



79/005

SECOND INTERIM REPORT for Modification Proposal P157 Replacement of current Supplier Charges rules

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This document has been distributed in accordance with Section F2.1.10¹ of the Balancing and Settlement Code.

RECOMMENDATIONS

The VASMG invites the Panel to;

- **NOTE** the contents of this Interim Report;
- **NOTE** the provisional thinking received from the Authority; and
- **CONSIDER** whether to issue a direction to the VASMG as a result of the Authority's view.

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¹ The current version of the Balancing and Settlement Code (the 'Code') can be found at <http://www.elexon.co.uk/bscrelateddocs/BSC/default.aspx>

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SUMMARY OF IMPACTED PARTIES AND DOCUMENTS

As far as the VASMG has been able to assess, the following Parties/documents have been identified as being potentially impacted by Modification Proposal P157.

Parties	Sections of the BSC	Code Subsidiary Documents
Suppliers <input checked="" type="checkbox"/>	A <input type="checkbox"/>	BSC Procedures <input checked="" type="checkbox"/>
Generators <input checked="" type="checkbox"/>	B <input type="checkbox"/>	Codes of Practice <input type="checkbox"/>
Licence Exemptable Generators <input checked="" type="checkbox"/>	C <input type="checkbox"/>	BSC Service Descriptions <input type="checkbox"/>
Transmission Company <input type="checkbox"/>	D <input type="checkbox"/>	Service Lines <input type="checkbox"/>
Interconnector Users <input checked="" type="checkbox"/>	E <input type="checkbox"/>	Data Catalogues <input type="checkbox"/>
Distribution System Operators <input type="checkbox"/>	F <input type="checkbox"/>	Communication Requirements Documents <input type="checkbox"/>
Party Agents		
Data Acquirers <input type="checkbox"/>	G <input type="checkbox"/>	Reporting Catalogue <input type="checkbox"/>
Data Collectors <input type="checkbox"/>	H <input type="checkbox"/>	MIDS <input type="checkbox"/>
Meter Operator Agents <input type="checkbox"/>	J <input checked="" type="checkbox"/>	Core Industry Documents
ECVNA <input type="checkbox"/>	K <input type="checkbox"/>	Grid Code <input type="checkbox"/>
MVRNA <input type="checkbox"/>	L <input type="checkbox"/>	Supplemental Agreements <input type="checkbox"/>
BSC Agents		
SAA <input type="checkbox"/>	M <input type="checkbox"/>	Ancillary Services Agreements <input type="checkbox"/>
FAA <input type="checkbox"/>	N <input type="checkbox"/>	Master Registration Agreement <input type="checkbox"/>
BMRA <input type="checkbox"/>	O <input type="checkbox"/>	Data Transfer Services Agreement <input type="checkbox"/>
ECVAA <input type="checkbox"/>	P <input type="checkbox"/>	British Grid Systems Agreement <input type="checkbox"/>
CDCA <input type="checkbox"/>	Q <input type="checkbox"/>	Use of Interconnector Agreement <input type="checkbox"/>
TAA <input type="checkbox"/>	R <input type="checkbox"/>	Settlement Agreement for Scotland <input type="checkbox"/>
CRA <input type="checkbox"/>	S <input checked="" type="checkbox"/>	Distribution Codes <input type="checkbox"/>
Teleswitch Agent <input type="checkbox"/>	T <input type="checkbox"/>	Distribution Use of System Agreements <input type="checkbox"/>
SVAA <input type="checkbox"/>	U <input type="checkbox"/>	Distribution Connection Agreements <input type="checkbox"/>
BSC Auditor <input type="checkbox"/>	V <input type="checkbox"/>	BSCCo
Profile Administrator <input type="checkbox"/>	W <input type="checkbox"/>	Internal Working Procedures ² <input checked="" type="checkbox"/>
Certification Agent <input type="checkbox"/>	X <input type="checkbox"/>	Other Documents
MIDP <input type="checkbox"/>		Transmission Licence <input type="checkbox"/>
TLFA <input type="checkbox"/>		
Other Agents		
SMRA <input type="checkbox"/>		
Data Transmission Provider <input type="checkbox"/>		

X = Identified in Report for last Procedure

N = Newly identified in this Report

² the PARMs system is a BSCCo run system and is impacted by P157.

1 DESCRIPTION OF PROPOSED MODIFICATION

1.1 Modification Proposal

Modification Proposal P157 'Replacement of current Supplier Charges rules', (P157), was raised on 5 January 2004 by EDF Energy. P157 proposes to replace the current Supplier Charges rules in Annex S-1 of the Code with a robust set of rules that adhere to the proposed criteria for a technique that would provide corrective measures suggested by the Volume Allocation Standing Modification Group (VASMGM) during its work on Issue 6 (Supplier Charges).

The Proposer believes that a clear and readily understood set of rules should assist with the drive to improve the quality of data entering Settlement. The latest BSC Audit has been qualified and it is the Proposer's view that a major contributory factor to this was the level of poor data quality in Supplier Volume Allocation especially within the Non Half Hourly (NHH) sector. Supplier Charges are intended to be a corrective technique but the recent work of the VASMGM on Issue 6 has raised serious concerns over the appropriateness of the current rules and their effectiveness as a corrective technique.

The Proposer considered that P157 better facilitated the achievement of Applicable BSC Objectives (c) and (d). The achievement of Applicable BSC Objective (d) - promoting efficiency in the implementation and administration of the balancing and Settlement arrangements, would be achieved by P157 since the quality of data entering Settlement will be improved through the introduction of a Supplier Charges mechanism that is easily understood and that provides incentives on Parties. The Proposer further argued that any mechanism that is effective in improving data quality should also better facilitate the achievement of Applicable Objective (c) – promoting effective competition in the generation and supply of electricity, and promoting such competition in the sale and purchase of electricity.

The Initial Written Assessment (IWA) was presented to the Panel at its meeting on the 15 January 2004. The Proposer raised Modification Proposal P157 so that the more detailed work required to implement a replacement to the current Supplier Charges rules could be undertaken and a solution could be decided upon, since no solution was recommended by the Modification Proposal. For this reason a 2 month Definition Procedure was recommended.

The Definition Report was presented to the Panel at its meeting on 11 March 2004. The Panel recommended that P157 be assessed fully during a three month Assessment Procedure. During the initial stage of the Assessment Procedure, the Group issued one consultation document to industry detailing its initial conclusions regarding the Proposed Modification and suggested alternatives. At its meeting on 13 May 2004, the Panel requested that the VASMGM present an Interim Report at the next Panel meeting to enable the Panel to choose to seek provisional thinking from the Authority if necessary. The request for provisional thinking was made and the Authority delivered its provisional thinking on 25 June 2004 such that it could be considered at the July 2004, Panel meeting. A further meeting of the VASMGM was held on 28 June 2004 to discuss the provisional thinking. The views of the Group are detailed below in this Interim Report.

2 OFGEM'S PROVISIONAL THINKING, THE VASMG'S RESPONSE AND ADDITIONAL VASMG DISCUSSION

2.1 Supplier Charges

2.1.1 Serials

Ofgem in its provisional thinking urged the Group to consider whether any of the issues it had deemed suitable to be incentivised via the publication of peer group comparison (pgc) tables, could be incentivised in a financial manner which is preferred by Ofgem. Ofgem maintains that financial incentives are more likely to be effective in a competitive market than pgc, not least because of the differing importance that Parties are likely to place upon their settlement performance reputations. In addition, if an issue is of sufficient concern to Parties then it must be causing costs, hence a financial compensation mechanism for those adversely affected might be more appropriate. Ofgem stated that where the current Serials may be deficient, it would prefer that the Group suggests new Serials. Ofgem made specific reference to Energisation Status issues.

The VASMG considered both the conceptual issues that it had considered with regards to the differing roles for Supplier Charges and pgc as well as the individual issues/significant matters it had previously considered appropriate for pgc.

The Group concluded that Supplier Charges should be aimed at maintaining accuracy and timeliness of Settlement over a long period of time. Charges should be used to improve/maintain the overall 'health' of the Settlement system. Pgc on the other hand should be aimed at underlying issues within Settlement that are maybe not yet established as long term problems and are so called 'hot' issues. Applying a financial incentive to these underlying issues may be problematic as it may lead to double counting the genuine pre-estimate of loss by charging on both these and overall accuracy in Settlement. Additionally, these measures could well be more open to interpretation and more disputable if they aren't watertight.

The issues considered individually were those mentioned by Ofgem in its provisional thinking that the Group had isolated as possibly suitable for pgc in its initial Assessment meetings:

- Inaccurate Energisation Status of Metering Systems;
- Processing of erroneous EAC/AA;
- Erroneous values of Unmetered Supplies (UMS) NHH;
- Inadequate clearance of exceptions and backlogs in HH; and
- Inadequate clearance of exceptions and backlogs in NHH.

The Group considered each one with regards to whether it ought to be and could be incentivised financially or not.

Inaccurate Energisation Status of Metering Systems

The Group considered the data that ELEXON had available in relation to this issue e.g. what could be published in a pgc table. ELEXON know the number of Metering Systems that are energised in Supplier Meter Registration System (SMRS) (i.e. Supplier and Data Aggregator view) and also the number of Metering Systems that are being settled on (SVAA view) as measured by SP07, a Serial introduced by P99. A mismatch between these two numbers implies that some Metering Systems that are considered as de-energised are being settled on and or that there are some Metering Systems that are considered energised but are not being settled on. The Group considered that this was an objective measure and

that publishing pgc tables on this might incentivise Suppliers to look at and attempt to investigate and rectify mismatches³.

The Group did acknowledge that there are often costs caused to industry participants as a result of incorrect Energisation Status. These costs are central ELEXON costs as well as the cost to other Parties due to a misallocation of the energy via GSP Group Correction Factor. The Group also acknowledged that a crude £/MWh value for this could be ascertained by looking at how large the error in the industry is and the Energisation Status Project and the auditor have gone some way to quantifying the error. This £/MWh value could be applied to the Metering System count value derived from SP07 and an average NHH consumption applied. However there were several reasons why the Group were unhappy with this approach:

- Energisation Status is a current 'hot' issue and thus fits conceptually with pgc;
- It may be a short term issue since there are processes in place to try to correct it, the Extra Settlement Determination (ESD) which could be used to rectify the error is still in the decision phase;
- Suppliers have not yet been instructed to correct the Energisation Status of Metering Systems but once they have the issue may be much reduced;
- A mismatch does not necessarily imply a risk to Settlement. An SMRS labelled de-energised Metering System could be entering Settlement on a zero Annualised Advance (AA) for example which is correct. An SMRS labelled de-energised of Metering System could be settling on a non zero AA – in this case the Energisation Status is incorrect but the AA value will enter Settlement such that Settlement accuracy is not affected. Settlement accuracy is only affected in the case where an SMRS labelled de-energised of Metering System is physically energised and consuming energy, but has a non zero EAC which does not get entered into Settlement;
- We are not monitoring the inaccuracy but a proxy to it.

The Energisation Status Project has lists from the Data Aggregators (DA) about the Metering Systems that are considered de-energised by SMRS and/or by the Data Collector (DC). Some of these will in fact be de-energised and some of these will be incorrectly labelled as de-energised. It is difficult for the Supplier in many cases to know which is the case, without a site visit. Additionally identifying the correct Effective from Date of the Energisation Status may not be straight forward. For all these reasons it was decided that Energisation Status was unsuited to Supplier Charges at present.

Other ways of dealing with this issue, outside the scope of P157, were suggested, one by a Group attendee, including tightening up the requirement to read meters.

Processing of erroneous EAC/AA

Several reasons not to apply a Supplier Charge to the processing of erroneous EAC/AA were identified:

- Only values above a certain arbitrary threshold are isolated;
- Many of these may have accurate consumption recorded;
- Only the excessive negative values will adversely impact other Parties (positive errors affect the offending party);
- May be double counting since EACs will also be charged for under SP08.

Erroneous values of UMS NHH

Several reasons not to apply a Supplier Charge to the erroneous values of UMS NHH were identified:

³ In some analysis it was found that a proportion of mismatches are due to timing of registrations and updates.

- It would be premature to apply charges as this is a nascent issue;
- The extent of the error is unknown and can only be ascertained by detailed analysis.

Inadequate clearance of exceptions and backlogs in HH and NHH

Several reasons were given not to apply a Supplier Charge to the inadequate clearance of exceptions and backlogs in HH and NHH:

- HH exceptions have been much improved by action taken;
- A count of NHH exceptions is inappropriate as some errors cause multiple exceptions and some exceptions are immaterial. There may also be some discrepancy in the attribution of exception ownership;
- It would be very complex and hence costly to set up an accurate charging system;
- There may be double counting since exceptions will cause Metering Systems to be settled on an EAC and the Supplier will get charged under SP08 for this.

Based on a combination of the individual reasons as well as the Group's conceptual approach it was believed that Supplier Charges ought not to be applied to these issues.

The Group confirmed that there were no other Serials or issues that it believed Supplier Charges should be applied to at present.

2.1.2 Genuine pre-estimate of loss calculation

The Group considered some of the Serials it had previously decided Supplier Charges should be applied to, including Ofgem's provisional thinking in relation to SP08a, b and c.

SP01 and SP02

There is currently a charge associated with these Serials which look at the timeliness of Performance Assurance Reporting and Monitoring System (PARMS) data provision. The Group considered that Supplier Charges should be applied if a Party has not submitted data/reports up to a time when re running PARMS would become inappropriate. The rationale behind this was that if a Party has not submitted data and after a period of time does not have the data to submit it does not seem practical to charge SP01 and SP02 indefinitely. Additionally it was considered disruptive and perhaps pointless for a report submitted a considerable time later to cause PARMS to be re-run run therefore it seems sensible to stop resubmissions of data after a twelve month period also. The Group decided that not applying an SP01 and SP02 charge, and hence not expecting resubmissions after a period of 12 months was appropriate.

SP04

This Serial is concerned with the timely installation of mandatory Half Hourly (HH) metering. Further analysis was carried out and the charge for this Serial amended.

The methodology looks at the uncertainty introduced by employing approximated data produced from profiles for NHH meter reads as opposed to the certainty of HH data. In the event that a Supplier failed to install a HH meter at a qualifying site, the site would be traded on a profile and any error in the allocated profile would feed into the GSP GCF reducing the accuracy of the bills of all the NHH Suppliers in that GSP Group. It was noted that profiling was designed for under 100kW demand and errors could be introduced when applied to above 100kW Premises.

The analysis done was to take some examples of HH actual customer data and see what consumption "shape" would have been applied if they had used profiles. The difference or error was multiplied by the imbalance differential (average difference between System Sell Price and market price, and System

Buy Price and market price) to get the cost of the error for the length of time of the data. This cost was divided by the number of days the data spanned, to get a cost per day value. The value arrived at from considering HH actual customer data -100 customers for each of Profile Classes 5, 6, 7 and 8 was £1.66 per day. This is considerably lower than the £9.07 per day amount quoted in the last report. After querying the source of the actual customer data the difference between the two sets of data was ascertained. In the most recent set of data the maximum demand was 100-120kW (data was given in kWh) but most of the data was under this amount. In the previous set of data a large proportion of the data was 200kW+ throughout the sample. It was thought that 100-120kW maximum demand was more appropriate since it is thought that those who are just over the boundary point at which compulsory HH metering must be installed are more likely to transgress on the requirement whereas there is more of a natural incentive to install HH metering for customers with higher consumption.

SP08a, b and c

This Serial is concerned with the provision of accurate data based on NHH AAs and HH Actuals into Settlements. Under SP08a, the Group felt that Suppliers ought to be charged if they fail to provide AAs for 97% of NHH meters at Final Reconciliation (RF). SP08b is a charge applied to Suppliers who fail to provide actuals for 99% of HH meters above 100kW at the First Reconciliation Run (R1) – this Serial is for compulsory HH import metering (MIST⁴). Finally SP08c is a charge applied to Suppliers who fail to provide actuals for 99% of HH meters below 100kW at RF – this Serial is for non compulsory HH import metering (MOST⁵). The Group considered SP08a, b and c and deemed them appropriate to have Supplier Charges attached under P157.

Ofgem in its provisional thinking letter considered the genuine pre-estimate of loss calculation for SP08a, b and c. Ofgem claimed that although it does not hold a view as to an appropriate exact value of the genuine pre-estimate of loss in the NHH market, it is concerned that the genuine pre-estimate of loss suggested for SP08a (£0.11 per MWh) would be an order of magnitude lower than under the current arrangements. Ofgem recognised that this amount must be a genuine pre-estimate of loss, but is nevertheless concerned that the current proposals may fail to improve the accuracy of data in the NHH market. Ofgem stated its current preference to be for the Group to look toward estimating the total industry resources currently devoted to Settlement error correction in the NHH market and to express this amount on a MWh basis, with the intention that this number should be included within the genuine pre-estimate of loss applying to SP08a. Ofgem also did not hold a view as to an appropriate exact value of the genuine pre-estimate of loss in the HH market. However, Ofgem noted that the genuine pre-estimate of loss for SP08b suggested by the Proposal (£4.43), is far higher than the previous charge under this Serial and suggests it may be worthwhile for the Group to ensure that the genuine pre-estimate of loss is the best estimate possible.

The Group considered the genuine pre-estimate of losses it had calculated in light of Ofgem's thinking.

SP08a:

The Group considered its approach to SP08a – thus far SP08a has been composed of the value of the volume of energy that is deemed to be uncertain (£0.11/MWh) and central incremental costs (£0.002/MWh). The Group noted that the calculations produced by clearly demonstrate that a charge of £0.11 is not only reasonable but is a genuine pre estimate of loss. The Group have also considered including in-house Supplier costs to correct bad data. The rationale behind including this is that having incorrect data would lead to a NHH Supplier not reaching the 97% target at RF. If this data is not corrected and a customer changes Supplier, the Supplier will pass on this problem to the new Supplier. Thus Suppliers that do not reach the 97% target may fail due partly to having received incorrect data. This data is not then corrected due to the cost of correction. Charging Suppliers this cost of correction

⁴ MIST = Metering Inside Settlement Timescales i.e. metering data by SF

⁵ MOST = Metering Outside Settlement Timescales i.e. metering data outside SF but inside RF is required

would encourage them to correct in house data and thereby avoid passing any problem on to the next Supplier.

The Group queried whether a realistic number to include in the genuine pre-estimate of loss could be reached, since it felt that any numbers quoted by Suppliers (if at all) would be widely variable. These variable numbers are, in fact, realistic since it depends what errors there are in the data and how easy they are to correct. However two approaches on how to estimate the loss were suggested to the Group. The Group decided that in light of Ofgem’s concern regarding the low charge as well as Ofgem’s urge not to reject something simply because it was too difficult to calculate it would consult on the methodology to try to put a number to this loss. Of the options that were suggested one was a bottom up approach and the other a top down approach.

Option a) – top down

- Number of new NHH customers gained in one year - A
 - Of these how many had inherited problems - B
- Total number and MWh of NHH customers in that same year - C
 - Of these how many have data quality problems – D
 - What is this in MWh - E
- Total cost of correcting bad data for Settlement Issues at RF in house – F

Cost of correcting £/MWh = F/E

The proportion of these whose problems are inherited are B/D

Cost of correcting inherited problems = £(F/E*B/D)/MWh

Option b) – bottom up

- The average MWh per annum of an NHH MPAN (4MWh per annum) – a
- The length of time the fix to correct data quality - b
- Ignore work caused by the errors in the 97% - 100% range, as being an "acceptable" level, in the same way as we ignore it for other components of the GPOL
- Hourly rate – c
- Length of time to fix - d

Based on this the cost/MWh is calculated as:-

- Each fix costs £c * d = e
- Each fix secures aMWh for b years i.e a*b = f
- Therefore cost per MWh is e/f = g

Provisional data given to the Group by one of its members, gave the values below and a value of g as £0.313/MWh

a	b	c	d	e	f	g
4MWh	2 years	£10	15 mins or ¼ of an hour	=£10/4 =£2.50	=4MWh*2 =8MWh	=£2.50/8 = £0.313/MWh

Some members of the Group were unhappy with this as they said there were different types of fixes and these would take different lengths of time and cost differing amounts to fix. It was suggested that either the top down approach be used in preference to this one or that the types of problems and the cost and time to fix them be categorised. The Group were actioned to consider these different options such that only one is consulted on.

The Group thus hoped to allay Ofgem's concerns over the value of SP08a by including this – although there was a split as to whether this could form part of the genuine pre-estimate of loss, since some members of the Group considered that it was an indirect cost and should not be included.

SP08b and c:

The Group reviewed the size of the SP08b charge. The large discrepancy between the two charges was queried. It was suggested that the disparity was due to the different ways that estimates are calculated in the HH and NHH markets. The NHH market bases EACs on previous AAs. Both EACs and AAs cover long time periods. The HH market has several ways of calculating estimates. In addition to this although the basing of estimates on previous actuals is urged, previous actuals are not necessarily predictive of current performance. Hence the variability was in part explained. The Group considered the methodology (the value of the volume of energy deemed to be uncertain) that was used to calculate the charge. There had been a request to perform the calculation on data post CP696 CP696 "Allow the Half Hourly Data Aggregator (HHDA) to apply a default value where no consumption data has been provided by the Half Hourly Data Collector (HHDC)" which was a CP that stopped zero estimates being entered in the HH market and hence would alter the change in estimates relative to the corresponding volume change in settlement – the basis of the methodology. Data that covered Settlement Runs SF to R3, for dates between February and June 2003 inclusive was considered (using the same sample of 8 Suppliers in every GSP Group).

The volume weighted average of the (% volume change over the time period divided by the % change in estimates over the same period) was 86%, lower than the previous value derived using data prior to CP696.

Pre CP696 data and results

SP08b,c	May/Jun/Oct/Nov
SF-RF/%est	119%
SF-RF/%est*P	£4.43/MWh

Post CP696 data and results

SP08b,c	Feb-June 2003
SF-R3/%est	86%
SF-R3/%est*P	£3.21/MWh

The charge has been reduced by nearly 30%. The Group considered the methodology remained appropriate and considered that since the genuine pre-estimate of loss calculations were to be reviewed every two years the charge may change upon improvements in estimation and also because more recent data would be used and there was even suggestions that knowing the way the genuine pre-estimate of loss was calculated may encourage improvements in estimation techniques.

2.1.3 REDISTRIBUTION

Ofgem in its provisional thinking stated its opinion that the effectiveness of the arrangements should be evaluated as a whole, with the total financial effect on each Party being considered at the end of redistribution (and in the case of the bond rebate Proposal, at the point of funds being transferred in

compensation for poor performance). Compensation (after charging and redistribution) for Parties that are suffering the effects of other Parties' poorer performance should be equivalent to the genuine pre-estimate of loss, relative to their size and performance. Any charge (after redistribution) paid by Parties exhibiting poor performance should also be relative to their size and performance.

The Group discussed Ofgem's comments as well as considering different variations on both the "average performance" option and the "bond rebate" option.

Average performance option

The basic average performance option that was consulted on works as follows:

All Suppliers would be charged the genuine pre-estimate of loss for all Serials with 10% being redistributed to all BSC Parties, as at present. The average performance on SP08a of the Suppliers in the NHH market in that GSP Group (e.g. % of AAs at RF) would then be calculated and funds would be redistributed to those Suppliers performing on or above average only. Those Suppliers who are performing below the GSP Group average on SP08a would not receive any of the funds gained - THEIR NET CHARGE WILL BE A GENUINE PRE-ESTIMATE OF LOSS. Those Suppliers who are performing on or above GSP Group average on SP08a would receive all of the funds collected based on their market share - THEIR NET CHARGE WILL BE LESS THAN A GENUINE PRE-ESTIMATE OF LOSS.

Ofgem noted several things about the proposal which redistributes to only those who are performing above average:

- Particularly sharp incentives are created for performance around the average level. This may result in significant swings in the payments within the redistribution mechanism;
- The proposal contains a weak incentive at the upper end of performance;
- Poor performance by a large Supplier and excellent performance by a small Supplier can lead to disproportionate compensation for the small Supplier.

Ofgem's current view is that it would strongly prefer these effects to be removed. Ofgem considers that the simplicity and predictability of the arrangements would be significantly enhanced by a simple linear relationship between performance and payment, rather than the present proposal which has steps and plateaus which introduce distortion and make it difficult for Parties to forecast the benefits of any performance enhancing investment.

For the average performance option the Group considered several variations to try to address Ofgem's comments and solve the issues the Group has with this option. The variations are as follows:

- Average performance with Parties who perform above the Standard receiving back a higher proportion of the funds. This was to address concern that the Standard was not being incentivised;
- Average performance with Parties receiving more of the funds the higher above the average they are. This was to address the concern that the proposal contains a weak incentive at the upper end of performance;
- Average performance but using the median rather than the mean as the average. This was to address the concerns that the mean is generally set by the old host PES and the second largest⁶ Supplier and that the funds will swing between the two. This brought additional concern however since very small Parties count as much as very large ones in the make up of the median and hence could be disproportionately benefited by this.

⁶ Note: the shape of GSP Groups can easily fluctuate and it will not always be true that there is a dominant and second largest Supplier in each GSP Group

Some members of the Group stated their view that the redistribution method ought not to be changed. Two reasons were given. That Supplier Charges genuine pre estimate of loss calculation was conceptually linked with the method of redistribution. It is reasonable to redistribute the funds in proportion to which Parties are damaged and it is inherent in the process of calculating the GSPGCF that Suppliers are "damaging" themselves. This should be merely a method of compensation and hence cannot form an incentive. In addition, that it is not legally possible to extricate redistribution from the charge.

The Group agreed that the average performance option accomplished two things. It encourages above average performance and thus would gradually work to encourage Parties to move above the average, hence increasing the average. Additionally it would also encourage eventual movement towards the target of 97%. The Group felt that this solution meant that revising the value of 97%, as a level below which Suppliers would be charged, did not need to be considered as the solution encourages an increase in the average performance and does not just target 97%. The Group considered that the variations on average performance would make this option overly complex and hence they discarded them.

Some members of the Group considered the following negative aspects of the "average performance" option and hence still did not support this option:

- There may be legal objections since some Suppliers will not receive damages due to them. Any Supplier that is underperforming is damaging other Parties, but also itself subject to GSPGCF. All Suppliers should be compensated for this regardless of their own performance. BSCCo legal opinion stated that the rule against penalties relates to the reasonableness of funds paid out by a Party as 'recompense' for breach of a contract – this rule is not concerned with the use to which those funds are put once recovered as long as that use is not itself in further breach of the contract or otherwise illegal. Re-distribution is not mandatory - and need not be "netted off" against the amount of Supplier Charges levied when considering whether a pre-estimate of loss (i.e. the charge levied) is genuine. Parties therefore have the ability to agree to a different scheme by which to use the funds gained from Supplier Charges;
- The average performance method may not be appropriate for the following reason. Each GSP Group can be viewed as a duopoly between the incumbent Supplier and the second largest Supplier. The dynamics of the arithmetic are that the incumbent Supplier, with a majority of the volume, effectively sets the GSP Group average performance. The average will always be close to the incumbent's performance, and whether the average is higher or lower than the incumbents is almost totally dependent on whether the second largest Supplier's performance is lower or higher than the incumbents. The "average" is therefore determined by the performance of the dominant incumbent Supplier and the second largest Supplier. If the incumbents performance falls below the GSP Group average, then their Supplier Charges, which are based on their larger volume, are distributed to the other Suppliers, by far the largest share going to the second largest Supplier which typically is around a quarter the volume of the incumbent. Because the second largest Supplier's performance is the primary determinant of whether the incumbent is above or below the average, most of the Supplier Charges and redistribution may be a transfer of monies between it and the incumbent. The reverse applies because when the incumbent is above average, the second largest Supplier will almost certainly be below it, but the money flowing in the opposite direction is less because the second largest Supplier's market share in that GSP Group is significantly less. This may make the proposed method more unstable than the current arrangements and may be capable of providing windfall gains for small Suppliers. The primary objective will always be to just beat the incumbent Supplier, and the returns from redistribution could far outweigh the costs in Supplier charges. Further work needs to be done by VASMG in this area; and

- This may provide an opportunity for gaming. For example, a company operating under more than one Supplier Id could transfer “problem” Metering Point Administration Numbers (MPAN) from one Id to the other in order to recover a proportion of the overall Supplier Charges incurred and thus ensure the funds back are maximised to the company as a whole. This could be significant.

Bond Rebate option

The Bond rebate option developed by the Group is as follows:

All Suppliers would be charged the genuine pre-estimate of loss for all Serials with 10% being re-distributed to all BSC Parties based on Main Funding Share, as at present. For the remaining 90% of the funds different Serials would be treated differently

- SP01, SP02 and SP04 would be redistributed to all BSC Parties based on Main Funding Share (as with the original 10%);
- SP08a, b and c would be retained in a company specific bond for the period of 12 months. After 12 months, the Supplier’s performance would be compared to that of 12 months ago. If performance had improved a rebate would be given relative to the size of the improvement. After this time, the remainder of the funds (and all funds in the situation that performance had not improved) would be forfeit and would be redistributed on a GSP Group basis to all Supplier’s in the GSP Group excluding the forfeiting Supplier and based on market share.

The variations on this option are to do with when a Supplier actually pays. Variations are:

- The Supplier pays at the same time as it would have done for all other options, and ELEXON keep the funds for the period of 12 months after which the monies are reclaimed or forfeit. This necessitates ELEXON to store large amounts of working capital and this might be disadvantageous to smaller Parties who have a higher cost of capital – several members considered that this would be anti-competitive and inefficient;
- The Supplier incurs the money when for all other options it would have paid it out and only pays when the rebate amount is known i.e. 12 months later. This has been considered to avoid problems relating to ELEXON holding the funds, however it could be viewed as a delaying mechanism since Suppliers only pay on performance when they are actually charged.

Ofgem also mentioned the bond rebate option. It welcomed the innovative thinking that the Group is generating, and Ofgem has considered the bond rebate approach and has three serious reservations:

- When would the charge be paid:
 - If ELEXON actually banks the monies (bond) from the first year of payments, then there would be a very large amount of working capital tied up. This may be inefficient overall.
 - If ELEXON merely bills but doesn’t collect the cash until a year later, the arrangement becomes a delaying mechanism.
- The proposal does not appear to have compensation as an objective. Rather the objective seems to be to ring fence potential compensation until a year has passed. This puts pressure on cash and may disadvantage smaller Parties.
- The overall payments and compensation after redistribution seem difficult to evaluate against genuine pre-estimate of loss and as a result suffer from complexity.

Some responses to these problems were considered by the Group.

If ELEXON does collect the money immediately, the amount of money collected is the same as would be collected if a straightforward payment method (i.e. no rebate) as at present. The cash flow difference is on redistribution, not charging, so as far as transgressors are concerned it is cash flow neutral with the existing methodology. The cash flow difference on re-distribution is for the beneficiaries to consider.

If ELEXON does not collect the money then it *is* a delaying mechanism, but only if a Supplier improves, which is the whole point.

The proposal is considered by some members to have compensation as its basis, however in their opinion, "wronged" suppliers put a higher value on the improvement of a "poor" performer than receiving compensation for the "wrongs" suffered. Suppliers are therefore mutually encouraging each other to get better at what they do rather than just seeking compensation from each other, but at the same time receiving compensation if they don't.

Some members of the Group suggested that the delay blunts the incentive to perform.

Several members of the Group considered that having different redistribution options for different Serials did add to the complexity, others disagreed.

An additional issue with the bond rebate option was that it would not work as an additional incentive for those Suppliers entering and exiting the market whose performance is dependent on number of Metering Systems and rate of their acquisition and decline.

2.1.4 CAPS

Ofgem in its provisional thinking considered whether a cap was appropriate.

"Ofgem has serious concerns about capping liability for charges under the Proposal. Ofgem's concerns arise for a number of reasons:-

- *Caps limit the charge and therefore limit the compensation to a level below that determined as an appropriate pre-estimate of loss. They are geared to the payer rather than the recipient of compensation;*
- *Caps in the present arrangements cover a basket of serials. This approach introduces complexity in calculation, making the incentives less transparent and the system and management costs more expensive;*
- *Caps dull the incentive to perform to an appropriate standard, due to the risk of failure being less severe;*
- *Development costs of central and Parties' systems to handle caps may be wasted if they are rarely invoked.*

Nevertheless, the introduction of caps could have beneficial effects, especially if there were not a reasonable level of confidence in the genuine pre-estimate of loss meaning that particular classes of Party – perhaps smaller Parties - may otherwise be exposed to disproportionately high charges arising from a relatively low number of problem meters against a high volume of energy. A barrier to entry could arise from fears of high charges although compensation payments should be available for a high performer. One of the arguments advanced in favour of the retention of caps arises because of substantial charges being postulated for exceptionally poor performance using the high proposed SP08b genuine pre-estimate of loss. Additional fears arise because redistribution is not being taken into account.

It has been asserted that without caps, the Proposal could lead to unlimited liability for some Suppliers, even threatening their viability. Unlike the balancing mechanism where prices are uncapped, the

genuine pre-estimate of loss and market shares are effectively fixed and the performance of a Supplier can only reach zero whilst the performance of other players can only be perfect. Hence there are very real limits of liability.

Detailed modelling has been undertaken to determine realistic worst case situations for various Supplier sizes and extreme performance levels. This modelling has identified situations of potentially high charges but these are not unlimited or obviously threatening to business viability. Ofgem does not consider that high charges (after redistribution), of themselves are necessarily an issue, but would be concerned if the arrangements show a combination of high charges and low confidence in the genuine pre-estimate of loss.

In summary, Ofgem's current view is that it would strongly prefer that caps were not utilised and that greater consideration is given to estimating the appropriate level of compensation for parties performing well. In Ofgem's view caps applied to a basket of Serials would be unlikely to better facilitate the relevant objectives as they would introduce unnecessary complexity and opacity. Regarding serials charged on a per-day basis, it is Ofgem's current view that suspending the application of such charges after a period which is determined by the Group to represent the time after which the payments no longer fall within the definition of a genuine pre-estimate of loss is likely to be appropriate. Ofgem do not see this situation as capping, but accepting that there comes a point where the damage to other parties is no longer occurring and compensation is no longer appropriate."

The Group discussed whether a cap on the amount of money to be paid in Supplier Charges was appropriate, given that it had agreed that it was confident with the genuine pre-estimate of loss calculated for P157. The suggested calculation for the cap is (1%*Supplier Take*Credit Assessment Price).

The Group were keen to retain the cap for the reasons it had previously stated:

- Caps stop unlimited liability in exceptional circumstances rather than limiting liability under normal circumstances;
- Small Parties will, in the opinion of the Group and respondents, be put off entering the market if there was no cap and hence unlimited liability under Supplier Charges;
- Charges without caps may become penal in nature. The Group considered the following as an example of an exceptional circumstance where a cap might kick in. If a very small HH Supplier had problems with one of its Meters that accounted for 50% of its business – the Meter could be wrong and the Data Collector (DC) might enter zero value into Settlement. If the Supplier told the DC that the value should have been xMW, the DC would enter this value but will flag it as an estimate. The Supplier thus has 50% of data flagged as estimated although it was just being honest and changing from an incorrect to a correct value. In this case the Group would consider that the charge has become penal;
- Lack of caps would increase the cost to the market since no Agent would take on the risk of limitless liability from the Supplier - lack of competition amongst Agents would make it very difficult for Suppliers to transfer the risk of Supplier Charges;
- The new cap calculation takes Supplier size into account and hence is considered proportional and more appropriate than the current cap. In addition it is simpler to work out and reflects the fact that there is approximately 1% margin in the Supply business and the cap is set right at that margin.

The Group considered the average performance method in relation to the cap and in light of Ofgem's concerns, in particular that of applying a cap to a basket of Serials, the Group decided to amend its previous decision and apply the same sized cap (1% of its Supplier Take*Credit Assessment Price) only

to Serials SP08a, b and c and not to have the cap being applied to charges on SP01, SP02 and SP04. The former two would anyway not be applied after a 12 month period.

The Group then considered the bond rebate option in relation to the cap and in light of Ofgem's concerns. The Group considered that since the cap was aimed at protecting Suppliers in exceptional circumstances (as for example described above), the bond rebate option may not require a cap. This is since if a Party for an exceptional reason performed very badly in one month and received very high charges, that Party would pay the charges but one year later, when the circumstance is likely to no longer apply and/or not to recur, the Party would undoubtedly have improved performance and hence would receive its money back.

The Group agreed to consult on both options for redistribution as well as its thinking about caps in relation to them.

2.1.5 Peer Group Comparison (pgc)

Ofgem in its provisional thinking stated that:

"On several occasions, both within and outside the context of P157, Ofgem has expressed reservations as to the effectiveness of PGC and raised concerns regarding the legal risks of confidentiality which may arise in the implementation of such measures. Ofgem notes that the Group and ELEXON have satisfied themselves as to both the practical value and the legal risks pertaining to PGC. Ofgem maintains that financial incentives are more likely to be effective in a competitive market than 'naming and shaming', not least because of the differing importance that Parties are likely to place upon their settlement performance reputations. Ofgem's current view is that it would prefer that Peer Group Comparison was replaced where appropriate with a financial incentive on the basis that if the serial is of sufficient concern to Parties that they want to 'name and shame' it must be causing costs."

Discussions on whether to apply a financial incentive are covered above in Section 2.1.1. In addition members of the Group remained split over the benefit of pgc tables.

It was questioned whether pgc would be an incentive. One member questioned what evidence we have available to substantiate the view that pgcs will incentivise performance. One member suggested that the very fact that no one in the industry wants named, public pgc to be introduced is an indication of its likelihood to work since Suppliers seem to fear its effects. One member suggested that the fact that the press can have access to the pgc tables and may use the data to write articles and draw conclusions regarding particular Suppliers would provide an incentive. It was also suggested that PAB escalation is a painful process to go through and suggested that the Group should not underestimate the PAB escalation process as an incentive. It was pointed out that escalation to PAB is a strong "last resort" measure and incentive techniques that would encourage improved performance would be preferable. Pgc tables that name Suppliers will sharpen up the PAB process and thus aid the PAB in improving performance. One member believed that pgc would be a low cost tool and will not make performance any worse.

The VASMG also expressed a desire to have less rather than more pgc tables so that the usefulness of the tool is not diluted.

In addition it was commented that the provisions for prior review and appeal before publication are critical, that Parties must clearly be made aware of standards they have to achieve before any figures are published and that the data must be published in a fair / comparable way such that Parties are not shown in an unfavourable light due merely to their market share.

The Group (and consultation respondents) were split over whether pgc was a positive aspect to the Proposed Modification and it was agreed that Supplier Charges without pgc may be a suitable Alternative Modification.

2.1.6 Implementation Date

Ofgem has considered the implications of a calendar day Implementation Date set in the future and is currently of the view that this would be the most appropriate approach.

The Group were still supportive of its suggested Implementation Date of July 2005 however considered that if the timetable of P157 was extended again or perhaps even with the current extension, a reassessment of this date might be necessary. The Group noted that a Calendar Day implementation would have a retrospective effect, but felt that it was justified as a date set in the future would ensure that Parties had enough time to improve performance before the new charges took effect.

The Implementation Date recommended by the Group is a Calendar Day, July 2005 Implementation Date.

The advantages this has are as follows:

- Calendar Day implementation means that the old rules are stopped and the new ones started. There are thus no problems deciding how to combine the new rules with the old especially regarding caps and redistribution which are calculated on a Parties overall position for any given month;
- Calendar Day implementation set for a future date means that Parties will know the rules in advance of the implementation. In this way the problem of lack of knowledge of obligations that would be associated with an earlier Calendar Day implementation (e.g. November 2004), is ameliorated;
- July 2005 Implementation Date allows pre P99 rules to be fully run off before P157 is introduced hence data used in P157 will be solely post P99 data; and
- Development can take place in the scheduled June 2005 Release, which will allow system and process changes to be made in the most efficient manner.

2.2 Proposed Modification

In light of the above discussions and Ofgem's provisional thinking the VASMG developed the Proposed Modification for P157 in the following form:

There will be Supplier Charges on Serials SP01, SP02, SP04, SP08a, b and c. The former three will be charged on a £ per day basis and the latter three on a £ per MWh basis. The charges for SP08 a, b and c will be capped overall such that no Supplier shall pay more than 1% of its Supplier Take*Credit Assessment Price in any GSP Group. SP01 and SP02 will not continue be applied after 12 months has passed. The funds collected will be used in the following manner. 10% will be circulated to all Trading Parties based on their Main Funding Shares. The remaining 90% will be redistributed in one of the following three methods:

- On a GSP Group basis according to market share – this is the current method of redistribution
- On a GSP Group basis to NHH Suppliers who have performed above average on SP08a for the GSP Group on a market share basis – this will be called the "average performance" option;
- A Supplier will accrue a charge as is currently the case, but, following a 12 month period a Supplier's performance will be compared to its performance 12 months earlier and if there has been an improvement the charge associated with that improvement will be recouped by the Supplier. The remaining funds will be forfeited and redistributed to all Parties excluding the forfeiting Supplier based on their resultant market share in the GSP Group – this will be called the "bond rebate" option.

The Group have not currently agreed which of these options will form part of the Proposed Modification and indeed there are various different possibilities with regards to the composition of each of the latter two options that will be considered in Section 2.1.3 of this report.

In addition there will be a facility for the Performance Assurance Board (PAB) to select particular Serials or market issues such that Suppliers' performances with reference to these issues are compared in named peer group comparison (pgc) tables that are published on the BSC Website. There will be rules outlined in the relevant Balancing and Settlement Code Procedures (BSCP) that will dictate how and when these pgc tables can be published.

2.3 Assessment of how the Proposed Modification will better facilitate the Applicable BSC Objectives

The Group did not consider further its initial opinion as to whether P157 better facilitated the achievement of the Applicable BSC Objectives.

In previous meetings, the majority of the Group initially felt that P157 better facilitated the achievement of Applicable BSC Objectives (c) and (d) for the following reasons:

Applicable BSC Objective 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;

Applicable BSC Objective d) - promoting efficiency in the implementation and administration of the balancing and Settlement arrangements.

The Group felt that if P157 improved performance and hence data quality in the industry then P157 would better facilitate the achievement of the Applicable BSC Objectives. This is because by improving data quality:

- The disincentive for a new Party to enter the market is reduced since there is less uncertainty in the market (c);
- Less time and money would be spent improving poor performance and dealing with data quality issues and Parties would thus save money and this would increase competition (c);
- The efficiency of BSCCo would be increased as less time would be spent improving poor performance and dealing with data quality issues (d);

The Group noted that these were its initial views and may be amended / revisited following receipt of the BSC Agent Impact Assessment if it felt that the costs outweighed the perceived or potential benefits.

2.4 Modification Group's cost benefit analysis of Proposed Modification

The costs for implementing P157 are still being finalised and hence no cost benefit analysis has been performed by the Group.

2.5 Alternative Modification

The Group did not give further consideration to potential alternatives within P157. The two alternatives previously suggested remain possibilities.

One was to have a Supplier Charges module only i.e. omitting the pgc aspect of P157. This is due to doubts from some members of the Group as to whether pgc will be an effective form of incentive.

The other is setting the charges in the Supplier Charge module to zero. Those who considered this to be an appropriate alternative to consider did so because in their opinions the requirement to charge people a genuine pre-estimate of loss and not penal charges meant that the spirit of P157 – improving

data quality – could never be fulfilled. This was considered to be especially the case by those who believe that conceptually and/or legally, redistribution of the funds received can not be changed from the current methodology i.e. it is tied to the genuine pre-estimate of loss.

The Group did however acknowledge the possibility that the Panel at its July meeting might direct the Group to consider a particular alternative.

2.6 Governance and regulatory framework assessment

During the assessment of the Proposed and Alternative Modification, the VASMG considered the wider implications of P157 in the context of the statutory, regulatory and contractual framework within which the Code sits, as is required by the Code (Annex F-1, paragraph 1(g)). The VASMG was of the opinion that, were P157 to be implemented, there would be no such wider implications.

3 COSTS

A full Impact Assessment is yet to be carried out.

The costs for progressing P157 through the Modification Procedures have been updated following the 2 month extension to the Assessment Procedure. The costs have increased from 80 man days to 105 man days. This is to reflect the additional analysis and modelling required during the next phase of P157.

4 IMPACT ON BSC SYSTEMS AND PARTIES

An assessment has been undertaken in respect of BSC Systems and Parties and the following areas have been identified as potentially being impacted by the Proposed Modification.

4.1 BSCCo

For the Supplier Charges aspect of P157 - there should not be any additional cost on BSCCo after the new system is implemented since the Supplier Charges rules will be amended but will run in a very similar way to currently. If the "bond rebate" redistribution method is used then there may be an impact on Supplier Charges billing.

If, subsequent to P157 implementation, the PAB decide a certain issue is suitable for pgc tables to be published BSCCo will have to follow the new process in BSCP534 (annex 5 below). It will have to create and publish the pgc tables, provide Parties with prior warning of the data to be used and deal with queries and appeals.

4.2 BSC Systems

The Performance Assurance Reporting and Monitoring System (PARMS) will be amended in the Supplier Charges module. There will be no changes to the Serials and reporting aspect of the system but the charges, methodology for capping and the use of Supplier Charges funds will be amended.

System / Process	Potential Impact of Proposed/Alternative Modification
Reporting	PARMS system

4.3 Parties and Party Agents

The Supplier Charges rules will be amended such that Suppliers will be charged different amounts for the six Serials and will have new rules of redistribution and capping.

See Impact Assessments in annex 3.

5 IMPACT ON CODE AND DOCUMENTATION

5.1 Balancing and Settlement Code

Section J of the Code will be amended to allow, for the avoidance of doubt, named pgc tables to be published publicly. See annex 5.

Section S – specifically annex S-1 of the Code will be amended to incorporate the changes to Supplier Charges that will be introduced if P157 is approved by the Authority.

5.2 Code Subsidiary Documents

BSCP536 “Supplier Charges” will be amended to include provisions for pgc tables and instruction on when and how they will be used.

6 SUMMARY OF TRANSMISSION COMPANY ANALYSIS

6.1 Analysis

The Transmission Company did not identify any impact or cost to it. It did state that it supported the continuation of Supplier Charges as an appropriate mechanism to incentivise the provision of better quality data into Settlement. It believed that the principles outlined in P157, to achieve a Supplier Charges Mechanism that is easily understood and provides effective incentives on Parties, meet BSC Applicable BSC Objectives c) for promoting effective competition in the generation and supply of electricity and d) for promoting efficiency in the implementation and administration of the balancing and Settlement arrangements. It considered that any potential benefits arising from the Proposed Modification would have to be measured against the costs of introducing the necessary changes to the existing processes.

See the Transmission Company analysis in annex 2.

7 DOCUMENT CONTROL

7.1 Authorities

Version	Date	Author	Reviewer
0.1	29/06/04	Dena Harris	ELEXON
0.2	01/07/04	Dena Harris	P157 Modification Group - VASMG

7.2 References

Ref	Document	Owner	Issue date	Version
CP696	'Allow the Half Hourly Data Aggregator (HHDA) to apply a default where no consumption data has been provided by the Half Hourly Data Collector (HHDC).'	ELEXON	21 March 2001	1.0
P157AC	'Consultation document for Modification Proposal P157'	ELEXON	10 May 2004	1.0

ANNEX 1 MODIFICATION GROUP DETAILS

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ANNEX 2 TRANSMISSION COMPANY ANALYSIS

Q	Question	Response
1	Please outline any impact of the Proposed Modification on the ability of the Transmission Company to discharge its obligations efficiently under the Transmission Licence and on its ability to operate an efficient, economical and co-ordinated transmission system.	We do not believe that the Proposed Modification P157 has any impact on the ability of the Transmission Company to discharge its obligations under the Transmission Licence.
2	Please outline the views and rationale of the Transmission Company as to whether the Proposed Modification would better facilitate achievement of the Applicable BSC Objectives.	We support the continuation of Supplier Charges as an appropriate mechanism to incentivise the provision of better quality data into Settlement. We believe that the principles outlined in P157, to achieve a Supplier Charges Mechanism that is easily understood and provides effective incentives on Parties, meet BSC Applicable Objectives c) for promoting effective competition in the generation and supply of electricity and d) for promoting efficiency in the implementation and administration of the balancing and Settlement arrangements. However, we would endorse the views expressed by the Mod Group that any potential benefits arising from the Proposed Modification would have to be measured against the costs of introducing the necessary changes to the existing processes.
3	Please outline the impact of the Proposed Modification on the computer systems and processes of the Transmission Company, including details of any changes to such systems and processes that would be required as a result of the implementation of the Proposed Modification.	No impact has been identified from the Proposed Modification P157 on the computer systems and processes of the Transmission Company.
4	Please provide an estimate of the development, capital and operating costs (broken down in reasonable detail) which the Transmission Company anticipates that it would incur in, and as a result of, implementing the Proposed Modification.	No costs have been identified.
5	Please provide details of any consequential changes to Core Industry Documents that would be required as a result of the implementation of the Proposed Modification.	No changes have been identified.
6	Any other comments on the Proposed Modification.	

ANNEX 3 OFGEM PROVISIONAL THINKING LETTER

See attached document.

ANNEX 4 SUMMARY OF LOSS AND COMPARISON WITH CURRENT SUPPLIER CHARGES

Note: SP08b and c the same data is used SP08b is HH target of 99% at R1, SP08b is HH target of 99% at RF.

£/MWh	SP08a	SP08b	SP08c
Value of volume of energy assumed to be uncertain 1)	£0.11	£3.21	£3.21
Incremental Central Costs	£0.002	£0.001	£0.001
In house Supplier costs to correct bad data	£0.313?		
Total	£0.425	£3.211	£3.211
Current Supplier Charges	£0.14R3	£0.14SF	
Current Supplier Charges	£1.57RF	£1.57R1	£1.57RF

£ per day	SP04
Difference between profile and actual	£1.66
Current Supplier Charges	£2.95

£ per day	SP01	SP02
Administration Costs	£20	£20
Current Supplier Charges	£28.03	£28.03
		Per day only
		Per GSP Group per day

ANNEX 5 PERFORMANCE ISSUES SUITABLE FOR PGC

The Group considered the major audit issues to decide whether these could be incentivised by Supplier Charges or pgc. The VASMG considered issues up until SSM 9, as it felt that it wanted to consider the most important issues only. (see below)

The Group agreed that the data that the Definition Report stated would be published via pgc was also appropriate.

It also considered the P99 Serials that are the current legal baseline

The Group looked at NC02, NC03 and HM06. One member state that these issues were particularly relevant with regards to the customer transfer issue and thus could be charged on or incentivised via pgc. One member highlighted the complications associated with this for example the “win, lose, win back scenario” whereby the Party who loses the gained customer to the original Supplier will get charged for lack of provision of data it never had. One member pointed out that these data items have not yet been collected and will not be until after 1 May 2004 (P99 Implementation Date) thus the trend the data will show and the problems it may highlight have not been seen yet thus it seems premature to suggest either Supplier Charges or pgcs

SSM number	Description	Comment	Supplier Charges	Peer Group Comparison
SSM 1	Inaccurate energisation status of Metering Systems	This is about energised meters that have de-energised status but the reverse exists also	Complicated, potentially inaccurate, full of loopholes – would not work as incentive	Would be appropriate if all agreed that wrongly labelled de-energised Metering Systems considered
SSM 2	Processing of erroneous EAC/AA NHH	This is a big issue that is not going to go away and has deteriorated since Xmas. The auditor has highlighted a lack of incentive to correct these especially negative ones	Not appropriate	This is suitable for pgc as long as portfolio size is taken into account as otherwise a big Supplier will seem like the worst one when this is not necessarily the case
SSM 3	Erroneous values of UMS NHH	Not sure how big this issue is i.e. the magnitude of the error	Would be premature to apply Supplier Charges as this is a nascent issue	This could be done by Agent and associated Supplier
SSM 4	Inadequate clearance of exceptions and backlogs in HH	There has been a huge improvement in this area recently and it is being monitored.	Not appropriate as TDC have instructed BSCCO to monitor this	Not appropriate as TDC have instructed BSCCO to monitor this
SSM 5	Inadequate clearance of exceptions and backlogs in NHH	The numbers are very significant in this area. Multiple exceptions per MPAN can be received	Not appropriate as the values involved are hard to quantify. Would be very complex to set up charging system	Hard to publish volumetrics as difficult to ascertain which are significant. To make it meaningful would need extra level of analysis.

SS M 6	Maintenance of Trading Party bank a/c details by FAA	n/a	n/a	n/a
SS M 7	Incorrect application of P/C flags to BM units in CRA	Not a big issue for SVAA	No	No
SS M 8	Performance of meter advance reconciliations	It is believed that no current disputes on this because no one is performing Meter Advance Reconciliations	Not appropriate	Could do by Agent and associated Supplier – no direct reporting though – can only monitor