Standing Issue

Standing Issue Title (*mandatory by Proposer*): *Processing Unrecorded Units identified by Revenue Protection Services*	**Issue: 39** *(mandatory by BSCco)*

Submission Date: 24/9/2010

Description of the Issue:

The Distribution Connection and Use of System Agreement (DCUSA) is a multi-party contract between electricity Distributors and electricity Suppliers and large Generators. Parties to the DCUSA can raise Change Proposals (CPs) to amend the Agreement with the consent of other Parties and (where applicable) the Authority.

DCP 054 'Revenue protection/unrecorded units into settlement' was raised by Electricity North West Limited in October 2009. The DCP seeks to ensure that:

- Suppliers must provide or procure a revenue protection service in accordance with the Revenue Protection Code of Practice;
- The Revenue Protection Code of Practice should become a schedule to the DCUSA;
- Where suppliers identify theft, the calculation of stolen units should be made in accordance with the code of practice and the supplier should ensure that the units are entered into settlement;
- Distribution businesses should have the right to audit suppliers to ensure that the units are entered into settlement.

The DCP 054 Working Group has recognised that, whilst the DCUSA could include obligations in relation to how unrecorded units should be estimated and how they should be submitted into Settlement, the requirements for the subsequent processing of these units falls within the scope of the BSC. As there is no single clear solution for how unrecorded units should be processed in Settlement, the Working Group believes that these processing requirements are best considered by the Volume Allocation Standing Modification Group (VASMG). The mechanism by which Suppliers "should ensure that the units are entered into settlement" (bullet 3 above) would thus be defined under the BSC and the "Distribution businesses right to audit Suppliers to ensure that the units are entered into settlement" (bullet 4 above) would be given effect via the BSC Audit.

Appendix A provides further background detail, including a brief description of the existing process for accounting for unrecorded units identified by Revenue Protection Services and the issues with the current process. It also sets out alternative options for accounting for these units in Settlement for consideration by the VASMG. These are –

- tracking unrecorded units from the Data Collector through to the Supplier Volume Allocation Agent (SVAA), such that they can be reported on the D0030 NHH DUoS Report;
- a 'Settlement Cost Smearing Scheme' whereby unrecorded units are allocated via the GSP Group Correction process, and the units are accounted for outside the standard Settlement processes for the purposes of the Distribution Price Control.

It is recommended that the Standing Modification Group should –

- consider the issues with the current process, as set out in Appendix A;
- further develop potential solutions to address these issues and to track unrecorded units a) from the Data Collector systems through to the SVAA or b) via a separate mechanism outside

the current Settlement processes;

- assess the costs/benefits of the solution options following an impact assessment;
- report its findings to the Panel.

Details of the Proposer
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APPENDIX A – MATTERS FOR CONSIDERATION BY THE STANDING MODIFICATION GROUP

THE CURRENT PROCESS

The process for applying Non Half Hourly Revenue Protection adjustments in Settlement is defined in BSCP504 3.6 'Revenue Protection'. "When informed by the Revenue Protection Service that there is evidence of tampering with a SVA Metering System", the NHHDC is required to "record an Adjustment to the meter advance based on the unrecorded units estimated by the Revenue Protection Service" and to "calculate a new EAC and AA based on the adjusted meter advance and send the new EAC/AA" to the NHHDA.

TECHNICAL ASSURANCE CHECK

Between November 2009 and February 2010, ELEXON visited seven NHHDCs and five NHH Suppliers to perform Technical Assurance checks on the processing of revenue protection reads. The results were published in "Findings from the Technical Assurance Checks on the Processing of Revenue Protection Reads" (PAB111/05).

The key findings of the TA Checks were that –

- the current BSC obligations are not defined in detail and are not being applied consistently;
- there is a lack of engagement between Suppliers, NHHDCs and Revenue Protection Services regarding the processing of revenue protection units;
- little evidence was found that units identified by Revenue Protection Services are being processed by NHHDCs.

ISSUES WITH THE CURRENT PROCESS

A number of particular issues, identified by the TA Checks and/or by the DCUSA DCP54 Working Group, are as follows –

- BSCP504 describes the notification of adjustments by the Revenue Protection Service to the NHHDC. This is inconsistent with the Revenue Protection Code of Practice, where notification is via the Supplier.

- The current process refers to "an adjustment to the meter advance", but an alternative is to adjust the meter reading and, in practice, the TA checks found that this alternative approach is usually taken.

    - The disadvantage of adjusting the meter advance is that on change of NHH Data Collector, the new NHHDC will validate the adjusted Annualised Advance against the readings and find a discrepancy. Recalculating the Annualised Advance from the readings will back out the Revenue Protection adjustment. It is also less auditable than an adjustment to the meter reading, because Suppliers and LDSOs receive readings rather than meter advances.

    - The disadvantage of adjusting the meter reading is that this approach only works where the meter is replaced. Although meters are often replaced in revenue protection incidents, this is not always the case and is not always considered the best course of action.

- Once adjustments are made to the meter advance or reading, there is no audit trail in the "downstream" Settlement systems (i.e. NHHDA and SVAA) such that the total number of recovered units by Supplier and LDSO can be readily identified and reported on;

- By the time theft has been identified, investigated and unrecorded units estimated, the period of theft is likely in many cases to be outside the Final Reconciliation window for Settlement purposes. Even if revenue protection adjustments are submitted into Settlement, there is a strong possibility that they are being allocated to the wrong range of Settlement Dates.
- The DUCSA DCP 54 Working Group is also considering 'theft in conveyance' and the circumstances in which theft on the distribution side of the cut-out can or can't be allocated to a customer Metering System. How and whether these unrecorded units can or should be entered into Settlement is also unclear.

TRACKING UNRECORDED UNITS

In order to provide the level of audit required by DCUSA Change Proposal DCP 54, it would be necessary to amend NHHDC, NHHDA and SVAA processes and systems in order to separately identify revenue protection adjustments at all stages of the process. There are a number of ways that this could be achieved and the purpose of raising this Standing Issue is to enable these options to be considered and costed.

SETTLEMENT COST SMEARING SCHEME

If the units entered into settlement are recorded against the MPAN where theft is discovered the current supplier for that MPAN will incur the full energy costs for the assessed unrecorded units. This will act as a disincentive on suppliers to actively seek out cases of theft, as the likelihood of fully recovering charges from the thief is very low.

The Settlement Cost Smearing Scheme is an alternative to tracking unrecorded units from NHHDC to the SVAA. It proposes that, for Settlement purposes, energy costs are smeared across all suppliers in proportion to NHH energy market share. For example, this could be achieved by removing the requirement to apply revenue protection adjustments such that all theft (identified, unidentified, theft in conveyance) is accounted for via the GSP Group Correction Factor. This would mean that the allocation of assessed unrecorded units to Suppliers would be less accurate, but the removal of a disincentive on Suppliers to identify theft would reduce the overall Settlement inaccuracy caused by theft.

The LDSO requirement is to be able to account for assessed unrecorded units in the Distribution Price Control and, to a lesser extent in Distribution Use of System (DUoS) billing. This requirement could be met by accounting for units identified by Revenue Protection Services outside the standard NHHDC-NHHDA-SVAA processes. Such a process could operate under the BSC (along the lines of the current Extra Settlement Determination (ESD) process, for example), if considered appropriate, or could sit outside the BSC.

The Settlement Cost Smearing Scheme would enable DNOs to account for stolen units where they identify theft before the cut-out which is not the responsibility of the Supplier.