

SECOND CONSULTATION DOCUMENT
for Modification Proposal P157
Replacement of current Supplier Charges rules

Prepared by: Volume Allocation Standing Modification Group

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PURPOSE OF THIS DOCUMENT

This consultation document describes the discussions of the VASMG (“the Group”) to date, and seeks the views of market participants on, among other issues, the following:

- Whether or not P157 would better facilitate achievement of the Applicable BSC Objectives;
- Provision of additional data for the genuine pre-estimate of loss;
- Opinions of the different elements of the Supplier Charges rules;
- Whether the Implementation Date suggested is appropriate; and
- Whether there are any substantive issues that need to be brought to the attention of the Group.

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SUMMARY OF IMPACTED PARTIES AND DOCUMENTS

The following Parties/documents have been identified as being potentially impacted by Modification Proposal P157:

Parties	Sections of the BSC	Code	Subsidiary Documents
Suppliers <input checked="" type="checkbox"/>	A	<input type="checkbox"/>	BSC Procedures <input checked="" type="checkbox"/>
Generators <input checked="" type="checkbox"/>	B	<input type="checkbox"/>	Codes of Practice <input type="checkbox"/>
Licence Exemptable Generators <input checked="" type="checkbox"/>	C	<input type="checkbox"/>	BSC Service Descriptions <input type="checkbox"/>
Transmission Company <input type="checkbox"/>	D	<input type="checkbox"/>	Service Lines <input type="checkbox"/>
Interconnector <input checked="" type="checkbox"/>	E	<input type="checkbox"/>	Data Catalogues <input type="checkbox"/>
Distribution System Operators <input type="checkbox"/>	F	<input type="checkbox"/>	Communication Requirements Documents <input type="checkbox"/>
Party Agents			
Data Aggregators <input type="checkbox"/>	G	<input type="checkbox"/>	Reporting Catalogue <input type="checkbox"/>
Data Collectors <input type="checkbox"/>	H	<input type="checkbox"/>	MIDS <input type="checkbox"/>
Meter Operator Agents <input type="checkbox"/>	J	<input type="checkbox"/>	Core Industry Documents
ECVNA <input type="checkbox"/>	K	<input type="checkbox"/>	Grid Code <input type="checkbox"/>
MVRNA <input type="checkbox"/>	L	<input type="checkbox"/>	Supplemental Agreements <input type="checkbox"/>
BSC Agents			
SAA <input type="checkbox"/>	M	<input type="checkbox"/>	Ancillary Services Agreements <input type="checkbox"/>
FAA <input type="checkbox"/>	N	<input type="checkbox"/>	Master Registration Agreement <input type="checkbox"/>
BMRA <input type="checkbox"/>	O	<input type="checkbox"/>	Data Transfer Services Agreement <input type="checkbox"/>
ECVAA <input type="checkbox"/>	P	<input type="checkbox"/>	British Grid Systems Agreement <input type="checkbox"/>
CDCA <input type="checkbox"/>	Q	<input type="checkbox"/>	Use of Interconnector Agreement <input type="checkbox"/>
TAA <input type="checkbox"/>	R	<input type="checkbox"/>	Settlement Agreement for Scotland <input type="checkbox"/>
CRA <input type="checkbox"/>	S	<input checked="" type="checkbox"/>	Distribution Codes <input type="checkbox"/>
Teleswitch Agent <input type="checkbox"/>	T	<input type="checkbox"/>	Distribution Use of System Agreements <input type="checkbox"/>
SVAA <input type="checkbox"/>	U	<input type="checkbox"/>	Distribution Connection Agreements <input type="checkbox"/>
BSC Auditor <input type="checkbox"/>	V	<input type="checkbox"/>	BSCCo
Profile Administrator <input type="checkbox"/>	W	<input type="checkbox"/>	Internal Working Procedures <input checked="" type="checkbox"/>
Certification Agent <input type="checkbox"/>	X	<input type="checkbox"/>	Other Documents
MIDP <input type="checkbox"/>			Transmission Licence <input type="checkbox"/>
TFLA <input type="checkbox"/>			
Other Agents			
SMRA <input type="checkbox"/>			
Data Transmission Provider <input type="checkbox"/>			

X = Identified in Report for last Procedure
 N = Newly identified in this Report

1 INTRODUCTION

1.1 Proposed Modification

Modification Proposal P157 'Replacement of current Supplier Charges rules', (P157), was raised on 5 January 2004 by EDF Energy. P157 proposes to replace the current Supplier Charges rules in Annex S-1 of the Code with a robust set of rules that adhere to the proposed criteria for a technique that would provide corrective measures suggested by the Volume Allocation Standing Modification Group (VASMGM) during its work on Issue 6 (Supplier Charges).

The Proposer believes that a clear and readily understood set of rules should assist with the drive to improve the quality of data entering Settlement. The latest BSC Audit has been qualified and it is the Proposer's view that a major contributory factor to this was the level of poor data quality in Supplier Volume Allocation especially within the Non Half Hourly (NHH) sector. Supplier Charges are intended to be a corrective technique but the recent work of the VASMGM on Issue 6 has raised serious concerns over the appropriateness of the current rules and their effectiveness as a corrective technique.

The Proposer considered that P157 better facilitated the achievement of Applicable BSC Objectives (c) and (d). The achievement of Applicable BSC Objective (d) - promoting efficiency in the implementation and administration of the balancing and Settlement arrangements, would be achieved by P157 since the quality of data entering Settlement will be improved through the introduction of a Supplier Charges mechanism that is easily understood and that provides incentives on Parties. The Proposer further argued that any mechanism that is effective in improving data quality should also better facilitate the achievement of Applicable BSC Objective (c) – promoting effective competition in the generation and supply of electricity, and promoting such competition in the sale and purchase of electricity.

P157 is currently within the Assessment Procedure phase of the Modification process, and an Assessment Report is scheduled to be presented at the September meeting of the Panel.

1.2 Background and Scope

The Initial Written Assessment (IWA) was presented to the Panel at its meeting on the 15 January 2004. The Proposer raised Modification Proposal P157 so that the more detailed work required to implement a replacement to the current Supplier Charges rules could be undertaken and a solution could be decided upon, since no solution was recommended by the Modification Proposal. For this reason a 2 month Definition Procedure was recommended.

The Definition Report was presented to the Panel at its meeting on 11 March 2004. The Panel recommended that P157 be assessed fully during a three month Assessment Procedure. During the initial stage of the Assessment Procedure, the Group issued one consultation document to industry detailing its initial conclusions regarding the Proposed Modification and suggested alternatives. At its meeting on 13 May 2004, the Panel requested that the VASMGM present an Interim Report at the next Panel meeting to enable the Panel to choose to seek provisional thinking from the Authority if necessary. The request for provisional thinking was made and the Authority delivered its provisional thinking on 25 June 2004 such that it could be considered at the July 2004, Panel meeting. The Panel decided to direct the VASMGM which aspects should form a part of a P157 either Proposed or Alternative Modification. These were in relation to

- The genuine pre-estimate of loss for SP08a - direction to include a suitable calculation for in-house Supplier costs to correct bad data;
- Redistribution - Not Bond Rebate - a method that is linked to the target Standard and hence supports its attainment (continuous and monotonic);
- Caps – direction to exclude caps.

2 MODIFICATION GROUP DISCUSSION

As part of the Assessment Procedure, the Group has met on eight occasions to date – 15 March, 23 March, 02 April and 28 April, 28 May, 18 and 28 June 2004 and 12 July 2004. At these meetings the Group considered and came to recommendations on the following aspects of the Proposed Modification:

- The Serial(s) that Supplier Charges should be applied to;
- The charges to be levied e.g. the calculation of the genuine pre-estimate of loss;
- The method of redistribution – including the 90/10 rule (90% of redistribution to NHH Suppliers in a GSP Group and the remaining 10% to all Trading Parties based on Main Funding Share);
- The inclusion of a cap;
- The inclusion of a more detailed provision for force majeure;
- The provisions relating to peer group comparison (pgc).

In addition, the Group received provisional thinking from Ofgem on the above aspects of P157 and these were also considered in the meetings on and after the meeting on the 28 June 2004. Details of the discussions and conclusions of the Group have been included below:

2.1 Supplier Charges

2.1.1 Serials

The VASMG considered Supplier Charges and concluded that they should be aimed at maintaining accuracy and timeliness of Settlement over a long period of time.

The Group considered the Serials that the P99 Supplier Charges were applied to and discussed what changes if any P157 would make.

SP01 and SP02

There is currently a charge associated with these Serials which look at the timeliness of PARMS data provision. The Group considered that it was important to incentivise Suppliers to provide data in a timely manner; therefore they agreed that these Serials should have Supplier Charges attached.

SP04

This Serial is concerned with the timely installation of mandatory Half Hourly (HH) metering. The Group felt that it was important that Suppliers install HH metering for all sites/Premises¹ over 100KW, therefore this Serial was also deemed by the Group to be appropriate for Supplier Charges.

SP08a, b and c

This Serial is concerned with the provision of accurate data based on Annualised Advances (AAs) /Actuals into Settlements. Under SP08a, the Group felt that Suppliers ought to be charged if they fail to provide AAs for 97% of NHH meters at Final Reconciliation (RF). SP08b is a charge applied to Suppliers who fail to provide actuals for 99% of HH meters above 100kW at the First Reconciliation Run (R1). Finally SP08c is a charge applied to Suppliers who fail to provide actuals for 99% of HH meters below 100kW at RF. The Group considered SP08a, b and c and deemed them appropriate to have Supplier Charges attached under P157.

Please note: Charges should continue to be applied to importing meters only on the basis that estimations of export are either zero or profiled using strict techniques.

1.1.1.1 _____

¹ This will change if P124 is approved by the Authority but will not affect the Supplier Charges under P157.

The Group also considered Ofgem's provisional thinking that urged the Group to consider whether any of the issues it had deemed suitable to be incentivised via the publication of peer group comparison (pgc) tables, could be incentivised in a financial manner which is preferred by Ofgem.

The VASMG considered both the conceptual issues with regards to the differing roles for financial and non financial incentives² as well as the individual issues/significant matters it had previously considered appropriate for non financial incentives.

The Group concluded that financial incentives should be aimed at maintaining accuracy and timeliness of Settlement over a long period of time. Charges should be used to improve/maintain the overall 'health' of the Settlement system. Non financial incentives on the other hand should be aimed at underlying issues within Settlement that are maybe not yet established as long term problems and are so called 'hot' issues. Applying a financial incentive to these underlying issues may be problematic as it may lead to double counting the genuine pre-estimate of loss by charging on both these and overall accuracy in Settlement. Additionally, these measures could well be more open to interpretation and more disputable if they aren't watertight. The issues are in some cases nascent and in others restorative work is underway and may still be successful.

The issues considered individually were those mentioned by Ofgem in its provisional thinking that the Group had isolated as possibly suitable for pgc/non financial incentives in its initial Assessment meetings:

- Inaccurate Energisation Status of Metering Systems;
- Processing of erroneous Estimated Annual Consumption (EAC)/AA;
- Erroneous values of Unmetered Supplies (UMS) NHH;
- Inadequate clearance of exceptions and backlogs in HH; and
- Inadequate clearance of exceptions and backlogs in NHH.

The Group considered each one and decided they should not be incentivised financially for the reasons summarised above.

2.1.2 Genuine Pre-estimate of Loss Calculation

The Group considered the legal requirement to set the charges that are applied to the Serials such that they are reflective of the genuine pre-estimate of loss. Any type of Supplier Charges regime that has a correlation between degree of under-performance and amount charged is a liquidated damage - no matter how simple or complex that correlation. A liquidated damage that is set prior to the charge being incurred must be a genuine pre-estimate of the loss caused as a result of under-performance.

The Group considered components of the genuine pre-estimate of loss for the different Serials.

2.1.2.1 SP08a, b and c

Ofgem in its provisional thinking letter considered the Genuine Pre-estimate of Loss (GPOL) calculation for SP08a, b and c. Ofgem claimed that although it does not hold a view as to an appropriate exact value of the genuine pre-estimate of loss in the NHH market, it is concerned that the genuine pre-estimate of loss suggested for SP08a (£0.11 per MWh) would be an order of magnitude lower than under the current arrangements. Ofgem recognised that this amount must be a genuine pre-estimate of loss, but is nevertheless concerned that the current proposals may fail to improve the accuracy of data in the NHH market. Ofgem stated its current preference to be for the Group to look toward estimating the total industry resources currently devoted to Settlement error correction in the NHH market and to express this amount on a MWh basis, with the intention that this number should be included within the genuine pre-estimate of loss

1.1.1.1

² Although this was originally discussed with reference to Supplier Charges vs. pgc it applies generally to financial and non financial incentives

applying to SP08a. Ofgem also did not hold a view as to an appropriate exact value of the genuine pre-estimate of loss in the HH market, however it is concerned that the value for SP08b and c is too high. Ofgem suggested that it may be worthwhile for the Group to ensure that the GPOL is the best estimate possible.

The Group considered the GPOLs it had calculated in light of Ofgem's thinking.

SP08a:

The Group considered its approach to SP08a – thus far SP08a has been composed of the value of the volume of energy that is deemed to be uncertain (£0.11/MWh) and central incremental costs (£0.002/MWh) – see Appendices 1 and 2 respectively for description of the methodology. The Group noted that the calculations produced demonstrate that a charge of £0.11 is not only reasonable but is a GPOL. The Group has also considered including in-house Supplier costs to correct bad data. The rationale behind including this is that having incorrect data would lead to a NHH Supplier not reaching the 97% target at RF. If this data is not corrected and a customer changes Supplier, the Supplier will pass on this problem to the new Supplier. Thus Suppliers that do not reach the 97% target may fail due partly to having received incorrect data. This data is not then corrected due to the cost of correction. Charging Suppliers this cost of correction would encourage them to correct in house data and thereby avoid passing any problem on to the next Supplier.

Although all members of the Group felt that this was in fact a loss all Suppliers suffered, members queried whether a realistic number to include in the GPOL could be reached, since it felt that any numbers quoted by Suppliers (if at all) would be widely variable. These variable numbers are, in fact, realistic since it depends what errors there are in the data and how easy they are to correct. However two approaches on how to estimate the loss were suggested by the Group. The Group decided that in light of Ofgem's concern regarding the low charge as well as Ofgem's urge not to reject something simply because it was too difficult to calculate it would consult on the methodology to try to put a number to this loss. The Panel directed the VASMG to include some methodology that represented the in-house cost to Suppliers to correct bad data in the SP08 GPOL for either the Proposed or Alternative Modification.

Of the options that were suggested one was a 'bottom-up' approach and the other a 'top-down' approach.

Option A: 'Top-Down'

Under this methodology, the in-house cost to a Supplier of correcting bad data would be estimated as follows:

- Calculate number of new NHH customer with inherited data problems gained in one year (A)
- Calculate total number of NHH customers with data problems in that same year (B)
- Calculate what (B) represents in MWh (C)
- Calculate Total cost of correcting bad data for Settlement Issues at RF in house (D)
- Cost of correcting (£/MWh) = D/C
- Proportion of customers with data problems who were in the given year = A/B
- Cost of correcting inherited problems (£/MWh) = (D/C)*(A/B)

Option B: 'Bottom-Up'

Under this methodology, the in-house cost to a Supplier of correcting bad data would be estimated as follows:

- The average MWh per annum of an NHH MPAN (4MWh per annum) – a
- The length of time the fix to correct data quality - b

- Ignore work caused by the errors in the 97% - 100% range, as being an "acceptable" level, in the same way as we ignore it for other components of the GPOL
- Hourly rate – c
- Length of time to fix - d

Based on this the cost/MWh is calculated as:-

- Each fix costs £c * d = e
- Each fix secures a MWh for b years i.e. a*b = f
- Therefore cost per MWh is e/f = g
- Including a Suppliers rate of churn of customers is h
- Overall cost per MWh is g*h = i

Provisional data given to the Group by one of its members, gave the values below and cost of correction of £0.313/MWh

a	b	c	d	e	f	g	h	i
4MWh	2 years	£10	15 mins or ¼ of an hour	=£10/4 =£2.50	=4MWh*2 =8MWh	=£2.50/8 =£0.313/MWh	30% churn over a two year period	=£0.313*30% =£0.09/MWh

Some members of the Group were unhappy with this methodology as they said there were different types of fixes and these would take different lengths of time and cost differing amounts to fix. The Panel suggested that even though this may be the case if the cost to Suppliers was agreed upon and a range of potential values suggested then even if the minimum or average was included this would be worthwhile.

SP08b and c:

The Group reviewed the size of the SP08b and c charge. The large discrepancy between the charge for SP08b and SP08c was queried. It was suggested that the disparity was due to the different ways that estimates are calculated in the HH and NHH markets. The NHH market bases EACs on previous AAs. Both EACs and AAs cover long time periods. The HH market has several ways of calculating estimates. In addition to this although the basing of estimates on previous 'actuals' is urged, previous 'actuals' are not necessarily predictive of current performance. Hence the variability was in part explained. The Group considered the methodology (the value of the volume of energy deemed to be uncertain) that was used to calculate the charge. There had been a request to perform the calculation on data post CP696 "Allow the Half Hourly Data Aggregator (HHDA) to apply a default value where no consumption data has been provided by the Half Hourly Data Collector (HHDC)" which was a Change Proposal (CP) that stopped zero estimates being entered in the HH market and hence would alter the change in estimates relative to the corresponding volume change in settlement – the basis of the methodology. Data that covered Settlement Runs SF to R3, for dates between February and June 2003 inclusive was considered (using the same sample of 8 Suppliers in every GSP Group).

The volume weighted average (i.e. % volume change over the time period divided by the % change in estimates over the same period) was 86%, lower than the previous value derived using data prior to CP696.

Pre CP696 data and results

SP08b,c	May/Jun/Oct/Nov
SF-RF/%(est.)	±119%

SF-RF/%(est.)*P	±£4.43/MWh
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Post CP696 data and results

SP08b,c	Feb-June 2003
SF-R3/%est	±86%
SF-R3/%est*P	±£3.21/MWh

The charge has been reduced by nearly 30%. The Group considered the methodology remained appropriate and considered that since the genuine pre-estimate of loss calculations were to be reviewed every two years the charge may change upon improvements in estimation and also because more recent data would be used and there was even suggestions that knowing the way the genuine pre-estimate of loss was calculated may encourage improvements in estimation techniques. Also included in the genuine pre-estimate of loss for SP08b and c are central incremental costs of £0.001/MWh. See Appendix 2 below for further details regarding this methodology.

2.1.2.2 SP04

Charge for uncertainty between HH and NHH metering (i.e. use of profiles) – SP04

The Group supported a methodology that would charge for the uncertainty between HH meter reads and the approximated data produced from profiles for NHH meter reads. In the event that a Supplier failed to install a HH meter at a 100kW site, the site would be traded on a profile and the error in the allocated profile would feed into the GSP Group Correction Factor (GCF) reducing the accuracy of the bills of all the NHH Suppliers in that GSP Group. It was noted that profiling was designed for <100kW demand and errors would be introduced when applied to above 100kW Premises.

The analysis done was to take some examples of HH actual customer data and see what consumption would have been applied if they had used profiles. The difference or error was multiplied by the imbalance differential (average difference between SSP and market price, and SBP and market price) to get the cost of the error for the length of time of the data. This cost was divided by the number of days the data spanned, to get a cost per day value.

See Appendix 3 below for further details regarding this methodology.

2.1.2.3 SP01 and SP02

Administration costs –SP01 and SP02

Some of the VASMG believed that if the charges are removed, the non delivery of reports could become a problem and the escalation of a Party in the Performance Assurance Board (PAB) process is too draconian a measure for this Serial. Overall the Group believed that Parties should be incentivised to deliver reports that are accurate and timely, although some considered that the incentive should not be financial. In addition the charges on SP01 and SP02 seem to have worked in the past, in that a Party perhaps new to the industry may be late in one month and incur the charges but then will generally not repeat this.

It was agreed that administration costs were probably the only thing that was applicable for inclusion in the genuine pre-estimate calculation. The Group understood that under P99 charges to SP01 and SP02 were applied per GSP Group, per missing report, per day. The Group felt that this charge may not reflect a genuine pre-estimate of loss since administration costs of chasing up missing reports would not vary by GSP Group and by number of missing reports only by day. It thus considered that the charge ought to be applied per day. It used a cost of £400 per man day and assumed a 5% per day charge - £20 per day for SP01 and £20 per day for SP02.

Additionally the Group considered that Supplier Charges should only be applied if a Party has not submitted data/reports up to a time when re running PARMS would become inappropriate. The rationale behind this was that if a Party has not submitted data and after a period of time does not have the data to submit it

does not seem practical to charge SP01 and SP02 indefinitely. Additionally it was considered disruptive and perhaps pointless for a report submitted a considerable time later to cause PARMS to be re-run run therefore it seems sensible to stop resubmissions of data after a twelve month period also. The Group decided that not applying an SP01 and SP02 charge, and hence not expecting resubmissions after a period of 12 months was appropriate.

(See Appendix 4 for a summary of the components of a genuine pre-estimate of loss for the Serials.) This Appendix also contains a comparison with the current Supplier Charges.

2.1.3 Review of Genuine Pre-estimate of Loss Value

The Group considered whether and how the GPOL value should be reviewed. At present, GPOL increases automatically in line with the Retail Price Index (RPI). Having reviewed the responses to the previous consultation, the Group concluded that the value of the GPOL should be reviewed every 2 years (i.e. rather than increasing automatically in line with RPI).

Details of the review and the reasoning behind each aspect are given below:

- The Panel would have charge of the review but is likely to delegate this to ELEXON to perform. This is the same as several other reviews that are undertaken under the Code;
- The review would rerun the methodology that was confirmed under P157 (see section 2.1.2 above) using more up to date data where possible. The methodology confirmed as being used to calculate the GPOL under P157 would be outlined in one of the relevant BSCPs (likely to be BSCP533 or BSCP534);
- The results of the review would not go out for industry consultation since the methodology used would have been agreed by the industry as part of P157 and the Code would make participants aware that the value of the GPOL could either reduce or increase. Any change in the methodology used to calculate the GPOL could only occur via a Change Proposal and would therefore undergo full industry consultation as provided for under BSCP40;
- The Panel would approve the review;
- A circular would be issued warning Parties of the review and also of the change, if any, in the values.

2.1.4 Redistribution

Ofgem in its provisional thinking stated its opinion that the effectiveness of the arrangements should be evaluated as a whole, with the total financial effect on each Party being considered at the end of redistribution (and in the case of the bond rebate Proposal, at the point of funds being transferred in compensation for poor performance). Compensation (after charging and redistribution) for Parties that are suffering the effects of other Parties' poorer performance should be equivalent to the genuine pre-estimate of loss, relative to their size and performance. Any charge (after redistribution) paid by Parties exhibiting poor performance should also be relative to their size and performance.

The Group discussed Ofgem's comments as well as considering different variations on both the "average performance" option and the "bond rebate" option and the current methodology.

Current Methodology

At present, under Annex S-1 of the Code, monies levied through Supplier Charges are redistributed to all Trading Parties based on their Main Funding Share. Some members of the Group stated their view that the redistribution method ought not to be changed. Two reasons were given. That Supplier Charges genuine pre estimate of loss calculation was conceptually linked with the method of redistribution. It is reasonable to redistribute the funds in proportion to which Parties are damaged and it is inherent in the process of calculating the GSP Group Correction Factor that Suppliers are "damaging" themselves. This should be

merely a method of compensation and hence cannot form an incentive. In addition, that it is not legally possible to extricate redistribution from the charge.

The current methodology is contained in the model entitled average performance. In addition, a variation on this theme that fits with the Panel recommendations of making reference to the Standard of 97%. This is also contained within that model. This option rewards people who are above 97% by raising their effective market share.

Average performance option

The basic average performance option that was consulted on works as follows:

All Suppliers would be charged the genuine pre-estimate of loss for all Serials with 10% being re-distributed to all BSC Parties, as at present. The average performance on SP08a of the Suppliers in the NHH market in that GSP Group (e.g. % of AAs at RF) would then be calculated and funds would be redistributed to those Suppliers performing on or above average only. Those Suppliers who are performing below the GSP Group average on SP08a would not receive any of the funds gained - THEIR NET CHARGE WILL BE A GENUINE PRE-ESTIMATE OF LOSS. Those Suppliers who are performing on or above GSP Group average on SP08a would receive all of the funds collected based on their market share - THEIR NET CHARGE WILL BE LESS THAN A GENUINE PRE-ESTIMATE OF LOSS.

Ofgem noted several things about the proposal which redistributes to only those who are performing above average:

- Particularly sharp incentives are created for performance around the average level. This may result in significant swings in the payments within the redistribution mechanism;
- The proposal contains a weak incentive at the upper end of performance;
- Poor performance by a large Supplier and excellent performance by a small Supplier can lead to disproportionate compensation for the small Supplier.

Ofgem's current view is that it would strongly prefer these effects to be removed. Ofgem considers that the simplicity and predictability of the arrangements would be significantly enhanced by a simple linear relationship between performance and payment, rather than the present proposal which has steps and plateaus which introduce distortion and make it difficult for Parties to forecast the benefits of any performance enhancing investment.

The Group agreed that the average performance option accomplished two things. It encourages above average performance and thus would gradually work to encourage Parties to move above the average, hence increasing the average. Additionally it would also encourage eventual movement towards the target of 97%. The Group felt that this solution meant that revising the value of 97%, as a level below which Suppliers would be charged, did not need to be considered as the solution encourages an increase in the average performance and does not just target 97%.

However, the Group identified various concerns and issues with this option, as listed below:

- There may be legal objections since some Suppliers will not receive damages due to them. There was a view that any Supplier that is underperforming is damaging other Parties, but also itself subject to GSPGCF. All Suppliers should be compensated for this regardless of their own performance. BSCCo legal opinion stated that the rule against penalties relates to the reasonableness of funds paid out by a Party as 'recompense' for breach of a contract – this rule is not concerned with the use to which those funds are put once recovered as long as that use is not itself in further breach of the contract or otherwise illegal. Re-distribution is not mandatory - and need not be "netted off" against the amount of Supplier Charges levied when considering whether a pre-estimate of loss (i.e. the charge levied) is genuine. Parties therefore have the ability to agree to a different scheme by which to use the funds gained from Supplier Charges;

- The average performance method may not be appropriate for the following reason. Each GSP Group can be viewed as a duopoly between the incumbent Supplier and the second largest Supplier. The dynamics of the arithmetic are that the incumbent Supplier, with a majority of the volume, effectively sets the GSP Group average performance. The average will always be close to the incumbent's performance, and whether the average is higher or lower than the incumbents is almost totally dependent on whether the second largest Supplier's performance is lower or higher than the incumbents. The "average" is therefore determined by the performance of the dominant incumbent Supplier and the second largest Supplier. If the incumbents performance falls below the GSP Group average, then their Supplier Charges, which are based on their larger volume, are distributed to the other Suppliers, by far the largest share going to the second largest Supplier which typically is around a quarter the volume of the incumbent. Because the second largest Supplier's performance is the primary determinant of whether the incumbent is above or below the average, most of the Supplier Charges and redistribution may be a transfer of monies between it and the incumbent. The reverse applies because when the incumbent is above average, the second largest Supplier will almost certainly be below it, but the money flowing in the opposite direction is less because the second largest Supplier's market share in that GSP Group is significantly less. This may make the proposed method more unstable than the current arrangements and may be capable of providing windfall gains for small Suppliers. The primary objective will always be to just beat the incumbent Supplier, and the returns from redistribution could far outweigh the costs in Supplier charges. Further work needs to be done by VASMG in this area;
- This may provide an opportunity for gaming. For example, a company operating under more than one Supplier Id could transfer "problem" Metering Point Administration Numbers (MPAN) from one Id to the other in order to recover a proportion of the overall Supplier Charges incurred and thus ensure the funds back are maximised to the company as a whole. This could be significant; and
- The Panel were concerned about the lack of reference within the redistribution methodology to the Standard as well as wanting a linear continuous redistribution method.

For the average performance option the Group considered several variations to try to address Ofgem's comments and solve the issues the Group and Panel identified with this option. The variations are as follows:

1. Monies divided (according to a fixed ratio) between (a) Suppliers attaining the Standard and (b) all Suppliers with an average performance level or greater. This **option was discarded** for several reasons. There is a problem with what to do if no Parties attained the Standard, and it was felt that any solution to issue would add unnecessary complexity and introduce further concerns. For example, if a small Party alone was above Standard it may potentially receive a large windfall gain. It was felt that giving a higher proportion to those above standard as suggested in the variations below was more appropriate.
2. Average performance with Parties receiving more of the funds the higher above the average they are. This would also be based on market share. This was to address the concern that the proposal contains a weak incentive at the upper end of performance;
3. Average performance with Parties who perform above the Standard receiving back a higher proportion of the funds, also based on market share. This was to address concern that the Standard was not being incentivised as well as the weak incentive at the upper end of performance;
4. Average performance using both of the above i.e. Parties receiving more of the funds the higher above the average they are and even more if they are above the Standard. The Group felt that this method would also address the Panel direction of a continuous redistribution method focussing on the Standard;

5. Average performance with the charging aspect performed at a GSP Group level but the redistribution performed at a market level using the market average and a Supplier's overall market share – this can be applied to any of the above options. This alternative would remove two of the problems associated with the average performance option. The problem of large swings in funds between the largest and second largest Supplier would not be an issue as the composition of the market as a whole is not similar to that of a GSP Group. The problem of gaming would be removed since moving MPANs between Supplier Ids would no longer affect redistribution.

Options 2-5 above are in a model entitled average performance that is attached to this document. This considers only the SP08a charge. The Group felt that if an average performance type option were selected the redistribution of all funds collected under all Serials (SP01, 2, 4, 8b and 8c) would be redistributed to those Suppliers in the NHH market (i.e. related to performance on SP08a).

Bond Rebate option

The Bond rebate option developed by the Group is as follows:

All Suppliers would be charged the genuine pre-estimate of loss for all Serials with 10% being re-distributed to all BSC Parties based on Main Funding Share, as at present. For the remaining 90% of the funds different Serials would be treated differently

- SP01, SP02 and SP04 would be redistributed to all BSC Parties based on Main Funding Share (as with the original 10%);
- SP08a, b and c would be retained in a company specific bond for the period of 12 months. After 12 months, the Supplier's performance would be compared to that of 12 months ago. If performance had improved a rebate would be given relative to the size of the improvement. After this time, the remainder of the funds (and all funds in the situation that performance had not improved) would be forfeit and would be redistributed on a GSP Group basis to all Supplier's in the GSP Group excluding the forfeiting Supplier and based on market share.

The variations on this option are to do with when a Supplier actually pays. Variations are:

- The Supplier pays at the same time as it would have done for all other options, money is redistributed immediately. 12 months later the balance (whether positive or negative) is paid by or to all Parties in a similar way to Residual Cashflow Reallocation Cashflow (RCRC) – this is complex and would leave Parties accruing for possibility of owing money a year later dependent on their and other Supplier's improvement;
- The Supplier pays at the same time as it would have done for all other options, and ELEXON keep the funds for the period of 12 months after which the monies are reclaimed or forfeit. This necessitates ELEXON to store large amounts of working capital and this might be disadvantageous to smaller Parties who have a higher cost of capital – several members considered that this would be anti-competitive and inefficient;
- The Supplier incurs and is invoiced for the money (when for all other options it would have paid it out) and only pays when the rebate amount is known i.e. 12 months later. This has been considered to avoid problems relating to ELEXON holding the funds, however it could be viewed as a delaying mechanism since Suppliers only pay on performance when they are actually charged. The Group stated a preference for this option.

All the options above are in a model that is attached to this document. This considers only the SP08a and SP08b charges.

Ofgem also mentioned the bond rebate option. It welcomed the innovative thinking that the Group is generating, and Ofgem has considered the bond rebate approach and has three serious reservations:

- When would the charge be paid:

- If ELEXON actually banks the monies (bond) from the first year of payments, then there would be a very large amount of working capital tied up. This may be inefficient overall.
- If ELEXON merely bills but doesn't collect the cash until a year later, the arrangement becomes a delaying mechanism.
- The proposal does not appear to have compensation as an objective. Rather the objective seems to be to ring fence potential compensation until a year has passed. This puts pressure on cash and may disadvantage smaller Parties.
- The overall payments and compensation after redistribution seem difficult to evaluate against genuine pre-estimate of loss and as a result suffer from complexity.

The Panel were concerned regarding these issues and directed that either the Proposed or the Alternative should not contain a bond rebate type of redistribution.

Some responses to these problems were considered by the Group.

On the pro bond rebate side:

- If ELEXON does collect the money immediately, the amount of money collected is the same as would be collected if a straightforward payment method (i.e. no rebate) as at present. The cash flow difference is on redistribution, not charging, so as far as transgressors are concerned it is cash flow neutral with the existing methodology. The cash flow difference on re-distribution is for the beneficiaries to consider;
- If ELEXON does not collect the money then it *is* a delaying mechanism, but only if a Supplier improves, which is the whole point; and
- The proposal is considered by some members to have compensation as its basis, however in their opinion, "wronged" suppliers put a higher value on the improvement of a "poor" performer than receiving compensation for the "wrongs" suffered. Suppliers are therefore mutually encouraging each other to get better at what they do rather than just seeking compensation from each other, but at the same time receiving compensation if they don't.

However in agreement with some arguments against bond rebate:

- Some members of the Group suggested that the delay blunts the incentive to perform;
- Several members of the Group considered that having different redistribution options for different Serials did add to the complexity, others disagreed;
- An additional issue with the bond rebate option was that it would not work as an additional incentive for those Suppliers entering and exiting the market whose performance is dependent on number of Metering Systems and rate of their acquisition and decline; and
- The Group stated a preference for the invoicing option. This would mean that Suppliers were invoiced for the payment but with a payment date set 13 months in the future and if a rebate amount, and/or a redistribution amount was owed a Credit Note would be issued and the Party would pay the net amount. Several members of the group thought this was complex for invoicing and to understand.

The bond rebate type options are in a model entitled bond rebate that is attached to this document. This considers only the SP08a and SP08b charges.

2.1.5 Capping

Ofgem in its provisional thinking considered whether a cap was appropriate.

"Ofgem has serious concerns about capping liability for charges under the Proposal. Ofgem's concerns arise for a number of reasons:-

- *Caps limit the charge and therefore limit the compensation to a level below that determined as an appropriate pre-estimate of loss. They are geared to the payer rather than the recipient of compensation;*
- *Caps in the present arrangements cover a basket of serials. This approach introduces complexity in calculation, making the incentives less transparent and the system and management costs more expensive;*
- *Caps dull the incentive to perform to an appropriate standard, due to the risk of failure being less severe;*
- *Development costs of central and Parties' systems to handle caps may be wasted if they are rarely invoked.*

Nevertheless, the introduction of caps could have beneficial effects, especially if there were not a reasonable level of confidence in the genuine pre-estimate of loss meaning that particular classes of Party – perhaps smaller Parties - may otherwise be exposed to disproportionately high charges arising from a relatively low number of problem meters against a high volume of energy. A barrier to entry could arise from fears of high charges although compensation payments should be available for a high performer. One of the arguments advanced in favour of the retention of caps arises because of substantial charges being postulated for exceptionally poor performance using the high proposed SP08b genuine pre-estimate of loss. Additional fears arise because redistribution is not being taken into account.

It has been asserted that without caps, the Proposal could lead to unlimited liability for some Suppliers, even threatening their viability. Unlike the balancing mechanism where prices are uncapped, the genuine pre-estimate of loss and market shares are effectively fixed and the performance of a Supplier can only reach zero whilst the performance of other players can only be perfect. Hence there are very real limits of liability.

Detailed modelling has been undertaken to determine realistic worst case situations for various Supplier sizes and extreme performance levels. This modelling has identified situations of potentially high charges but these are not unlimited or obviously threatening to business viability. Ofgem does not consider that high charges (after redistribution), of themselves are necessarily an issue, but would be concerned if the arrangements show a combination of high charges and low confidence in the genuine pre-estimate of loss.

In summary, Ofgem's current view is that it would strongly prefer that caps were not utilised and that greater consideration is given to estimating the appropriate level of compensation for parties performing well. In Ofgem's view caps applied to a basket of Serials would be unlikely to better facilitate the relevant objectives as they would introduce unnecessary complexity and opacity. Regarding serials charged on a per-day basis, it is Ofgem's current view that suspending the application of such charges after a period which is determined by the Group to represent the time after which the payments no longer fall within the definition of a genuine pre-estimate of loss is likely to be appropriate. Ofgem do not see this situation as capping, but accepting that there comes a point where the damage to other parties is no longer occurring and compensation is no longer appropriate."

In response to the Ofgem provisional thinking the Panel directed the Group to ensure that either the Proposed or Alternative Modification had caps removed.

The Group discussed whether a cap on the amount of money to be paid in Supplier Charges was appropriate, given that it had agreed that it was confident with the genuine pre-estimate of loss calculated for P157. The suggested calculation for the cap is $(1\% * \text{Supplier Take} * \text{Credit Assessment Price})$.

Most members of the Group were keen to retain the cap for the reasons it had previously stated:

- The genuine pre-estimate of loss calculations whilst appropriate will not statistically apply to each individual Supplier especially those with a low number of MPANs;

- Caps stop significant liability in exceptional circumstances rather than limiting liability under normal circumstances;
- Small Parties will, in the opinion of the Group and respondents, be put off entering the market if there was no cap and hence unlimited liability under Supplier Charges;
- Charges without caps may become penal in nature. The Group considered the following as an example of an exceptional circumstance where a cap might kick in. If a very small HH Supplier had problems with one of its Meters that accounted for 50% of its business – the Meter could be wrong and the Data Collector (DC) might enter zero value into Settlement. If the Supplier told the DC that the value should have been 'x' MW, the DC would enter this value but will flag it as an estimate. The Supplier thus has 50% of data flagged as estimated although it was just being honest and changing from an incorrect to a correct value. In this case the Group would consider that the charge has become penal;
- Lack of caps would increase the cost to the market since no Agent would take on the risk of limitless liability from the Supplier - lack of competition amongst Agents would make it very difficult for Suppliers to transfer the risk of Supplier Charges;
- The new cap calculation takes Supplier size into account and hence is considered proportional and more appropriate than the current cap. In addition it is simpler to work out and reflects the fact that there is approximately 1% margin in the Supply business and the cap is set right at that margin.

The Group considered the average performance method in relation to the cap and in light of Ofgem's concerns, in particular that of applying a cap to a basket of Serials, the Group decided to amend its previous decision and apply the same sized cap (1% of its Supplier Take*Credit Assessment Price) only to Serials SP08a, b and c and not to have the cap being applied to charges on SP01, SP02 and SP04. The former two would anyway not be applied after a 12 month period.

The Group also considered the cap in light of Ofgem's concerns and it was suggested that since the Supplier Charge is based on percentage movement of errors across the whole industry, a Supplier that has a small number of MPANs might not have a portfolio that is representative of the industry as a whole and the charge may not be at the appropriate level. Caps should therefore apply to mitigate against potentially unfair charges.

To determine the level at which we lose confidence in the relevance of a nationally derived number, the Group considered that market research samples of 1000 are used because they have 95% certainty that there is only a 3% sampling error. The sampling error increases to 5% for samples of 400 and 8% with samples of 150. (The mathematics behind this is that the sampling error equals the square root of $p*q^3$ divided by n all multiplied by 1.96, where p and q are the proportions of positives and negatives and n is the sample size. If we assume that a 50/50 result is the most uncertain (worst case scenario) we get the percentages mentioned.)

The Group therefore suggested that the cap is applied to portfolios with less than 400 MPANs as this is the point at which we only have 95% confidence that the sampling error is less than 5%. Respondents should consider if this is open to gaming.

The Group then considered the bond rebate option in relation to the cap and in light of Ofgem's concerns. The Group considered that since the cap was aimed at protecting Suppliers in exceptional circumstances (as for example described above), the bond rebate option may not require a cap. This is since if a Party for an exceptional reason performed very badly in one month and received very high charges, that Party would pay the charges but one year later, when the circumstance is likely to no longer apply and/or not to recur, the Party would undoubtedly have improved performance and hence would receive its money back.

1.1.1.1 _____

³ The use of p and q was considered appropriate since even though the charge for the uncertainty that estimates are not the same as 'actuals' is more complex, the result is probably as or more uncertain as the result from a simple market research question.

The Group agreed to consult on both options for redistribution as well as its thinking about caps in relation to them.

2.2 Peer Group Comparison

The current wording of paragraph J 1.4.2 (d) provides that, amongst other things, the functions, duties and responsibilities of the PAB shall be:

"the conduct and administration of (including the making of determinations under) the performance assurance standards and tests set out or referred to in BSCP 533 and BSCP 534, including the conduct and administration of, and publication of the results of, any peer group comparison associated with any such performance assurance standards and tests"

As part of P157 the Group have generally considered that to achieve publication of pgc tables, a Code modification would be required and there was discussion as to whether such drafting would form part of any Proposed or Alternative Modification.

In light of detailed deliberations ELEXON confirmed that it is possible to undertake pgc (in certain circumstances) purely by amending the BSCPs. The rationale behind this view has been explained below with reference to the issue of erroneously large EACs/AAs:

- Ability to publish public pgc tables is currently provided for in Section J 1.4.2 (d);
- However - due to absence of objective standards and tests in BSCPs 533 and 534 referred to in this section, there is currently no potential to utilise this Section J provision;
- A CP that introduces such standards and tests could be raised such that Section J 1.4.2 (d) could be used.

BUT

- Section J1.4.2 (d) and relevant references in the BSCPs do not allow any and all issues to be published in pgc tables
- A Code modification would be required to allow the PAB to publish any data they chose (e.g. the information in the currently coded tables regarding EAC/AAs). However such a modification would be strongly advised against on the grounds that the data published would be non-objective, unfair and could lead to circumstances where erroneous statements or inferences are being made in connection to Parties e.g. a large EAC is flagged up but this is due to genuinely large consumption at the site
- The relevant performance assurance standards and tests must be set out in the BSCPs and Parties performance must be measured, and hence comparisons made against them (Note these must be related to performance)
- Also implicit in J1.4.2(d) is that the standards and tests established must also adhere to equitable principles, the common law and the rule of law by demonstrating such principles as objectivity, fairness, equality, reasonableness, consistency, clarity and accessibility
- For this reason EAC/AA pgc would not currently be allowed even after a CP had been raised since there are no performance standards and tests outlined, if some could be developed that are legitimately tests relating to Supplier performance then this would be allowed
- This applies to all other issues considered pgc by the Group, the Panel and PAB.
- The text that had been drafted for P157 in Section J that mentioned publication on the BSC Website is not a prerequisite of doing the above. Rather it introduces the mention of publication (i.e. website publishing) in connection pgc. This is viewed as optional.

In taking this issue forward ELEXON is currently looking at the issues that the Group considered suitable for pgc and considering what objective performance standards and tests could be used in the BSCPs such that performance could be compared in a public arena - these could then be progressed via CPs independent of P157.

The Group and the Panel now believe that the inclusion of pgc in the P157 Proposed Modification is not required as the defect can be addressed outside a change to the Code.

2.3 Implementation Date

The Implementation Date recommended by the Group is a Calendar Day, July 2005 Implementation Date.

The advantages this has are as follows:

- Calendar day implementation means that the old rules are stopped and the new ones started. There are thus no problems deciding how to combine the new rules with the old especially regarding caps and redistribution which are calculated on a Parties overall position for any given month;
- Calendar Day implementation set for a future date means that Parties will know the rules in advance of the implementation. In this way the problem of lack of knowledge of obligations that would be associated with an earlier Calendar Day implementation (e.g. November 2004), is ameliorated;
- July 2005 Implementation Date allows pre P99 rules to be fully run off before P157 is introduced hence data used in P157 will be solely post P99 data; and
- Development can take place in the scheduled June 2005 Release, which will allow system and process changes to be made in the most efficient manner.

However some consideration needs to be given to resubmission of old data. Since the group have decided that resubmissions after 12 months are unsuitable the issue with resubmission of pre-P157 data only applies 12 months after the P157 Implementation Date. The matter under consideration is whether resubmissions that are made post P157 implementation should be rerun in PARMs according to the pre-P157 rules or the P157 rules.

2.4 Applicable BSC Objectives

The Group considered whether P157 better facilitated the achievement of the Applicable BSC Objectives.

The majority of the Group felt that P157 better facilitated the achievement of Applicable BSC Objectives (c) and (d) for the following reasons:

Applicable BSC Objective 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;

Applicable BSC Objective d) - promoting efficiency in the implementation and administration of the balancing and settlement arrangements.

The Group felt that if someone believed that P157 would improve performance and hence data quality in the industry then that person would also believe that P157 better facilitated the achievement of the Applicable BSC Objectives. This is because by improving data quality:

- The disincentive for a new Party to enter the market is reduced since there is less uncertainty in the market (c);
- Less time and money would be spent improving poor performance and dealing with data quality issues and Parties would thus save money and this would increase competition (c);
- The efficiency of BSCCo would be increased as less time would be spent improving poor performance and dealing with data quality issues (d);

The Group noted that these were its initial views and may be amended following confirmation of the different aspects of both the Proposed Modification and any Alternative Modification suggested. The Group felt that the external cost associated with P157 did not change their opinions as to whether P157 better facilitated the achievement of the Applicable BSC Objectives which were more dependent on whether any member felt the suggested new rules would incentivise performance or not.

3 PROPOSED / ALTERNATIVE MODIFICATION

In summary below is a table that lists the potential components of two different modifications that could be presented as part of the P157 Assessment Report. The Proposed includes directions from the Panel and the Alternative reflects the thoughts of the Group.

Aspect of P157	Proposed Modification	Alternative Modification
Serials	SP01, 2, 4, 8a, 8b, 8c	SP01, 2, 4, 8a, 8b, 8c
Genuine pre-estimate of loss	SP01 and SP02 – administration charges SP04 – error in profiles SP08a – value of volume of energy that is uncertain, central incremental costs and in house costs to correct bad data SP08b - value of volume of energy that is uncertain, central incremental costs	SP01 and SP02 – administration charges SP04 – error in profiles SP08a – value of volume of energy that is uncertain, central incremental costs and maybe in house costs to correct bad data SP08b - value of volume of energy that is uncertain, central incremental costs
Redistribution	Continuous in nature; and Reference to the Standard; and Not Bond Rebate Currently this is the average performance option with amount received being relative to amount above average and an additional (2x share) if above Standard – this could be on either a market or GSP Group basis.	Average performance and variations; or Bond rebate (likely to be invoice now pay later); or Leave as currently Note the first two options can be continuous and have reference to the Standard
Caps	No caps	Caps on SP08a, b and c only; and maybe Applied to a Supplier with only a small number of MPANs
Implementation Date	Calendar Day July 2005	Calendar Day July 2005

4 COSTS

We have received high level costs thus far for P157 due to the changing nature of the requirements of P157. Thus far external costs required to amend the PARMS system have been quoted as being £136,000 with a tolerance of 30% for an average performance type mechanism and £147,000 with a tolerance of 30% for a bond rebate type option. These costs are being looked into and the Group will discuss the outcome of this

after receiving the consultation responses. It is worth noting that several members of the Group did not find these costs prohibitive.

ELEXON implementation costs are included below. These cover changes to the relevant documents as well as implementation support.

		Stand Alone Cost	P157 Incremental Cost	Tolerance
ELEXON Implementation Resource Cost		47 Man days £14,100	112 Man days £31,300	+/- 10%

5 CONSULTATION

Respondents are invited to respond to the questions contained in the attached pro-forma. For reference, the Applicable BSC Objectives are as follows:

- (a) The efficient discharge by the Transmission Company of the obligations imposed under the Transmission Licence;
- (b) The efficient, economic and co-ordinated operation by the Transmission Company of the Transmission System;
- (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 and settlement arrangements.
- (e) without prejudice to the foregoing objectives and subject to paragraph 3A, the undertaking of work by BSCCo (as defined in the BSC) which is:
 - (i) necessary for the timely and effective implementation of the proposed British Electricity Trading and Transmission Arrangements (BETTA); and
 - (ii) relevant to the proposed GB wide balancing and settlement code;
 and does not prevent BSCCo performing its other functions under the BSC in accordance with its objectives.

Attachment 1	"average performance" model
Attachment 2	"average performance" model explanation
Attachment 3	"bond rebate" model
Attachment 4	"bond rebate" model explanation

You are invited to respond to the questions in the attached pro-forma.

Please send your responses, entitled 'P157 Assessment Consultation', by 12:00 (noon) on Wednesday 4 August 2004 to the following email address: modification.consultations@elexon.co.uk.

Any queries on the content of the consultation pro-forma should be addressed to Roger Salomone (020 7380 4369) e-mail address Roger.Salomone@elexon.co.uk

5.1 References

Ref	Document	Owner	Issue date	Version	Document Link
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Reference 1	P157 Modification Proposal	N/a	05/01/04	1.0	http://www.elexon.co.uk/documents/modifications/157/P157.pdf
Reference 2	Issue 6: Report from the VASMG	VASMG	07/11/03	Final	http://www.elexon.co.uk/documents/BSC Panel and Panel Committees/BSC Panel Meetings 2003 - 069 - Papers/69_020.pdf
Reference 3	P157 Initial Written Assessment	ELEXON	09/01/04	1.0	http://www.elexon.co.uk/documents/modifications/157/71_012a.pdf
Reference 4	P157 Definition Report	ELEXON	05/03/04	1.0	http://www.elexon.co.uk/documents/modifications/157/74_012a_P157DR.pdf
Reference 5	P157 Assessment Consultation	ELEXON	10/05/04	1.0	http://www.elexon.co.uk/documents/modifications/157/P157AC10.doc
Reference 6	P157 Interim Report	ELEXON	04/06/04	1.0	http://www.elexon.co.uk/documents/modifications/157/78_009a_P157_IR.pdf
Reference 7	P157 Second Interim Report	ELEXON	02/07/04	1.0	http://www.elexon.co.uk/documents/modifications/157/79_005a_P157_IR.pdf

Ref

Appendix 1: Value of volume of energy that is assumed to be uncertain

The Group considered this to be an important component of the genuine pre-estimate of loss calculation for all SP08 Serials.

This methodology assumes:

- The change in the overall volume between SF and RF is caused by replacing estimates with 'actuals';
- The change in the overall volume therefore gives a measure of how much inaccuracy was in the estimates that have been replaced;
- The % volume change over a time period was compared with the corresponding % change in estimates over the same period to get the average % volume change for % of estimate change;
- The level of inaccuracy in the estimates remaining at RF is comparable to that in the estimates replaced after SF.

The calculations were performed separately for HH and NHH data for a sample of eight Suppliers in all GSP Groups over two 2-month periods. The calculations worked out the change in percentage estimates between SF and DF and the corresponding change in volume that these estimates were assumed to have caused. The average change in volume that a 1% change in the % of estimates brings about was calculated. The loss that this will cause other Suppliers in Settlement is calculated by applying a price to this volume. This price is termed the imbalance differential and is calculated as the average of the difference between System Sell Price (SSP) and Market Price, and System Buy Price (SBP) and Market Price, over a year from 11 Mar 2003 to 10 March 2004 inclusive. This value is used as it is assumed that a Party will have contracted its energy at the Market Price and the inaccuracy of another Supplier's estimation will push a Supplier longer or shorter and hence the difference between its imbalance charges and its contracted charges is used.

Examples of the £/MWh value calculated and the methodology are below

The calculations were performed separately for HH and NHH Suppliers

For NHH – relevant to SP08a

Data was used for May, June, October and November 2001 for a sample of 8 Suppliers, for all GSP Groups.

The percentage change in volume between SF and DF per Supplier per GSP Group (a) was compared with the corresponding percentage change in estimates (b)

The percentage change in volume per percentage change in estimates (a)/(b) was calculated followed by the volume weighted average of these values (c) - this represents the average inaccuracy in an average estimate

To find the price/cost of that energy – (P), the average of SSP, SBP and market price over a year from 11 Mar 2003 to 10 March 2004 inclusive was calculated and the average of the difference between SSP and market price and SBP and market price was calculated:

The average of SSP over a year from 11 Mar 2003 to 10 March 2004 inclusive = £15.11

The average of SBP over a year from 11 Mar 2003 to 10 March 2004 inclusive = £22.53

The average of market price from 11 Mar 2003 to 10 March 2004 inclusive = £18.79

The average of the differentials is £3.714

P=£3.714

The charge per MWh that a Supplier is below the Standard is thus computed as (c) * (P)

For this data any spurious looking data in the HH sample was removed. This was data that for any of the dates considered had an increase in estimates between SF and DF. If this occurred, the whole Supplier in that GSP Group was eliminated from the analysis.

Results: May/June 2001 and Oct/Nov 2001 –

	Average SP08a
SF-DF volume change / % change in estimates	±3.02%
SF-DF volume change / % change in estimates *P	£ 0.112/MWh

For NHH – relevant to SP08b and SP08c

Appendix 2: Central costs NHH and HH

Central Costs – incremental costs

The central costs are approximated below:

Technique	Annual Costs £m	Suggested Savings £m
Audit ⁴	2.6	0.50
Technical Assurance of Metering Systems	0.8	0
Certification	0.03	0
BSCCO, PAB, TA (Supplier & Supplier Agents), Education, Monitoring, Disputes etc ⁵	0.75	0.01
Total	4.18	0.51

Additional effort spent on performance issues including OSMs:

No of man days a year	211
Cost of time in 1 year	£0.04m

The market size is approximated below:

	TWh
Total market	350
NHH market	128
HH market	222

The suggested savings of the PAF costs are added to the incremental time⁶ spent by BSCCo as part of its added value service for dealing with Suppliers under-performance related issues and costed at £200 per man day:

1.1.1.1

⁴ This is based on Parties compliance with BSC Processes and subsequent attainment of the relevant Standards without the creation of settlement error.

⁵ The majority of cost savings that would be made would be via a reduction in the amount of support that ELEXON would provide to participants. This support comes via education provided at workshops, seminars, publication of guidance notes etc. and also a reduction in the number of required internal escalations and escalations to the Panel and its committees.

£/MWh	NHH	HH
Total	0.002	0.001

Appendix 3: SP04

Charge for uncertainty between HH and NHH metering (i.e. use of profiles) – SP04

Take some HH actual data close to the 100kW consumption – customers with consumption only just over 100kW were chosen since it was assumed that there is a natural incentive and it is expected, for very large customers to have HH Metering installed and those who breach SP04 are likely to be close to the 100kW cut off.

Step 1: to calculate error in the profile

	<i>Period 1</i>	<i>Period 2</i>	<i>etc</i>
<i>Settlement Day 1</i>	actual	HH	Customer data
<i>Settlement Day 2</i>	Total Sum = X		
<i>Etc</i>			

	<i>Period 1</i>	<i>Period 2</i>	<i>etc</i>
<i>Settlement Day 1</i>	Profile	data	Multiplied up
<i>Settlement Day 2</i>	Total Sum = X		
<i>Etc</i>			

	<i>Period 1</i>	<i>Period 2</i>	<i>etc</i>
<i>Settlement Day 1</i>	Error =	Profile	data
<i>Settlement Day 2</i>	Minus	actual	data
<i>Etc</i>			

Step 2: to calculate the cost of this error in the balancing mechanism – Average difference of SSP and market Price and SBP and market Price

	<i>Period 1</i>	<i>Period 2</i>	<i>etc</i>

1.1.1.1

⁶ This is calculated using the BSCCo timesheet system.

<i>Settlement Day 1</i>	Imbalance	Price	Differential
<i>Settlement Day 2</i>			
<i>Etc</i>			

Step 3: to calculate the cost of the error multiply the error by the imbalance price differential to get a cost for each period over each Settlement Day

	<i>Period 1</i>	<i>Period 2</i>	<i>etc</i>
<i>Settlement Day 1</i>	Cost	of	error
<i>Settlement Day 2</i>	Imbalance price differential	Multiplied by	error
<i>Etc</i>			

Step 4: sum the cost and divide it by the number of Settlement Days to get a cost per day value

Appendix 4: Summary of loss and comparison with current Supplier Charges

Note: SP08b and c the same data is used SP08b is HH target of 99% at R1, SP08b is HH target of 99% at RF.

£/MWh	SP08a	SP08b	SP08c
Value of volume of energy assumed to be uncertain 1)	£0.11	£3.21	£3.21
Incremental Central Costs	£0.002	£0.001	£0.001
In house Supplier costs to correct bad data	£0.313?		
Total	£0.425	£3.211	£3.211
Current Supplier Charges	£0.14R3	£0.14SF	
Current Supplier Charges	£1.57RF	£1.57R1	£1.57RF

£ per day	SP04
Difference between profile and actual	£1.66
Current Supplier Charges	£2.95

£ per day	SP01	SP02	
Administration Costs	£20	£20	Per day only
Current Supplier Charges	£28.03	£28.03	Per GSP Group per day