

## **DCP 054 Working Group**

### **Incentive scheme evaluation against agreed criteria**

#### **Scheme name – Settlement Cost Smearing Scheme**

##### **1. How will the scheme operate, i.e. a technical description and simple worked example?**

The current DCP 054 change proposes that unrecorded units must be entered into settlement. However the change does not propose how this should be done.

If units entered into settlement are recorded against the MPAN where theft is discovered the current supplier for that MPAN will incur the full energy costs for the assessed unrecorded units. This will act as a disincentive on suppliers to actively seek out cases of theft as the likelihood of fully recovering charges from the thief are very low.

This scheme could work in conjunction with one or a combination of the other incentive schemes currently being reviewed by the DCP 054 working group.

The Settlement Cost Smearing Scheme proposes that a mechanism is found to enable the units to be entered into settlement but the actual energy costs are smeared across all suppliers in proportion to energy market share in a similar way to Group Correction Factor works now. There are a number of options that could achieve this and these have been detailed below.

##### **Option 1.**

Set up a dummy supplier (National Stolen Units) together with a dummy mpan (Stolen Units) that each supplier could use to submit their assessment of stolen units into settlement. Units allocated to each dummy supplier would need to be re-apportioned across entire NHH market as per GCF.

##### **Option 2.**

Units are entered into settlement and charges incurred by registered supplier but supplier receives a credit outside of settlement arrangements. Charges would then need to be re-allocated across entire market as per GCF.

##### **Option 3**

Suppliers would not submit units into settlement but units would be accounted for within settlement via Group Correction Factor and smeared across suppliers in proportion to market share. Suppliers would report cases of theft to both Ofgem and DNOs to enable DNOs to receive benefit of assessed stolen units when calculating losses incentive.

##### **2. How will the scheme be funded?**

Option 1 – Changes would be required to ELEXON central systems which would be funded via ELEXON change budget which is funded by BSC parties

Option 2 – System required outside of settlement to reimburse suppliers and smear costs across market. This could be administered by ELEXON, Ofgem or another third party. Costs could be shared across market to cover administration.

Option 3 – Costs would be lower as no changes required to ELEXON central systems only documentation changes. Suppliers would be responsible for recording details of stolen units and submitting to DNOs and Ofgem. Ofgem would then adjust losses incentive based on submissions. Ofgem would have rights to audit suppliers to ensure processes are correctly followed.

### **3. What are the rewards/ expected benefits of the scheme?**

Option 1

1. Stolen units are recorded against specific Suppliers providing ability for better reporting.
2. Units are entered into settlement ensuring DNOs gain benefit of losses incentive.
3. If units are re-apportioned across market perverse incentive on suppliers to identify theft is removed.

Option 2

1. Units are entered into settlement ensuring DNOs gain benefit of losses incentive.
2. If units are re-apportioned across market perverse incentive on suppliers to identify theft is removed.
3. No changes required to ELEXON central systems although existing processes for entering stolen units into settlement would need clarifying.

Option 3

1. Units are not recorded against specific suppliers in settlement thereby removing perverse incentive on suppliers to identify theft.
2. Stolen units would automatically be smeared across market via GCF.
3. DNOs would still gain benefit of losses incentive providing Ofgem allow manual reporting outside of settlement.
4. This is the “least change” option in terms of central settlement systems although we need to remove some revenue protection obligations on Data Collectors and “Revenue Protection Services”.

### **4. What will the coverage be e.g. National/Domestic?**

National

### **5. When could the scheme start / be effective from?**

Option 1 – Would require significant ELEXON system changes probably could not be completed before April 2011

Option 2 – Would require less central system changes but need system outside of settlement to reimburse costs possibly 6 month lead time

Option 3 – Least change option with only process and procedural changes required to BSC. Lead time required to set up reporting system possibly 6 months

### **6. How would the scheme be implemented?**

Covered in earlier questions

### **7. How will performance be measured?**

Option 1 – Would enable ELEXON central systems to report theft performance against dummy supplier codes.

Option 2 – Reports would need to be collated outside of settlement in addition to units being entered into settlement.

Option 3 – Suppliers submit details of theft recorded to Ofgem.

#### **8. How will the scheme be monitored /audited?**

Option 1 – Suppliers would be audited under BSC rules.

Option 2 – Would need to set up system outside of settlement with audit rights given to whoever administers the scheme.

Option 3 – Audit rights provided to Ofgem to audit suppliers

#### **9. How will reporting work under the scheme?**

Option 1 – Reports could be provided from ELEXON central systems

Option 2 – Under new system set up outside of settlement reports could be provided to DNOs and Ofgem

Option 3 – Suppliers would be required to report details of all theft and provide these to Ofgem and DNOs.

#### **10. What governance framework is required – where will the scheme sit?**

Option 1 – Governance would sit within BSC

Option 2 – Would require new system outside of settlement systems to administer reimbursement to suppliers and smear costs across all suppliers

Option 3 – Obligation to provide reports to Ofgem and DNOs could sit within DCUSA

#### **11. Are there any disadvantages of implementing this scheme?**

##### **Option 1**

1. This option would require changes to ELEXON central systems.
2. Potentially would require whole raft of secondary changes to account for the fact that you have dummy suppliers and Metering Systems would have to be excluded from certain processes (including performance assurance)

##### **Option 2**

1. Would need to build system outside of settlement to “reimburse” suppliers for stolen units and reallocate across industry similar to what GCF does now.
2. Difficulty in ensuring stolen units have effectively been entered into settlement system remains.
3. Suppliers may get reimbursed for stolen units when where units have been rejected or “backed out” by data collector activity.
4. Additional costs incurred in building system to reimburse suppliers and reallocate charges across industry

##### **Option 3**

1. Would need to set up a system outside of settlement to manually record stolen units and provide details to Ofgem and DNOs.
2. Settlement systems would not hold details of theft against individual suppliers.