Change Proposal – BSCP40/02	CP No: 1363 *Version No: 1.0*

Title:

Addressing Settlement Data Adjustments in a Balanced Manner

Description of Problem/Issue:

Background

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[1] 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[2] (DPCR5) so that the DLIM for this period can operate, and for the DPCR4[3] 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.

[1] Charge Restriction Condition.
[2] Running for the 5 year period starting on 1st April 2010.
[3] Running for the 5 year period ending on 31st March 2010.

Issue

There is currently no obligation on Suppliers to address Settlement data quality issues in a manner that, collectively, results in more accurate Settlements. Addressing or prioritising all issues causing overstatements in energy or all issues causing understatements in energy would result in an overall detrimental impact on the accuracy of Settlements as it would create a skew in the Settlement data.

Without such an obligation Settlement data may be unrepresentative of underlying volumes and therefore negatively impact LDSOs and Suppliers. This would create issues for the DLIM as it would preclude adequate determination of when energy flows took place. This would generate uncertainty for LDSOs in their regulated allowable revenue and uncertainty for Suppliers in the DUoS costs they will incur. Impacts such as more volatile energy prices could also affect consumers, though this is outside the scope of the BSC.

Proposed Solution:

The Change Proposal (CP) seeks to place an obligation on Suppliers that any adjustments undertaken to address overstatements and understatements of energy are made in an overall balanced manner. The CP is intended to facilitate a reduction in the level of distortion that occurs when these adjustments are made and prevent any unreasonable skew in the volume settled.

The CP would amend BSCP504 'Non Half Hourly Data Collection for SVA Metering Systems in SMRS' section 1.2 to introduce a new section, 1.2.8 'Addressing Settlement Data Quality Issues'. This section will require that data quality issues are addressed in a manner that collectively best improves the overall accuracy of Settlement by Final Reconciliation. In particular the amendment will require that NHHDCs and Suppliers, in prioritising the resolution of exceptions and the application of adjustments such as GVC, address over- and under-statements of energy in proportion to the volume of such errors requiring resolution. Section 4.14.3 'Use of Gross Volume Correction' would reiterate that the overall use of GVC by NHHDCs and Suppliers must be consistent with section 1.2.8.

It is intended that this CP should recognise that issue identification mechanisms are sometimes more effective in highlighting issues in one direction than another, or do so more quickly in one direction compared with another. For example, where a meter advance is overstated, as well as overstating Settlement volumes, a customer's bill is overstated. In this situation, the customer acts as an effective issue identification mechanism (i.e. they complain to the Supplier). In the converse situation, if their bill is under stated, they are much less likely to act as an effective aid to identification of the issue. In ensuring that a particular issue is addressed in a balanced manner, phenomena such as this should be considered, such that the issue in its entirety is addressed in a balanced manner.

Justification for Change:

This Change Proposal better facilitates 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 increasing the accuracy of Settlements for all Suppliers and other impacted BSC Parties.

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.

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 5 man days of effort, which is equivalent to £1200.
Configurable Items Affected by Proposed Solution(s) (mandatory by originator) 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 *(mandatory by BSCCo)* Several CPs relate to similar areas as this CP, though none of the CPs are interdependent: • CP1360 - Inclusion of Audit Records for Gross Volume Correction and Dummy Meter Exchanges; • CP1361 - Removal of Extreme EACs; and • CP1362 - Removal of Residual Negative EACs.
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 BSCP504 redlined *(4 pages)*