
Wholesale Retail Code Change Proposal – CPW012

Modification proposal	Wholesale Retail Code Change Proposal CPW012 - Flags on D1 Disaggregated Settlement Report - Proposal to add to flags into settlement reports to identify the method of volume estimation used in settlement calculations
Decision	Ofwat has decided to reject this change proposal
Publication date	20 November 2017
Implementation date	N/A

Background

The settlement reports that the Market Operator (MOSL) publishes and issues to Trading Parties are split into 3 main types:

- An aggregated report;
- Four disaggregated reports; and
- A system exceptions report.

The aggregated report contains the charges allocated per each Wholesaler-Retailer, grouped by the services that are provided to each supply point that are associated with them. The disaggregated reports and system exceptions report include further detail at a Supply Point level.

Disaggregated report part 1 (D1 settlement report) displays all the charges for each service provided to a Supply Point, apart from trade effluent services (which are displayed in disaggregated report part 2). The volumes that pass-through meters at a supply point, whether actual or estimated volumes, are listed in this report.

There are several situations in which the central market operating system (CMOS) estimates meter volumes. The various methods of estimation are outlined in 'CSD 0207: Charge Calculation, Allocation and Aggregation'. This Change Proposal seeks to add a field in the disaggregated report part 1, to identify which method was followed to estimate volumes passing through meters.

The issue

Under the current provisions of the Wholesale Retail Code, CMOS computes volume estimation for meter reads for three time periods. These are:

- 1) Meter Pre-Advance Period (where a meter only has one read) – in this period, the estimation is based on the meter’s characteristics;
- 2) Meter Advance Period (the period between two meter reads) – in this period, if a read has a Meter Read Method of ‘Estimated’, the volume between that read and the preceding read is labelled as estimated. The same is also the case for volume between the estimated read and the following read (when it is submitted); and
- 3) Meter Post-Advance Period (the period after the latest meter reading) – in this period, a capped estimate and an uncapped estimate are computed. The uncapped estimate is based on the meter’s read history, while the capped estimate is based on the meter’s characteristics. The lower of these two estimates is subsequently chosen by CMOS. As the capped estimate is usually significantly larger than the uncapped estimate, it is only ever chosen when more volume than anticipated is passing through a meter, or there are inaccurate meter readings in CMOS.

If a meter network exists at a supply point, the total volume that is estimated for the main meter may be derived through different estimation methods. This is due to volumes being estimated at the main meter and sub-meter separately, after which the overall volume is calculated by subtraction of their volumes and displayed as one figure in disaggregated report part 1.

The modification proposal¹

This Change Proposal seeks to add a new column to the D1 settlement report which would indicate which of the estimation methods has been used in volume calculation. Bristol Water, (‘the Proposer’), believes that not knowing which method has been used in estimating volumes leads to uncertainty in settlement calculations and reconciliation. As there are several ways CMOS computes its estimation, it is often difficult and time-consuming for Trading Parties to manually go through the process as outlined in CSD 0207 to reconcile settlement figures.

¹ The proposal and accompanying documentation is available on the MOSL website at <https://www.mosl.co.uk/market-codes/change#scroll-track-a-change>

The Proposer estimates that the monetary figure saved by the implementation of CPW012 will be £250,000² across all Wholesalers in the industry. This figure would be in addition to the financial savings made by Retailers, which is currently unknown but which the Proposer contends would be considerable.

Furthermore, the Proposer argues that identifying which estimation methodology has been followed would greatly assist in ensuring that there is correct data in CMOS for settlement purposes. This is due to CMOS using capping methods in estimation either when there is significantly more water passing through a meter than previously anticipated, or inaccurate meter data has been submitted to CMOS previously. Trading Parties would be able to utilise this information and correct inaccurate settlement affecting data.

Industry consultation

In total, eight Trading Parties responded to the industry consultation³, of which 6 were Wholesalers and 2 were Retailers.

Common themes across the responses were:

- Five parties believe that CPW012 provides additional useful information and assists in settlement reconciliation, which furthers the principles of the Wholesale Retail Code with respect to efficiency and transparency;
- Three parties disagreed with the proposed solution. Those who disagreed stated that, while the flags would assist in understanding the method of volume estimation used for calculation, they do not consider the impact of the change to be sufficient or proportionate to require changes in CMOS and Trading Party systems. Additionally, parties stated that, as the estimation methodology can be identified when code documents are properly understood, the change would bring limited benefit and this would be disproportionate to the cost of its implementation;
- Several parties disagreed that the change would have a beneficial impact on end customers, as CPW012 is a technical change which only provides more clarity on the settlement processes between Wholesalers and Retailers;
- General consensus that Trading Parties' systems and processes will be affected, with costs not fully known;

² This was calculated by the Proposer as the savings per annum for Bristol Water and then scaled for the entire market.

³ Details of the consultation can be found at <https://www.mosl.co.uk/market-codes/change/details/11/flags-on-d1-disaggregated-settlement-report>

- Some parties disagreed that this change would better deliver against the Principles and Objectives of the Wholesale Retail Code, with the main rationale being that while CPW012 delivered against some principles of the Code, such as Efficiency, Transparency and Seamless Markets, it failed against other principles, notably Proportionality and Cost-Effectiveness, with some parties contending that the benefits of the change were far outweighed by the potential impacts and costs of implementation; and
- There was general consensus with the proposed implementation date of March 2018 should Ofwat approve this modification.

Panel recommendation

The Panel considered the industry consultation responses for CPW012 at its meeting on 23 August 2017. It noted that while the change would improve the principles of the market codes in terms of transparency (as the industry would have a better understanding of which method was used for volume estimation), the change was disproportionate in terms of cost of implementation against perceived monetary benefits to Trading Parties. The Panel also stated that the simplicity and cost-effectiveness principle was also adversely affected by the proposed changes, due to no clear substantial benefits being outlined.

The Panel submitted its recommendation report to Ofwat on 25 August 2017. Combined with the low level of support from the industry, the Panel agreed to recommend this change to Ofwat for rejection. The Panel agreed the proposed implementation date of 3 March 2018, if Ofwat were to disagree with this recommendation and approve CPW012.

Our decision

We have carefully considered the issues raised by the modification proposal and the supporting documentation provided in the Panel's recommendation report, including the responses to the consultation. We have concluded that the implementation of CPW012 will not better facilitate the principles and objectives of the Wholesale Retail Code, detailed in Schedule 1 Part 1 Objectives, Principles and Definitions.

We set out below our views on which of the applicable Code Principles are not better facilitated by the modification proposal.

Proportionality

This Change Proposal has a high implementation cost into CMOS as well as potential additional costs for Trading Parties to update their systems. We agree with the Panel that the savings which Trading Parties might make from understanding the

method used for volume estimation and applying this knowledge to settlement reconciliation are not proportionate to the cost of implementation. Moreover, as Trading Parties can already identify the estimation methodology used without the proposed change to CMOS, the change would in any event bring limited additional benefit to the status quo.

Simplicity, cost effectiveness and security

We agree with the Panel that the proposed solution in CPW012 is not cost-effective as the total cost of implementation of the change is not balanced against the identified benefits.

Emma Kelso,
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