
Meeting name BSC Panel

Date of meeting 9 December 2004

Paper Title ISSUE 11 REPORT: PERFORMANCE TARGETS AND MONITORING

Purpose of Paper For Information

Synopsis Issue 11 'Performance Targets and Monitoring' was raised on 3 September 2004 by Centrica, Powergen and Scottish Power. The issue was raised to determine whether the current 97% performance target for Annualised Advances (AA) entering Settlement at the Final Reconciliation Settlement Run (RF) was providing adequate accuracy and equitability of data entering into settlement. This report details the discussions held under issue 11 by the Volume Allocation Standing Modification Group (VASM), in order to determine the best way of progressing the issues relating to performance targets and monitoring. Subsequently, Modification Proposal P182 'Review and redefinition of Non-Half Hourly Settlement performance measures' was raised on 29 November 2004 jointly by Centrica, Powergen and Scottish Power and this issue has been closed.

1. ISSUE 11 BACKGROUND:

- 1.1 The Volume Allocation Standing Modification Group (VASM) met to discuss this issue twice, on Tuesday 28 September 2004 and Friday 19 November 2004.
- 1.2 The Group discussed what the aim of the Modification Proposal should be. It was suggested that rather than highlighting specific solutions the Group should first focus on what they wanted to achieve. The Group agreed that the solution should endeavor to meet a set of predefined targets. A number of suggestions were offered by the Group as follows:
- To provide a solution that is equitable for all Suppliers;
 - To achieve adequate accuracy of data entering Settlement;
 - To help facilitate industry competition;
 - To create an incentive for Suppliers; and
 - To provide a 'self policing' incentive.
- 1.3 The sponsors of the issue provided a draft Modification Proposal and the Group's discussion focussed on the three sections of the draft proposed solution.
- Part 1: Revision of the Current Non-Half Hourly (NHH) Settlement Performance Measure and the Associated Annual Consumption Calculation Process;
 - Part 2: Resolution of Material Market Issue; and
 - Part 3: Differentiation in Supplier Treatment.

2. PART 1: REVISION TO THE CURRENT NON-HALF HOURLY (NHH) SETTLEMENT PERFORMANCE MEASURE AND THE ASSOCIATED ANNUAL CONSUMPTION CALCULATION PROCESS

2.1 Overview:

Annex S-1 of the Code, requires that Suppliers increase the percentage of total energy settled on Annualised Advances (AAs), so that by 14 months, 97% of the data provided is settled on AAs rather than Estimated Annual Consumptions (EACs).

The draft modification proposed that the 97% value is inappropriate and that:

- a) it should be changed to reflect the market average for each GSP Group with a minimum standard, to be agreed, on the basis that there is no evidence to suggest that the current measure of 97% will result in more accurate energy allocation between Suppliers; and
- b) in tandem, the methodology associated with deriving EAC and AA values be revised to achieve the level of accuracy agreed to be necessary; an agreed industry minimum methodology standard would be introduced to facilitate this.

2.2 Discussion:

The 97% target for AAs entering Settlement at the Final Reconciliation Settlement Run (RF) is thought to originate from an OFFER industry standard for Meter readings. This was based on customer / Supplier relationships prior to industry competition. During the design of the 1998 arrangements the use of this standard was modelled to observe the effect and risk of this value on Settlement.

Discussion was held on whether this 97% target is appropriate.

- 2.2.1 The draft proposal suggested that performance could be measured on GSP Group average. It was suggested that each GSP Group would have a Group average percentage authorised each month by the Programme Assurance Board (PAB). This process could be based on either forward forecasting predictions, average performance the month before, or Suppliers would find out how they performed in retrospect. Setting different targets per GSP Group was thought to be a good measurement of equitability which would take into account geographic differences.

Concerns were raised that this could lead to a reduction in the average. Therefore, it was suggested that an industry minimum would also be required. Parties below that GSP Group industry average would be subject to PAB actions, the severity of which would depend on their performance level with regards to the average and minimum level. The minimum level would be vital in order to stop deterioration of data. An average percentage standard could be used in Peer Comparison reporting and the lower set level used as a signal for escalation by PAB.

The rationale for this approach was that as the industry improves its data the average percentage in a GSP Group would increase, driving up data quality. However, it should be noted that the larger Suppliers would have a larger impact on Settlement. Concerns were raised on the lack of incentive for Suppliers to achieve greater than the GSP Group average and the possibility of GSP Group average deviating towards the minimum acceptable level.

- 2.2.2 Work performed for Approved Modification Proposal P99¹ suggested that the 97% target is achievable and as a result concluded that it was appropriate to include the performance level in the report. However P99 did not take into account drop out rates, where Meter reads fail validation and do not enter into Settlement. It is therefore unclear as to whether this would prevent a Supplier achieving the 97% target.
- 2.2.3 The Group discussed whether the measurement of 97% at RF was the correct measurement or whether it was credible to look towards the Third Reconciliation Settlement Run (R3) measurement of 80%. Some analysis has previously been performed on whether the Supplier volumes at R3 (reflecting about 80% actual data) varies significantly from the volumes at RF (reflecting 95-97% actual data). This has indicated that the volume change between R3 and RF is comparatively minor compared to the average change.
- 2.2.4 Discussions were held on whether EACs alone are accurate enough. Both EACs and AAs are estimated values. AAs do contain the correct volume take in accordance with the Code, but then are produced by being put through a profiling mechanism, creating estimated values. EACs are thought to be reasonably accurate within the NHH market, due to using large numbers of small volumes which statistically should be within small error margins. Analysis on the correlation of EACs against AAs is required to assess the proposed accuracy. If the analysis shows that EACs are as accurate as AAs, thoughts were expressed on removing the percentage AA target altogether. It was suggested that significant money and resources are being invested by the industry to achieve this 97% target, but this does not necessarily make the data in Settlement significantly more accurate. If so, the question was asked, at what percentage AA level would accuracy into Settlement be truly affected? It was thought that some of the analysis on performance targets carried out under Modification P157² could also be of some use for progressing issue 11. It was noted that a change was being progressed in the Scottish market to cease Settlement at RF, suggesting that measurements at R3 were adequate to be used for final Settlement³.

ACTION: ELEXON to circulate analysis performed under P157.

- 2.2.5 Any solution obtained will need to take into account both **Equitability** and **Accuracy**.

Equitability – any solution has to be an equitable treatment of all Suppliers with a consistent application of the rules.

Accuracy – Suppliers need to have the right bill at Settlement and not pass any cost errors on to customers. Here the meaning of 'right' must be taken to mean 'in accordance with the Code', recognising that the Supplier Volume Allocation (SVA) Arrangements as a whole reflect the need for the use of estimates in the Settlement processes.

The proposers believe that any solution proposed should increase equitability, rather than make the target easier for Suppliers to meet. Again, concerns were raised as to whether performance target should be reduced – as this could be seen as suggesting the errors entering Settlement are acceptable.

¹ Approved Modification Proposal P99 – Changes to Accreditation and the PARMS Serials and Standards, resulting from the Performance Assurance Framework (PAF) Review.

² Approved Modification P157 - Replacement of current Supplier Charges rules.

³ Please note that this Change Proposal is with regards to the cost of running SESL for a further 6 months following the implementation of BETTA, against the accuracy of data at R3.

2.2.6 Although there seems no robust rationale for the 97% target, there were some reservations on whether it should be changed. It will need to be demonstrated that the proposed solution will introduce more accuracy into Settlement.

2.2.7 It was also noted that there was expected to be an improvement in technology with the introduction of mobile phone readings over the next few years. Meters could be placed in hard to access sites removing one of the key Meter reading issues. This technology is likely to improve the percentage of AAs entering Settlement at RF. Should the solution include the use of an industry GSP Group average, this improvement in AAs, would be reflected in the increase of the GSP Group average.

2.2.8 The proposal would need to consider the related problems associated with incorrect data entering Settlement:

- Readings not entering Settlement due to process / validation problems;
- Inaccurate Meter readings being taken and entering Settlement; and
- Dependency of Suppliers on other Suppliers' data when transferring customers (Customer Transfer Program (CTP) problems).

2.2.9 The Group also discussed whether the proposal should cover the Half Hourly (HH) market. It was noted that the performance target of 99% is being met by most Suppliers for the Initial Settlement (SF) Runs. It was also noted that analysis carried out under P157 indicated that estimating techniques in the non-Half Hourly (NHH) market were more accurate than those in the HH market. The Proposers agreed to consider whether the proposal should be extended to include the HH market as well as the NHH market.

2.2.10 It was noted that there should be a natural incentive on Suppliers to achieve accurate reads for customer billing and therefore in everyone's interest to achieve accurate billing. The question was how well this translated into a natural incentive to submit accurate data into Settlement.

ACTIONS:

- **Proposal to include what the Modification Proposal hopes to achieve and outline the underlying problems with current target.**
- **ELEXON to provide detailed analysis, to be confirmed by the Group, to support any Modification Proposal arising from Issue 11.**

3. PART 2: RESOLUTION OF MATERIAL MARKET ISSUES

3.1 Overview:

In support of the first two sections of the draft proposal, there are a number of market issues, for example energisation status mismatches and Unmetered Supplies volume errors, which are causing a material affect on the quality of data entering Settlements. A number of these issues have in fact contributed to the BSC Audit being qualified for period 2003 - 2004. This Modification seeks to review such issues and if appropriate determine improvements in the way such issues are managed.

3.2 Discussion:

- 3.2.1 The possibility was proposed of a timescale being introduced into the Code whereby any Audit issues arising had to be resolved. This was supported by the fact that some previous issues have not been resolved within an acceptable timescale. Concerns were raised over the fact that some issues might not be straight forward and may place unnecessary strain on Suppliers' resources. Currently the Code does require issues to be resolved and this could subsequently lead to duplication.
- 3.2.2 Thoughts were expressed on whether this would be a Code change or should remain a PAB issue (i.e. is it to correct existing errors or whether the underlying resolution of why these occur needs to be addressed).
- 3.2.3 There was some support among the Group for consideration of an additional Code obligation requiring Parties to address Audit issues.
- 3.2.4 In order to resolve these issues, it was suggested that further incentives would have to be introduced. This could be achieved by escalation through PAB and possible further escalation onto the Panel, where a Party could be declared in breach of the Code. Being in breach of the Code however, could have a larger detrimental impact on smaller Suppliers and was seen as a last resort.
- 3.2.5 It was felt that the points raised for resolving these Material Market issues could be dealt with as part of the revision to current Non-Half Hourly (NHH) Settlement Performance measures and the associated annual consumption calculation process, providing the right incentives and performance measures were introduced.

4. PART 3: CONSIDERATION TOWARDS DIFFERENTIATING SUPPLIER TREATMENT

4.1 Overview:

The performance of smaller Suppliers does not, in the main, materially affect other Suppliers. The draft Modification proposes that where it can be proven that a smaller Supplier's performance does not have a materially negative affect on other Suppliers, that alternative mechanisms are introduced.

4.2 Discussion:

- 4.2.1 Smaller Suppliers are considered to have limited impact on Settlement and hence lower risk. They are not subject to Audit and therefore it could be viewed that a different performance target should be introduced for them. It was thought that this could be done by GSP Group, based on market share by Supplier Id. However, concerns were raised that this measurement could be manipulated by Suppliers. Questions were raised on whether small Suppliers were under particular pressures.
- 4.2.2 It is believed that any requirements for differentiating Supplier treatment could be resolved with the adequate solution to the revision to current NHH Settlement Performance measures and the associated annual consumption calculation process. It shall be considered when dealing with NHH Settlement Performance measures whether there should be any separate considerations for smaller Suppliers.

5. NEXT STEPS

It is envisaged that a Modification Proposal be submitted with the expectation that this will go into Definition Procedure in accordance with Section F of the Code.

6. ATTENDEES

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