Change Proposal – BSCP40/02	CP No: 1362 *Version No:1.0*

Title:

Removal of Residual Negative EACs

Description of Problem/Issue:

Background

Licensed Distribution System Operators (LDSOs) are required, through Standard Licence Condition 44B (Distribution Losses Reporting Regime), to use Settlement data to determine and report energy entering and energy exiting their networks in accordance with Regulatory Instruction and Guidance (RIGs). This information is the primary input into the Distribution Loss Incentive Mechanism (DLIM), which is effected through Special Condition CRC[1] 7 (Adjustment of licensee's revenues to reflect distribution losses performance).

LDSOs are required to report this information for the Distribution Price Control Review 5[2] (DPCR5) so that the DLIM for this period can operate, and for the DPCR4[3] period so that the DLIM for this period can be closed down and so that the DLIM targets for the DPCR5 period can be set.

The incentive / penalty was £48/MWh for the DPCR4 period and is £60/MWh for the DPCR5 period. As a consequence, the financial implications of the DLIM for each LDSO can run into many £100s millions for each 5 year price control period.

Determination of the inputs to the DLIM – both in terms of target setting and of performance measurement – is based on Settlement data. As a consequence, the DLIM is reliant on the quality of this data. More specifically, effective operation of the mechanism is reliant on the Settlement data used to set the targets being consistent with the Settlement data used to measure performance.

However, the scale of Supplier adjustments to Settlement data in the 14 months reconciliation window increased significantly in the five year DPCR4 period. The principal reason for this was an increased focus by Suppliers in addressing Settlement data quality issues using a variety of techniques currently permitted under the BSC. This has created an inconsistency between the basis of the target setting and performance measurement components of the DLIM. For DPCR4, this is having a very material impact on LDSOs – running into £10s millions for most and greater than £100 million for some. Ofgem is consulting on the most appropriate means of addressing this for DPCR4.

LDSOs are very concerned that such issues could impact the operation of the DLIM in DPCR5 in a similar manner, with comparable financial implications. This creates uncertainty for LDSOs in their regulated allowable revenue and uncertainty for Suppliers in the Distribution Use of System (DUoS) costs they will incur. Impacts such as more volatile energy prices and / or increased energy prices could also affect consumers, though this is outside the scope of the BSC.

LDSOs and Suppliers set up an industry working group under the Distribution Charging Methodology Forum (DCMF) to consider these issues. These ran over an 11 week period from June to August. This group concluded that the primary issue lies with the design of the DLIM. However, Ofgem has indicated that there is no scope for making any fundamental changes to the DLIM effective in DPCR5. Consequently, LDSOs want to ensure, to the extent that it is possible, that Settlement data better supports operation of the DLIM.

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

Issue

The increased level of adjustments to Settlement data described above have been effected by Suppliers using a range of techniques currently permitted under the BSC. Some of these techniques gave rise to a negative forward looking EAC (Estimated Annual Consumption). This did not make any sense as a negative EAC represents generation.

CP1311[4] addressed this matter in part by preventing the creation of any new negative EACs. It did this by making changes to the centrally provided EAC/AA (Annualised Advance) software used by all Non Half Hourly Data Collectors (NHHDCs). This application now results in a Profile Class / GSP Group class average EAC[5] instead of a negative EAC.

The issue is that there are still a significant number of negative EACs being used in Settlements. These were created before CP1311 was implemented and reside in the Non Half Hourly Data Aggregators' (NHHDAs) databases. They will continue to be used in Settlement until a meter reading is processed successfully for them and the NHHDA is provided with a new AA and EAC. Whilst all remaining negative EACs will eventually be replaced with positive EACs, this could take a very long time as many of the Metering System Identifiers (MSIDs) with negative EACs have some form of related complication that hinders the successful processing of a meter reading e.g. EACs usually get replaced by AAs by Final Reconciliation (RF), but this may not happen where GVC has been applied a) because subsequent readings are being validated using an EAC that is not indicative of expected consumption and b) because GVC is usually applied where the reading history or Meter Technical Details (MTD) are unreliable – i.e. the same problems that gave rise to GVC being used in the first place may complicate the process for replacing the negative EAC with an AA.

The residual negative EACs are a major issue for the DLIM as they preclude adequate determination of when energy flows took place. This creates uncertainty for DNOs in their regulated allowable revenue; uncertainty for Suppliers in the DUoS costs they will incur; and, ultimately, more volatile energy prices for consumers and / or increased energy prices for consumers as these risks and uncertainties are managed. Recent analysis of the volume of negatives EACs would suggest that there is still between 400-500GWh of negative EACs in Settlements.

Proposed Solution:

This Change Proposal (CP) seeks to remove all residual negative EACs from NHHDAs' databases via a centrally provided script. This would increase the accuracy of the EACs used in Settlement, thereby reducing uncertainty around LDSOs regulated allowable revenue and Supplier DUoS costs.

The script will select all EACs that are less than zero and for each negative EAC value found:

- Identify the SSC/TPR, Profile Class and GSP Group for the Metering System in question that were effective on the Effective From Settlement Date of the EAC;
- Retrieve the latest GSP Group Profile Class Default EAC value for the Profile Class and GSP Group;
- Retrieve the latest Average Fraction of Yearly Consumption for the SSC/TPR, Profile Class and GSP Group;
- Multiply the GSP Group Profile Class Default EAC by the Average Fraction of Yearly Consumption to give a replacement EAC value;
- Substitute the calculated replacement EAC value for the negative EAC value.

The script would be separate from NHHDA systems, and would be applied to data held by NHHDAs without being implemented within NHHDA systems. This means there is no implementation impact

[4] Replacing Erroneous Forward Looking EACs.
[5] To which Average Fractions of Yearly Consumptions (AFYCs) are applied when there are multiple registers.

to integrate the script into NHHDA systems.

This change will require an amendment to BSCP505 'Non Half Hourly Data Collection for SVA Metering Systems in SMRS', to introduce the use of the centrally provided script and the level of frequency with which it is to be employed.

Justification for Change:

This Change Proposal better facilitates Applicable BSC Objective (c) (the promotion of effective competition in the generation and supply of electricity, and (so far as consistent therewith) promoting such competition in the sale and purchase of electricity). It does this by increasing the accuracy of Settlements for all Suppliers and other impacted BSC Parties.

In addition, this Change Proposal would make Settlement data better support the operation of the DLIM. This will help reduce uncertainty and risks for DNOs and Suppliers. This could ultimately help reduce price volatility and risk premiums in retail tariffs to Consumers, though this is outside the scope of the BSC.

To which section of the Code does the CP relate, and does the CP facilitate the current provisions of the Code?

Section S.

Estimated Implementation Costs:

The estimated ELEXON implementation cost is 3.5 man days of effort, which is equivalent to £840.

Configurable Items Affected by Proposed Solution(s):

BSCP505 Non Half Hourly Data Aggregation for SVA Metering Systems Registered in SMRS.

Impact on Core Industry Documents or System Operator-Transmission Owner Code:

None.

Related Changes and/or Projects *(mandatory by BSCCo)*

Several CPs relate to similar areas as this CP, though none of the CPs are interdependent:

- CP1360 - Inclusion of Audit Records for Gross Volume Correction and Dummy Meter Exchanges;
- CP1361 - Removal of Extreme EACs; and
- CP1363 - Addressing Settlement Data Adjustments in a Balanced Manner.

Requested Implementation Date:

28 June 2012.

Reason:

Next available BSC Release.

Version History:

Version 1.0 for industry impact assessment.

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Attachments: Yes BSCP505 redlined *(2 pages)*	