

2014 REVIEW OF SCALING WEIGHTS FOR GSP GROUP CORRECTION: COLLATED RESPONSES

1. Given the Issue Group's review are you happy with the change in approach to calculating Scaling Weights?	
Colin Prestwich – SmartestEnergy Limited	Yes.
Kiran Samra - RWE Npower	Yes, Npower are happy with the approach to calculating scaling weights, we agree with the methodology approach going forward, as we believe it is fair and cost reflective. Npower believe in principle the new weightings applied will result in a fairer distribution of unallocated volume across segments.
Rachael Burn – E.On	Yes
Tim Roberts – Scottish Power	<p>ScottishPower are supportive of any attempts to increase the accuracy of Settlement and recognise that this is the intention of the change in approach. We do, however, note that this approach will still result in error within the HH Market being smeared on the NHH Market through the GCF mechanism and that this effectively suggests there is no error within the HH Market. We believe this is counterintuitive and, therefore, that the reduction in Scaling Weight is also.</p> <p>While the industry needs to be mindful of costs vs settlement accuracy and this was mentioned in Issue 55 report, the issue might benefit from a formal cost-benefit analysis on using small value Scaling Factors.</p> <p>We appreciate that this approach is more statistically robust than previous methods however we would suggest that assumptions used within the model are reviewed each year within the Standing Issue Group to ensure that these assumptions remain valid. In particular, we would support a thorough review of the Scaling Weights if P272 is approved with consideration also given to Ofgem's Smarter Markets statement on moving to HH settlement across the entire market. With regard to the evaluation of HH Error, we note that the TAA estimates of HH Error derived from the BSC Audit Report have, in the past, been considered too high due to targeted inspections. Targeted Inspections only make up a portion of TAA Visits and there may be an opportunity for the data obtained solely from the Main Sample Inspections (which are not targeted) to</p>

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	be used in calculating a more representative figure of HH error in the market.
Martin Mate - EDF	Yes, the revised approach based on theoretical principles and observed errors will deliver more accuracy in allocation of volumes, and support more accurate forecasting.
Kristian Pilling - SSE	Yes, we are supportive of the change of approach.
Kevin Woollard – British Gas	Yes we are happy with the change in approach

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2. Would you be happy to agree to the new value of Scaling Weights to go live on 20 August 2014?	
Colin Prestwich – SmartestEnergy Limited	Yes
Kiran Samra - RWE Npower	Yes, Npower see no immediate material detrimental impact.
Rachael Burn – E.On	Yes. Although we believe that as a principle it is unfair that all error is pick up in the NHH market. It is recognised that some error must sit in HH so settling the Scaling Weights to zero seems counter intuitive. However, we do appreciate the immateriality of the current figure so agree that it is sensible to set to zero for the time being. We would like to see a regular review of the Scaling Weights to ensure that as soon as the figure becomes material they are changed to ensure a fair distribution of error is implemented.
Tim Roberts – Scottish Power	ScottishPower note the proposed changes.
Martin Mate - EDF	Yes, although retrospective change from 1 April 2014 would provide accuracy from that date and would be preferable.
Kristian Pilling - SSE	Yes.
Kevin Woollard – British Gas	Yes we are happy with the new values going live from 20 August 2014

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3. Given that this change is mid-year and considered material the Issue Group has recommended a retrospective change to 1 April 2014 for the HH Metered Scaling Weight value. Do you object to retrospectively changing this Scaling Weights to the beginning of April? Please give reasons.	
Colin Prestwich – SmartestEnergy Limited	We have no objections, indeed we would prefer retroactivity, although we are not entirely sure this is justified given that it is a change of methodology and not a manifest error; the error was in the choice of methodology in the first place. However, if retroactivity is justified in this case then it should go back as far as April 2013 as that is when inappropriate scaling weights were first used.
Kiran Samra - RWE Npower	No, Npower do not support changing the Scaling Weights to the beginning of April. Npower do not agree with retrospectively altering volume allocation methodology. We think this would be a dangerous precedent to set as all processes (volume forecasts, business plan/ financial reforecasts, Revenue Leakage targets etc. etc.) would have been set up to manage the current volume allocation process. To alter this retrospectively would add risk the performance of these processes which would have been unforeseen at the time. The practice of changing settlement methodology retrospectively in general adds further forward looking risks/ uncertainty into the business which could potentially result in increased costs.
Rachael Burn – E.On	We would not object to a retrospective change.
Tim Roberts – Scottish Power	While ScottishPower recognise that this approach and Scaling Weights are considered to be the most accurate values currently available, we question whether applying retrospective changes is appropriate and whether there has been any precedent in other areas of the BSC?
Martin Mate - EDF	No objection. Retrospective change from 1 April 2014 would provide accuracy from that date and would be preferable.
Kristian Pilling - SSE	We do not object to the retrospective application of Scaling Weights.

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Kevin Woollard – British Gas	Yes we object to changing these values retrospectively. We strongly disagree with any form of retrospection with regard to industry allocation of costs. This sets a bad precedent and we do not support
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4. As an example if the Scaling Weight was retrospectively applied the way it would be done would be to overwrite the Scaling Weight in MDD for HH Metered from April 2014 (0.1) with the new proposed Scaling Weight (0). Do you agree with this approach, if not what impacts does it have on your organisation?	
Colin Prestwich – SmartestEnergy Limited	Overwriting MDD in that manner would not affect our systems
Kiran Samra - RWE Npower	Npower would not agree with retrospectively altering volume allocation methodology. We think this would be a dangerous precedent to set as all processes would have been set up to manage the current volume allocation process. To alter this retrospectively would add risk the performance of these processes which would have been unforeseen at the time. The practice of changing settlement methodology retrospectively in general adds further forward looking risks/ uncertainty into the business which could potentially result in increased costs.
Rachael Burn – E.On	As we understand it, the correction would be passed through and picked up in the same way as any other corrections, so we would not see any issues with this, although we would want to ensure the impending impact and timing was communicated internally in a timely manner.
Tim Roberts – Scottish Power	As stated in our response above we question whether this is appropriate and whether there has been any precedent in other areas of the BSC? As both a NHH and HH Supplier we would be impacted financially by increased costs applied to the NHH Market and reduced costs applied to the HH Market, the net impact of which would most likely be an overall cost to our organisation.
Martin Mate - EDF	Yes, Agree. Retrospective change from 1 April 2014 would provide accuracy from that date and is preferable. Impact would be improved accuracy in volumes allocated in settlement reconciliation runs to HH and NHH portfolios within individual suppliers. This in turn would also support more accurate forecasting in future because data for historic days would be more accurate.
Kristian Pilling - SSE	We agree with this approach. An initial primary concern was whether systems would allow

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	<p>retrospection, however we do understand is theoretically possible and should not cause a problem.</p> <p>In reference to the Proposed Weights, effective from 20 August 2014, we would like to know whether this will be implemented prior or post the Final Reconciliation Run for that day, i.e. will the change be implemented at those of the 19 August for implementation on 20 August, or will it be implemented at the close of the 20 August. Understanding this will minimise errors and enable us to manage the change on the relevant date more accurately.</p> <p>Additional comment: The 'Revised Weights (Effective 1 April 2014)', where the scaling weights for the 'NHH Export Losses' and 'NHH Export Consumption' are shown as 1.0 and 2.25 respectively but were actually 0.</p>
Kevin Woollard – British Gas	No we disagree with this approach this will impact on forecasts and calculations which have already taken place.