

Modification proposal:	Balancing and Settlement Code (BSC) P223: "Changes to the Profile Administration Service (PrA)" (P223)		
Decision:	The Authority ¹ directs that this proposal be made ²		
Target audience:	National Grid Electricity Transmission Plc (NGET), Profile Administration Service, Parties to the BSC and other interested parties		
Date of publication:	17 October 2008	Implementation Date:	1 December 2009

Background to the modification proposal

The Profile Administrator (PrA) is the BSC Agent responsible for the production of load profiles that are used in the settlement of Non Half Hour (NHH) consumption. These profiles are based on Half Hourly (HH) data obtained for a sample of domestic and non-domestic NHH customers. Amongst other things, the PrA is required to recruit customers to the sample and to collect the resulting data.

Modification P223 was raised by the BSC Panel on 10 April 2008. It was raised in response to discussions at the Supplier Volume Allocation Group and at two BSC Standing Issues groups³ which identified that equipment replacement and sample recruitment issues were affecting the accuracy of the load profile data supplied by the Profile Administrator (PrA).

Both these issues groups identified that the failure to maintain a representative sample within each profile group has led to deterioration in the accuracy of the load profile data and NHH data used in settlement becoming less reflective of actual average consumption patterns. The current profile administration process is seen to be untenable going forwards.

If load profiles do not accurately reflect the average daily consumption shape in a profile class, then this can lead to potentially large and unpredictable variances in the Grid Supply Point (GSP) Group Correction Factors⁴. This means that suppliers, especially smaller ones, find it increasingly difficult to predict physical positions that they will be attributed in settlement, thus exposing them to imbalance.

The Modification Proposal

In addition to the proposed modification, an alternative modification was proposed by the Modification group. Both proposals are summarised below.

Proposed Modification

Proposed Modification P223 seeks to revise the BSC and Code Subsidiary Documents (CSDs) to reflect changes in the role of the PrA. Under P223 the responsibility for the recruitment of customers into profiling samples and collecting such data will move from PrA to suppliers. In summary P223 proposes:

¹ The terms 'the Authority', 'Ofgem' and 'we' are used interchangeably in this document. Ofgem is the Office of the Gas and Electricity Markets Authority.

² This document is notice of the reasons for this decision as required by section 49A of the Electricity Act 1989.

³ Issues 21 and 29. Documents relating to these issues are available on Elexon's website: www.elexon.co.uk.

⁴ GSP Group Correction Factor is a factor that adjusts correctable energy so that the total energy is equal to the GSP group take. For example it corrects for errors in Estimated Annual Consumption.

- Placing an annual obligation on suppliers to randomly select a proportion of their own customers to participate in the profiling sample⁵;
- Placing a one-off obligation on suppliers to replace these customers' existing meters with meters capable of recording both NHH consumption data for normal settlement purposes and HH consumption data for profiling purposes;
- An ongoing obligation on suppliers to remotely collect the recorded HH data and provide this to the PrA on a monthly basis;
- An ongoing obligation on the PrA to identify a change of supplier (CoS) for any customer within the profiling sample, and to contact the new supplier for that customer;
- An ad-hoc obligation on the new supplier for a customer in the profiling sample after a CoS to either retain the customer in the sample or randomly select another customer to participate; and
- An annual obligation on suppliers to confirm any change of tenant (CoT) for any customer within the profiling sample, with the PrA to assess whether this customer remains suitable for the sample.

Alternative Modification

The Alternative Modification is identical to that set out under the Proposed Modification other than when there is a change of supplier:

- The customer is automatically lost from the PrA sample; and
- The shortfall will be taken into account in the following year's sample recruitment process and the number of required customers will again be pro-rated across all suppliers by market share.

BSC Panel⁶ recommendation

The Draft Modification Report was considered by the BSC Panel at its meeting on 11 September 2008. The Panel agreed that both the Proposed Modification and the Alternative Modification better facilitated applicable BSC objectives c) and d). They further considered that the Alternative Modification would better facilitate the achievement of the relevant code objectives when compared to the Proposed Modification. The Panel, by majority, therefore recommended that the Alternative Modification should be approved. Please see sections 5 and 6.3 of the Final Modification Report (FMR) for full details of their views.

The Authority's decision

The Authority has considered the issues raised by the modification proposal and the FMR dated 12 September 2008. The Authority has considered and taken into account the responses to Elexon's⁷ consultation which are attached to the FMR⁸. The Authority has concluded that:

⁵ Based on targets set by the PrA/BSCCo according to the sample size shortfall and the supplier's market share.

⁶ The BSC Panel is established and constituted pursuant to and in accordance with Section B of the BSC.

⁷ The role and powers, functions and responsibilities of Elexon are set out in Section C of the BSC.

⁸ BSC modification proposals, modification reports and representations can be viewed on the Elexon website at www.elexon.com

1. Implementation of the Alternative Modification will better facilitate the achievement of the relevant objectives of the BSC⁹; and
2. Directing the Alternative Modification be made and that it is consistent with the Authority's principal objective and statutory duties¹⁰.

Reasons for the Authority's decision

The Authority agrees with the Panel that both the Proposed Modification and the Alternative Modification better facilitate the relevant code objectives c) and d). Please note that unless we have directly stated otherwise we consider the proposal to be neutral against the aims of the relevant code objectives.

We note that the Panel in their FMR to the Authority changed their preference in support of the Alternative Modification. The Panel, in reaching that decision gave further consideration as to whether it was more efficient to retain or replace a customer on a CoS. In doing so respondents provided views as to the additional processes and costs required under the Proposed Modification when compared the Alternative Modification. This included identifying a CoS event, removing the customer from the automated customer transfer process, the appointment and de-appointment of agents and notifying the new supplier that the customer is part of the profiling sample. Most respondents were able to provide some information as to the costs of undertaking these additional activities. The majority of suppliers highlighted that this would involve system changes to current automated processes as well as additional manual requirements with estimated costs ranging from £0 to £500,000 per supplier. As a consequence, the Panel accepted the view that such costs of system changes and operational processes for tracking customers had the potential to outweigh the increased central costs for replacing meters.

We consider that because of the reduced layer of complexity for suppliers in the treatment of a CoS under the Alternative Modification, this would better facilitate the relevant code objectives when compared to the Proposed Modification. In particular, the Alternative Modification is considered to have less significant system development and associated costs. By contrast with the Alternative Modification, the Proposed Modification would require a process to identify a CoS and for the new supplier to either retain the customer as part of the sample or for the new supplier to recruit a new customer on an ad-hoc basis. Given this, we recognise that the Alternative Modification provides a more workable framework for the effective management of profiling samples.

Whilst we recognise that this additional cost information set out above may not necessarily be robust, and would have liked to have seen more cost analysis, we nevertheless agree with the Panel that the Alternative Modification is properly justified against the objectives that are cited in the FMR when compared to the Proposed Modification. We therefore agree with the view of the Panel that the Alternative Modification proposal should be made.

Objective c) – “promoting effective competition in the generation and supply of electricity, and (as far as consistent therewith) promoting such competition in the sale and purchase of electricity”

⁹ As set out in Standard Condition C3(3) of NGET's Transmission Licence, see: http://epr.ofgem.gov.uk/document_fetch.php?documentid=4151

¹⁰The Authority's statutory duties are wider than matters which the Panel must take into consideration and are detailed mainly in the Electricity Act 1989.

We consider that the Proposed and Alternative Modifications will better facilitate relevant objective c) by preventing any further deterioration of the sample size and improving the accuracy of the load profile data through more robust and representative samples. Such improvements to the profiling accuracy should help to reduce supplier imbalance risk by decreasing Group Correction Factor volatility. We are of the view that this will help enable more accurate allocation of energy in settlement, allowing suppliers to better forecast their positions and make more informed operating decisions.

Objective d) - "promoting efficiency in the implementation and administration of the balancing and settlement arrangements"

This modification better facilitates the achievement of this objective as suppliers have a well developed relationship with customers. They are therefore better placed to recruit a representative sample and maintain data collection successfully rather than where the PrA is required to undertake this function.

We note that some respondents expressed concern that it is not necessarily proven that suppliers will be more successful than the PrA in recruiting customers into the profile samples. However, we consider that suppliers are better placed to target customers given the existing and on-going relationship with those customers.

We further note that the modification is expected to improve the accuracy of profiles used for settlement. More accurate profiles can be expected to contribute towards improvements in the efficiency of the settlement arrangements. This is likely to be a benefit for all industry participants.

Further Issues

We welcome the efforts of the Panel and Modification Group to identify the benefits of this modification. We recognise the concerns expressed by some parties at the difficulty in deriving this information. However, we note that the quantitative analysis provided in the FMR sets out that the financial benefits will outweigh the costs of both the Proposed and the Alternative Proposal. As set out above, we consider on balance that the Alternative Modification will provide benefits for the industry and customers.

We note that within the Panel and respondents' assessments, some expressed a view that the Proposed Modification, through the ability to retain customers on a CoS, mitigated the impact of churn in the selected sample on the amount and quality of the data collected in any given year. Therefore, it was suggested, the Proposed Modification would maximise the benefits of more accurate profiles. However, in this instance, and on balance when compared with the concerns raised by some parties on the proposed CoS process, we are satisfied that the contingency requirement¹¹ within the sample size under the Alternative Modification provides sufficient mitigation against the loss of customers from the sample profile that are not replaced until the following year.

We also note that the Panel's assessment suggested potential benefits to customers under both the Proposed and Alternative Modifications. For example, customers in the sample will have their supplier as the single point of contact. This should help simplify the recruitment process and allow issues such as meter exchange to be dealt with more effectively. Further, whilst this is not a requirement of the modification, suppliers may also choose to offer customers financial incentives to overcome any issues in being

¹¹ Current sample size set at 17% higher than required in order to mitigate some of the customer churn that may be experienced.

recruited into the sample. The scope to use a single meter, capable of both HH and NHH read requirements may also provide an added benefit for customers in terms of reducing disruption and resolving any physical space and positioning issues caused by secondary meters.

Decision notice

In accordance with Standard Condition C3 of NGET's Transmission Licence, the Authority hereby directs that the Alternative Modification Proposal BSC P223: "Profile Administration Service (PrA)" be made.



Ian Marlee

Director, Trading Arrangements

Signed on behalf of the Authority and authorised for that purpose.