
Wholesale Retail Code Change Proposal – Ref CPW039

Modification proposal	Wholesale Retail Code Change Proposal - Deferral of Final Settlement Runs
Decision	The Authority has decided to approve this change proposal, subject to the prescribed modifications
Publication date	30 August 2018
Implementation date	31 August 2018

Background

The first final settlement runs (RF Runs) of the live market are due to take place in September 2018. The RF Runs are a complete calculation of all of the consumption data for every Supply Point (SPID) registered in the Central Market Operating System (CMOS). The process crystallises the consumption data, including data based on System Generated Reads (G Reads). It is assumed when the RF Runs occur that the underlying data is accurate. It is currently estimated that approximately 13% of SPIDs in the market are settling on G Reads (c168 thousand out of c1.38 million).

A G Read may be calculated for a specific meter as part of the RF Runs process where there have been no meter reads submitted for the relevant meter within the 16 months prior to the date of the RF Runs. A G Read takes account of data available at the SPID, inclusive of occupancy state, connection state and temporary disconnection. It can be generated based:

- solely on Yearly Value Estimate (YVE) – where the meter has had an initial read and the meter has a YVE other than ‘null’, currently 8.44% of all G Reads;
- solely on Industry Level Estimate (ILE) – where there has been one previous meter read and its YVE is null, currently 12.56% of all G Reads; or
- on meter reading history – where the meter has had one read followed by at least one other actual read. This is however, capped by YVE or ILE. Currently 79% of all G Reads are based on reading history.

If an actual read is submitted following the generation of a G Read, the difference between the G Read and the actual read is automatically reconciled by the settlement calculation process. A charge or a credit is then created meaning that no volume is lost or double charged in the RF Run Invoice Period.

The market codes allow for the correction of the underlying G Read data via three processes which are Corrective Settlement Runs, Post RF Settlement Runs or Dispute Settlement Runs. The Corrective and Post RF Settlement Runs are undertaken following the agreement of both the wholesaler and retailer. The Dispute Settlement Run can be used where there has been a dispute between the retailer and the wholesaler. Thresholds must be met for these processes to be initiated, and these are detailed within the Market Terms.

The issue

SPIDs which do not have an adequate meter read history when the RF Runs take place will settle on G Reads. As stated above, approximately 13% of meter reads, are settling on G Reads. Trading Parties have expressed concern that a number of G Reads are being generated based on poor quality Data Items which contribute to the estimation process. The Final Report provided by the Panel highlights that the following G Reads may potentially have 'unreasonable' values¹:

1. Some, probably a small proportion, of the reads based on ILE;
2. Those reads based on extremely low YVE's; and
3. Reads based on meter reading histories but which have been capped at low YVE's

Some Trading Parties are concerned that inaccurate consumption data will be crystallised following completion of the RF Runs. This is likely to lead to Trading Parties being required to amend inaccurate G Reads by requesting Unplanned Settlement Runs. This is because Primary Charges for subsequent periods are based on the crystallised G Reads if a Planned or Unplanned Settlement Run doesn't occur. This means that Non-Household Customers with volume estimates based on inaccurate G Reads will receive inaccurate bills going forward, unless action is taken to ensure that the data used by CMOS to generate a G Read is as accurate as possible or an actual meter read is entered.

Trading Parties have indicated that Unplanned Settlement Runs would be time consuming and would have a resultant cost. It has also been highlighted that there

¹ The Panel did not elaborate on what they considered was an 'unreasonable' value.

would be a resource impact for the Market Operator as it would be required to process the Unplanned Settlement Runs required to rectify the inaccurate data.

A number of Trading Parties have expressed concern that the Unplanned Settlement Run processes are not fit for purpose. It has been suggested that if this proposal is not approved, there are perverse incentives for retailers to delete G Reads to remove consumption volumes where these reads have been generated based upon inaccurate Data Items inherited from the respective wholesaler.

The modification proposal²

It is proposed that no RF Runs (and G Read generation) shall be performed by the Market Operator for the Invoice Period after, and including, April 2017. The proposal is that RF Runs should be deferred to provide additional time for Trading Parties to undertake data correction and submit meter reads.

It is proposed that RF Runs should be postponed for a period of up to 12 months, until September 2019. The Panel would be given the authority to instruct the Market Operator to recommence RF Runs at an earlier date if it considers that the data quality in CMOS will produce reasonable final settlement results. It will be supported by the Market Performance Committee in deciding whether RF Runs should be resumed, and consideration will be given to the progress made by Trading Parties against long unread meters and Data Items affecting the generation of G Reads (such as, YVE and ILE). It is proposed that the Panel must consult Trading Parties before RF Runs are recommenced. The Panel recommends that no more than 12 months shall pass before RF Runs are recommenced.

Once RF Runs resume, they will be processed in order of Invoice Periods chronologically over a timeframe set by the Panel. This timeframe will act as a “catch-up period” during which all Invoice Periods that should have had RF Runs will be calculated (including, where applicable, the generation of G Reads). It is anticipated that the catch-up period may fall across more than one month and the timing of each of the RF Runs during the catch-up period would be determined by the Panel.

Following the deferral period, the scheduling of RF Runs would continue to be handled as currently specified in the Wholesale Retail Code.

The Panel strongly believes that the deferral of RF Runs should be accompanied by the development of market wide correction plans and the monitoring of individual

² The proposal and accompanying documentation is available on the MOSL website at <https://www.mosl.co.uk/market-codes/change#scroll-track-a-change>

Trading Party progress. The Final Report provided by the Panel suggests that monitoring of Trading Party progress would in turn inform the Panel's decision to resume RF Runs.

Industry consultation and assessment

The Panel issued a Request for Information on 11 July 2018 and invited responses by 13 July 2018. There were 21 respondents to the industry consultation (13 wholesalers, six retailers and the Market Operator). The consultation sought industry views on draft proposal DCP002. Some amendments were made following consultation and when finalised, the proposal was formalised into CPW039. An overview of the key consultation responses has been provided below, with Appendix 1 of this document detailing the consultation questions and providing a more extensive summary of the responses received.

Out of the 21 respondents, 16 agreed (10 wholesalers and six retailers) and five disagreed (three wholesalers, one retailer and the Market Operator) with the solution proposed under DCP002.

Support for deferral

The common theme amongst respondents in support of deferring the RF Runs was that they consider it would allow time for Trading Parties to undertake data improvement projects. Although, a number of Trading Parties highlighted that they are already undertaking data improvement projects, those who were in support of deferral on the basis that this would allow time for data improvement project to be completed, suggested that deferral would enable more accurate bills to be issued to that proportion of Non-Household Customers who would be billed based on G Reads. For example, one wholesaler respondent expressed concern about long unread meters and considered that deferral would provide time for accurate data to be entered into CMOS which would ensure more accurate G Reads are generated.

Concerns regarding the proposal

One Trading Party strongly considers that the proposal will create uncertainty in the market and that deferral would undermine the spirit and intent of the Customer Protection Code of Practice relating to customers being back-billed. It also highlighted that data inaccuracies can be addressed by using the existing Unplanned Settlement Runs already provided for by the market codes.

The Market Operator suggested that deferring RF Runs will reduce the incentive on Trading Parties to resolve data accuracy issues in a timely manner. It also

highlighted that the market codes provide methods for correcting inaccurate G Reads which have been locked in following an RF Run. The Market Operator also felt that deferral of RF Runs would create uncertainty for non-household customers as the period for which they can be back billed would be extended.

One wholesaler did not consider that there was enough of a substantive risk associated with the RF Runs to warrant deferral. It was highlighted by four respondents (three wholesalers and the Market Operator), that Trading Parties have had sufficient time to rectify the data issues having been aware prior to market opening that the first RF Runs were due to be completed in September 2018. Another wholesaler indicated that it is not convinced that delaying the RF Runs will necessarily result in Trading Parties working on and delivering data correction projects. It highlighted that during the three month delay of RF Runs in the shadow period, it did not observe substantial improvement in data quality.

Concern with open ended deferral

Although the majority of Trading Parties agreed with the proposal, seven respondents expressed concern that the original proposal suggested an open ended deferral. One wholesaler suggested that deferral should be between two to three months. The Panel considered the number of responses to the consultation which recommended that deferral should be time bound. It subsequently amended its proposal to introduce a backstop timeframe and has recommended deferral for a maximum of 12 months. One retailer considered that the proposal should be time bound and expressed concern that the Panel should decide when RF Runs should resume again given that there are no express criteria upon which it would make this decision.

The Panel considered consultation responses and had further discussions during its meeting on 16 July 2018. It made amendments to the red line drafting of the proposal, one of the key changes being the addition of a backstop date of deferral for a period of up to 12 months.

Impact on Trading Party business systems, process and accounting

If the proposal was to be approved the majority of Trading Parties considered that there would be a small, mainly administrative, impact. It was suggested that there would be an administrative burden on the Market Operator whether the proposal is approved or rejected, with the Market Operator required to process a higher than anticipated number of Unplanned Settlement Runs if the proposal was rejected or, facilitate the catch-up period if the proposal was approved.

It was highlighted by two wholesalers that it would take longer to close the accounting period for the financial year 2017 to 2018 if the proposal is approved. But two retailers stated that if this proposal is not implemented, they will incur costs as they will need to undertake Unplanned Settlement Runs for which there are fees. In addition, these respondents suggested that they will be overcharged by respective wholesalers in the live market as they were 'undercharged' pre-market opening. One estimated these costs would be around £50,000 and another suggested its costs would be in the region of £445,000.

Trading Party contact with Ofwat

One Trading Party wrote directly to Ofwat outside of the formal Panel consultation process. This Trading Party alleged that a number of retailers have amended YVE's, in some cases retrospectively back to April 2017, to the value of 1. It was highlighted that this could potentially impact wholesaler revenues. In addition, the Trading Party highlighted that the number of vacant flags have doubled. Furthermore, it was suggested that as wholesalers base wholesale charges on RF Runs, its wholesale charges for 2019/20 will be increased where poor quality data has impacted upon G Read generation. It has argued that this would impact both household and non-household bills.

Request for additional information

In response to the statement in the Final Report that Ofwat may query any aspect of the paper with the Panel, we contacted the Panel on 9 August 2018 to request additional information and seek clarification on the evidential base for some of the information contained in the Final Report. We have considered the additional information provided in response to this request during our assessment and have detailed below what we consider to be key points raised in response to our questions.

Have there been any issues, systems or otherwise, which would have prevented Trading Parties from ensuring G Read data was improved in time for the first RF Runs of the live market? Why are Trading Parties in need of more time to rectify the data before the RF Runs are due to be completed in September 2018?

The Panel highlighted that there have been no issues with CMOS which would have prevented Trading Parties from maintaining accurate consumption data. Some retailers have expressed concern that wholesaler owned Data Items within CMOS act as a barrier to their ability to read meters which is a material contributor to there being a high number of G Reads. However, some Panel members have expressed concern that the lack of bilateral requests for meter reads suggests that Trading

Parties have not been making the effort required to improve the data both before market opening, during shadow operation, and during the first 16 months of the market to minimise and correct this. It was always clear to Trading Parties that there would be final RF Runs in September 2018.

What is the Panel's rationale for recommending deferral for 12 months? Consultation responses suggested up to a maximum of six months.

The Panel reiterated that the recommendation is to defer RF Runs for up to 12 months, although it highlighted that a number of its members have expressed support for aspiring to a shorter deferral period. The Panel highlighted that it is in the process of considering how best to create the data improvement plans, set up the reporting and evidence gathering functions, assessment and implementation. It stated that it would make an evidence based assessment on the most appropriate length of deferral and that it would ensure that Trading Party data rectification plans are closely monitored to ensure satisfactory progress is made.

Would there be a prescribed format and timeframe for data improvement plans? What does the Panel consider to be the mechanism to hold companies to account against these data improvement plans?

Regarding the structure and timeframe of data improvement projects, the Panel does not know the format of the plans although it highlighted that some parties have made progress on items that may look like such plans. It stated that it aims to work closely with Ofwat to consider the tools which might be used to help ensure Trading Party engagement and data improvement. The Panel envisages that Trading Parties will provide the Panel a high degree of transparency about their data improvement plans.

How will the deferral be implemented from a systems point of view? We would like to understand what evidence the Panel has that any changes required for a deferral to be put in place would not be detrimental to, or result in, problems with the systems. What contingency plans are to be put in place if the deferral went ahead and issues occurred?

The Panel has stated it does not believe there will be any issues. Although, it has not provided any evidence as to why this is the case it highlighted that the RF process can be run at any point during any Invoice Period.

One wholesaler, in response to question 1 of the Request for Information, highlighted that the RF settlement has already had a 3 month suspension which has had no effect on the number of data issues. How/why will the proposed deferral differ from this?

The Panel advised that there was no obligation to complete RF in the shadow market so it should not be viewed that there has already been a deferral.

Can you please explain in further detail how you envisage managing the catch up period? We note that there would likely be large resourcing and accountancy challenges when processing this. The catch up period may also be challenging from a systems / MOSL operations perspective as well as from an administrative one for the companies receiving a high number of 'final runs' in a shorter period.

The Panel's response suggested that it would need to give careful consideration to the time between each catch up run. It acknowledged that the catch up process would create a burden on both MOSL and Trading Parties that is different to the business as usual scenario. It has confirmed that this would be a consideration when setting the catch up timetable.

What would be the cost to Trading Parties if the Change Proposal is not approved and they are required to use the Dispute/Corrective/Post RF Run processes or G read deletion? If RF Run deferral is approved, what would be the likely financial impact on Trading Parties?

The Panel suggested that this is highly dependent on the data quality of individual Trading Parties. The Panel has highlighted that there would be an increased cost to Trading Parties where they are required to complete numerous Unplanned Settlement Runs because they have been unable to remedy data quickly. It also reiterated that one retailer respondent to its consultation suggested that it would be overcharged approximately £455,000 if RF Runs are not deferred, as it was undercharged in the shadow market.

One consultation respondent highlighted that 95% of its trade effluent private meters which calculate trade effluent charging haven't had meter readings entered by retailers into the central system. How many trade effluent discharge points (DPIDs) are likely to be affected by the inaccurate G reads?

The Panel advised that 12,930 trade effluent discharge points out of 16,200 are associated with meters settling on G Reads. Given the nature of trade effluent and that there are a number of systems and environmental obligations that still sit with the wholesaler that these may take longer to resolve.

Does the Panel think that the range of respondents to its Request for Information provide an accurate representation of all market participants? Please provide details.

The Panel highlighted that the Request for Information had one of the highest response rates seen for any Panel consultation. It confirmed that a wide range of

responses had been received but acknowledged that smaller Trading Parties were not well represented. It highlighted that the majority of respondents expressed strong support for deferral. Although, it acknowledged there had been uncertainty associated with open ended deferral which the Panel addressed within the proposal to the Authority by adding a back stop deferral timeframe.

Do MOSL and Trading Parties intend to publish publicly their performance against the improvement of data where they have failed to meet the first RF deadline to ensure the task is completed adequately, if approved?

The Panel has not committed to publicly publishing progress during any deferral period, but advised that it would aspire to the highest degree of transparency possible. It advised that it would make information available to Trading Parties to enable peer comparison.

Who are the six retailers and seven wholesalers who hold 80% and 85% of G reads, respectively?

The Panel's response to this question is confidential.

Inconsistency in the market codes

We note that the Final Report suggests that there are inconsistencies between the Business Terms and Market Terms of the Wholesale Retail Code (WRC) and between the WRC and the Customer Protection Code of Practice (CPCoP) relating to provisions for post-RF Run invoicing between wholesalers and retailers, and the ability of retailers to then back-bill customers.

The Final Report suggests that sections 9.3.5 and 9.3.9 of the Business Terms permit a recalculation of charges where certain Unplanned Settlement Runs have been completed. However, section 4.14.8 of the Market Terms and the CPCoP include equivalent text that prevents the recovery of charges resulting from a Settlement Report carried out following a Dispute or a Post RF Settlement Report issued after the Final Settlement Report.

We discuss our view on this inconsistency in the 'Our decision' section below.

Panel recommendation

At the Panel meeting on 16 July 2018, the Panel reviewed the impacts, benefits and costs of CPW039. The Panel agreed, by a majority of 11 to one, to recommend

CPW039 to the Authority for implementation. The Panel member who was not in favour of recommending CPW039 highlighted that the market codes already provide methods for the correction of errors identified following RF Runs. This Panel member felt that failure to address poor quality data in the 16 month period ahead of processing the RF Runs should not constitute a reason to defer these runs.

Our decision

We have considered the issues raised by the modification proposal and the supporting documentation provided in the Panel's recommendation report. We have concluded that, subject to the prescribed modifications by the Authority, the implementation of CPW039 will better facilitate the Principles and Objectives of the WRC, detailed in Schedule 1 Part 1 Objectives, Principles and Definitions.

The prescribed modification is that the initial period of deferral is amended to expire on 31 December 2018, and in any event will be no later than 28 February 2019.

Reasons for our decision

We have considered whether there is an inconsistency between paragraph 4.14.8 of the Market Terms and 9.3.5 and 9.3.9 of the Business Terms of the WRC, and a further inconsistency between the Market Terms and the CPCoP raised during the consultation period. In doing this, we have considered the background to the inclusion of section 4.14.8 in the Market Terms which links to the CPCoP. One of the intentions of the CPCoP was to ensure that the back-billing of Non-Household Customers was restricted. In the final version of the CPCoP, this restriction is by reference to the Final Settlement Report issued under the WRC, and applies to all Non-Household Customers. Section 4.14.8 of the WRC is the equivalent provision in the WRC which prevents wholesalers from back-billing retailers where a Final Settlement Report has been issued.

Whilst we do not think that there is currently an inconsistency between the provisions for back-billing in the WRC and the CPCoP, the WRC does include provisions for the correction of suspected inaccuracies in the Final Settlement Report. In particular, there are provisions for correction following the resolution of a Dispute between wholesalers and retailers, or where the wholesaler and retailer agree that there is a problem with Data Items pertinent to the Final Settlement Report. This means that, as currently drafted, whilst the WRC allows for the correction of suspected inaccuracies in relation to the Final Settlement Report, if this was following a Dispute Settlement Run or a Post RF Settlement Run these corrections cannot be reflected by the re-issuing of bills (or indeed the offering of refunds).

We therefore agree that this inconsistency needs to be carefully considered before any RF Runs take place and as such our decision to approve this deferral is based on the need to consider the implication of this inconsistency. At present, the implications on Trading Parties of rejecting this proposal are unclear. We believe that deferring the first RF Runs for a limited period could help to mitigate any potential unintended consequences arising from this inconsistency.

The rationale provided by the Panel for the deferral to be for a period of up to 12 months was not conclusive. We are also aware of the imminence of the planned RF Runs and that a decision needs to be made on any deferral as a matter of urgency. It will, therefore, be subject to our discretion whether the deferral period will end on 31 December 2018 or whether this will run until 28 February 2019 if we require additional time to review the identified inconsistency. We think that 31 December presents sufficient time for us to consider the implications of this inconsistency. It is, therefore, our intention that we would only exert the discretion to extend beyond 31 December 2018 if for any reason it has been impossible to ascertain the implications.

We consider that this period of time provides the Authority reasonable time to consider the implications of the inconsistencies within the WRC, but limits the exposure of end customers to back-bills beyond the intended 16 months for an additional maximum of six months in this instance. We will provide an update to Trading Parties in due course. As an aside, the deferral also provides Trading Parties with the opportunity to proceed with data improvement projects. The legal text to implement these changes is included at Appendix 2.

As detailed above we are aware that by approving this deferral, albeit for a significantly shorter period than recommended by the Panel, we are extending the period of time that affected customers may be back-billed. To be clear, we are absolutely committed to maintaining a restriction on back-billing and we must ensure that the market codes provide an effective, consistent framework in this regard.

We note that the Final Report suggests that Trading Parties were largely in favour of deferral as it provides more time for data correction before RF Runs commence. This in turn prevents the crystallisation of inaccurate consumption data. Data quality is an issue that has been a cause for concern since market opening amongst Trading Parties. We are disappointed that Trading Parties have not taken sufficient action to address the high number of G Reads in the market prior to the RF Runs in September 2018, especially given that in exercising their duties under the Market Terms, including in relation to the provision and maintenance of Data Items Trading Parties shall “exercise all due skill, care and attention recognising that accurate and up to date data is key to the proper functioning of the Competitive Market”. Trading Parties were aware of, and should have been prepared for, the RF Runs. For the

avoidance of doubt, we are not implementing the deferral of the first RF Runs in support of allowing more time for Trading Parties to improve data quality in the market. The opportunity to do this has been available since prior to market opening and should have been, and remain a priority, for Trading Parties. This deferral is to enable time to fully explore the consequences of the inconsistency in the WRC. We do, however, expect Trading Parties, with the support of the Market Operator and the Panel, to use this opportunity to develop and implement data improvement plans as a matter of extreme urgency. We would expect to be updated regularly on progress.

In addition, we would encourage the Panel and the Market Operator to work together to explore the feasibility of running partial RF Runs, where it would be practical to do so, to mitigate the impacts on Non Household Customers of this deferral as far as possible. With reference to particular principles of the WRC we have set out below our view on why we consider that these will be better facilitated by the modification proposal.

Efficiency

By considering the implications of the inconsistencies within the WRC, this will help to promote the efficient administration of the Market Terms by the Market Operator. The deferral of the first RF Runs will enable this to happen.

Although not the underlying reason for our decision, we note that additionally, as identified by the Panel, the change furthers the principle of efficiency as deferral provides a period of time for Trading Parties, working with the Market Operator, to develop and implement data improvement plans. This should, in turn, reduce the number of G Reads which are of material concern in the market meaning that Non Household Customers will receive more accurate bills.

Transparency

The Panel has suggested that transparency may be improved as clearly defined arrangements on how the deferred RF Runs will be established. Whilst we have amended the maximum length possible for deferral, we agree with the Panel that the process for managing RF Runs and subsequently the catch-up period should be clearly established by the Panel. We will have discussions with the Panel regarding this catch-up period in due course.

Decision notice

In accordance with paragraph 6.3.7 of the Market Arrangements Code, and sections 66DC and 117H of the Water Industry Act 1991 Ofwat approves this change proposal as a matter of urgency, subject to the prescribed modifications.

Emma Kelso
Senior Director, Customers and Casework

Appendix 1 – Request for Information questions and summary of responses

This section summarises the responses received following the Request for Information (RFI) for DCP002 which was issued on 11 July 2018 and closed on 13 July 2018. In total, 21 responses were received, of which 13 were from wholesalers, 7 from retailers and 1 was from the Market Operator.

The responses from one wholesaler and the Market Operator did not address the Panel's RFI questions directly. Where possible, the summary below has captured the views of that wholesaler and the Market Operator against each question. Additional observations made by both parties are set out at the end of this summary.

Two retailers provided anonymous responses to the RFI.

Question 1: Do you agree with the proposed solution in DCP002? Please explain your answer.

Most trading parties agreed with the proposal to defer RF Run for April 2017 (16 out of the 21 respondents). The main theme obtained from the responses are listed as follows;

Accuracy: this is the main overarching theme from respondents. Agreeing trading parties stated that the deferral will allow members to undertake corrective actions to ensure that the data submitted is accurate. A wholesaler believes that final bills should be reflective of actual reads and thus the planned schedule will result in an increase in corrective runs. One wholesaler mentioned the importance of accurate settlements reports; therefore, trading parties should be given more time to ensure that the data and reads are accurate. Although another wholesaler agreed with the proposal, it also mentioned concerns pertaining to unread meters and suggested a further extension to allow valid reads or realistic YVE to be inserted. A retailer agreed with the proposal but also requested that this is time-bound rather than allowing the Panel to decide.

There were also some concerns regarding unread meters within CMOS. Two wholesalers have stated that the deferral process will aid efforts in dealing with unread meters.

Disagreeing trading parties, stated that there isn't a substantive risk associated with progressing with the scheduled works for RF Runs as trading parties have known the schedule for RF Runs and the requirements to make it successful. Other concerns were raised in responses marked as confidential.

Question 2: Do you agree with the proposed red line changes in DCP002? Please explain your answer.

Most Trading Parties agreed with the proposed red line drafting (14 out of 20 respondents). One retailer and one wholesaler believe that the changes are acceptable. Two wholesalers agreed that the Panel should have the power to decide when RF Runs should commence.

Other Trading Parties highlighted two areas of major concerns regarding the provisions in the proposed changes:

- the absence of a backstop deadline for starting RF Runs; and
- concerns that the Panel should not have authority for determining when RF Runs should start.

Some Trading Parties believed that the deferral should be time-bound. One wholesaler stated that although it agrees with the red line changes, it does not believe that deferral of RF Run reports should be "open ended". It also does not believe that the Panel should have the power to state the commencement of RF Runs but would like to see dates and periods included in the proposal. Another wholesaler also shared the same concerns regarding the absence of time for commencing RF.

Question 3: Please outline how your business systems, processes and accounting may be impacted by DCP002 (including cost implications where possible) if it were to be implemented.

Some Trading Parties believe this change will have little to no impacts on their business systems, processes and accounting. They do not believe this change would bear any significant cost implications on their business processes. One wholesaler stated that although their processes would remain unchanged, their billing systems will need to be rescheduled to align with the agreed timetable for RF.

A wholesaler stated that it has no system concerns but might incur some temporary resource costs due to implications of planned solutions. Another wholesaler mentioned that this proposal might require changes to its systems which may create administrative burdens.

If DCP002 is not implemented, one retailer has predicted a cost of £455k. It attributes this to wholesale monthly undercharges in the shadow market period, which it will subsequently need to repay in Go-Live. As monies are not exchanged in the shadow period, this means that retailer will be effectively overcharged in RF Runs for the live market, if DCP002 was not implemented.

A retailer stated that the impact will be minimal on its systems but the deferral could affect and benefit its cash flows.

Question 4: What are the impacts on the end customer if DCP002 were to be implemented (please consider the restriction of retail billing on customers, in 9.3 of the Authority’s ‘Customer protection final Code of Practice for non-household retailers’ document)?

Most Retailers believe that this change would improve the accuracy of bills issued to the end customer. Respondents stated that the deferral will result in the provision of more accurate data, resulting in the generation of accurate bills. One retailer stated that this could benefit the customer where some outstanding charges exist but could also negatively impact them in terms of overcharging.

A retailer stated that this will enable them to back-bill the customer but raised some concerns regarding the views of other organisations such as Ofwat and the Consumer Council for Water (CCWater) in the event of customer complaints. A wholesaler stated that it believes this could affect the reputation of the market where customers receive higher bill based on estimates.

Some wholesalers highlighted that they are not best placed to respond to this question.

Question 5: What are the implications on your ability to bill Retailers or NHH customers were DCP002 to be implemented?

Following the implementation of DCP002, most trading parties believe the change will not hinder or affect their ability to bill customers. A wholesaler stated that that it will be able to issue invoices in line with the agreed schedule while a retailer stated that it will continue to bill customers as initially planned. A wholesaler does not envisage its ability to bill retailers to be hindered but bills could be lower until accurate reads have been provided. Another retailer believes that the implementation will assist in its ability to bill customers effectively.

One wholesaler stated that there may be some cash flow and credit implications with smaller retailers where many invoices are issued within a short period of time. It was highlighted by one wholesaler that it does not consider that the deferral should not be open-ended as this will create issues with regards to invoices issued to retailers.

Question 6: How does deferring the running of final settlement impact Trading Parties’ submission of metering data?

Most trading parties believe that deferring the RF Run will have little to no impact to their process of submitting metering data. Some Trading Parties suggested that this will provide them more time to ensure that the data is accurate, review accuracy of YVEs and address the issue of unread meters. A wholesaler stated that this will not have any impacts on submitting meter data but the deferral of G Read removal functionality may impact its ability to submit data where a G Read has already been generated. A retailer believes that this will help trading parties to input reads when they become available.

One wholesaler voiced views regarding the procurement of reads for long unread meters but stated a possible risk of allowing more time for Trading Parties to obtain these reads could result in 'deprioritisation' of obtaining the reads. A retailer mentioned that this will result in the rejection of reads due to validation functionalities in instances where the visual reads do not align with the volumes as indicated by in the G Reads.

Question 7: Do you agree that the proposed change better facilitates the Objectives and Principles of the WRC? Please explain your answer?

Out of the 20 Trading Party respondents, 14 agreed (8 wholesalers and 6 retailers).

A wholesaler stated that the change will reduce the cost and number of settlement re-runs. One respondent mentioned the benefits to the end customer as this will result in improved accuracy for customer's bills and see billing errors reduced. One wholesaler believes this proposal does not possess any barriers to entry and will reduce customer queries, creating a better customer journey and experience. A retailer mentioned that the deferral hinders some of the objectives of the WRC but it is a means to achieve the principles and objectives of the code.

Some Trading Parties consider that the proposed change does not facilitates the Objectives and Principles of the WRC. It was stated that the codes require data to be submitted in a timely manner which is the purpose of this proposal. One wholesaler who also disagreed that the proposal better facilitate the principles and objectives stated this will be a solution to a significant problem.

Question 8: Do you agree with the proposed implementation date of 31 August 2018? Please explain your answer?

Out of the 20 Trading Party respondents, 13 agreed (8 wholesalers and 5 retailers).

Most Trading Parties agree with the proposed implementation date of 31 August 2018. They believe this should be implemented before the originally planned Final Settlement Run for April 2017. One retailer suggested that all RF for March and

subsequent months is postponed until January 2019 as this will give Trading Parties enough time address data issues and allow the Market Operator and the Authority sufficient time to review progress in the creation of G Reads.

There was a mixed response from Trading Parties that disagreed with the proposal. A wholesaler suggested that the proposal should be implemented as soon as possible to prevent the March 2017 RF Run and any following periods whilst a retailer believes that delaying the implementation date would support its program to fix assets that were damaged along with ensuring accurate YVEs are input where read cannot be obtained. One wholesaler suggested that RF Runs should be suspended as soon as possible while all G Reads are removed.

Summary of Response from a wholesaler

The wholesaler believes that there's a need for a strong argument on the risks associated with the deferral but it does not envision any risks associated with proceeding with the RF Run as planned.

This respondent felt the Panel's observations on retailers having enough time to get reads for RF Runs was encouraging. It believed that the inclusion of YVE data was helpful and has impacted on its RF Run for January and February. It believes the provision of reads would negate a lot of issues regarding G Reads.

This wholesaler also expressed dissatisfaction on the processes and steps taken to propose the deferral of RF Runs. It believes that all trading parties were aware of the schedule and the requirements for RF and the failure for the provision of reads does not provide enough justification for the deferral.

Summary of Response from the Market Operator

The Market Operator (MOSL) stated that it does not believe that deferring RF Runs will incentivise Trading Parties to resolve data issues in a timely fashion; rather, it is concerned that the deferral will have the opposite effect. It also stated that the vast majority of Supply Points in the market are settling on appropriate values and is therefore concerned by the impacts the deferral will have on customers. This, it stated, is due to the fact that Retailers can bill customers up until the RF Run for an invoice period; therefore, deferring the RF Run extend the period in which customers can receive adjusted bills.

MOSL also stated that it is aware that some trading parties are suffering from a number of problems due to poor accuracy of data. It therefore suggested a way of supporting resolution of these issues by two proposals.

Lastly, MOSL pointed out an inconsistency in the market codes which relates to wholesale invoicing. It stated that the rectification of this inconsistency should be expedited.

Appendix 2 – Legal text

Market Terms

Delete paragraph 4.13.1(f) and insert new paragraph 4.13.1(f) to state: a Final Settlement Report (RF) which will be issued sixteen (16) Months after the end of the Invoice Period to which the Settlement Report relates, subject to section 2.3 of CSD 0201 (Settlement Timetable and Reporting).

CSD 0201 (Settlement Timetable and Reporting)

Delete paragraph 2.3.1(f) and insert new paragraph 2.3.1(f) to state: RF – the Final Settlement Report, which will be issued four (4) Business Days after the end of the Month which is the sixteenth Month after the Invoice Period to which the Settlement Report relates, subject to sections 2.3.6, 2.3.7, 2.3.8, 2.3.9, 2.3.10 and 2.3.11 below.

Insert after paragraph 2.3.5:

Provision of the Final Settlement Report

2.3.6 The Market Operator shall not carry out any Final Settlement Runs in relation to any Invoice Period after the Go Live Date until instructed by the Authority to start performing Final Settlement Runs.

2.3.7 The Authority shall issue an instruction to the Market Operator on when to begin carrying out Final Settlement Runs, and inform the Panel of this instruction, by no later than 1 November 2018.

2.3.8 The Authority expects that the instruction issued under 2.3.7 will require the Final Settlement Report for the April 2017 Invoice Period to be issued no later than (4) Business Days after 31 December 2018, but in any event the Authority shall ensure that its instruction will require the Final Settlement to be issued no later than (4) Business Days after the 28 February 2019.

2.3.9 In conjunction with the timing of any Final Settlement Runs in relation to any Invoice Period after the Go Live Date, the Panel shall:

- (a) define a catch-up timetable setting out the calendar dates on which the Market Operator will carry out and issue each subsequent Final Settlement Report to Trading Parties, ensuring that these Final Settlement Reports are issued in chronological order;
- (b) ensure that at least one Final Settlement Report shall be issued in each consecutive Month during the catch-up timetable; and
- (c) confirm the calendar date on which the catch-up timetable ends, which shall be the date from which Final Settlement Reports shall be issued four (4) Business Days after the end of the Month which is the sixteenth Month after the Invoice Period to which the Settlement Report relates.

2.3.10 The Market Operator shall carry out and issue the Final Settlement Report for each Invoice Period on the calendar dates as set out by the Panel in section 2.3.9 above.

2.3.11 After issuing all Final Settlement Reports in section 2.3.10, the Market Operator shall continue to perform Final Settlement Runs for all subsequent Invoice Periods so as to issue the Final Settlement Report four (4) Business Days after the end of the Month which is the sixteenth Month after the Invoice Period to which the Settlement Report relates.

Make the consequential changes to numbering of subsequent paragraphs in this section.