



# Revised SVG Recommendations on GSP Group Correction Scaling Weights

<b>Meeting Name</b>	BSC Panel
<b>Meeting Date</b>	12 December 2013
<b>Purpose of paper</b>	For Decision
<b>Summary</b>	<p>At the last Panel Meeting, the Panel deferred its decision on the Supplier Volume Allocation Group's (SVG's) recommended revisions to Grid Supply Point (GSP) Group Correction Scaling Weights. The Panel asked ELEXON to confirm that applying the Scaling Weights to Half Hourly (HH) Export would have no unintended consequences. We have since identified that there is a potential issue with the correction of both Non Half Hourly (NHH) and HH Export volumes. We have invited the SVG to make a revised recommendation to the Panel.</p> <p>The SVG recommends unanimously that ELEXON raises a Standing Issue to consider changing the BSC, and that in the interim GSP Group Correction should not be applied to any Export Metered Volumes or losses (whether NHH or HH). The SVG recommends by majority (nine for and one against) that the Panel still approves the revised Scaling Weights, but that each of these Scaling Weights should be applied only to Import and not to Export.</p>

## 1. Background

- 1.1 GSP Group Correction accounts for error in Suppliers' Metered Volumes<sup>1</sup> and is applied to those types of consumption deemed to be the source of this error. Originally, GSP Group Correction was applied only to NHH consumption. Following industry consultation the SVG recommended, and the BSC Panel agreed, that it should also be applied to HH losses from 1 April 2013. The SVG and the Panel also agreed that correction should be applied to HH Metered Volumes from 2014 subject to a review of GSP Group Correction Scaling Weights in 2013.
- 1.2 In July 2013 we presented our proposed changes to the Scaling Weights to the SVG (paper [150/04](#)), who agreed to issue these for [industry consultation](#). The consultation included proposed revised Scaling Weights for NHH losses, NHH Metered Volumes and HH losses, based on our latest quantification of error in these areas. The consultation also proposed to apply Scaling Weights to HH Metered Volumes for the first time (again based on our quantification of the level of error), and one of the consultation questions was whether the Scaling Weights should be applied to both HH Import and Export Metered Volumes.

<sup>1</sup> Supplier BM Unit Metered Volumes include both metered and unmetered consumption.



- 1.3 We presented the consultation responses to the SVG at its meeting on 5 November 2013 (paper [153/05](#)). At this meeting the SVG recommended unanimously that the Panel should approve the proposed Scaling Weights for implementation from 1 April 2014, as set out in the consultation. The SVG agreed that error should be allocated to its origins in order to reduce any cross-subsidies between different classes of Supplier (and hence customer). The SVG agreed that the proposed revisions to the Scaling Weights would give a more reflective allocation of error than the existing values.
- 1.4 We presented the SVG's recommendations to the Panel at its meeting on 14 November 2013 (paper [218/09](#)). The Panel sought clarification on two points of detail relating to the impact of the revised Scaling Weights. The first was regarding the treatment of Export in the GSP Group Correction mechanism and the second was the materiality of the change.<sup>2</sup> The Panel deferred its decisions pending our further clarification in these areas.
- 1.5 Following the November Panel meeting, we have undertaken further analysis and believe that the way in which the GSP Group Correction Factor calculation treats Export warrants consideration of a change to the BSC. We invited the SVG to consider this issue, our findings and the different options for the way forward at its meeting on 3 December 2013 (paper [SVG154/05](#)).

## 2. **SVG's Revised Recommendations**

### **Consideration of issue**

- 2.1 At its December meeting, the SVG noted that the GSP Group Correction calculation takes account of whether the Consumption Component Class<sup>3</sup> (CCC) to be corrected is Import or Export. We advised the SVG that the effect of this correction mechanism is to correct Import and Export CCCs in opposing directions – resulting in 'competing corrections' of Import and Export.
- 2.2 The SVG noted that this issue applies to the correction for both Metered Volumes and losses. It already occurs in the NHH market, although the NHH Export volumes are small compared to NHH Import and the impact is therefore minimal. It also already occurs in the HH market for HH losses, but the effect is minimal. Because of the higher volume of HH Export, applying the proposed Scaling Weight to HH Metered Volumes would increase this 'competing correction' effect such that there is the potential for perverse outcomes.
- 2.3 We advised the SVG that rectifying the 'competing correction' effect in the BSC would require a Modification Proposal and changes to BSC Systems.
- 2.4 Attachment A contains our paper to the SVG, which includes a full description of the issue and the options we presented to it on the way forward.

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<sup>2</sup> We have discussed the materiality of applying GSP Group Correction to HH Metered Volumes in more detail with the Panel Member concerned. We provided materiality analysis to the SVG in paper [153/05](#), which also formed an attachment to the November Panel paper.

<sup>3</sup> A subdivision of a Supplier Deemed Take by consumption characteristics (e.g. HH/NHH, Import/Export, Metered/Unmetered).



### Applying GSP Group Correction to Export

- 2.5 The SVG agreed unanimously with our view that, while the short-term materiality of this 'competing correction' was likely to be low, it would be inappropriate to apply GSP Group Correction to Export having identified the issue. It agreed unanimously with our recommendation that we should raise a Standing Issue to consider a change to the BSC's correction of Export, and that in the interim GSP Group Correction should not be applied to any Export Metered Volumes or losses (whether NHH or HH) from 1 April 2014. The SVG therefore unanimously recommends this approach to the Panel.

### Applying GSP Group Correction to Import

- 2.6 We then invited the SVG to consider what Scaling Weights should be applied to Import while the Standing Issue is progressed. We noted that, since the industry consultation and the previous SVG and Panel discussions, a Party had provided us with its own analysis. From this analysis the Party concluded that, while an appropriate proportion of error should be allocated to the HH market, the proposed Scaling Weight of 0.10 for HH Metered Volumes was too high. This analysis was provided after the December SVG paper was submitted and shortly before the December SVG meeting; it is therefore not included in Attachment A. Attachment B contains the Party's summary slides which we provided to the SVG at its request.<sup>4</sup>
- 2.7 We advised the SVG that we had reservations about the accuracy of some of the parameters and assumptions used in the Party's analysis model, but that we had not had time to review the analysis in detail. We noted that we would continue to discuss the analysis with the Party before the December Panel meeting and would advise the Panel verbally of the results of that discussion.
- 2.8 We noted that the Party had not formed a view on what an appropriate revised Scaling Weight value would be, instead requesting that further industry analysis be undertaken. We advised the SVG that, in order to implement any revised Scaling Weights from 1 April 2014, we would need to raise the necessary change to Market Domain Data (MDD) in February and that this would require a Panel decision in January at the latest.
- 2.9 We therefore invited the SVG to make a recommendation based on the information available to it at its meeting, noting that it had the option to recommend the retention of the existing Scaling Weight values.
- 2.10 By a majority of nine to one, the SVG agreed with our recommendation that the revised Scaling Weights originally set out in the November Panel paper should be applied to Import from 1 April 2014 as follows:
- 1.0 for NHH Import Metered Volumes
  - 2.25 for NHH Import line losses
  - 0.94 for HH Import line losses

<sup>4</sup> While a minority of respondents to the original consultation had questioned the value and requested further analysis, they did not themselves provide any analysis or suggest a revised value.



- 0.10 for HH Import Metered Volumes
- 2.11 By majority, the SVG therefore recommends this approach to the Panel. Under this approach, the proposed Scaling Weight values would be unchanged but only applied to Import CCCs. Export CCCs would have a '0' Scaling Weight value; in effect they would be removed from the scaling calculation.
- 2.12 The majority of SVG Members in favour of this approach agreed with our view that, while it would still retain an element of cross-subsidy between Import and Export, it would still deliver a more reflective allocation of error to its origins than retaining the existing Scaling Weight values. This is because the revised values are based on the latest quantification of error. These Members noted that there was unlikely to be a 'perfect' value to apply to HH Import Metered Volumes, since the analysis was inevitably based on the best estimation of error. They believed that applying the proposed Scaling Weight value to HH Import Metered Volumes from 1 April 2014 (and, if need be, amending the value in future based on revised analysis) would be a more reflective allocation of error than retaining the existing value which would apply no correction to HH Import Metered Volumes at all.
- 2.13 One SVG Member disagreed with this approach. This Member believed that, in light of the questions raised by the Party, there should be further industry analysis of the appropriate Scaling Weight for HH Import Metered Volumes. They argued that implementation should be delayed if necessary, and the current Scaling Weights retained for Import, pending this further analysis. They noted that such MDD parameters are traditionally updated in April, but considered that the Scaling Weight changes could be delayed and implemented in a different month.

### **Future reviews of Scaling Weights**

- 2.14 We noted that one of the SVG's original recommendations to the Panel was that the Scaling Weights should be reviewed again after a year and at least once every two years thereafter. The SVG agreed unanimously that this recommendation remained unchanged. Members noted that these subsequent reviews could incorporate anything arising from the Standing Issue/Modification, as well as other future factors affecting the relative NHH/HH apportionment of error such as the Smart metering roll out.

## **3. Recommendations**

- 3.1 On behalf of the SVG, we invite you to:
- a) **NOTE** the SVG's discussion of the issue of 'competing correction' in applying GSP Group Correction to both Import and Export Metered Volumes;
  - b) **AGREE** with the SVG's unanimous recommendation that ELEXON raises a Standing Issue to consider a change to the BSC's correction of Export error;
  - c) **AGREE** with the SVG's unanimous recommendation that, from 1 April 2014, GSP Group Correction should not be applied to any Export Metered Volumes or Export losses (whether NHH or HH);



- d) **AGREE** with the SVG's majority recommendation (by nine to one) that the GSP Group Correction Scaling Weights for Import should be set to the following values:
  - 1.0 for NHH Import Metered Volumes;
  - 2.25 for NHH Import line losses;
  - 0.94 for HH Import line losses; and
  - 0.10 for HH Import Metered Volumes,
- e) **AGREE** with the SVG's majority recommendation (by nine to one) that the Scaling Weight changes for Import should be effective from 1 April 2014; and
- f) **AGREE** with the SVG's unanimous recommendation that all the Scaling Weights should be reviewed one year after implementation and at least once every two years thereafter.

**List of Appendices:**

None

**List of Attachments:**

Attachment A – SVG paper 154/05

Attachment B – Party's analysis summary slides for SVG

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