SCOTTISHPOWER
The Energy People

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Dear Lesley,

Consultation on regulatory measures to address the effects of gross volume correction and other settlements data adjustments on the distribution losses incentive mechanism

I am writing in response to the above consultation, on the effects of gross volume correction (GVC) and other settlements data adjustments on the distribution losses incentive mechanism. This response is on behalf of ScottishPower Energy Retail Ltd (SPERL).

We continue to believe there could be larger benefits for both suppliers and distributors if the losses calculation were completely reviewed to ensure that any indirect impacts from settlement data are removed. This is in line with the recommendations of the DCMF working group. While we recognise this is a very complicated area, we would prefer an enduring solution to the inadvertent impact on losses caused by improvements to settlement data.

Further, we would like to highlight particular parts of the consultation for further note:

- Information available to Distribution Network Operators (DNOs): In recent months it seems to have been suggested that DNOs have no data available to them relating to GVCs. SPERL's view is that DNOs see all D0010s, D0149s, D0150s and D0019s (via the P222 report). Once they request the P222 report they will receive it every month unless they ask to stop receiving it. Furthermore DNOs have a formal means to obtain any data related to DUoS calculations / charges as this is set out in DCUSA. As suppliers (or more specifically, their data collectors) have no requirement to keep detailed records of individual GVCs under the BSC, they can provide little information.

- Other Data widely available: We would like to highlight to Ofgem another data source which can give some level of comfort on the impact of GVC etc. The settlement adjustments carried out in 2009-10 could be seen as having an impact on Group Correction Factor (GCF). GSP GCF (GGCFs) are used to ensure that the total energy allocated to Suppliers in each Settlement Period in each GSP Group matches the energy entering the GSP Groups from the transmission system, adjoining GSP Groups and through embedded generation. As such, if a large number of downward adjustments were taking place, an increased variation in GCF between settlement runs would be visible. While there are some variations just now, they are well within accepted limits. Elexon monitor all GCF movements across the UK and would be best

placed to provide additional backing data for this analysis. Elexon also publish GCF data within the Trading Operations Report.

- Settlements Data: We offer the following observations on settlements data as background to the views expressed in this response.

    - GVC can be used to correct any settlement error and the correction can therefore be either a decrease or increase on the original. Further, the issue that EACs are not (by their very nature) as accurate as AAs has been recognised since market start up. As such, decreasing volumes can be a normal part of the settlements process. Also, negative EACs can no longer be submitted into settlements following the implementation of CP1311.

    - While there may be some residual negative EACs which have not been corrected via an AA they are monitored by Elexon. Negative AAs are still valid and can be the outcome of a GVC. While large negative EACs can no longer occur, large positive EACs can still occur, which would impact losses if they are replaced by a much smaller AA.

- Elexon Changes: A number of proposed changes to the BSC and its procedures related to GVC are currently going through the change process and we would welcome a consolidated determination tying in with this consultation to give a formal steer on this matter. We accept the audit records of GVC could be improved and will continue to work with Elexon and other industry parties to draw up an appropriate solution. We would like to point out that the BSC Mod P274 was not the DCMF Group's recommendation; this was raised by one of the Group's attendees. The Group recommended Ofgem develop a new losses calculation which would remove the impact of settlement corrections.

- The year 2009-10: As 2009-10 was in the middle of the recession it seems reasonable to assume that losses or reductions in consumption not predicted by the EAC would have increased. For example, theft could have increased and many customers (including large businesses) would not have been operating in line with historic levels – both of which may have resulted in AAs that were much lower than EACs. We do not have detailed data to confirm this, but could perform a high level check if required.

- Potential Impact of Smart Metering: Roll out of smart metering is likely to lead to an increase in error identification. If suppliers choose to use this information to improve the quality of settlement data this will lead to an increase in settlement adjustments, carried out in line with the BSC. This could have a potential knock-on impact on the DPCR5 losses calculations.

Our response to each of the consultation questions is given in the Annex to this letter. If you wish to discuss any of the points raised in this letter further, please feel free to contact me, using the details above.

Yours sincerely,

Lorna Gibb
Commercial Regulation / DCUSA Contract Manager

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ANNEX

CHAPTER: Two

Question 1: *Do you think we have identified the main data/billing adjustment techniques used by electricity suppliers and their impacts?*

Yes, these are the main techniques that can lead to volume adjustments within Settlements. There are other techniques employed but it is unlikely these would have as significant an impact as the techniques already identified.

Question 2: *Are there any other factors you think we should take into consideration in assessing the impact of settlement data volatility?*

DNO views and papers on the potential GVC have implied that GVC is a mechanism to reduce the settlement volumes around the available reconciliation run, but we would note that it can also be used to increase the volumes if this improves settlements accuracy.

We would suggest that Ofgem considers the impact of energy theft in assessing the impact of settlement data volatility. There are several Revenue Protection working groups currently active across both fuels, which could feed into the Losses Incentive mechanism review. These groups have completed substantial analysis on the impact of energy theft on Settlement data and as such this analysis should be considered as having an impact on data volatility.

Also, rather than assuming that all volume adjustments are a result of Supplier interaction, the group needs to consider the impact of changes in customer consumption, eg as a result of price increases, energy efficiency measures or the roll out of smart meters.

Finally, point 2.28 refers to the DCMF Working Group and its output, but does not mention that the Group's main recommendation was for the Losses Incentive mechanism to be changed. The root cause of the current issues is not the Supplier adjustments but the way in which the Losses Incentive mechanism is calculated. The proposals and changes that are being considered attempt to account for the flaws in the Losses Incentive mechanism rather than make it fit for purpose.

CHAPTER: Three

Question 1: *Do you agree with the general principles and constraints we have identified with respect to the correction of data used for the losses incentive scheme?*

We agree with the general principles used to assess the data within the losses incentive scheme but believe a more prudent approach would be to review the incentive mechanism as it stands rather than change actual consumption patterns to fit the expectations of the Losses Incentive targets.

Question 2: *Do you think we have identified the only two practical methodologies for normalising losses incentive data for 2009-10? If not, what other approaches do you think we should consider?*

We have no other solution to submit at this stage.

Question 3: *Do you agree that Options 1 and 2 are distinct approaches such that a hybrid incorporating the best points of each is unachievable?*

We agree that Options 1 and 2 are sufficiently distinct approaches that a hybrid approach is unlikely to be achievable.

Both methodologies consider only the negative effect that Settlement adjustments have had on DNO losses. If a hybrid solution is considered then it must consider the full impact of Settlement adjustments, and not just those adjustments that have had an adverse impact on DNOs.

CHAPTER: Four

Question 1: *Have we identified the important strengths and weaknesses of each option? If not, what additional points should be considered?*

Yes, we believe the key strengths and weaknesses of the options are identified, in particular the incorrect emphasis placed on negative EACs by the CE methodology, which we think is a major weakness of that methodology.

Question 2: *Do you think that the impact of particular factors on SF data can be clearly identified? Can a recessionary impact be separated from other factors such as extreme weather? How important is it for the purposes of the adjustments methodology to also take account of other variables affecting SF data such as extreme weather conditions?*

The methodology should take account of all factors that can influence the losses volumes. If seasonal weather and the recessionary impact play a part in the volume movements then these should be identified as a contributor and highlighted within the re-calculations that are taken forward.

Question 3: *Do you consider that both methodologies can deal equally well with all types of settlements data correction?*

Option 1 takes no settlement data corrections into account for RF and DF. Any valid adjustments or consumption that has been traded in these periods is discarded. This complete disregard for the volumes that have passed through Settlement in these periods ensures there is no relation to Distributor data and Supplier data for these periods. The methodology looks only to report as close to the Losses targets as possible, without considering how accurate or representative of actual consumption it may be. Also, the use of snapshot EAC data in the P222 reports significantly reduces the accuracy of the baseline position given Suppliers may have changed the EAC since the report was produced.

Question 4: *Should Option 2 allow DNOs to select different „normal" periods or is there a case for setting a standard period? What would the benefits or drawbacks be of selecting a standard „normal period" across all DNOs? Would the selection of different „normal" periods substantially affect the outcome?*

Yes, DNOs will experience volume changes at different times and to different levels so they should have the ability to change the normal period if this methodology is applied.

Question 5: *Do you support our preferred approach to have a single methodology that would be used across all DNOs that have adequate evidence of abnormally high settlement data corrections?*

Yes, to ensure consistency any methodology that is taken forward should be the same for all DNOs. This will also ensure there is consistency with the use of the 09/10 data for future target setting.

Question 6: *Do you consider that Option 1 should be that single methodology? If not please give reasons for your response.*

Our preference would be to carry out a full review of the Losses Incentive mechanism as this is the root cause of the problem.

We do not agree that Option 1 should be considered as the single methodology that is taken forward. This methodology seeks only to re-calculate volume patterns one way and as a result does not take into account all Settlement adjustments that may have been processed within a period.

If one option is to be taken forward, we believe Option 2 should be explored in more detail and considered for progression.

Question 7: *Are suppliers still undertaking significant levels of settlement data adjustments? What has been the impact of the changes to the BSC to limit the use of GVC, and what will be the impact of P274? Are ongoing settlement data adjustments likely to be on the same scale as those observed for 2009-10?*

Settlement data adjustments are a necessary element of the work carried out by Suppliers and Agents under the BSC and as such will always be carried out. As the Smart metering world develops there will be an even greater need for these adjustments to be in place as we embed new technology and processes. While we may not see the same level of movement that we experienced in the 2009/10 losses period there will still be significant work carried out by Suppliers and Agents in line with the BSC regulations.

The step to limit the use of GVC around the RF period has tightened up Elexon's control of these adjustments and ensured a clear distinction is in place for when GVC can be used as opposed to raising a Trading Dispute. If P274 is implemented it will drastically reduce a Supplier's ability to accurately manage its portfolio volumes and will significantly increase the number of Trading Disputes raised by Suppliers. At the moment Elexon manage Trading Disputes on monthly ad hoc basis, but if P274 is implemented Elexon will need to increase resources, controls and reporting to cope with the additional queries. It would be helpful to obtain Elexon's view on the impact this will have on them, and this should be requested from them as part of the group's findings.

During the transition and start up phase smart metering will present many new Settlement issues as well as inflating existing ones, so there is potential for data adjustment requirements to meet the same level that we seen in 2009/10.

CHAPTER: Five

Question 1*: Do you agree that in calculating the LRRM, the selected adjustment methodology should be applied to the 2009-10 losses reported under both the DPCR4 and DPCR5 methodologies?*

We feel this question is only relevant to Distributors. However, if you would like to discuss this with a Supplier, please do not hesitate to contact SPERL on the details above.

Question 2*: Do you believe that either Option 1 or Option 2 could be applied to the 2009-10 losses re-reported under the DPCR5 common reporting methodology?*

Ditto.

Question 3*: Do you agree that in setting the DPCR5 ALP we should not include any settlements data adjustment?*

Any target setting for DPCR5 should take the DPCR4 re-calculations into account. If Ofgem and Distributors have identified the 2009/10 data to be compromised in terms of the Losses Incentive mechanism, it should not be used for future target setting in its current form. Only following re-calculation and the application of one of the proposed methodologies should the 2009/10 data be used in DPCR5.

Question 4*: Do you believe that the type of adjustment (GVC, DMX or other) impacts how the targets should be calculated? If so, how should this be done?*

This could only be done through changes to the Losses Incentive mechanism where specific adjustment types are taken into account. If this is taken forward then the only viable option is for Ofgem to open the Losses Incentive mechanism up for consultation and a new mechanism to be put forward that takes these factors into account separately.