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| <p align="center">Change Proposal – BSCP40/02</p> | <p>CP No: 1361</p> <p>Version No: 1.0</p> |
| <p>Title:</p> <p>Removal of Extreme EACs</p> | |
| <p>Description of Problem/Issue:</p> <p><u>Background</u></p> <p>Licensed Distribution System Operators (LDSOs) are required, through Standard Licence Condition 44B (Distribution Losses Reporting Regime), to use Settlement data to determine and report energy entering and energy exiting their networks in accordance with Regulatory Instruction and Guidance (RIGs). This information is the primary input into the Distribution Loss Incentive Mechanism (DLIM), which is effected through Special Condition CRC¹ 7 (Adjustment of licensee's revenues to reflect distribution losses performance).</p> <p>LDSOs are required to report this information for the Distribution Price Control Review 5² (DPCR5) so that the DLIM for this period can operate, and for the DPCR4³ period so that the DLIM for this period can be closed down and so that the DLIM targets for the DPCR5 period can be set.</p> <p>The incentive / penalty was £48/MWh for the DPCR4 period and is £60/MWh for the DPCR5 period. As a consequence, the financial implications of the DLIM for each LDSO can run into many £100s millions for each 5 year price control period.</p> <p>Determination of the inputs to the DLIM – both in terms of target setting and of performance measurement – is based on Settlement data. As a consequence, the DLIM is reliant on the quality of this data. More specifically, effective operation of the mechanism is reliant on the Settlement data used to set the targets being consistent with the Settlement data used to measure performance.</p> <p>However, the scale of Supplier adjustments to Settlement data in the 14 months reconciliation window increased significantly in the five year DPCR4 period. The principal reason for this was an increased focus by Suppliers in addressing Settlement data quality issues using a variety of techniques currently permitted under the BSC. This has created an inconsistency between the basis of the target setting and performance measurement components of the DLIM. For DPCR4, this is having a very material impact on LDSOs – running into £10s millions for most and greater than £100 million for some. Ofgem is consulting on the most appropriate means of addressing this for DPCR4.</p> <p>LDSOs are very concerned that such issues could impact the operation of the DLIM in DPCR5 in a similar manner, with comparable financial implications. This creates uncertainty for LDSOs in their regulated allowable revenue and uncertainty for Suppliers in the Distribution Use of System (DUoS) costs they will incur. Impacts such as more volatile energy prices and / or increased energy prices could also affect consumers, though this is outside the scope of the BSC.</p> <p>LDSOs and Suppliers set up an industry working group under the Distribution Charging Methodology Forum (DCMF) to consider these issues. These ran over an 11 week period from June to August. This group concluded that the primary issue lies with the design of the DLIM. However, Ofgem has indicated that there is no scope for making any fundamental changes to the DLIM effective in DPCR5. Consequently, LDSOs want to ensure, to the extent that it is possible, that Settlement data better supports operation of the DLIM.</p> | |

¹ Charge Restriction Condition.

² Running for the 5 year period starting on 1st April 2010.

³ Running for the 5 year period ending on 31st March 2010.

Issue

The increased level of adjustments to Settlement data described above have been effected by Suppliers using a range of techniques currently permitted under the BSC. One such technique, purportedly used extensively by some Suppliers, is Gross Volume Correction (GVC).

GVC compensates for volume errors that have crystallised in the Final Reconciliation (RF) run by introducing an equal and opposite error in days that have not yet been subject to the RF run. This technique often results in an extreme EAC (Estimated Annual Consumption) being produced⁴ that is very different from the consumer's expected usage. An optional step in the GVC process is to replace an extreme EAC with a realistic EAC; but this step is very often not undertaken. This allows extreme EACs to enter Settlements. These will usually be replaced by AAs (Annualised Advances) that are more reflective of usage; and so the extreme EACs serve to create volatility between Settlement runs.

Extreme EACs are a major issue for the DLIM as they preclude adequate determination of when energy flows took place and creates volatility in Settlements. This creates uncertainty for LDSOs in their regulated allowable revenue and uncertainty for Suppliers in the DUoS costs they will incur. Impacts such as more volatile energy prices could also affect consumers, though this is outside the scope of the BSC.

Proposed Solution:

The proposal seeks to place an obligation on Non Half Hourly Data Collectors (NHHDCs) to replace extreme EACs following a GVC if the forward EAC is demonstrably inconsistent with normal generation or demand for that Metering System and is likely to lead to failure to validate subsequent readings. This is currently an optional requirement under BSCP504 'NHH Data Collection for SVA Metering Systems registered in SMRS'.

The CP would therefore amend BSCP504 section 4.14.4.7 to stipulate the instances in which extreme EACs must be replaced and make the step mandatory. Section 3.4.3.4 will be amended to refer NHHDCs to section 4.14.4.7 for direction on when to substitute the EACs. The attached redlining details the changes that would be made to achieve this.

Making this step mandatory will ensure that extreme EACs are removed from Settlement data thereby reducing volatility between Settlement runs for the benefit of all Suppliers; and the consequential uncertainty that results for LDSOs (determining regulated allowable revenue) and Suppliers (DUoS costs incurred).

Justification for Change:

This Change Proposal better facilitates Applicable BSC Objective (c) (the promotion of 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). It does this by increasing the accuracy of and reducing the volatility of Settlements for all Suppliers and other impacted BSC Parties.

In addition, this Change Proposal furthers the broader Authority objectives of protecting consumers' interests by making Settlement data better support the operation of the DLIM. This will help remove uncertainty and risks for DNOs and Suppliers – and ultimately help reduce price volatility and risk premiums in retail tariffs to consumers though this is outside the scope of the BSC.

To which section of the Code does the CP relate, and does the CP facilitate the current provisions of the Code?

Section S.

⁴ Following implementation of CP1311 negative EACs are not produced by the centrally provided EAC/AA software; which means that the main issue lies with extreme positive EACs.

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| Estimated Implementation Costs: The estimated ELEXON implementation cost is 4 man days of effort, which is equivalent to £960. | | | | | | | | | | | |
| Configurable Items Affected by Proposed Solution(s): BSCP504 Non Half Hourly Data Collection for SVA Metering Systems Registered in SMRS. | | | | | | | | | | | |
| Impact on Core Industry Documents or System Operator-Transmission Owner Code: None. | | | | | | | | | | | |
| Related Changes and/or Projects <i>(mandatory by BSCCo)</i> Several CPs relate to similar areas to this CP, though none of the CPs are interdependent: <ul style="list-style-type: none"> • CP1360 - Inclusion of Audit Records for Gross Volume Correction and Dummy Meter Exchanges; • CP1362 - Removal of Residual Negative EACs; and • CP1363 - Addressing Settlement Data Adjustments in a Balanced Manner. | | | | | | | | | | | |
| Requested Implementation Date: 28 June 2012. | | | | | | | | | | | |
| Reason: Next available BSC Release. | | | | | | | | | | | |
| Version History: Version 1.0 for impact assessment. | | | | | | | | | | | |
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| Attachments: Yes BSCP504 redlined (<i>4 pages</i>) | | | | | | | | | | | |