



Stage 04: Final Modification Report

What stage is this document in the process?

01 Initial Written Assessment

02 Definition Procedure

03 Assessment Procedure

▶ 04 Report Phase

P273: Make the SVA Funding Share calculation robust to changes in Scaling Weights

This Modification Proposal corrects a manifest error/minor inconsistency within the algebra for calculating the SVA (Consumption) Funding Share. It delivers the BSC's original intent and ensures that the calculation remains robust to any future changes in GSP Group Correction Scaling Weights.



The Panel **Approved** P273 for implementation on 23 February 2012



Low Impact:
Supplier Volume Allocation Agent (SVAA) and ELEXON



Any questions?

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About this document:

This document is the P273 Self-Governance Modification Report. ELEXON has submitted this report to Ofgem and the Transmission Company, and copied it to all BSC Parties and BSC Panel Members.

P273 is a Self-Governance Modification Proposal, meaning it does not need to go to Ofgem for decision. The Panel has approved P273 for implementation on 23 February 2012. In accordance with Section F6.4 of the BSC, Parties have until 29 September 2011 (15 Working Days from the 8 September Panel Meeting) to appeal the Panel's decision to Ofgem.

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Why Change?

A manifest error/inconsistency has been identified within the algebra for calculating the SVA (Consumption) Funding Share, which means that a change in the GSP Group Correction Scaling Weights may have an unintended effect on this calculation.

This Funding Share is intended as a measure of a Party's Non-Half Hourly consumption. However, it is calculated using Corrected Correctable Supplier Deemed Take, the calculation of which is determined by the Scaling Weights. If these are changed, then Half Hourly consumption could be introduced into this calculation, which would distort the Funding Share and result in incorrect charges.

Solution

The proposed solution would define a new term, Non Half Hourly Supplier Deemed Take, which would be based on data aggregation type and not Scaling Weight. This would replace Corrected Correctable Supplier Deemed Take in the Funding Share calculation.

Impacts & Costs

This Modification would only impact SVAA and ELEXON: a minor System change would be required to the SVA Pool Application to give effect to the new definitions. The estimated BSC Agent and ELEXON implementation cost is approximately £14.5k.

Implementation

The Panel has approved P273 for implementation on 23 February 2012 as part of the February 2012 BSC Systems Release.

The Case for Change

The Panel believes that this Modification would better facilitate Applicable BSC Objective (d).

Self-Governance

The Panel unanimously agree that P273 meets the Self-Governance Criteria. Ofgem has confirmed that it does not object to this.

Panel's Decision

The Panel unanimously approved P273.



What are GSP Group Correction and Scaling Weights?

The GSP Group Correction mechanism seeks to mitigate certain types of error in metered energy volumes by adjusting the energy allocated to different Suppliers in each geographic area. This error-correction mechanism is managed through the application of GSP Group Correction Scaling Weights to each Consumption Component Class (CCC), which determines the level of correction applied to the energy within that CCC.

The current values of these Scaling Weights mean that this mechanism is applied only to energy that is settled through Non-Half Hourly (NHH) Meters, and is not applied to energy associated with Half Hourly (HH) Meters. The Scaling Weights that are used in the algorithm have not changed since NETA Go-Live in 2001. As HH metering becomes more prevalent, it becomes more likely that the Scaling Weights may need adjustment.

Following the recommendation of the Profiling and Settlement Review Group (PSRG), the Supplier Volume Allocation Group (SVG) is considering whether GSP Group Correction should be applied to both HH and NHH markets in a cost-reflective way. This would require changes to the Scaling Weights, including introducing non-zero Scaling Weights for HH energy. The SVG is currently assessing what changes should be made to the Scaling Weights, and is considering making any such changes effective from 1 April 2012. You can find further details in SVG Papers [122/09](#) and [127/07](#).

Changes to the Scaling Weights do not require a Modification Proposal, as the values are not defined in the BSC but are held within Market Domain Data (MDD). The SVG has already notified the industry that it is considering amending the Scaling Weights, and that it will consult on any such amendments as part of the normal MDD change process.

The issue – Calculation of the SVA (Consumption) Funding Share

The SVA (Consumption) Funding Share in Annex D-1 of the BSC is calculated from Corrected Correctable Supplier Deemed Take (CCSDT), the calculation of which is affected by the Scaling Weights.

This calculation currently relies on the assumption that Scaling Weights are zero for energy associated with Half Hourly metering. This has been the case until now, but the assumption will not be valid if non-zero Scaling Weights are introduced for HH GSP Group Correction.

To calculate CCSDT, the BSC defines a parameter, Non-Correctable Supplier Deemed Take (NCSDT), as the sum of consumption for each CCC where the Scaling Weight is zero. It then defines CCSDT as the difference between the total Supplier Deemed Take (SDT) and the NCSDT. This results in CCSDT being the sum of consumption for each CCC where the scaling weight is not zero.

Currently, all NHH CCCs have non-zero Scaling Weights, while all HH CCCs have zero Scaling Weights. This means that, at the moment, CCSDT is comprised only of NHH consumption, and accounts for all NHH consumption.

Annex D-1 clearly states that the SVA (Consumption) Funding Share is intended to be a measure of NHH consumption. This is because Half Hourly Suppliers fund their share of SVA costs separately through the Half Hourly Metering System Monthly Charge. However, if the Scaling Weights are changed then CCSDT may, as a result, be comprised of some

What is the defect?

The SVA (Consumption) Funding Shares is intended as a measure of a Party's NHH consumption. However, the calculation is determined by the Scaling Weights used in GSP Group Correction. If these are changed, the calculation of the Funding Share will be distorted, leading to incorrect charges.

HH consumption. As the calculation currently stands, these changes would then feed into the calculation of the SVA (Consumption) Funding Share.

If the Scaling Weights are changed, this will introduce HH consumption into the calculation of CCSDT, which will, in turn, introduce HH consumption into the Funding Share calculation. The SVA (Consumption) Funding Share is used to split the Annual Consumption-Charging Net SVA Costs, which is the portion of the BSC Costs that is paid by Parties in line with their NHH consumption. Should HH consumption be introduced to the calculation of this Funding Share, this will distort the Funding Share, and will result in Parties contributing an incorrect amount of the Annual Consumption-Charging Net SVA Costs, or even being incorrectly asked to pay towards this cost when they have no NHH consumption.

The intent of Annex D-1 is clear, but a technical change is required to the algebra in order to ensure that the calculation continues to deliver the intended results, and is robust to any future changes in the Scaling Weights.

The PSRG and the SVG have asked us to bring this defect to the Panel's attention, and to recommend that the Panel raise a Modification Proposal.



Proposed solution

The solution involves defining a new term, 'Non Half Hourly Supplier Deemed Take' (NHHSDT), to be used in the calculation of the SVA (Consumption) Funding Share.

The calculation of Supplier Deemed Takes uses the Corrected Component (CORC) for each CCC, which is the amount of consumption for each CCC after the application of GSP Group Correction. CCSDT is defined as the sum of the CORC from each CCC where the Scaling Weight is non-zero. The new parameter, NHHSDT, will be defined as the sum of the CORC for CCCs where the data aggregation type is NHH. This means that NHHSDT, like CCSDT, will have already had GSP Group Correction applied by the point where it is calculated.

NHHSDT will then replace CCSDT in the calculation of the SVA (Consumption) Funding Share. This will exactly replicate the results of the current algebra with the current Scaling Weights. However, as NHHSDT will not be based on Scaling Weights but on the data aggregation type, it will not be affected by subsequent changes in Scaling Weights. The change will therefore align the algebra to match the BSC's original intention that the calculation of the SVA (Consumption) Funding Share reflects a Supplier's share of NHH consumption.

As CCSDT is only used in the calculation of the SVA (Consumption) Funding Share, and is not used anywhere else in the BSC or in any other calculations, the draft legal text removes it from the BSC entirely to avoid any confusion. In addition, as NCSDT is calculated only as an intermediate step of the calculation of CCSDT, and is not used elsewhere, it is also removed.

The Modification Proposal is not dependent on the outcome of the SVG's discussions regarding the introduction of new Scaling Weights, as it relates to an existing defect in the BSC. However, the SVG has asked that the defect be rectified before April 2012 so that, if it does decide to change the Scaling Weights in the future, the calculation remains robust.

Legal text

The proposed changes to the legal text can be found in Attachment B.

What is the solution?

A new term, NHHSDT, will be defined that is based on the data aggregation type of a CCC and not the Scaling Weight. This new term will replace CCSDT in the Funding Share calculation.

4 Impacts & Costs

Implementation Costs

Implementation costs	
ELEXON effort	5 man days, equating to approximately £1k
Service Provider costs	Approximately £13.5k
Total costs	Approximately £14.5k

Impacts

Impact on BSC Systems and process	
BSC System/Process	Potential impact
SVAA	Minor changes to the SVA Pool Application to give effect to the new definition. These changes will not impact Parties.

Impact on BSC Agent/Service Provider contractual arrangements	
None.	

Impact on BSC Parties and Party Agents	
None. The Modification Proposal will not cause any changes to Parties' SVA (Consumption) Funding Shares.	

Impact on Transmission Company	
None.	

Impact on ELEXON	
Minor impact to update the BSC and manage the necessary system changes.	

Impact on Code	
Code section	Potential impact
Section D – Annex D-1	Changes will be required to implement the solution.
Section S – Annex S-2	Changes will be required to implement the solution.
Section X – Annex X-2	Changes will be required to implement the solution.

Impact on Code Subsidiary Documents	
None.	

Impact on Core Industry Documents and other documents	
None.	

5 Implementation

Panel's suggested implementation approach

This Modification Proposal would require minor System changes as well as Code changes. It would be implemented as part of the **February 2012 BSC Systems Release**.

The Panel agreed a provisional implementation date of:

- 23 February 2012 if the Modification Proposal is approved on or before 14 December 2011; or
- 31 March 2012 if the Modification Proposal is approved after 14 December 2011 but on or before 11 January 2012.

The majority of consultation respondents agreed with these proposed Implementation Dates.

Approved implementation approach

The Panel has subsequently approved P273 on 8 September 2011, for implementation on 23 February 2012.

6 The Case for Change

Panel's view against the Applicable BSC Objectives

The Panel believe this Modification would better facilitate **Applicable BSC Objective (d)** 'promoting efficiency in the implementation and administration of the Balancing and Settlement arrangements'.

They believe it is self-evident that removing a manifest error/inconsistency in the Code better facilitates the efficiency of the BSC arrangements, by ensuring that the original intention of the BSC is given effect and that the calculation of SVA Funding Shares remains robust to any future changes in Scaling Weights.

Straight to Report Phase

The Panel agreed that P273 should proceed directly to the Report Phase. The Panel noted that the clear intention of the BSC is that the SVA (Consumption) Funding Share is a measure of NHH consumption, but that the algebra does not facilitate this in all scenarios. Any changes to the Scaling Weights will distort the Funding Share, which will result in Parties being charged incorrect amounts, or even being incorrectly charged when they have no NHH consumption. P273 amends the algebra to realise the BSC's original intent. Hence, this is a self-evident change, and so should proceed directly to Report Phase.

Self-Governance

The Panel agreed a provisional recommendation that P273 should be progressed as a Self-Governance Modification Proposal. P273 has no material impact on consumers, competition, the Transmission System or BSC governance. It corrects a known manifest error/inconsistency, and enables the original intention of the BSC to be given effect in the event that the SVG separately decides to change the Scaling Weights. The Modification Proposal itself has no impact on Parties as it will not alter the SVA Funding Shares. Any future change to the Scaling Weights will be the subject of a separate industry consultation.

Panel's consideration of the proposed solution

The Panel commented on the new term proposed in the solution, and asked that it be made clearer that the calculation of NHHS DT uses the corrected values of consumption. Following this, the proposed definition of NHHS DT in Table X-6 of Annex X-2 in the draft legal text was amended to add this point of clarity.



Self-Governance Criteria

(a) it is unlikely to have a material effect on:

(i) existing or future consumers;

(ii) competition in the generation, distribution, or supply of electricity or any commercial activities connected with the generation, distribution, or supply of electricity;

(iii) the operation of the national electricity transmission system;

(iv) matters relating to sustainable development, safety or security of supply, or the management of market or network emergencies; and

(v) the BSC's governance procedures or modification procedures; and

(b) it is unlikely to discriminate between different classes of BSC parties.

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8 Report Phase Consultation Responses



What were Report Phase respondents' views?

The majority of respondents supported the Panel's initial view that P273 should be approved.

All respondents supported the Panel's view that P273 should be progressed as a Self-Governance Modification.

This section summarises the responses to the Panel's Report Phase Consultation on its provisional views. You can find the full responses in Attachment C.

Report Phase Consultation Responses			
Question	Yes	No	Neutral/Other
Do you agree with the Panel's unanimous view that the Proposed Modification should be approved?	3	1	1
Do you agree that the legal text delivers the intention of P273?	4	0	1
Do you agree with the Panel's suggested Implementation Date?	4	1	0
Do you agree with the Panel's view that P273 should be progressed as a Self-Governance Modification Proposal?	5	0	0

Views on the Modification

The majority of respondents agreed with the Panel's view that this Modification should be made, that the legal text delivers the intent of P273, and that P273 should be implemented as part of the February 2012 BSC Systems Release.

One respondent was neutral as to whether P273 should be approved. In their response they commented that, while the proposed change resolves the inconsistency between the algebra and the intent given in the BSC, it does not look at the current cross-subsidy with NHH export whereby export is netted from import. The respondent felt that this continues to leave the SVA (Consumption) Funding Share inconsistent with similar calculations in the BSC.

We contacted the respondent and informed them that P273 was raised to remove a manifest error; removing any perceived cross-subsidy was not the intent of this Modification.

One respondent disagreed with the Modification and the proposed implementation date, and did not provide a view on the legal text. In their response, they felt that, in approving this Modification, the Panel would be prejudging any decisions relating to the sharing of error between HH and NHH. They also felt that any such changes to the sharing of error should be aligned with Proposed Modification P272 'Mandatory Half Hourly Settlement for Profile Classes 5-8', and that there is no need to alter anything until that point is reached.

As highlighted in Section 3 on page 6, P273 is not dependent on the outcome of the SVG's discussions regarding the introduction of new Scaling Weights. This Modification seeks only to correct an existing defect in the BSC so that, if the SVG does decide to change the Scaling Weights in the future, the calculation of the SVA (Consumption) Funding Share remains robust. Additionally, any future change to the Scaling Weights will be the subject of a separate industry consultation.

The responses received were presented to the SVG at their meeting on 30 August 2011. The SVG acknowledged the comments made, and confirmed their view that the Panel should approve this Proposed Modification.

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Views on Self-Governance

All respondents agreed with the Panel's view that this Modification should be progressed as a Self-Governance Modification.



Panel's consideration of the Report Phase Consultation responses

The Panel noted the comments made by a respondent around the proposed changes to the Scaling Weights. They highlighted that the intent of P273 is to prevent any unintended effects that a change to Scaling Weights would subsequently cause, should any changes to Scaling Weights be made at a later date. They emphasised that their decision with regards to P273 was not an endorsement for any particular outcome for the SVG's upcoming review.

What was the Panel's final view?

The Panel has determined that P273 meets the Self-Governance criteria and would better facilitate the Applicable BSC Objectives.

The Panel has approved P273 with an Implementation Date of 23 February 2012.

Self-Governance

The Panel continues to unanimously believe that P273 meets the Self-Governance Criteria for the reasons given in Section 7.

At the Panel meeting, Ofgem confirmed that it had considered the arguments and does not object to Self-Governance for P273. The Panel has therefore determined that P273 should be a Self-Governance Modification Proposal.

Applicable BSC Objectives

The Panel continues to believe that P273 would better facilitate Applicable BSC Objective (d) for the reasons given in Section 6.

The Panel has therefore unanimously **approved** P273 for implementation.

Implementation Date

The Panel has approved an Implementation Date for P273 of **23 February 2012**, as part of the February 2012 BSC Systems Release.

Legal text

The Panel has approved the drafting to the Code. A copy of the approved legal text can be found in Attachment B.

10 Panel's Decisions



Decision

The Panel unanimously approved P273 with an implementation date of 23 February 2012.

The Panel has:

- **NOTED** the P273 draft Modification Report and the Report Phase consultation responses;
- **DETERMINED** (in the absence of any Authority direction) that P273 is a Self-Governance Modification Proposal;
- **APPROVED** P273 with an Implementation date of 23 February 2012 in accordance with the attached BSC legal text;
- **NOTED** that, in accordance with Section F6 of the Code, ELEXON will:
 - Notify the Authority, Transmission Company and Parties of the Panel's decision on the same day as the Panel meeting;
 - Finalise the P273 Self-Governance Report, submit it to the Authority, and copy it to Parties and Panel Members within 3 Working Days; and
 - Copy the Transmission Company's notice to modify the Code to Parties, Panel Members, the Authority and the other interested Parties specified in F1.1.2(b);
- **NOTED** that the appeal window for P273 will close 15 Working Days after ELEXON's notification of the Panel's decision (i.e. on 29 September 2011);
- **NOTED** that, if no appeal is raised, P273 will be implemented in accordance with the Panel's determination; and
- **NOTED** that, if an appeal is raised in accordance with F6.4.2 and F6.4.10, the Authority will consider the appeal in accordance with the process set out in Section F6.4.

11 Further Information

More information is available in:

Attachment **A**: Modification Proposal

Attachment **B**: BSC Legal Text

Attachment **C**: Report Phase Consultation Responses

All P273 documentation can be found on the P273 page of the ELEXON website.

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