

Impact Assessment Responses: P274 'Cessation of Compensatory Adjustments'

Impact Assessment issued on 27 April 2012

We received responses from the following Parties

| Company | No BSC Parties / Non-Parties Represented | Role of Parties/non-Parties represented |
|-------------------------|--|---|
| E.ON | 5 / 0 | Supplier/NHHDC |
| British Gas Trading Ltd | 1 / 0 | Supplier |
| EDF Energy | 2 / 3 | Supplier/ Party Agent |
| RWE npower | 9 / 0 | Supplier and Party Agent |
| Scottish Power | 2 / 1 | Supplier Party Agent |
| IMServ Europe Ltd | 0 / 6 | NHHMO, HHMO, NHHDC, HHDC, NHHDA, HHDA |
| UK Power Networks | 4 / 0 | Distributor |

What stage is this document in the process?

01 Initial Written Assessment

02 Definition Procedure

03 Assessment Procedure

04 Report Phase

Question 1: Would the P274 Proposed Solution impact your organisation?

Summary

| Yes | No |
|-----|----|
| 7 | 0 |

Responses

| Respondent | Response | Rationale |
|-------------------------|----------|--|
| E.ON | Yes | <ul style="list-style-type: none"> Amendments to DC systems to incorporate the threshold calculations and application. Amendments to all Supplier and DC processes that include GVC (stalled D0019s, Large EAC AA, historic disconnections, imbalance recovery, and several others). Re-writing of all relevant process maps. Re-training of all associated staff. Inability to recover over-settled volume. |
| British Gas Trading Ltd | Yes | <p>The Proposed Solution would limit our ability to correct errors where there error crosses the RF boundary ensuring that the Gross Energy Volume entering Settlements is correct.</p> <p>Removal of the ability to fully correct these errors would result in an error in Gross Volume Allocation which will lead to us being subjected to spurious charges and credits both through Supplier Volume Allocation and Group Correction without any ability to effectively control or correct these unless the meet the already restrictive criteria for a Trading Dispute.</p> <p>The Proposal as currently defined places additional an onerous obligations on both Supplier and Agents to carry out a series of calculations. We would need to develop processes and make system changes in order for us to be able to calculate boundary dates and to split energy volumes appropriately.</p> |
| EDF Energy | Yes | <p>There would be a significant impact on our NHHDC systems due to the changes required to the read validation process and it isn't clear at this stage whether or not it is even possible to be fully compliant with the requirements of this change. There would be an impact on our Supplier settlement to billing reconciliation process. We would also expect to see an increase in the number of disputes raised for profile class 5 to 8 sites due to the comparatively low threshold that has been proposed.</p> |

| Respondent | Response | Rationale |
|-------------------|----------|--|
| RWE npower | Yes | As our systems and processes for GVC have been developed as a result of BSCP 504, the proposed solution would dramatically impact our ability to correct our gross energy volume. |
| Scottish Power | Yes | <p>This change would have a significant impact on our existing Supplier and NHHDC processes. All documentation relating to the adjustment of Settlement data would have to be re-written to take these new rules into account. We would also need to establish additional training for new and existing staff on the new process to ensure we continue to operate in line with our BSC obligations.</p> <p>The proposed functionality for 'Re-initialisation' looks a lot like the process used for Dummy Meter Exchanges. However, the solution for calculating the 'initial EAC' around the correct reading using a class average EAC may present further inaccuracies as it may be out of line with the forward looking consumption based on the actual readings. If taken forward this area of the solution will require more work and if the process for re-calculating the 'initial EAC' is changed significantly from existing processes then changes may be required for NHHDC systems. The proposed 'Re-initialisation' process will reduce imbalances that are present but the use of class average EACs around the initial reading could cause further problems when the subsequent AA / EAC is calculated based on actual readings. If an actual is being used for the initial reading then why is it not being used to calculate the new AA / EAC?</p> <p>This solution would also significantly limit our ability to correct and accurately re-calculate Settlement volumes. The restrictions around the RF window and the volume thresholds mean there will be less opportunity for us to accurately account for the imbalance. With volume errors effectively being written off or ignored this will lead to an increased imbalance of Settlement and Billing volumes in Supplier and NHHDC systems.</p> |
| IMServ Europe Ltd | Yes | We would need to make changes to the NHHDC system, changes to our processes (and associated documentation updates) and staff training. |
| UK Power Networks | Yes | There are no system implications but P274 would allow a better understanding of consumption on our distribution networks and permit more accurate forecasting. |

Question 2: Would your organisation incur any costs in implementing the P274 Proposed Solution?

Summary

| Yes | No |
|-----|----|
| 6 | 1 |

Responses

| Respondent | Response | Rationale |
|-------------------------|----------|---|
| E.ON | Yes | <p>The IT costs of altering our systems to incorporate the threshold calculations and application (one off)</p> <p>The cost of re-training staff in the new process (one off)</p> <p>Over-settled volume will no longer be fully recovered (ongoing)</p> |
| British Gas Trading Ltd | Yes | [Confidential response supplied] |
| EDF Energy | Yes | <p>There would be one-off costs associated with the initial system changes and retraining of staff to carry out a re-initialisation where they would currently apply a GVC.</p> <p>There would be ongoing costs in gathering evidence and managing the increased volumes of disputes raised as a result of this change. There would be ongoing costs where we would have to write-off the cost of any settled energy that was not actually utilised by the customer.</p> |
| RWE npower | Yes | <p>Costs would be incurred in staff training (to understand the business changes) as well as the possible costs associated with incorrect volumes entering settlements. There would also be significant costs in making process changes.</p> |
| Scottish Power | Yes | <p>There will be an FTE and resource cost associated with the development of new documentation and training material. This will need to cover our Supplier and NHHDC processes so will require approx 2 FTE full time for 3-4 weeks to review and update existing material.</p> <p>A further FTE and resource cost will be associated with the development of a training package to ensure all staff operates in line with the new procedures, should they be implemented. This will require 1 FTE full time for 2 weeks to develop the training material and 2 FTE full time for 2-3 weeks to oversee the training onshore and offshore.</p> <p>Finally, the data improvements associated with correcting Settlement imbalances would be reduced as we would no longer have the means to account for all the</p> |

| Respondent | Response | Rationale |
|-------------------|----------|--|
| | | misalignments in our portfolio. |
| IMServ Europe Ltd | Yes | All significant costs are one-off. The system and associated documentation changes would require 50 days of effort, plus 10 days of training |
| UK Power Networks | No | - |

Question 3: Would your organisation accrue any cost-savings as a result of the P274 Proposed Solution?

Summary

| Yes | No |
|-----|----|
| 1 | 6 |

Responses

| Respondent | Response | Rationale |
|-------------------------|----------|--|
| E.ON | No | - |
| British Gas Trading Ltd | No | We have not identified any cost savings as a result of this proposal |
| EDF Energy | No | - |
| RWE npower | No | - |
| Scottish Power | No | - |
| IMServ Europe Ltd | No | - |
| UK Power Networks | Yes | P274 would serve to reduce the resource we expend analysing settlement returns. Additionally, it would likely result in our raising less queries with Suppliers. |

Question 4: How long (from the point of Ofgem approval) would you need to implement the P274 Proposed Solution?

Summary

| 0 - 6 months | 6 - 12 months | 12 - 18 months |
|--------------|---------------|----------------|
| 5 | 0 | 2 |

Responses

| Respondent | Response | Rationale |
|------------|--------------|---|
| E.ON | 12-18 months | The specification of system changes, acquiring IT resource, developing those changes and then testing |

| Respondent | Response | Rationale |
|-------------------------|--------------------|--|
| | | <p>them prior to going live will take twelve months.</p> <p>Because GVC is touched upon by many processes (stalled D0019s, Large EAC AA, historic disconnections, imbalance recovery, and many others), the re-training of staff and re-engineering of process will be even more time consuming than the system development.</p> |
| British Gas Trading Ltd | 3 Months | We would need to develop and amend our systems and processes to support the Proposed Solution, in order to calculate and split compensatory volumes across the boundary points. We may also need to make some changes to our core data processing systems to be able to deal with re-initialisation, dependent on how these were implemented by Party Agents. |
| EDF Energy | 18 months | The required changes to the NHHDC Application would be significant and might require re-qualification of our systems. We would need to fully understand the impact of the change (e.g. if the Credit Assessment Price or dispute thresholds are amended how would the NHHDC system be updated to ensure compliance? What would happen if previously validated readings were withdrawn and revalidated following a change in the threshold?). |
| RWE npower | 6 months lead time | We feel that to ensure the processes were designed properly to manage the proposed solution, a minimum 6-month lead time is necessary. |
| Scottish Power | 6 months | The need for a training programme to be developed along with completing the necessary documentation and process changes are the key drivers behind the timescale. |
| IMServ Europe Ltd | 6 months | Getting the business and IT resource to make the required system changes is the key driver to this response |
| UK Power Networks | ZERO DAYS | - |

Question 5: Would the P274 Alternative Solution impact your organisation?

Summary

| Yes | No |
|-----|----|
| 6 | 1 |

Responses

| Respondent | Response | Rationale |
|-------------------------|----------|---|
| E.ON | Yes | A new step to the GVC process would have to be incorporated into the current GVC team – checking that the volume recovered is not for a period older than six years. This is a minor impact, as only that single team would need to be trained, and only that single process map would need writing. No system changes would be required as the calculations could easily be manually performed, and the process ring-fenced. |
| British Gas Trading Ltd | Yes | The impacts of the Alternative Solution are broadly similar to the impacts described in our response to Question 1, however to a much reduced extent. Whilst any ability to correct Error in Gross Volume Allocation would have a detrimental impact to the market, we accept that the introduction of a 5 year cut off limit as set out in the Alternative Proposal reduces or totally mitigates most of the impacts. |
| EDF Energy | Yes | There would be a limited impact to GVC activities that would require some staff training. |
| RWE npower | Yes | We would need to make slight amendments to existing processes to include the time limit on how far back any corrections can take place. |
| Scottish Power | Yes | Minor changes would be required to our Supplier and NHHDC process documentation. There would be no training requirements as existing procedures would be maintained with new rules placed on the operating timescales. |
| IMServ Europe Ltd | Yes | We would need to make changes to the NHHDC processes (and associated documentation updates) and staff training. |
| UK Power Networks | No | - |

Question 6: Would your organisation incur any costs in implementing the P274 Alternative Solution?

Summary

| Yes | No |
|-----|----|
| 4 | 3 |

Responses

| Respondent | Response | Rationale |
|-------------------------|----------|--|
| E.ON | Yes | The minor implied cost of training a single team and re-writing a single process map. |
| British Gas Trading Ltd | Yes | [Confidential response supplied] |
| EDF Energy | Yes | There would be one-off costs to introduce the process change into the business and to train staff appropriately. |
| RWE npower | No | As this would only be a small process change the costs, if any, would be minimal. |
| Scottish Power | No | No additional costs are incurred because we would be retaining the existing working practices. |
| IMServ Europe Ltd | Yes | All significant costs are one-off. The documentation changes would require 5 days of effort, plus 1 days of training |
| UK Power Networks | No | - |

Question 7: Would your organisation accrue any cost-savings as a result of the P274 Alternative Solution?

Summary

| Yes | No |
|-----|----|
| 0 | 7 |

Responses

| Respondent | Response | Rationale |
|-------------------------|----------|---|
| E.ON | No | - |
| British Gas Trading Ltd | No | We have not identified any cost savings arising from this proposal. |
| EDF Energy | No | - |

| Respondent | Response | Rationale |
|-------------------|----------|---|
| RWE npower | No | - |
| Scottish Power | No | Ongoing focus on bringing our Billing and Settlements portfolios into alignment would be maintained. This currently represents a significant part of our data correction controls with adjustments being made in both directions to balance Settlements data. |
| IMServ Europe Ltd | No | - |
| UK Power Networks | No | - |

Question 8: How long (from the point of Ofgem approval) would you need to implement the P274 Alternative Solution?

Summary

| 0 - 6 months | Over 6 months |
|--------------|---------------|
| 7 | 0 |

Responses

| Respondent | Response | Rationale |
|-------------------------|----------------------|---|
| E.ON | One month | The training and process mapping would be limited to a single team, and as such this could be done with a minimum of disruption. One month is the very longest that might be needed. |
| British Gas Trading Ltd | 1 Month | We would require a short period of approx 1 month to allow us to develop a mechanism to 'ring-fence' corrections within our systems. |
| EDF Energy | 4 months | We would need to fully understand the details of the proposed change and the impact this would have on existing processes (e.g. the process to follow if the Credit Assessment Price or dispute thresholds are amended) |
| RWE npower | Negligible lead time | There would be only minor changes to achieve implementation of the alternative solution. |
| Scottish Power | 1 month | This will allow necessary time to update our internal Supplier and NHHDC documentation and provide relevant communications and training messages. |
| IMServ Europe Ltd | 1 month | Time to update documents and roll out training |
| UK Power Networks | ZERO DAYS | - |

Question 9: Would you like to make any further comments on either P274 solution?

Summary

| Yes | No |
|-----|----|
| 5 | 2 |

Responses

| Respondent | Response |
|------------|--|
| E.ON | <p>The proposed solution would be both time-consuming and expensive to implement. It would be impractical for both Supplier and DC systems and heralds the industry's full and final disinterest in gross volume. Without fully accepting that the GVC process results in a significant amount of positive settlement advances (as well as negative), the repercussions of completely stopping GVC may not be fully understood. This modification does not reflect an improvement to settlements, but an over-complication of processes and systems which could well be damaging to implement.</p> <p>GVC is performed on both positive and negative compensatory advances, and as such the proposed solution is encouraging activity that could hide error within the market. Giving permission to perform dummy exchanges instead of compensating for gross volume will inevitably result in a proliferation of such exchanges performed at RF, avoiding the need for large corrective advances of any type. This will include the many "natural corrections" that have not been picked up by Elexon's analysis, and the result for DNOs could well be the opposite of what is intended by the proposal. It would not be reasonable to restrict the proposal to large negative advances alone, as this would bias settlements in the favour of over-payment of DUOS, with no meaningful means of balancing settlements in the fluid period.</p> <p>Additionally, restricting the Supplier's ability to compensate for settlement error will mean absorbing those erroneous costs, which will ultimately be picked up by consumer as an overhead cost.</p> <p>This modification fails to recognise that GVC is a pragmatic approach to error correction which suppliers are happy with. Suppliers recognise there are times when it's not possible to have perfection, so GVC is a practical mechanism to resolve that error. Ofgem have also recognised that settlements are not precise and that there has to be an acceptable level of error that both suppliers and DNOs have to live with, especially if the amount of work required to fix the error is disproportionate to the value of the error – all we can do is to seek to minimise the error and the risk as much as possible – which we did with CP1310 which limited the ability to correct the volume to error that is still occurring.</p> <p>Furthermore, Ofgem recently wrote in a decision document on DNO charge errors that limiting the DNO's ability to correct the error could</p> |

| Respondent | Response |
|-------------------------|--|
| | <p>result in consumer harm, the same could be said of the inability of suppliers to correct settlement error.</p> <p>The alternative solution is a sensible development of a process that has been enhanced and tweaked over the years, and is now understood and performed in a controlled manner across the industry. Since February 2010, for instance, GVCs can no longer be performed at DF, which has brought added structure and safety to the process. By building in this extra time restriction, the process will now exclude the majority of “unreasonable” GVCs, where parties might attempt to recover many years of erroneously recorded consumption. This extra restriction will tighten the process and go some way towards providing greater financial certainty for all parties.</p> |
| British Gas Trading Ltd | No |
| EDF Energy | No |
| RWE npower | We believe the alternative solution is readily achievable with minimal impact and cost to the industry, whilst still allowing Suppliers ability to correct gross energy volume. |
| Scottish Power | <p>Recent output from Ofgem’s Distribution Losses Incentive Mechanism work groups show that they believe Supplier adjustments (including GVC) to be a valid control and as such Ofgem are now looking at the Losses Incentive Mechanism itself. This was the advice provided to the Industry following the Distribution Charging Methodology Forum, which was ignored in favour of raising P274. Therefore, the proposed solution needs to be reviewed by the group in line with Ofgem’s recent findings to confirm if it should be progressed at all.</p> <p>Finally, following the approval of CP1312 (Use of Gross Volume Correction in Post Final Settlement Runs) there was an increase in GVC activity before the implementation date. The analysis that Ofgem has completed on the Distribution Losses review suggests this increased activity caused a large spike in Supplier Adjustments in 2009/10, leading to a dip in Losses performance. There is a risk that this could happen again if the proposed solution is taken forward as Suppliers and NHHDCs attempt to get as many adjustments put through as possible before the new guidelines come into effect. The effect this will have on Settlements data and subsequent Distribution Losses figures must be considered by the group.</p> |
| IMServ Europe Ltd | <p>Whilst we understand the logic and reasoning behind this proposal, we are of the view that GVC is generally a good thing. Whilst there is the possibility of it being open to abuse and used by some as a way of avoiding a Trading Dispute, as an NHHDC we take GVC very seriously and don’t apply it casually or in all circumstances where it is requested. It is reasonably “invisible” currently, but CP1360 will correct these issues in terms of consistency of record keeping.</p> <p>We do feel that Suppliers could often do more to resolve some of their</p> |

| Respondent | Response |
|-------------------|---|
| | <p>data issues more expeditiously, and this change would be a driver to encourage them to do this – but we do not believe this is the correct solution to this – as there are cases where Suppliers cannot resolve issues any more quickly, and when these do get resolved GVC is a recognised way to compensate for / rectify it.</p> <p>Although GVC is not perfect, it does re-allocate energy in a fair and equitable way, and is reasonably well understood and used within the industry. The solution proposed is significantly more complicated than the existing GVC process – and as this practice is used on a reasonably infrequent basis, it is a lot of effort in terms of system changes, documentation and training for something we do not see as a significant issue. BSC Auditors would need to spend a considerable time and effort auditing something like this – when there are more significant issues to focus on.</p> <p>The Alternative proposal does have some merit in terms of simplicity to understand and implement and is a way of limiting the impacts of GVC – but we feel that if GVC is recognised as being a technique to resolve a data issue, then there is no real sense in then only partly resolving the problem – we should either fix it completely or not at all, rather than choose an arbitrary point to fix it from.</p> <p>Therefore our ranking of priorities is:</p> <ol style="list-style-type: none"> 1) Do nothing 2) The Alternative Solution 3) The Proposed Solution |
| UK Power Networks | <p>P274 would bring these settlement restatements more in line with other industry processes in barring all adjustments relating to periods beyond 28mths and restricting larger adjustments to the past 14mths only. This would promote greater consistency between the MRA & the BSC with the normal 14mth/28mth limits on settlement (dependent on whether a DF run is operational) and 14mths being the adjustment limit within MRA MPAN registration processes.</p> |