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19 March 2002

The National Grid Company, BSC Signatories and  
Other Interested Parties

Our Ref : MP No: P40

Dear Colleague,

**Modification to the Balancing and Settlement Code (“BSC”) - Decision and Notice in relation to Modification Proposal P40: “Calculation of Negative Estimates of Annual Consumption (EAC)”**

The Gas and Electricity Markets Authority (the “Authority”)<sup>1</sup> has carefully considered the issues raised in Modification Proposal P40, “Calculation of Negative Estimates of Annual Consumption (EAC)”.

The Balancing and Settlement Code Panel (the “Panel”) recommended to the Authority that Modification Proposal P40 be rejected.

The Authority has decided not to direct a Modification to the BSC.

This letter explains the background to the Modification Proposal and sets out the Authority’s reasons for its decision.

**Background to the proposal**

Modification Proposal P40 “Calculation of Negative Estimates of Annual Consumption (EACs)” was submitted on 25 September 2001 by SEEBOARD. The justification for the Modification Proposal was based on the Applicable BSC Objective<sup>2</sup> C3 (3) (d), “promoting

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<sup>1</sup> Ofgem is the office of the Authority. The terms “Ofgem” and “the Authority” are used interchangeably in this letter.

<sup>2</sup> The Applicable BSC Objectives, as contained in Condition C3 (3) of National Grid Company’s Transmission Licence, are:

- (a) the efficient discharge by the licensee of the obligations imposed upon it by this licence;
- (b) the efficient, economic and co-ordinated operation by the licensee of the licensee’s transmission system;
- (c) promoting effective competition in the generation and supply of electricity, and (so far as consistent therewith) promoting such competition in the sale and purchase of electricity;

efficiency in the implementation and administration of the balancing and settlement arrangements”.

On 18 October 2001 the BSC Panel reviewed the Initial Written Assessment of Modification Proposal P40 prepared by ELEXON, and agreed that the Proposal should be submitted to the Volume Allocation Modification Group under the Assessment Procedure (as described in section F2.6 of the Balancing and Settlement Code). The Modification Group met on 25 October 2001, and agreed to issue a paper on the issues raised by Modification Proposal P40 for consultation and impact assessment by Parties and Party Agents. The deadline for consultation and impact assessment responses was 19 November 2001, and the Modification Group met on 22 November 2001 to discuss the responses.

The Panel meeting on 13 December 2001 considered the Assessment Report and agreed that the Modification Proposal should proceed to the Report Phase. The Panel agreed that a draft Modification Report be prepared and issued for consultation, and this was issued on 20 December 2001.

### **The Modification Proposal**

The EAC (Estimated Annual Consumption) is a parameter used within the balancing and settlement system for estimating the energy consumption of a customer for a period where actual meter reading data is not yet available. It is calculated as a weighted average of the previous EAC<sup>3</sup> and the Annualised Advance (AA), where the AA is an estimate of annual consumption based on historic meter reading data.

Intuitively, the EAC should always be greater than or equal to zero (consumption should always be positive), but in practice, negative values can occur. These negative EAC's result from negative Annualised Advances, which may in turn occur as a result of either:

- Situations where the process has been followed correctly, but has led to a negative meter advance. An example of this is where a meter reading is calculated (perhaps at Change of Supplier), and shortly afterwards an actual meter read is taken which is lower than the calculated read, leading to a negative advance.
- Situations where the process has not been followed correctly, and this leads directly to a negative meter advance. An example of this would be where Non Half Hourly Data Collector software fails to interpret correctly a meter rollover, and therefore calculates a large negative advance.
- Situations where, in accordance with the principle of 'gross volume correction', a negative advance is deliberately introduced into settlement to compensate for a previous advance that was erroneously large.

Modification Proposal P40 seeks to modify the BSC so as to preclude the ability for an EAC to be calculated as a negative value. Where a negative EAC arises, the Proposal is that it

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(d) promoting efficiency in the implementation and administration of the balancing and settlement arrangements.

<sup>3</sup> The formula for calculating the EAC is given in Annex S-2, Section 4.3.7 of the BSC

would be replaced by an average value that would be representative of a typical user with that customer's consumption profile. The Proposer stated that this would minimise inaccuracies in settlements and ensure there are not significant cashflow or unbilled Use of System impacts for Public Distribution System Operators (PDSO's).

### **Respondents' views**

In total, ELEXON received six responses (representing eighteen parties) to the consultation on the draft Modification Report. Of the responses, five (representing seventeen parties) expressed support for the Panel's recommendation that the Proposed Modification P40 be rejected and the remaining response (representing one party, the Proposer) was opposed to the Panel's recommendation.

The respondents' views are comprehensively summarised in the Modification Report<sup>4</sup> for Modification Proposal P40, and the full text of all of the responses is included as Annex 1 of that Report.

### **Panel's Recommendation**

The Panel met on 17 January 2002 and considered the Modification Proposal P40, the draft Modification Report, the views of the Modification Group and the consultation responses received.

By a majority decision, the Panel recommended that the Authority should reject the Proposed Modification P40. The rationale behind their view, that Modification Proposal P40 does not better facilitate achievement of the Applicable BSC Objectives, was as follows:

- Where a negative EAC value occurs, either the previous EAC or the subsequent EAC will typically be too large, and these two values can compensate for each other. Removing only one of them runs the risk of introducing a systematic distortion into the (uncorrected) Non Half Hourly energy values that enter settlement. This may hinder effective competition in the supply of electricity.
- The actual effect on the accuracy of Distribution Use of System (DuoS) billing and settlement is very limited, with any inaccuracies being resolved through the mechanism of Reconciliation. The costs of changing Non Half Hourly Data Collector software to implement the Modification Proposal would therefore outweigh the benefits.

A number of Panel Members also believed that Modification Proposal P40 was seeking to address the symptoms of poor data quality, and that it was more appropriate to address the underlying causes through appropriate performance assurance techniques.

### **Ofgem's view**

Ofgem considers, having had regard to its statutory duties, that Modification Proposal P40 does not better facilitate achievement of the Applicable BSC Objective, C3 (3) (d), "promoting

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<sup>4</sup> ELEXON document reference MR040, Version 1.0, issued 22 Jan. 2002

efficiency in the implementation and administration of the balancing and settlement arrangements”.

Ofgem agrees with the view that removing negative EAC values from settlement but leaving the erroneously large EAC values unchanged, runs the risk of introducing a systematic distortion into settlement and DUoS billing. This cannot be considered any more efficient than the current situation, in which erroneous EAC's tend to be counterbalanced by previous or subsequent EAC's which err by a similar magnitude in the opposite direction.

Furthermore, it would appear that the benefits arising from the Modification Proposal P40 are minimal in comparison to the costs of implementing the necessary changes to the systems. Ofgem considers however that when considering modification proposals, such analyses of benefit relative to cost should only be conducted on a case by case basis.

Ofgem agrees with the view of Panel members that it may be more productive to investigate the underlying reasons for the occurrence of negative EAC's and address these issues directly, rather than simply trying to remedy the effects through changes to the BSC.

### **The Authority's decision**

The Authority has therefore decided not to direct that Modification Proposal P40 should be made and implemented.

Having regard to the above, the Authority, in accordance with Section F1.1.4 of the BSC, hereby notifies NGC that it does not intend to direct NGC to modify the BSC as set out in Modification Proposal P40, a copy of which is attached to this letter.

If you have any queries in relation to the issues raised in this letter, please feel free to contact me on the above number.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'D. Edward', written in a cursive style.

**David Edward**  
**Head of Electricity Code Development**

Signed on behalf of the Authority and authorised for that purpose by the Authority