

## **Pants On Fire, episode 8**

by Franck Latrémolière on Monday 22 June 2015

1. Exhibit 1 and exhibit 2 are taken from Ofgem's decision on DCP 161.

### **Exhibit 1 Ofgem's analysis of evidence of cost reflectivity for DCP 161**

Although the industry has submitted evidence on the degree to which excess capacity is being used, we consider that it does not provide adequate evidence of any consequential additional costs incurred by the DNOs. ...

### **Exhibit 2 Ofgem's conclusion on cost reflectivity for DCP 161**

We have considered the arguments in relation to this charging objective [cost-reflectivity]. We consider that DNOs could at times incur additional costs resulting from the use of excess capacity.

2. Ofgem is right that there was no evidence that the consumption in excess of maximum import capacity which was the subject of DCP 161 would cause any costs. But Ofgem nevertheless considered (does that mean guess?) that there could be "costs resulting from the use of excess capacity", and imposed the DCP 161 change to increase charges for consumption in excess of maximum import capacity.
3. Exhibit 3 quotes the first sentence of the second paragraph of the cost-reflectivity analysis in Ofgem's decision on DCP 206.

### **Exhibit 3 Ofgem's test of evidence of cost reflectivity for DCP 206**

We do not agree that DCP206 better facilitates this objective because we do not consider we have been provided with evidence to demonstrate that the removal of Charge 1 would improve cost reflectivity.

4. The following evidence was provided in the DCP 206 change report:
  - (a) An explanation that charge 1 was making one customer pay for the costs of supplying other (future) customers, and that replacing the revenues from charge 1 with scaling apportioned on the basis of capacity, consumption and notional assets used to provide the supply being charged for was more cost-reflective.
  - (b) An illustrative study of a realistic case in which charge 1 would charge for costs that were fictional and entirely unrelated to the work needed to provide supply to the customer being charged. DCP 206 was to remove charge 1.
5. The DCP 206 change report also said that some DNOs had refused to disclose information about the magnitude of the increase in scaling charges. Ofgem could have obtained this information if it wanted to analyse the issue. It chose not to.
6. Ofgem's test for what is valid evidence about cost-reflectivity is a variable beast.