

<b>Change Proposal – BSCP40/02</b>	CP No: 1360 Version No:1.0
<b>Title:</b> Inclusion of Audit Records for Gross Volume Correction and Dummy Meter Exchanges	
<b>Description of Problem/Issue:</b> <u>Background</u> 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 CRC <sup>1</sup> 7 (Adjustment of licensee’s revenues to reflect distribution losses performance). LDSOs are required to report this information for the Distribution Price Control Review 5 <sup>2</sup> (DPCR5) so that the DLIM for this period can operate, and for the DPCR4 <sup>3</sup> 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. 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. 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. 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. 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. 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.	

<sup>1</sup> Charge Restriction Condition.

<sup>2</sup> Running for the 5 year period starting on 1<sup>st</sup> April 2010.

<sup>3</sup> Running for the 5 year period ending on 31<sup>st</sup> 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. Two such techniques are “Gross Volume Correction” (GVC) and “Dummy Meter Exchange” (DMX).

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 is based on the rationale that it is better to have the correct volume settled, regardless of whether this volume is associated with the correct days, months and, sometimes, years. As a consequence, the extent to which Settlements reflects the energy flows on the days being settled is compromised materially.

DMX seeks to 1) minimise previous errors (but not compensate for them) by writing the error off; and 2) correct the situation going forward from a point in time. This is based on the rationale that it is better to have the correct volume settled going forwards with the caveat that the historic error volume is minimised rather than corrected. As a consequence the error remains, albeit to a lesser extent, in past Settlement days.

The use of these techniques has the potential to impact Settlements adversely – particularly if they are not used in accordance with the BSC rules. The issue is that the audit records, that Non Half Hourly Data Collectors (NHHDCs) are required to keep when using GVC and DMX, are not defined in sufficient detail to enable consistent reporting by NHHDCs and to allow the volume and applicable period of the adjustment to be readily identified. Inconsistencies in record keeping preclude any investigations and analysis associated with use of the techniques. For example, it is not currently possible to derive an aggregate view of the levels of adjustments being applied across the market.

Inability to quantify the impact of the use of these techniques is also major issue for the DLIM as it precludes adequate determination of when energy flows took place and creates volatility in Settlements. This creates uncertainty in relation to DNOs’ regulated allowable revenue; uncertainty for Suppliers’ DUoS costs; and, ultimately, more volatile energy prices and / or increased energy prices for consumers as these risks and uncertainties are managed (though the ultimate impact on consumers is outside the scope of the BSC).

## **Proposed Solution:**

This Change Proposal (CP) seeks to amend BSCP504 ‘Non Half Hourly Data Collection for SVA Metering Systems in SMRS’ to make the audit obligations on Suppliers and their agents in relation to the use of GVC and DMX more specific. BSCP504 Section 4.14.3 Use of Gross Volume Correction, states that where there are ongoing validation problems, action taken by the NHHDC should be subject to a robust and auditable process. It does not however provide any explicit description of the audit requirements or what should be captured by this process. Additionally, section 4.16, Audit Requirements, does not expressly refer to GVC and DMX. This would be amended to specifically include GVC and DMX processes.

The CP would require NHHDCs to keep the following as an audit trail:

For Gross Volume Correction (GVC):

- MSID, Standard Settlement Configuration (SSC), Profile Class, Time Pattern Regime (TPR);
- GSP Group, energisation status;
- Settlement Date of the start of the error period;
- Settlement Date of error freezing reading;
- Settlement Date of error correcting reading;
- For each Settlement Register: compensatory volume, error volume and correct volume;
- Date GVC undertaken; and

- Forward-looking EAC following application of GVC.

For a Dummy Meter Exchange (DMX):

- MSID, SSC, Profile Class, TPR, GSP Group, energisation status;
- For each Settlement Register: the final Meter Reading and the initial Meter reading;
- Settlement Dates of the initial Meter reading and final Meter reading; and
- Date DMX undertaken.

These changes will facilitate the work of the BSC Auditor in confirming that these techniques, when used, have been undertaken in accordance with BSC rules. The changes will provide greater transparency of the levels of adjustments being undertaken and will enhance any investigations and analysis of the use of the techniques.

**Justification for Change:**

This Change Proposal better facilitates the 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 enabling the Performance Assurance Framework to operate more effectively, so increasing the accuracy of and reducing the volatility of Settlements for all Suppliers and other impacted BSC Parties.

The Change Proposal also better facilitates Applicable BSC Objective (d) (the promotion of efficiency in the implementation and administration of the balancing and settlement arrangements). Without such audit records, verification of the appropriate use of these techniques (as part of the BSC Audit or as part of other initiatives) and any investigations / market analysis associated with the use of these techniques, would be far more involved.

Furthermore, the 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 hence help reduce price volatility and risk premiums in retail tariffs to consumers, though the ultimate impact on consumers 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.

**Estimated Implementation Costs:**

The estimated ELEXON implementation cost is 3.5 man days of effort, which equates to £840.

**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:**

Several CPs relate to similar areas to this CP, though none of the CPs are interdependent:

- CP1361 - Removal of Extreme EACs;
- CP1362 - Removal of Residual Negative EACs; and
- CP1363 - Addressing Settlement Data 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

BSC504 redlined (*4 pages*)