**Issue For The Mid East From Using The Normal Period Created From The Aggregate Of All The DNO Reconciliation Data**

**Introduction**

In Ofgem's “Decision on the process to follow for closing out the losses incentive mechanism for the fourth distribution price control (**DPCR4**)” issued on the 12th July 2013 (**July Decision**), Ofgem decided that any DNOs wanting to restate their 2009-10 data were required to use a fixed normal period of April 2006 to March 2008 in applying the SP for adjusting for GVC.

The reason for this decision was that the 2005-06 and 2006-07 period appears normal when assessing the aggregate of DNO data. On that basis, OFGEM decided that all DNOs should use a stipulated normal period of 2005-06 and 2006-07 when restating.

On 21 October 2013, as a result of concerns raised by some DNOs in response to the July Decision that a stipulated normal period should be used, OFGEM stated it would consider additional evidence from particular DNOs which would support the use of a different normal period to assess a particular licensee's restatement application.

In this document, WPD will provide strong evidence to show that the stipulated normal period is not normal for WPD's East Midlands licence area (the **Mid East**). In particular, this document will show that while the data on an aggregate basis shows 2005-06 and 2006-07 to be normal, this is not the case when the Mid East settlement data is assessed on an individual basis.

**OFGEM Analysis**

OFGEM have based their analysis that 2005-06 and 2006-07 are normal on aggregate data for all 11 DNOs applying for restatement.

The table below shows the individual DNO reconciliations, based on post-SF adjustment and normalisation mapping, (i.e. based on the data used in the statistical test for each DNO,) and the total that was used in the analysis.



The aggregate values in the total column are then graphically represented below.

The tables show that 2006-07 and 2007-08 loss levels are slightly negative and are close to being equal. The 2009-10 levels, however, show a sudden and significant increase in losses. The losses in 2009-10 are 503% greater than those in 2006-07 and 437% greater than 2007-08. This implies that 2006-07 and 2007-08 on an aggregate basis are normal when compared to the rest of DPCR4.

**WPD Analysis On The Mid East**

WPD have taken the individual profile of the Mid East and compared it to the average of the 11 DNOs applying for restatement.

WPD have also compared the individual profile of the Mid East to the average of the DNOs applying for restatement when data relating to the Mid East area is removed. This demonstrates the effect the Mid East reconciliations have on the aggregate numbers.

The tables below shows average reconciliation runs of the 11 DNOs applying for restatement compared with the Mid East reconciliations.

|  |  |  |  |
| --- | --- | --- | --- |
| **SF to LRT** | **Average of the DNOs** | **East Midlands** | **Mid East % Difference To The Average** |
| 2005-06 | 109.2 | 78.8 | -28% |
| 2006-07 | -63.1 | -167.8 | 166% |
| 2007-08 | -70.8 | -308.0 | 335% |
| 2008-09 | -141.0 | -323.1 | 129% |
| 2009-10 | -380.6 | -391.2 | 3% |
| 2010-11 | -210.3 | -269.5 | 28% |
| 2011-12 | -226.0 | -283.6 | 26% |
| 2012-13 | -175.6 | -236.2 | 34% |

These tables show that the 2005-06 and 2009-10 loss levels for the Mid East are of similar magnitude to the loss levels of the average DNOs. In particular, the levels of GVC in 2009-10 in the Mid East are similar to the rest of the DNOs.

However, for the years 2006-07, 2007-08 and 2008-09, the Mid East has a very different shape to the average of the DNOs. The rate at which the reconciliations move towards 2009-10 levels commences much earlier. In particular, the 2007-08 period shows a sudden and significant increase in losses, similar to that of 2009-10.

By way of example:

* 2009-10 losses for the Mid East are 133% greater than its 2006-07 losses compared with 503% for the DNO average; and
* 2009-10 losses for the Mid East are only 27% greater than its 2007-08 losses compared with 437% for the DNO average.

This shows that levels of GVC in 2007-08 in the Mid East are very close to the levels of GVC applied in 2009-10 and provides strong evidence that the 2007-08 period is not normal for the Mid East.

**WPD Analysis With The Removal Of WPD Mid East From The DNO Average.**

WPD have also compared the Mid East data to the average of the DNOs applying for restatement with data relating to the Mid East area removed. This allowed WPD to understand the effect the Mid East reconciliations have on the aggregate.

The table below shows average reconciliation runs of the other 10 DNOs applying for restatement compared with the Mid East reconciliations.

|  |  |  |  |
| --- | --- | --- | --- |
| **SF to LRT** | **Average of the DNOs Excluding WPD Mid East** | **East Midlands** | **Mid East % Difference To The Average** |
| 2005-06 | 112.2 | 78.8 | -30% |
| 2006-07 | -52.6 | -167.8 | 219% |
| 2007-08 | -47.1 | -308.0 | 554% |
| 2008-09 | -122.8 | -323.1 | 163% |
| 2009-10 | -379.5 | -391.2 | 3% |
| 2010-11 | -204.3 | -269.5 | 32% |
| 2011-12 | -220.2 | -283.6 | 29% |
| 2012-13 | -169.6 | -236.2 | 39% |

Similarly to the tables in the Mid East analysis, the 2005-06 and 2009-10 levels for both the Mid East and the average of DNOS (excluding Mid East) are of similar magnitude. There is no change in the comparison for these years from the previous table.

For 2006-07, 2007-08 and 2008-09, the Mid East again has a very different shape to the average of the DNOs and the rate at which the reconciliations move towards 2009-10 levels commences much earlier. However, there is now an even greater discrepancy between the loss levels for the Mid East for these years and the DNO average (excluding Mid East).

By way of example:

* 2009-10 losses for the Mid East are again 133% greater than its 2006-07 losses compared with **621%** for the DNO average.
* 2009-10 losses for the Mid East are again only 27% greater than its 2007-08 losses compared with **706%** for the DNO average.

This not only reinforces the fact that the 2007-08 period for the Mid East is not normal but inclusion of Mid East data has a significant effect on the levels of reconciliations in OFGEM's analysis for the total number of DNOs.

**The Effect Of These Reconciliations On The Statistical Tests**

The statistical tests set out in the July Decision are a comparison between the average reconciliations in the first four years of DPCR4 and reconciliations in 2009-10. As shown above, significant GVC adjustments began earlier in DPCR4 in the Mid East than for the other DNOs applying for restatement.

This means that for the Mid East, the difference between the reconciliations in 2009-10 and the average reconciliations in the first 4 years of DPCR4 are far smaller than for the average DNO.

This makes it impossible for the Mid East to pass the statistical test despite having the same 2009-10 levels as the average of the rest of the DNOs applying for restatement.

The graphs also show that the level of GVC applied in the years post 2009-10 was greater in the Mid East by an average of 33%.

**Solution To Normal Period For The Mid East**

In the OFGEM losses workshop on 18/11/2013, it was suggested that WPD be allowed to deviate from the fixed normal period for the Mid East and be allowed to find a 24 month period in DPCR4 which showed normal losses.

WPD have done this using the losses % in the revised approach C - restatement sheet. Using a weighted average losses % for each 24 month period in between April 05 and March 08, WPD has taken the point at which this crosses the Mid East target, which has a start date between Jan 06 and Feb 06. On this basis, a suitable normal period for the Mid East is either Jan 06 to Dec 07 or Feb 06 to Jan 08.

Please see the table below.



The Graph below shows the point at which the Losses and the Mid East Target intersect.

WPD have run the GVC calculation for both periods and have re-submitted both to OFGEM for consultation.

**Appendix A: Tables And Graphs Showing The Reconciliations Of The Other 10 DNOs Applying For Restatement**

|  |  |  |  |
| --- | --- | --- | --- |
| **SF to LRT** | **Average of the DNOs** | **NPgN** | **NPgN % Difference To The Average** |
| 2005-06 | 109.2 | 6.0 | -94% |
| 2006-07 | -63.1 | -65.8 | 4% |
| 2007-08 | -70.8 | -108.9 | 54% |
| 2008-09 | -141.0 | -117.3 | -17% |
| 2009-10 | -380.6 | -295.0 | -22% |
| 2010-11 | -210.3 | -147.2 | -30% |
| 2011-12 | -226.0 | -165.2 | -27% |
| 2012-13 | -175.6 | -76.9 | -56% |

|  |  |  |  |
| --- | --- | --- | --- |
| **SF to LRT** | **Average of the DNOs** | **NPgY** | **NPgY % Difference To The Average** |
| 2005-06 | 109.2 | 550.4 | 404% |
| 2006-07 | -63.1 | 24.2 | -138% |
| 2007-08 | -70.8 | -169.1 | 139% |
| 2008-09 | -141.0 | -127.2 | -10% |
| 2009-10 | -380.6 | -496.8 | 31% |
| 2010-11 | -210.3 | -276.9 | 32% |
| 2011-12 | -226.0 | -166.1 | -27% |
| 2012-13 | -175.6 | -172.5 | -2% |

|  |  |  |  |
| --- | --- | --- | --- |
| **SF to LRT** | **Average of the DNOs** | **WMID** | **WMID % Difference To The Average** |
| 2005-06 | 109.2 | 174.6 | 60% |
| 2006-07 | -63.1 | -104.5 | 66% |
| 2007-08 | -70.8 | -131.6 | 86% |
| 2008-09 | -141.0 | -117.4 | -17% |
| 2009-10 | -380.6 | -236.2 | -38% |
| 2010-11 | -210.3 | -113.8 | -46% |
| 2011-12 | -226.0 | -243.1 | 8% |
| 2012-13 | -175.6 | -255.6 | 46% |

|  |  |  |  |
| --- | --- | --- | --- |
| **SF to LRT** | **Average of the DNOs** | **SWEST** | **SWEST % Difference To The Average** |
| 2005-06 | 109.2 | 74.0 | -32% |
| 2006-07 | -63.1 | -54.5 | -14% |
| 2007-08 | -70.8 | -87.9 | 24% |
| 2008-09 | -141.0 | -75.6 | -46% |
| 2009-10 | -380.6 | -227.6 | -40% |
| 2010-11 | -210.3 | -122.5 | -42% |
| 2011-12 | -226.0 | -202.9 | -10% |
| 2012-13 | -175.6 | -119.6 | -32% |

|  |  |  |  |
| --- | --- | --- | --- |
| **SF to LRT** | **Average of the DNOs** | **ENWL** | **ENWL % Difference To The Average** |
| 2005-06 | 109.2 | 8.8 | -92% |
| 2006-07 | -63.1 | -72.2 | 15% |
| 2007-08 | -70.8 | 59.5 | -184% |
| 2008-09 | -141.0 | -132.6 | -6% |
| 2009-10 | -380.6 | -342.8 | -10% |
| 2010-11 | -210.3 | -243.0 | 16% |
| 2011-12 | -226.0 | -198.0 | -12% |
| 2012-13 | -175.6 | -160.3 | -9% |

|  |  |  |  |
| --- | --- | --- | --- |
| **SF to LRT** | **Average of the DNOs** | **EPN** | **EPN % Difference To The Average** |
| 2005-06 | 109.2 | 145.9 | 34% |
| 2006-07 | -63.1 | -239.9 | 280% |
| 2007-08 | -70.8 | -27.2 | -62% |
| 2008-09 | -141.0 | -164.7 | 17% |
| 2009-10 | -380.6 | -1177.5 | 209% |
| 2010-11 | -210.3 | -837.5 | 298% |
| 2011-12 | -226.0 | -494.6 | 119% |
| 2012-13 | -175.6 | -397.4 | 126% |

|  |  |  |  |
| --- | --- | --- | --- |
| **SF to LRT** | **Average of the DNOs** | **LPN** | **LPN % Difference To The Average** |
| 2005-06 | 109.2 | 141.6 | 30% |
| 2006-07 | -63.1 | 136.1 | -316% |
| 2007-08 | -70.8 | 127.3 | -280% |
| 2008-09 | -141.0 | -12.7 | -91% |
| 2009-10 | -380.6 | -192.2 | -50% |
| 2010-11 | -210.3 | -113.3 | -46% |
| 2011-12 | -226.0 | -370.1 | 64% |
| 2012-13 | -175.6 | -282.6 | 61% |

|  |  |  |  |
| --- | --- | --- | --- |
| **SF to LRT** | **Average of the DNOs** | **SPN** | **SPN % Difference To The Average** |
| 2005-06 | 109.2 | 271.7 | 149% |
| 2006-07 | -63.1 | 78.7 | -225% |
| 2007-08 | -70.8 | 14.7 | -121% |
| 2008-09 | -141.0 | 56.3 | -140% |
| 2009-10 | -380.6 | -121.1 | -68% |
| 2010-11 | -210.3 | -189.4 | -10% |
| 2011-12 | -226.0 | -362.1 | 60% |
| 2012-13 | -175.6 | -230.9 | 31% |

|  |  |  |  |
| --- | --- | --- | --- |
| **SF to LRT** | **Average of the DNOs** | **SPM** | **SPM % Difference To The Average** |
| 2005-06 | 109.2 | -28.3 | -126% |
| 2006-07 | -63.1 | -68.7 | 9% |
| 2007-08 | -70.8 | -56.9 | -20% |
| 2008-09 | -141.0 | -234.0 | 66% |
| 2009-10 | -380.6 | -292.1 | -23% |
| 2010-11 | -210.3 | - | #VALUE! |
| 2011-12 | -226.0 | - | #VALUE! |
| 2012-13 | -175.6 | - | #VALUE! |

|  |  |  |  |
| --- | --- | --- | --- |
| **SF to LRT** | **Average of the DNOs** | **SPD** | **SPD % Difference To The Average** |
| 2005-06 | 109.2 | -222.5 | -304% |
| 2006-07 | -63.1 | -159.4 | 153% |
| 2007-08 | -70.8 | -90.9 | 28% |
| 2008-09 | -141.0 | -302.9 | 115% |
| 2009-10 | -380.6 | -414.1 | 9% |
| 2010-11 | -210.3 | - | #VALUE! |
| 2011-12 | -226.0 | - | #VALUE! |
| 2012-13 | -175.6 | - | #VALUE! |