

Modification Proposal

MP No: 182

(mandatory by BSCCo)

Title of Modification Proposal *(mandatory by originator):*

Review and redefinition of the Non Half Hourly Settlement performance measures.

Submission Date *(mandatory by originator):* 29th November 2004

Description of Proposed Modification *(mandatory by originator)*

This Modification has been developed through the VASMG following the raising of Issue 11 by Scottish Power plc, Centrica plc and E.ON UK.

Annex S-1 of the Balancing and Settlement Code, requires that Suppliers increase the amount of actual energy provided to Settlements so that by 14 months, 97% of the actual energy rather than estimated energy is submitted. This Modification seeks to revise the current Non-Half Hourly (NHH) Settlement performance measure and the associated Annual Consumption Calculation Process with the objective to:

- Provide an equitable solution
- Increase the accuracy of data entering Settlement
- Facilitate competition
- Create natural incentives on Suppliers to achieve more accurate Settlement Energy Volumes
- Be a self-policing incentive
- Increase the accuracy of Customer billing

(1) This modification proposes that the 97% value needs to be re-examined and:

- a) as an example, could 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% is necessary to achieve equitable and adequately accurate energy allocation between Suppliers; and
- b) in tandem, the methodology associated with deriving the Estimated Annual Consumption (EAC) and Annualised Advance (AA) values be revised to achieve an adequate or "necessary" level of accuracy; an agreed industry minimum methodology standard would be introduced to facilitate this.

Both elements of (1) should be considered together as they will ensure that performance does not decline from the current industry average performance.

(2) Resolution of Material Market Issues

In support of the above, there are a number of market issues, for example energisation status mismatches and Unmetered Supply errors, which are causing a material affect on the quality of data entering Settlements and the accuracy of energy allocation. A number of these issues have in fact caused the BSC Audit to be qualified. This Modification seeks to review such issues and if appropriate determine improvements in the way such issues are managed, including a review of the techniques that could be applied to facilitate the improvements. This may require changes to the BSC, or alternatively may be facilitated through Change Proposals.

Description of Issue or Defect that Modification Proposal Seeks to Address *(mandatory by originator)*

The current Settlement performance measure of 97% became effective with the introduction of the 1998 trading arrangements to ensure the equitability of Settlements and to date no such review of its validity has been undertaken.

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We do not believe that the 97% performance measure satisfies the desire to achieve the fair and equitable correct allocation of energy by Suppliers. This failure results in Suppliers, after adjustment for GSP Group Correction Factor, paying for incorrect energy volumes.

A key aspect of Settlement performance should be to ensure that Suppliers have appropriate incentives to naturally drive an improvement within data quality. Therefore ensuring that the focus of performance is placed on material activities adversely affecting other Suppliers, not areas where Suppliers have a natural financial incentive to rectify their own position.

The current performance measure does not ensure that the allocation of energy between Suppliers is equitably delivered for a number of reasons namely:

- We are operating under different market conditions compared to those in 1998;
- No evidence can be identified that states the appropriateness of the current measure of 97%; and
- Fluctuations between actual and estimated volume is minimal.

The current performance level of 97% AA's at RF is an inappropriate measure, has no scientific basis and consequently Suppliers' NHH performance should be reviewed. In addition, the very fact that EAC's and AA's are both estimated values suggests that the both the AA performance measure and the accuracy of the residual EAC's should be reviewed in tandem to assess the overall level of accuracy and equitability of Settlements.

Appendix 1 displays the small volume movement between EAC's and AA's through the reconciliation runs. This supports the assertion that EAC's are thought to be reasonably accurate within the NHH market due to the fact that there are large numbers of small values, which statistically should be within small error margins. The BSC review further substantiates this stating:

"The use of EAC's to provide estimated NHH data in SVA appears to have, in aggregate, only a limited effect on overall accuracy; this is indicated by the relatively small change in total NHH energy volumes between the 3rd reconciliation and Final reconciliation. This change amounts to about 0.2%, while the amount of actual data increases from about 80% to 94%".

The appropriateness of the Performance measures has not been reviewed since 1998, whilst Modification P99 sought to review the achievability of 97% at RF; it did not include a review of the appropriateness.

The remaining issues highlighted above have arisen because the Supplier Volume Allocation trading arrangements have not been changed in any material way since 1998. To improve data quality, improvements are now sought in a number of areas, which have highlighted weaknesses in the trading arrangements.

Impact on Code *(optional by Originator)*

Impact on Core Industry Documents *(optional by Originator)*

Impact on BSC Systems and Other Relevant Systems and Processes Used by Parties *(optional by originator)*

Impact on other Configurable Items *(optional by originator)*

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Justification for Proposed Modification with Reference to Applicable BSC Objectives *(mandatory by originator)*

The Applicable BSC Objectives set out in paragraph 3 of Condition C3 of the Transmission Licence. We believe that Applicable BSC Objectives (c) and (d) are most relevant for this modification:

- (c) Promoting 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;
- (d) Promoting efficiency in the implementation and administration of the Balancing & Settlement arrangements.

The setting of such a stringent target of 97% of actual energy on NHH sites at RF can be seen as not facilitating competition as it is clear that Suppliers will incur a significant increase in costs to deliver a measure which has not been achieved by the industry thus far and which can not be substantiated as there is no evidence to suggest that this will result in more accurate allocation of energy between Suppliers.

Increased costs will vary between Suppliers and will depend on such factors as geographical location, and as such the current arrangements can act as a barrier to new entrants / competition. It should also be recognised that the current performance target of 97% is incurring significant industry costs, in an environment where the incremental accuracy and equitability of Settlements is not proved as being compromised at a level below this threshold. This Modification is aiming to address that imbalance and further incentivise Suppliers to strive for a more accurate allocation of energy between Suppliers.

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Attachments: Yes / *(delete as appropriate)* *(mandatory by originator)*

If Yes, Title and No. of Pages of Each Attachment: NHH Oct Nov to Group