

Meeting name VASMG

Date of meeting 30 September 2003

Paper Title ISSUE 6 (3) – HYBRID SUPPLIER CHARGES

Purpose of Paper For information

Synopsis This paper outlines further details an example of how a new Supplier Charges corrective technique may be applied.

1. INTRODUCTION

- 1.1 The VASMG has previously met to discuss Issue 6 (Supplier Charges). Previous sessions saw discussion on the effectiveness of the current Supplier Charges (SCs) technique, agreement on the desired principles of a corrective technique and agreement of three potential techniques for further definition. This paper further details the option of a new SC technique.
- 1.2 The proposal that follows is looking at a number of suggestions taken from previous VASMG (Issue 6) meetings and with consideration given to other issues associated with the current mechanism for applying Supplier Charges. This proposal would be a replacement for the current SC rules and would be implemented after the current rules are run off to ensure that there is no double charging of Parties due to two sets of SCs being applied at any one time.

2. SC PROPOSAL

- 2.1 This proposal has been constructed using the following ideas:
 - Charges to be made on certain obligations of percentage energy performance only
 - Charges to apply per Supplier Id, per GSP Group
 - Charges to be applied for settlement day performance occurring for settlement runs across a reporting month
 - No Caps applied to charges
 - Charges directed toward funding the PAF
 - Charges to be invoiced on a monthly basis as part of the BSCCo Invoice
 - Suppliers to appeal the data used in SCs using a defined appeal process
 - PAB given the rules and the ability to disapply charges
 - A mechanism for dealing with defaulting Parties under the Code
 - A mechanism for dealing with trade sales
 - Need for a Calendar day implementation

- 2.2 The proposal may be as follows:

SCs should be applied for each Calendar month per Supplier Id, per GSP Group for failure to comply with the following standards for each relevant settlement run occurring during the month:

NHHRF (97% of energy to be settled on Annualised Advances)

HHRF (99% of energy to be settled on Actuals – post 1 May 2004)

Each Supplier shall be liable for the following for failure to meet the standards:

$$NHHRF = [\text{£x}] * [\text{Chargeable MWh}] * [97\% \text{ AAs}]$$

$$HHRF = [\text{£x}] * [\text{Chargeable MWh}] * [99\% \text{ Actuals}]$$

There would need to be some further investigation into what the charges would be and whether the charge would need to be incremented annually in line with inflation or changes to the Retail Price Index.

SCs will be run 13WDs after the end of the reporting period and the charges will be included on the BSCCo invoice sent at the end of the reporting month. SCs will run automatically using the PARMS system.

Suppliers will receive a breakdown of the total charges they are liable for, this will be Emailed to the SC contact automatically after the charges have been generated at 13WDs after the end of the reporting period.

Suppliers will receive a copy of the data to be used for SCs at 10WDs and will have 2WDs to query the data used. Any query will be first considered by the Performance Assurance Administrator (PAA) who will provide a response within 5WDs, any Supplier who wishes to challenge the response of the PAA may do so, and make representation to the next PAB. The PAB will notify a Supplier of its decision within 2WDs of the meeting. The PAB decision shall be final and binding. SCs will be processed at 13WDs regardless of any query still open, should the PAB rule in favour of a Supplier then the appropriate funds will be returned to the Supplier on the next BSCCo invoice. No Supplier may withhold payment of SCs, pending the outcome of a query.

A Supplier may query the SC amount on the BSCCo invoice with the BSCCo within 5WDs of receipt of the invoice, if it is believed the amount has been calculated using the incorrect charge per MWh. A Supplier may not query the raw data used in the calculation of charges (this should have been queried as per the paragraph above).

A Supplier may claim force majeure against their Supplier Charges. A Supplier should notify the PAA, in writing, at the earliest opportunity, of the start of the force majeure event and again once the force majeure has ended, specifying the last day of the force majeure event. The notification should give details of what the Supplier believes the force majeure event to be and why it will impact their ability to perform to the agreed standards. The Supplier should further detail what actions they took to mitigate the force majeure. All force majeure claims will be considered by the PAB at the time that the performance data becomes available for the RF runs for those Settlement Days that force majeure was claimed. Suppliers may send representation to the PAB to support their claim. The PAB will decide if performance has been impacted as a result of force majeure based on any shift in the performance data. If a force majeure claim is upheld then SCs would be disapplied for those Settlement Days that the force majeure was claimed.

If a Supplier defaults their payment of SCs under the Code the same rules would apply that currently apply to non payment of the BSCCo invoice.

If a Supplier Id transfers between two BSC Parties during a reporting period the SCs would be levied according to whom owned the Supplier Id on which Settlement Date (i.e. the losing Party would be liable for SCs until the RF run for the last settlement day of owning the Supplier Id).

Any new SCs should be implemented on a Calendar Day basis to allow for the current SCs rules to run off. A new set of SCs must provide for the run off of the current SCs rules for a period of 14 months such that only one set of rules exists at any one time within the Code.

SCs could be used to recover costs of the PAF techniques. Funds collected from SCs will be used to partly pay for operating the PAF (i.e. this will result in a small reduction in each Parties BSC monthly invoice. The total funds collected can be taken off the BSCCo invoice in proportion to each Parties latest Main Funding Share for that reporting period. For each reporting period the total costs recovered from SCs will be announced on the ELEXON website.

- 2.3 This proposal keeps charges simple by applying charges only to the RF settlement run and should encourage Suppliers to achieve the relevant performance standards. As the charges are Settlement Date based they can be applied, disappplied and separated out very simply.
- 2.4 The simple charging mechanism and absence of capping makes the charges transparent as each Supplier can simply calculate their own liabilities using the performance data issued and the agreed charges. Parties can see what funds have been recouped by the monthly notification on the ELEXON website. However, if the costs are related to the cost of the PAF then the PAF costs effectively become a Cap.
- 2.5 Further investigation is required to see what an appropriate charge would be, however, as long as the volumes of energy involved are also used the charges should be reflective of the potential to impact settlements. It should be noted that any charges must be significant in volume to incentivise Suppliers to achieve the standard.

3. PRINCIPLES OF CORRECTIVE TECHNIQUE

- 3.1 This section outlines how the technique measures up against the principles agreed by VASMG:
 - **Simplicity** This set of SCs is simpler in principle than the current set of SCs but consideration needs to be given to avoid complications of capping and redistribution.
 - **Transparency and Clarity** Suppliers could tell exactly what their liabilities under these SCs would be, the industry could see what funds had been accrued.
 - **Significant in Magnitude** The magnitude would have to be agreed during the setting of the charge itself but would have to be sufficient to encourage compliance with the standards.
 - **Predictable** Each Supplier will be able to predict their charges and when they will have to pay them.
 - **Securely Based** The data used for these techniques is taken from settlements and Suppliers will have the opportunity to query their data.
 - **Automated and Consistent** This technique could be automated very simply using PARMS.

- **Explicitly linked to a clearly desired outcome** The outcome is to encourage Suppliers to achieve the standards at RF.
- **Reflective of Performance and Progressive** This approach is directly attributable to percentage energy performance.
- **Immediate** The technique could be quickly applied upon receipt of the data.

4. SUPPLIER CHARGES AND OTHER CORRECTIVE TECHNIQUES

- 4.1 This form of SCs should only be used as an alternative to the current rules and should not be applied whilst the current rules are still existent.
- 4.2 The naming technique could be used easily in conjunction with this technique. The naming could serve to encourage Suppliers to improve performance as they would be aware that if standards are not met they would be liable for SCs at RF.
- 4.3 This technique may not be required if the way GSP Group Correction Factor is applied is amended in accordance with the other ideas presented at this VASMG.

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