

OFGEM consultation on the effects of settlement data adjustments on the distribution losses incentive mechanism

20th December 2011

CONSULTATION INPUT

Summary

We understand that this consultation aims to determine whether it is necessary to adjust the reported losses for the year 2009/10 and if so by which methodology this should be done. This is in response to concerns that an abnormal level of settlement adjustments impacting consumption for the year 2009/10 has increased the volume of reported losses upon which the DNOs are incentivised to improve network performance.

It has been established through various working groups and data analysis that there is a disparity between the volume of settlement adjustments that were being made at the point in time in which targets for DPCR4 were being set and the point in time in which settlement data is being used to assess reported losses. This disparity could potentially lead to undue reward/penalty being issued to the DNOs.

Having established that there may be a requirement to adjust the settlement data for the year 2009/10, two different methodologies for making that adjustment have been proposed. At the time that these were developed it was widely considered that a “top down” approach using an unaffected period of data to normalise the affected period was the only option available to the Industry. It was however highlighted that a “bottom up” approach, detailing adjustments on an MPAN by MPAN basis would be preferable if it were available.

During the period of consultation it has been established that it is possible to establish an MPAN by MPAN understanding of all adjustments made in order to determine a more accurate understanding of their effects. This “bottom up” approach is however a more time consuming process than using a “top down” approach. The delay that would be caused due to the time required to determine the requirements, gather the data and perform the analysis for a “bottom up” reconciliation unfortunately means we would recommend that this is not a viable option for the purpose of this consultation.

In view of this, the options for performing a “top down” adjustment that have been proposed by Northern Powergrid (formerly CE Electric UK) and ScottishPower Energy Networks/Engage are believed to be suitable methods for the purpose of this consultation where any adjustments are required. Which of these is more suitable and when these may be required must be established by the DNOs either collectively or individually to ensure the fairest outcome for all parties.

Impact on the Consumer

The objective of the incentives should always be to create an effective Network that provides efficient Distribution of energy, which will in turn result in benefits to the customer and the environment. The importance of correctly determining the appropriate level of incentive/penalty applied to each DNO is therefore critical.

The inaccurate settlement data under discussion causes an increase in the volume of energy being smeared through the Group Correction Factor. This leads to the increased cost of the energy that is recorded being paid by the Consumer.

Complete accuracy/understanding of settlement data would give Ofgem greater power to appropriately incentivise the DNOs to improve their Networks for the benefit of the consumer.

Revenue Assurance’s Capability

Over the last decade Revenue Assurance has continually developed tools to interrogate and reconcile energy settlement data. In the last few years we have developed systems specifically for the DNO market to recreate settlement data allowing us to identify undersettled & oversettled energy caused by errors in GVC corrections, standard adjustments, dummy meter exchanges and a variety of other anomalies. We can assist DNOs to make adjustments in data within settlement or provide accurate information to allow for any necessary changes made outside of settlement.

About Revenue Assurance

Revenue Assurance was founded in 1998 and has been providing energy imbalance identification and revenue maximisation services for the Gas and Electricity industry since this time. The proof of Revenue Assurance's capability in this sector is found in the volume of energy we have corrected on behalf of our clients, valued at in excess of £½ billion.

We have successfully operated our analytical and practical reconciliation services within both the Supplier and Distributor markets improving settlement accuracy in both the electricity and gas markets. Whilst primarily targeting the recovery of energy that would otherwise be lost to errors in the complex industry mechanisms, we also aim to utilise our in-house technical and analytical capabilities to aid clients in the reduction of error occurrence and improvement of processes.

Continual research fuels our understanding of the data and processes affecting balancing and settlement, this combined with investment in IT systems and staff that is not viable for a single Distributor or Supplier allows us to achieve better results, more efficiently than our clients. Utilising a variety of individually tailored projects and pricing models and an adaptable working methodology allows Revenue Assurance to make our services beneficial to the broadest possible range of clients.

Revenue Assurance was purchased in 2008 by Spice plc, recognised as a leading provider of utility support services. Spice grew organically and by acquisition to in excess of £300 million turnover per annum. This continued development potential was acknowledged in December 2010 when Spice was acquired by Cinven, a leading European investment firm, founded in 1977 with offices in London, Paris, Frankfurt, Milan and Hong Kong. The group's stability and resources are backed by Cinven's current investment fund totalling €6.5 billion with over 150 participants from 23 countries.

In September 2011, under new management, Spice changed its name to EnServe Group. Revenue Assurance now forms an integral part of EnServe's Billing Division applying focus to improving customer care, the development of additional propositions, expansion into new territories and diversifying sectors of operation. EnServe continues to work in partnership with a large number of commercial, public and utility organisations in the water, electricity and gas industries. Operating from more than 30 locations across the United Kingdom, EnServe provides bespoke and added value solutions to its clients and their customers.