

P157 Assessment Report - Addendum

REPLACEMENT OF CURRENT SUPPLIER CHARGES RULES

1. SUMMARY OF FOURTH CONSULTATION

Section 2.2 of the P157 Assessment Report detailed four potential solutions for dealing with a new GSP Group where no Final Reconciliation Run (RF) data is available at the GSP Group level under the P157 Alternative Modification. A consultation document was issued on 4 October 2004 to obtain industry views on the most appropriate solution. The Volume Allocation Standing Modification Group (VASMG) then met on 12 October to agree which solution to adopt.

Consultation question	Respondent agrees	Respondent disagrees
Which of the solutions to deal with Suppliers operating in the Scottish GSP Groups under the P157 Alternative Modification do you prefer?	Solution 1 – 3 (29+1) Solution 2 – 2 (13) Solution 3 – 2 (13) Solution 4 – 4 (24+1)	n/a
Are there any further comments on P157 that you wish to make?	2 (10)	6 (44+1)

Note: The responses to the first question do not sum to 8 (the total number of consultation responses) as it accounts for several respondents suggesting two options are appropriate.

1.1 Modification Group's summary of the consultation responses

8 responses representing 44 Parties and one non Party were received to the fourth Assessment Consultation. One of these was a late submitted response but did not contain any new arguments that the Group had not considered in its meeting on 12 October 2004.

Solution 1: Obtain the RF data from Scottish Electricity Settlements Limited (SESL)

Three respondents supported the acquisition of equivalent RF data from SESL in an ideal situation. Two of these appreciated that there are complexities and potential legal difficulties associated with this. One of these respondents considered that if this route was judged to be too difficult then delaying the Implementation Date was a good alternative plan, to give a clean and even-handed start to the new methodology. The other respondent considered that a phased implementation was a good alternative approach.

Other respondents considered option 1 to be unfeasible for several reasons:

- There is a proposal for SAS Run-off to terminate at the third Reconciliation Run (R3), so therefore the appropriate RF data won't be available, it would certainly not be appropriate to use R3 figures;
- It does not seem appropriate to use pre-BETTA performance data to redistribute GB BSC Supplier Charge funds post-BETTA implementation;

- There is an element of retrospection in the Calendar Day implementation which, whilst this is tolerable in England & Wales where Supplier Charges are levied at the moment, it is not acceptable to use historic Scottish data for a purpose which it did not have under the Scottish arrangements;
- The reason not to use SESL data is not difficulty with the equivalence of the numbers or the procurement of the figures rather it is the vires of the numbers which is different. This option would effectively construct liabilities from Scottish data for use under BETTA; and
- An incentive scheme only works if the Parties affected are able to respond to the incentive. Since the Alternative Modification uses historic data from more than 14 months earlier to set the incentive payments, implementation of this proposal should give at least 14 months notice to all affected Parties, to allow processes to be put in place covering the whole Settlement timetable, regardless of whether or not historic data is made available.

Solution 2: Delay the Implementation Date

Two respondents supported delaying the Implementation Date although one of these considered this to be the second most appropriate option after obtaining RF data from SESL. These respondents supported a delay in implementation for the following reasons:

- Delaying the Implementation Date would give a clean and even-handed start to the new methodology;
- Delaying implementation to 14 months after the BETTA Effective Date would give sufficient time for Parties in Scotland to respond to the incentive, provided the Implementation Date was known at least 14 months in advance;
- An incentive scheme only works if the Parties affected by it are able to respond to the incentive. Since the Alternative Modification uses historic data from more than 14 months earlier to set the incentive payments (redistribution), implementation of this proposal should give at least 14 months notice to all affected Parties, to allow processes to be put in place covering the whole Settlement timetable, regardless of whether or not historic data is made available.

Several respondents did not support delaying the Implementation Date until 14 months after the BETTA Effective Date. One respondent considered that the delay would impact the ability of P157 to improve data quality and a delay would send out all the wrong signals to the Industry.

Solution 3: Treat Scottish GSP Groups differently

Two respondents stated arguments in favour of treating Scottish GSP groups differently.

One respondent suggested that a transitional methodology for redistribution appears the most straightforward solution by redistributing the money on the current market share basis for those GSP Groups until RF data is available. However, this respondent could envisage that certain Parties may claim that this amounts to discrimination.

The other respondent considered that the simplest way to create the necessary transition and to bring in the Alternative Modification as soon as possible would be to use the value of PT for SP¹ for each Supplier's SP08a performance (i.e. put everyone as performing at Standard) for Settlement Days for which Settlement data under BETTA is not available. This would then redistribute Supplier Charges in the Scottish GSP Groups at market share until data became

¹ These terms are taken from the redistribution element of the legal text for the P157 Alternative Modification

available for RF. The Modification would take effect as intended in the England & Wales GSP Groups.

With regards to the claim that this arrangement may be discriminatory, this respondent stated that it seems disingenuous for Parties to claim that treating the two Scottish GSP Groups differently would be complex when in fact at the moment they are subject to a completely separate agreement. In addition this would be a transitional and not a permanent arrangement.

Two respondents did not support a transitional methodology for redistribution since it has the potential to be discriminatory and adds complexity to an already complex arrangement. One respondent considered that although there was justification to treat Scottish GSP Groups differently, given the notice period that should be given anyway to all Parties, the expense of this additional functionality may not be justified. This respondent considers that discrimination should be avoided except where a clear justification exists and considers the absence of an historic Supplier Charges scheme in Scotland, and the absence of historic performance data prior to BETTA Effective Date does provide justification for special treatment for those days. Redistributing post BETTA implementation charges by post BETTA implementation Non Half hourly (NHH) share in Scottish GSP Groups would be no less valid than redistributing all (historic) charges by current shares as occurs at present.

Solution 4: Phased Implementation

Four respondents supported phased implementation.

- One respondent stated that none of the solutions are ideal, which makes the Proposed Modification all the more attractive. This respondent liked the phased implementation approach since it has the advantage of treating all Suppliers equally, it will use the existing re-distribution methodology in the interim, and will give more time for Suppliers to familiarise themselves with the implications of the Alternative Modification;
- Another respondent suggested that this option looks the most sensible and workable;
- One respondent, who also supported treating Scottish GSP Groups differently, considered that phased implementation would not be considered discriminatory; and
- One respondent who preferred obtaining SESL data considered this option to be the second most preferable one.

Two respondents commented against phased implementation since it adds complexity to an already complex arrangement and since although this approach is equitable in terms of incentives, the expense of this additional functionality may not be justified, particularly given the respondents view that at least 14 months notice should be given prior to implementation.

Additional Comments

Two respondents made additional comments. One respondent stated that it remained convinced that the adoption of the Alternative Modification over both the existing arrangements and the Proposed Modification would offer a real incentive to Parties to address the issue of data quality in Settlement.

The other respondent reiterated its objection to the method of determination of genuine pre estimate of loss for SP08, which considerably over-estimates the average losses associated with estimated Half Hourly data, and which does not allocate the full costs of the performance assurance framework to those who cause it to be required.

1.2 Comments and views of the Modification Group

The P157 Modification Group met to discuss the responses received to the P157 fourth assessment consultation. The Group considered each response and then considered the solutions and its opinions on these solutions.

Obtain the RF data from Scottish Electricity Settlements Limited (SESL)

Two members of the Group initially considered this to be the ideal solution however several arguments against this were put forward in both the consultation responses and by members of the Group.

The Group agreed with the comments made by consultation respondents regarding the likelihood of RF runs being carried out under the SAS run off, and the fact that it is unacceptable to use historic Scottish data for a purpose which it did not have under the Scottish arrangements. In addition, the Group noted that there are complexities and potential legal difficulties associated with obtaining the data, and in any case it would not solve the future problem of how to deal with new GSP Groups.

The Group decided that the arguments put forward against this solution were compelling and hence the Group discarded this solution.

Delay the Implementation Date

The Group considered delaying the Implementation Date until RF data was available for the Scottish GSP Groups. This would mean that if the BETTA Effective date was April 2005 the P157 Alternative Modification Implementation Date would not be until June 2006.

The Group considered the consultation response that suggested that in any situation the Implementation Date should be known at least 14 months in advance. The Group, throughout the Modification process, had considered the issue of retrospection with regards to the Calendar day Implementation Date as well as the issue of appropriate notice to Parties of a change to the Supplier Charges rules. Upon consideration of these issues in conjunction with the Group's desire not to have unnecessary delay in the implementation of the revised charges, cap and redistribution rules, the Group had decided upon a 1 December 2005 Calendar Day implementation which was considered appropriate for all Parties including the new Scottish GSP Groups to be able to improve performance and consider the new rules. For these same reasons the Group considered that the Implementation Date need not be at least 14 months in advance. In relation to the particular issue consulted upon, the Group were concerned that a delay to the implementation would impact the ability of P157 to improve data quality and would send out the wrong signals to the Industry. Additionally this would not solve the future problem of how to deal with new GSP Groups. The Group thus rejected this solution to the issue.

Transitional redistribution methodology for Scottish GSP Groups

The Group noted the consultation responses against the approach simply not to charge Supplier Charges to Suppliers operating in Scottish GSP Groups. This option was therefore not progressed. The Group then discussed how the other option where a transitional redistribution methodology would be used for Scottish GSP Groups. This would work as follows:

From the Implementation Date:

- All England and Wales GSP Groups will have an average performance type redistribution mechanism;

- Scottish GSP Groups will have the current redistribution method until there is a full month of RF data available to be used at which point they will move to an average performance type redistribution mechanism alongside England and Wales.

This has the advantage of coping with potential future new GSP Groups in the same way as it will treat the Scottish GSP Groups.

The Group considered the issue of discrimination with reference to this option. It set out all the potential arguments both for and against a transitional redistribution methodology for Scottish GSP Groups and recognised that different treatment does not necessarily imply discrimination.

Arguments in support of treating Scottish Parties in the manner described above:

- Delaying England and Wales implementation to wait for new entrants seems unnecessary for the bulk of market participants and is therefore inappropriate;
- Treating all new GSP Groups similarly seems appropriate both practically and conceptually – whether as a consequence of BETTA or not;
- A new GSP Group is different to an existing GSP Group since it does not have a history, under the Code, of performance data and hence Supplier Charges;
- The absence of an historic Supplier Charges scheme in Scotland, and the absence of historic data for applicable days prior to the BETTA Effective Date can be said to provide justification for special treatment for those days;
- This is a transitional, not a permanent arrangement and will be an interim solution by which to deliver a better overall solution, namely an incentive on performance via redistribution according to the Alternative Modification;
- One way of dealing with some of these issues would be to base redistribution on performance at earlier runs. However, basing redistribution on RF performance is considered more appropriate than using earlier runs. It was recognised that introducing any new GSP Group into the average performance type redistribution mechanism will always involve some transitional arrangement and therefore it was considered appropriate on making the enduring mechanism as robust as possible i.e. considering performance at RF on an enduring basis with a separate transitional arrangement.

Arguments against treating Scottish Parties in the manner described above:

- Scottish GSP Groups will not be able to benefit for 14 months (until RF data available) from the incentives the Group believe exist in the average performance redistribution option;
- NHH Suppliers in Scottish GSP Groups will receive redistribution monies independent of performance whereas NHH Suppliers in England and Wales GSP Groups will receive redistribution monies dependent on performance.

The Group considered whether the arguments in favour of transitional arrangements for Scottish GSP Groups were appropriate as well as whether this transitional arrangement could be construed as discriminatory. A majority of the Group considered that it was justifiable to treat Scottish Parties in the manner described for the reasons given above and hence on balance that there was no unfairness associated with this approach.

Phased Implementation

The Group considered a phased implementation approach to P157 Alternative Modification. In this case, all GSP Groups will have the current redistribution method until there is a full month of RF data available to be used for the new Scottish GSP Groups at which point all GSP Groups will move to an average performance type redistribution mechanism. Any new GSP Groups would have to be treated differently to this. If and when a new GSP Group was

created it would have to have a transitional arrangement associated with its entry into the Supplier Charges scheme. This transitional arrangement would work as with the Scottish GSP Groups in the above option, "Transitional redistribution methodology for Scottish GSP Groups".

The Group considered the arguments for and against this approach.

Arguments for a phased implementation:

- Every GSP Group will enter the new Supplier Charges rules in the same manner;
- Although England and Wales implementation of the average performance redistribution mechanism will be delayed the incentives and benefits associated with that may not be delayed as Suppliers would be aware of the future implementation and begin investing money in schemes to improve performance;
- No discrimination implied since it does not treat Scottish Parties differently;

Arguments against a phased implementation:

- New Scottish GSP Groups and new future GSP Groups are treated differently;
- England and Wales implementation of average performance redistribution mechanism will be delayed and hence the associated incentives and benefits will also be delayed.

A majority of the Group considered that the delay to the England and Wales redistribution did not deliver sufficient benefits to warrant the phased implementation and hence the Group did not prefer this implementation approach.

Conclusions

The Group, by a majority, decided to recommend option 3 "Transitional redistribution methodology for Scottish GSP Groups" in the manner described above and asked for this solution to be reflected in the legal text.