (up to June billing) and the reconciliations relating to the previous years are entered into the accounts. This also creates the problem of identifying the value and position of the provisionally accounted SF, R1 runs etc. as they do not relate to billing in the years in which they were entered into the SLC47 data returns. In 2009/10 this also includes 2010/11 data and in 2005/06 this will have data removed.

For the reasons specified above Approach C cannot be applied to the raw SLC47 revenue returns. In all 4 WPD areas some of the reconciliation data does not also necessarily apply to the year that it was billed. Again the data used needs to be consistent with what is trying to be achieved through the GVC analysis.

**Solution Applied In WPD**

To resolve these issues and allow the GVC which occurred during 2009/10 to be identified WPD had to use the correct data that applies to the relevant regulatory year. As specified earlier using correct data (i.e. data in the correct months that it was billed) is necessary to applying approach C. To do this WPD has taken the actual reconciled data and shifted it by the number of months to when it would have been billed. This has been used as the reported data for the approach C calculations. This consistent correct approach has been applied to all four areas.

The way that WPD is applying approach C is allowed in the OFGEM data request and is also consistent with the method developed by Engage.