Consultation Response

SENT BY EMAIL TO: Lesley.Ferrando@ofgem.gov.uk

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Lesley Ferrando
Ofgem
9 Millbank
London
SW1P 3GE

Dear Lesley,

ELEXON's response to Ofgem's "Consultation on regulatory measures to address the effects of gross volume correction and other settlements data adjustments on the distribution losses incentive mechanism"

We welcome the opportunity to respond to the above consultation.

Please find attached our responses to the individual questions.

It is not appropriate for ELEXON to express any preferences in relation to the Distribution Losses Incentive Mechanism as Settlement will not be impacted by your decision. As such, we have confined our responses to observations in relation to the use of Settlement data, which we hope will be of use in making your determination.

If you or your colleagues need anything further from ELEXON, please contact me on 020 7380 4313 or by email: jon.spence@elexon.co.uk.

Yours sincerely

J Spence

Jon Spence

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

Chapter Two

Question 1

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

Yes. In a period of recession, you would expect the volume of Non Half Hourly metered energy to fall over successive reconciliation runs, as Estimated Annual Consumption (EAC) values, which are based on historical consumption, are replaced by Annualised Advance (AA) values, which are based on recent consumption. However, in 2009-10 the rate at which energy values fell across the reconciliation runs exceeded any recessionary effects, in so far as they can be determined by looking at the drop in GSP Group Takes relative to earlier years. The body of anecdotal evidence is sufficient to suggest that this was the result of corrective actions taken by Suppliers (and to some extent also DNOs), whether as a result of changes to the BSC rules relating to GVC, additional impetus in seeking to achieve BSC performance standards or greater vigour in purchases versus sales reconciliations. These corrective actions are likely to have included GVC, 'dummy meter exchanges' and other actions, such as retrospectively correcting meter multiplier errors.

Question 2

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

No. Paragraph 2.11 'Other systematic settlements data rectification' is sufficiently open to allow for any kind of settlement data correction. Whilst identifying these factors would be critical to any 'bottom up' adjustment methodology, the two 'top down' methodologies under consideration do not appear to be in any way sensitive to the types of corrective activity being undertaken.

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?
Yes. Whilst some Suppliers maintain records of corrective activity, it would be difficult to obtain a complete set of records to support a 'bottom up' calculation. Even where records existed, it would be a complicated process to separate out the extent to which adjustments made in 2009-10 related to Settlement Days during 2009-10, as opposed to earlier regulatory years.
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?**
Yes. Given the impracticalities of a 'bottom up' approach, a 'top down' approach of normalising against a stable period seems the better option. The two methodologies offer variants on how this should be achieved. There may be other variants, but the DCMF Working Group was unable to identify further options.
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?**
The two options are largely distinct. The two options for selecting the 'stable period' – fixed or variable – could probably be applied to either methodology.
Chapter Four
Question 1 **Have we identified the important strengths and weaknesses of each option? If not, what additional points should be considered?**
Yes, though we would offer the following observations in relation to negative EACs. Where GVC creates negative EACs, this will tend to be at a date close to the latest RF Run (at approximately 14 months) or, prior to the BSC rule change, close to the latest DF Run (at approximately 28 months). You could argue, therefore, that in disregarding the RF and DF data, the 'CE methodology' largely avoids double-counting the effect of negative EACs. However, this is to ignore the impact that negative EACs will also have had on earlier run types, including SF, until such time as they were replaced by AAs. It was noted at the losses workshop on 2 December that P222s are only available on request and therefore do not represent a comprehensive record of negative EACs. We would suggest that even when P222 data is available, it doesn't provide a complete picture of the extent to which any negative EACs had an impact on Settlement volumes. Using a comparison of negative EAC values between one quarterly 'snapshot' of EAC

data (using the P222 data) and the next, provides an indication of the overall level of negative EACs and the extent to which they have been replaced by AAs. However, no account is taken of the Settlement Day and Run Type at which the negative EAC began to impact Settlement data volumes or of the Settlement Day and Run Type at which the negative EAC ceased to impact Settlement data volumes.

In relation to the fourth bullet in paragraph 4.5, the P222 data will include all negative EACs, not just those that are reported as part of ELEXON's Erroneously Large EAC/AA monitoring process. It is worth noting in respect of this monitoring, that there are more erroneously large positive EACs in our data than negatives.

In relation to the first bullet in paragraph 4.5, about eight per cent of the metering systems settled on AAs at RF during 2009-10, had been read (or processed) since the R3 Run.

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?

Negative EACs, extreme weather and the recession will all affect SF, but also the way that data changes between SF and RF (or DF) runs. There are a set of complex inter-relationships between these factors, which would make separating out the influences of individual factors virtually impossible to achieve with any degree of accuracy. For example, an effect of the recession is that SF volumes will be overstated, whereas an effect of GVC in earlier periods can be negative EACs which will lead to SF volumes being understated.

The regression analysis process used to derive profiles has been amended to pool sample data over a number of years. This will reduce the previous tendency of the profiles to over-estimate the effects of temperature at either extreme. Profiling anomalies at extreme temperatures will have a short-term effect on run type differences to the extent that AAs subject to the "weather effect" will replace EACs that were not subject to the same effect. But the nature of Settlement calculations ensures that the correct volume of energy over a meter advance period is settled (irrespective of the AA value), so extreme weather will have little impact by the RF Run.

Question 3

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

Neither method attempts to measure the effects of particular types of settlement data

correction or to differentiate on that basis.
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?**
Whilst different Suppliers will have been subject to similar drivers in relation to the peak in corrective activity during 2009-10, it seems reasonable to suppose that not all Suppliers will have acted "as one" and that peaks in corrective activity will have occurred to different extents and in different timescales for different Suppliers (and hence in different GSP Groups). The selection of different normal periods would need to be supported by evidence. One could argue that it should be reasonably straightforward to identify and justify a "normal" period. If a "normal" period cannot be readily identified, this would call into question the assertion that a period of "abnormal" activity had occurred.
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.
Question 6 **Do you consider that Option 1 should be that single methodology? If not please give reasons for your response.**
We have no preference, but have reservations about the treatment of negative EACs in Option 1, as described in our response to (Chapter Four) Question 1.
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 Consultation on regulatory measures to address the effects of gross volume correction and other settlements data adjustments on the distribution losses incentive mechanism**
The decrease in energy volumes between run types was at its most extreme in 2009-10 and the trend continues to reverse. To the extent that the changes between run types are indicative of corrective activity, it's fair to say that the levels of change after the GVC rule changes are comparable to those prior to the peak in corrective activity which

preceded the rule changes. Some Suppliers have indicated that the roll-out of smart metering could result in an increase in corrective activity. This could result from gaining access to premises where the 'dumb' meter had not been read for a long period.
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?**
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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? 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?**
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Question 3 **Do you agree that in setting the DPCR5 ALP we should not include any settlements data adjustment?**
The data available to ELEXON suggests that 2009-10 was anomalous, so wouldn't provide a reasonable basis for target setting.
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?**
There is a lack of information about the proportions in which GVC, dummy meter exchanges, other corrective methods and other factors (such as recessionary effects) contributed toward the observed trends in the 2009-10 data. In the absence of such information, differentiated target setting on the basis of type of adjustment doesn't appear to be achievable.
For more information, please contact **Jon Spence, Market Advisor** **T: 020 7380 4313** or email jon.spence@elexon.co.uk