Stage 03: Attachment A: Other Alternative Solutions Discussed

P274: Cessation of Compensatory Adjustments

What stage is this document in the process?

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About this document:

This is Attachment A to the Assessment Consultation for P274. This attachment provides additional detail of the Workgroup's discussions on solutions which ultimately were not progressed.

1 Initial Solution Options

Initial solution development

The Proposer presented two potential solution options (with a sub option to remove RF deeming) for discussion by the Workgroup:

- Solution Option 1 – withdrawal of part-crystallised advances; and
- Solution Option 2 – re-initialising reading history.

Under the first option, withdrawal of part-crystallised advances would be permitted for errors relating to meters in GSP Groups subject to disputes. Additionally, the solution could allow invalid Annualised Advances (or EACs) to be withdrawn and replaced up to the point at which they had fully "crystallised" at the DF Run, on the condition that the Metering System in question being subject to an authorised Trading Dispute.

The Workgroup considered that this was too complex and presented a number of problems. Withdrawal of partially crystallised values would erode the significance of RF, i.e. DF would effectively be equivalent to RF in all but three GSP Groups (i.e. all but three GSP Groups are currently subject to disputes), which is counter to the direction of the industry over recent years. The Workgroup noted that there is currently no mechanism for separating erroneous threshold-crossing advances from other settlement advances in the RF/DF period, and the disputes run is applied against all advances in the eleven authorised GSPs. If this solution option was employed there would no longer be any meaningful way to monitor post-RF changes. In addition DC systems would require significant changes to accommodate this solution.

The group considered that if neither of the non-compensatory techniques (withdrawal of part-crystallised advances or re-initialisation) was applied, a compensatory effect (similar to GVC) would occur naturally under Settlement. However, such natural compensation would tend to be greater than that which would occur via GVC (because GVC compensates from RF instead of allowing an erroneous read to crystallise). If application of the non-compensatory techniques is optional Suppliers could choose not to apply them and allow natural compensation to occur. This would exacerbate the issues identified by the Proposer, therefore the group agreed that use of a non-compensatory technique should be mandatory under P274 Proposed and to facilitate this, thresholds would have to be applied to determine circumstances where use of non-compensatory techniques is mandated.

The group noted that error freezing is inherent in GVC and agreed this is beneficial and should be incorporated into the re-initialisation solution. The Proposer acknowledged this element of GVC is beneficial and agreed it should form part of the re-initialisation solution.

In light of the Workgroup's considerations the Proposer agreed that withdrawal of part-crystallised advances would not form part of the Proposed solution. Instead the Workgroup and Proposer developed a solution that would permit restricted use of GVC, recognising that GVC contains a beneficial "error freezing" component, which limits the error in one period that will be compensated for in another. This lead to the development of the Proposed solution which allows GVC for errors below a defined excessive volume to enable Suppliers and Non Half Hourly data Collectors (NHHDCs) to minimise the Compensatory Volume associated with them.

The second option put forward by the Proposer became the foundation of the proposed solution. The following table sets out the benefits and disadvantages of the initial proposed solution compared with the solution carried forward.

Relative merits of solution options 1 and 2

BENEFITS	
Solution option 1 withdrawal of part-crystallised advances	**Solution option 2 re-initialising reading history**
A simpler change than re-initialising the reading history, particularly if it is determined that the latter requires changes to NHHDC validation to address asymmetries in the identification of errors. Where the Metering System is in a GSP Group in which DF runs are being carried out, allows for accurate Settlement back to the DF boundary (assuming that advances part-crystallised at DF can also be corrected).	Independent of the disputes process (i.e. has the same results whether or not DF runs are carried out). Avoids the situation where a bad reading history prevents the processing of subsequent good readings (e.g. after a smart or AMR meter has been installed).
DISADVANTAGES	
solution option 1 withdrawal of part-crystallised advances	**solution option 2 re-initialising reading history**
Creates a disbenefit to Suppliers with large portfolios in GSP Groups in which DF runs are not being carried out. The ability to correct additional errors in GSP Group in which DF runs are still being carried out, may act as disincentive to end the disputes process. DF runs will not be exclusively for the purpose of correcting errors via authorised Trading Disputes.	More complicated than allowing the withdrawal of part-crystallised advances. It has been asserted that re-initialisation would be biased towards cases of over-settlement, because DC validation is more likely to detect readings that are too low compared to those that are too high, and this would lead to degradation in the accuracy of settlement data. This would seem to be the case with GVC as well, so further consideration needs to be given to the risk of asymmetry.

Benefits and disadvantages of the sub-option – removal of RF deeming

Benefits	**Disadvantages**
Consistency with the removal of GVC, as deeming at RF also creates a compensatory effect.	It could be argued that the 14 month deeming rule creates a compensatory adjustment to the extent that the metered consumption differs from the EAC on which the Metering System was previously settled, but the magnitude of the compensation should, on average, be less

	than where GVC is applied. This is because GVC is specifically targeted at errors. Additional cost to NHHDCs as a result of removing the RF deeming rule. Additional cost of EAC/AA system change. Removing RF deeming would result in changes to crystallised data.

Relative merits of proposed solutions and Gross Volume Correction

BENEFITS	
Proposed Solutions	**Gross Volume Correction**
Ensures that the volume of energy in the 'fluid' period (i.e. up to the latest Final Reconciliation run) is correctly allocated. Provides an incentive to settle the correct volume of energy within the 14-month reconciliation window, to avoid the costs of Trading Disputes.	Ensures that the total energy settled across the 'error' and 'compensation' periods is correct. Provides an alternative to the Trading Disputes process.
DISADVANTAGES	
Proposed Solutions	**Gross Volume Correction**
Crystallised error is effectively "written off", unless the Supplier chooses to raise a Trading Dispute. Would lead to an increase in the number of Trading Disputes and in the associated costs.	The volume of energy settled in both the 'error' and 'compensation' periods is incorrect. The Supplier carrying out GVC will gain or lose as a result of differences in energy prices in the 'error' and 'compensation' periods, with other Suppliers experiencing the reverse effect through GSP Group Correction. New market entrants may be subject to gains or losses as a result of compensatory adjustments made in respect of errors that pre-date their market entry dates. Allows Suppliers to make corrections of a comparable magnitude to those in the Trading Disputes process, but without the controls provided by the Trading Disputes process.