

CP Report – CP1360

Meeting Name Supplier Volume Allocation Group

Meeting Date 5 February 2013

Purpose of paper For Information

Summary This report provides details of the background, solution, impacts and industry views for CP1360 'Inclusion of Audit Records for Gross Volume Correction and Dummy Meter Exchanges'. Due to the progression of related Modification Proposal P274 and the length of time that has passed since the industry last assessed the CP, ELEXON intends to issue CP1360 for a second Participant Impact Assessment. ELEXON invites the SVG to note this approach, and to give any views on the CP and its proposed implementation prior to this second industry assessment.

1. Why Change

Background

Under the Balancing and Settlement Code (BSC), Suppliers are permitted to make adjustments to Settlement data in order to ensure that the correct volume of energy is settled. Two such adjustment techniques are Gross Volume Correction (GVC) and Dummy Meter Exchanges (DMX).

Although Suppliers may make adjustments, energy volumes that have undergone a Final Reconciliation (RF) Run may not be changed. GVC compensates for errors relating to periods that have been subject to RF, by adjusting energy volumes in periods not yet subject to RF. This ensures that the total gross volume of energy is correct, albeit allocated to a different Settlement Period. This is based on the rationale that it is better to have the correct volume settled, rather than the volume associated with the correct Settlement Period. As a consequence, the extent to which Settlement reflects the energy flows on a specific day may not be accurate.

DMX simulates an actual Meter Exchange, whereby a Final read is deemed to crystallise past data and an Initial read is deemed to be used going forwards. DMX seeks to:

- 1) Minimise previous errors (but not compensate for them) by writing the error off; and
- 2) Correct the situation going forward from a point in time.

This is based on the rationale that it is better to have the correct volume settled going forwards, with the caveat that the historic error volume is minimised rather than corrected. As a consequence the error remains, albeit to a lesser extent, in past Settlement Days. This process has the effect of distorting a Licensed Distribution System Operator's (LDSO's) apparent distribution losses performance by inserting a step-change in units measured through the Meter.

In 2009/10, LDSOs observed an increase in the scale of Supplier adjustments to Settlement data. The increased use of GVC and DMX resulted in an overstatement of some LDSO's losses, such that they were penalised under the Distribution Price Control for not meeting their losses targets. These LDSOs' allowable revenue for the next period was therefore reduced. The Proposer believes that CP1360 would help improve Settlement data for all BSC Parties and go some way to alleviating the impact of GVC and DMX on LDSOs.

What is the issue?

The Proposer contends that the GVC and DMX audit records which Non Half Hourly Data Collectors (NHHDCs) are required to keep are not defined in sufficient detail to enable consistent reporting by NHHDCs, or to allow the volume and applicable period of the adjustment to be readily identified. Inconsistencies in record-keeping make it difficult to investigate and analyse the use of these techniques. For example, it is not currently possible to derive an aggregate view of the levels of adjustments being applied across the market. Inability to quantify the impact of the use of GVC and DMX not only affects LDSOs within the confines of their Price Control it also creates uncertainty for Suppliers' Distribution Use of System (DUoS) charges.

2. Solution

ENW Ltd raised CP1360 'Inclusion of Audit Records for Gross Volume Correction and Dummy Meter Exchanges' on 25 November 2011. It proposes to amend BSCP504 'Non Half Hourly Data Collection for SVA Metering Systems in SMRS' to make the audit obligations more specific for Suppliers and their agents in relation to the use of GVC and DMX.

BSCP504 Section 4.14.3 'Use of Gross Volume Correction' states that, where there is on-going validation problems, action taken by the NHHDC should be subject to a robust and auditable process. It does not however provide any explicit description of the audit requirements or what should be captured by this process. Additionally, Section 4.16 'Audit Requirements' does not expressly refer to GVC and DMX. CP1360 would amend this section to specifically include GVC and DMX audit processes.

The redlined text in Attachment A details the information that NHHDCs would be required to keep. These changes will enable the BSC Auditor to confirm that these techniques, when used, have been undertaken in accordance with BSC rules. This will enhance any future investigations and analysis of the use of these techniques.

Intended Benefits

CP1360 seeks to enable the Performance Assurance Framework (PAF) to operate more effectively, thus increasing the accuracy and reducing the volatility of Settlement for all Suppliers and other impacted BSC Parties.

The CP contends that without such audit records verification of the appropriate use of these techniques (as part of the BSC Audit or as part of other initiatives), and any investigations / market analysis associated with

the use of these techniques, would be far more onerous. CP1360 seeks to make audit obligations more specific, to allow for more consistent industry reporting and more transparency in the use of GVC and DMX.

3. Impacts and Costs

Central Impacts and Costs

The following tables summarise the estimated ELEXON effort required to implement CP1360.

ELEXON Costs		
Document Changes	System Changes	Total
BSCP504	None required	£840 (3.5 Mandays)

Party Impacts and Costs

The following table summarises the Party impacts associated with CP1360, including those identified in responses received to the Participant Impact Assessment.

Party Impacts	
Party Type	Impacts & Costs
Data Collectors / Aggregators	Responses included 'unable to quantify', 'no costs' and 'low costs'.
Distributors	No costs.
Suppliers	Unable to quantify at this time.

4. Industry Views

CP1360 was issued for Participant Impact Assessment via CPC00706 on 25 November 2011. We received 12 responses of which six agreed with CP1360, five disagreed and one remained neutral. Eight respondents indicated they would be impacted by this change, of which five did not agree with the proposal.

In general LDSOs indicated positive impacts, stating that the CP would allow for complete analysis of Supplier data cleansing techniques and would ensure that accurate information is used for Settlement purposes. The majority of Party Agent and Supplier respondents noted minor procedural changes as potential impacts. A number of respondents noted that the proposed change would require additional resources and increase operating and development costs, although at this stage they were unable to quantify these costs. Suppliers who disagreed with the proposed change believed that processes were

already in place to audit GVC and DMX events. One commented that the Risk Evaluation Methodology is in place under the PAF to ensure that areas of significant risk are included within the audit. Contrary to this view, another Supplier stated that the CP should look to address the potential audit gap around all Supplier adjustments and not just GVC and DMX.

You can find the full collated participant responses to CP1360 in Attachment B and on the BSC Website [here](#).

Additional views on CP1360

In addition to the Impact Assessment, ELEXON discussed CP1360 over the phone with an SVG Industry Member who expressed their interest in the CP. The SVG Member voiced their concerns about both GVC and DMX under the current arrangements, advising that there is a significant lack of transparency around both of these compensatory techniques. They believed that this has led to lack of information and the inability to conduct proper data analysis on either GVC or DMX, resulting in issues with other proposed changes to these processes.

Modification Proposal P274 'Cessation of Compensatory Adjustments' was raised initially to remove the ability to apply such types of compensatory technique under the BSC, but was later developed to restrict the use of GVC and introduce robust audit requirements into the process. During its Assessment, ELEXON and the P274 Workgroup struggled to get the information required to do the appropriate level of analysis needed on the Modification. Members of the Workgroup and the BSC Panel shared the view that there needs to be more transparency and auditability on the use of GVC (both later expressed the same view on DMX).

The SVG Member commented that the addition of the audit requirements set out in CP1360 would add a degree of control and visibility around both GVC and DMX, which would lay the way for appropriate changes to be made in the future following a review of both techniques.

The SVG Member also voiced their concerns around the industry's ability to accurately identify certain instances of GVC, for example where GVC is applied to an error by which the customer has overpaid (resulting in a positive Annualised Advance, or AA). They advised that these instances are harder for some Suppliers to recognise when compared to those where GVC is applied to an error by which the customer has underpaid (resulting in a negative AA). ELEXON noted that CP1360 would require the NHHDC to record the detailed audit requirements, which would be done at the point at which GVC is applied to an error. CP1360 would not require Suppliers to identify these instances, but requires the NHHDC to be able to provide information on GVC (and DMX) usage to the Supplier upon request.

The SVG Member also expressed their concerns about the audit requirements for GVC and DMX, advising that there needs to be consistency throughout the industry on how they report instances of GVC and DMX. They commented that ELEXON needs to work with the industry to agree a single format. ELEXON noted that BCSP504 Section 4.14.6 of the redlined text states that the NHHDC shall make the required information available on request (to the Supplier, BSCCo or BSC Auditor) in a comma separated value (.CSV) file or other agreed format. ELEXON advised that the nature of the required information would format itself and that there was little room for variation. If approved, the audit requirements in CP1360 would help future



changes to be made to GVC and DMX. Once information is gathered and reviewed on the usage of these techniques, changes can be made to the audit requirements or the processes if necessary.

5. Implementation Approach

The Proposer's original requested Implementation Date for CP1360 was 28 June 2012 as part of the June 2012 Release. It was believed that the implementation of CP1360 would be significantly impacted by the outcome of P274 which, at the time, aimed to prohibit to the use of GVC as a corrective technique. CP1360 was therefore put on hold pending the outcome of P274. P274 has since been recommended for rejection by the Panel, and is currently with Ofgem for decision.

The majority of respondents to the original Participant Impact Assessment indicated that they would need between three and six months' lead time in order to implement this change. ELEXON therefore intends to issue CP1360 for a second Participant Impact Assessment with a revised proposed Implementation Date (based on the previous responses) of 7 November 2013 as part of the November 2013 BSC Release.

6. SVG's Previous Views

We previously presented CP1360 to the SVG at its meeting on 31 January 2012¹. The SVG discussed at length the interaction of this CP with the potential implementation of P274. During the meeting several SVG Members argued that the decision on this CP should be made against the existing baseline and that the potential implementation of P274 should not be a consideration. Other SVG Members agreed in principle, but felt that it would be inefficient to implement a CP that had potential process and system changes for Suppliers if it would need to be backed out at a later stage. An SVG Member pointed out that this CP covered DMX as well as GVC.

Some Members believed that there were already sufficient requirements on Suppliers to keep an audit trail for any GVC events undertaken, and that there was no evidence that this was not being done. However, it was noted that the proposed requirements in CP1360 were more specific and had potential interaction with errors that may be uncovered during the smart Meter roll out.

ELEXON highlighted that data analyses, at the time of the meeting, was currently being carried out to help assess P274 and that this information could help the SVG make a decision on CP1360. An SVG Member pointed out that there was an opportunity to delay the decision and still implement the CP to the required timescales to facilitate a GVC audit within the scope for 2013. The group agreed and noted that this would also allow time for the information required to support its decision to become available.

¹ Further information on the 31 January 2012 SVG meeting, including the approved minutes and CP1360 paper can be found on the SVG132 page of the ELEXON website [here](#).

The SVG therefore agreed that a decision could be made on CP1360 once P274 had been progressed.

7. Way Forward

Proposer's view

The Proposer continues to support CP1360 for the reasons outlined in Section 1 of this paper.

Next Steps

P274 is currently with Ofgem for decision and is recommended for rejection by the Panel. ELEXON therefore intends to take CP1360 off hold (as requested by the Panel at its meeting on 13 December 2012) and issue it for a second Participant Impact Assessment, with a revised proposed Implementation Date of the 7 November 2013 to reflect the elapsed time since the original Impact Assessment and the lead times requested by respondents to that assessment.

We invite the SVG to provide any comments and suggested changes to CP1360 now, so that we can take these into account prior to the second Impact Assessment. Note that we will bring back the results of the second Impact Assessment to the SVG's meeting on 30 April 2013. We anticipate that Ofgem will have made its decision on P274 by then, so that the SVG will be in a position to make a decision on whether to approve the CP.

Recommendations

ELEXON invites the SVG to:

- a) **NOTE** that ELEXON intends to take CP1360 off hold and issue it for a second Participant Impact Assessment;
- b) **NOTE** the proposed amendments to BSCP504;
- c) **NOTE** the revised proposed Implementation Date of 7 November 2013, as part of the November 2013 Release; and
- d) **AGREE** any comments or suggested changes to CP1360 at this stage.

Attachments:

Attachment A – BSCP504 Redlining

Attachment B – CP1360 Consultation Responses

For more information, please

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