
Wholesale Retail Code Change Proposal – Ref CPW064

Modification proposal	CPW064 – Changes to the Corrective Settlement Run for Individual Supply Points
Decision	The Authority has decided to approve this Change Proposal, subject to legal drafting amendments being corrected as set out in Appendix A
Publication date	16 October 2019
Implementation date	14 February 2020

Background

The Wholesale Retail Code (WRC) defines a process that allows Wholesalers and Retailers to request Unplanned Settlement Runs in three distinctive areas: Corrective, Dispute and Post RF Settlement. Each category of Unplanned Settlement Run has its own requirements, with Wholesalers and Retailers having to agree on the type of run to be requested from the Market Operator (MOSL) and that it meets the materiality threshold.

A Corrective Settlement Run is carried out when Wholesalers and Retailers agree that there is a material error in a Planned Settlement Report. The current process of undertaking a Corrective Settlement Run ensures all Supply Points (SPIDs) within that Wholesaler-Retailer pairing are included within the Settlement Run. The Corrective Settlement Run will consider specific Data Items that have been corrected and any other changes to the SPID data arising from the normal business operations, up to the date the Unplanned Settlement Run was carried out. This means the Corrective Settlement Run captures the corrected Data Item(s) for the SPIDs and includes changes to other SPIDs which may not be subject to the Corrective Settlement Run.

In cases where Wholesalers and Retailers are settling a dispute and agree to undertake a Post RF or Dispute Settlement Run, the WRC also places requirements on all parties involved in the dispute to agree the set of SPIDs to be included in the Settlement Run. Currently, only Post RF and Dispute Settlement Runs have the ability for individual SPIDs to be considered.

The Trading Disputes Committee has developed this Change Proposal to amend the current requirements set out in the Market Terms to enable Corrective Settlement Runs to be undertaken on a specified set of SPIDs, in the same way as this applies

to Post RF and Dispute Settlement Runs, as it believes it will provide additional flexibility to Wholesalers and Retailers.

The issue

The Trading Disputes Committee is of the view that whilst completing a Corrective Settlement Run for a full Wholesaler-Retailer pairing has advantages, it can also have disadvantages. The committee cited that Wholesaler and Retailer workloads can be impacted, as well as there being a risk that queries can increase on SPIDs where queries have not previously existed. As such, the committee stated that Wholesalers and Retailers will significantly benefit from having the option and flexibility to decide on their preferred approach of completing Corrective Settlement Runs.

The modification proposal¹

It is proposed that the WRC is updated to allow Wholesalers and Retailers to request a Corrective Settlement Run on either a full Wholesaler-Retailer pairing or a specified set of combination SPIDs. The solution provides an additional option to Wholesalers and Retailers and does not remove the current process of completing Corrective Settlement runs on a full Wholesaler-Retailer pairing.

This Change Proposal includes amendments to the following documents:

1. CSD 0201: Settlement Timetable and Reporting;
2. CSD 0207: Charge Calculation, Aggregation and Allocation;
3. WRC Schedule 1 Part 2 Business Terms; and
4. WRC Schedule 1 Part 4 Market Terms.

To implement the proposed solution, MOSL has developed an internal solution to ensure it is feasible to run a Corrective Settlement Run for individual SPIDs, without CMOS being impacted.

Industry consultation and assessment

This change was initially presented to the User Forum on 12 April 2018 to gather the views from Wholesalers and Retailers on the following areas:

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>

- Whether materiality thresholds for Unplanned Settlement Runs should be amended;
- Whether time constraints on requesting Corrective Settlement Runs should be altered; and
- Whether the processing of settlement runs against a subset of individuals SPIDs should be undertaken.

Feedback from those who attended included queries on the rationale behind the Change Proposal as well as whether there would be a change in costs relating to the actual processing of Unplanned Settlement Runs.

In addition to the above, a Request for Information on this Change Proposal was published on 4 May 2018 and closed on 18 May 2018. This was a joint Request for Information with a Change Proposal: CPW046 ('Changes to the Unplanned Settlement Process'). There were 13 responses received, seven from Wholesalers and six from Retailers.

Agreement with the proposed solution

The main reason cited in support of this change was that the additional option to Corrective Settlement Runs on individual SPIDs or a specified set of combination of SPIDs, was to provide flexibility to Wholesalers and Retailers.

A Retailer stated that Corrective Settlement Runs on individual SPIDs would generate more accurate information, which is essential when incorrect Data Items are entered into CMOS during periods outside the re-run request time. A Wholesaler highlighted that both options had merits, but Corrective Settlement Runs on individual SPIDs was more targeted and less likely to introduce new errors.

A Wholesaler stated that being able to carry out Corrective Settlement Runs on individual SPIDs would provide greater flexibility to Wholesalers and Retailers. It also noted that Corrective Settlement Runs are carried out to address erroneous Data Items and it was appropriate to have the option to fix these issues on individual SPIDs for the smooth operation of the market and to ultimately provide benefit to customers. A Retailer shared this view, but highlighted that both options had merits and also demerits. It stated that there should not be an upper limit for the number of SPIDs where a Corrective Settlement Run was completed on a subset of SPIDs.

Disagreement with the proposed solution

A Wholesaler highlighted that Corrective Settlement Runs on a full Wholesaler-Retailer pairing provided more benefits as it allowed a greater level of accuracy to

account for adjustments and corrections. As a result, invoicing would be made easier. A Retailer also shared this view.

A further Wholesaler stated that the market was initially set up on the principle of carrying out Unplanned Settlement Runs on a full Wholesaler-Retailer pairing, with settlement checking and verification tools set up on this basis. It further voiced the view that amendment to this principle would require significant investment to redevelop these tools.

In addition to the above, another Wholesaler stated that they did not believe there were substantive benefits with the proposed solution. They stated that whilst they understood the merits of Corrective Settlement Runs on individual SPIDs, they did not envisage the distinctions between the options to be significant in terms of cost and consistency.

Trading Disputes Committee view

Following the Request for Information and the views shared by respondents, the Trading Disputes Committee worked with MOSL to refine the solution to accommodate a code change that does not impact CMOS.

The Trading Disputes Committee provided the view that in the spirit of making Unplanned Settlement Runs more efficient, the ability for Wholesalers and Retailers to request a Corrective Settlement Run, either on a full Wholesaler-Retailer pairing or a subset of SPIDs, would provide greater flexibility. The committee also highlighted that the solution provides an opportunity for further bilateral cooperation and agreement between Wholesalers and Retailers, with them having to agree on the specified set of SPIDs involved in the run.

Furthermore, the Trading Disputes Committee stated that completing a Corrective Settlement Run on a subset of SPIDs within a Wholesaler-Retailer pairing would prevent the introduction of new errors/changes into the report.

Panel recommendation

The Panel considered this Change Proposal at its meeting on 23 July 2019. It recommended, by unanimous decision, that the Authority approve this proposal. This recommendation has been made on the basis of improving the principle(s) of efficiency, proportionality and simplicity, cost-effectiveness and security. The recommended date of implementation is 8 November 2019.

Our decision

We have considered the issues raised by the Change Proposal and the supporting documentation provided in the Panel's Final Report. We have concluded that the implementation of CPW064 will better facilitate the objectives and principles of the WRC detailed in Schedule 1 Part 1 Objectives, Principles and Definitions and is consistent with our statutory duties.

However, the Authority does not consider that the proposed drafting amendments to the WRC implements the Change Proposal whilst remaining consistent with the current drafting. We consider that this Change Proposal should only take effect with the amendments set out in Appendix A.

Reasons for our decision

Having reviewed the Panel's Final Report, we consider that approving this Change Proposal will bring benefits to the functioning of the market. Specifically, the changes provide an additional option of flexibility to Wholesalers and Retailers when carrying out Corrective Settlement Runs for the purpose of addressing erroneous data items in CMOS. Data quality has been identified as a key market friction, and increasing the accuracy of settlement will ultimately provide a flow through benefit to customers. Therefore, we are supportive of this change as it encourages Wholesalers and Retailers to work together to address data quality issues.

However, when reviewing the legal drafting, we believe there are some specific points that require clarification prior to implementation. We discussed the issues we identified with MOSL prior to forming our decision in order to seek clarity on the intent of the legal drafting. The outcome of these discussions concluded that the drafting could be improved in some areas, which we explain below and set out in Appendix A:

1. A typographical error in the proposed amendment to the Market Terms at section 4.13.2 (a) should be corrected. This is detailed in Appendix A.
2. Market Terms 4.13.2 (a) discusses the use of Aggregated and Disaggregated Settlement Reports. It requires an Aggregated and Disaggregated Settlement Report to be produced in respect of each applicable Wholesale-Retailer pair for a Corrective Settlement Run. The drafting does not include what report(s) should be produced for a Corrective Settlement Run that deals with a specified set of combination of Supply Points and Service Components. We would have expected a requirement for a Disaggregated Settlement Report to be included (as with the Post-RF Settlement Run and Dispute Settlement Run, and as detailed in the proposed amendment to the Business Terms, and

CSD 0207 2.4.7). Instead, the drafting is silent. To ensure consistency with other amendments in the WRC, amended drafting is detailed in Appendix A.

3. The Market Terms at paragraph 4.13.4(d)(viii) confirms that where a Corrective Settlement Run is requested for all Supply Points in the Wholesaler-Retailer pairing it will take account of the specific Data Items which have been corrected and other SPID Data changes occurring through normal business operations. This clarification exists in the current drafting of the WRC. This Change Proposal extends the scope of when a Corrective Settlement Run may be requested, and therefore we consider that, for consistency, the Market Terms should clarify what will be taken into account when a Corrective Settlement Run is requested for a specified set of combination of Supply Points. Appendix A sets out the legal drafting that will enable this.
4. In the amendment to CSD 0201 2.3.12 it is unclear why this amendment has been included as this paragraph is an introduction to all types of Unplanned Settlement Run. We do not consider that this amendment is necessary to give effect to the Change Proposal. This proposed amendment to the drafting of the WRC is not accepted, and the current drafting should be retained as detailed in Appendix A.

In addition, once implemented this Change Proposal will result in there being strong similarities between the Corrective Settlement Run for a specific SPID and a Post-RF Settlement Run. Although differences remain which relate to the materiality threshold and timing for requesting each of these Unplanned Settlement Runs, from a simplicity perspective, we recommend that – subject to other priorities – the Panel and/or the Trading Disputes Committee consider investigating whether it is appropriate to streamline these different types of Unplanned Settlement Runs.

Finally, we would also like to highlight that the Request for Information undertaken was outdated, with the technical solution and associated impacts having changed since the original change was developed. In future, we suggest the Panel ensures respondents' views on the proposed solution are up-to-date, reflective of current circumstances and relate to the solution being proposed, before the Panel makes its recommendation to the Authority. We also note that the Panel's Final Report did not make clear Panel's views on the responses to the consultation, and was light in terms of the Panel's views when voting to recommend this Change Proposal. In future, we expect Panel Final Reports to clearly set out the views of Panel Members on any relevant response to the consultation, and include more detailed rationale on Panel Member views when making a recommendation to the Authority. We also expect the Panel to ensure that the legal drafting gives effect to the Change

Proposal whilst remaining consistent with other aspects of the WRC and provide supporting rationale on the intent of the drafting included.

We have set out below our views on which of the code principles are better facilitated by the Change Proposal.

Efficiency

We agree with the rationale provided by the Trading Disputes Committee that this Change Proposal supports efficiency by allowing Wholesalers and Retailers to request Corrective Settlement Runs using only the impacted SPIDs where that is appropriate. As a result, this will reduce the processing time and resource effort of some Wholesalers and Retailers.

Proportionality

We consider this Change Proposal is proportionate as it limits the number of SPIDs that require processing, thereby reducing the time spent processing the Corrective Settlement Report and subsequent invoices, compared to full SPID data within the wholesaler-retailer pairing.

Simplicity, Cost-Effectiveness and Security

We consider this Change Proposal to be simple and cost-effective as minimal costs are incurred by Wholesalers and Retailers to request a Corrective Settlement Run for a selection of SPIDs. This approach also reduces the risk of introducing new errors and resulting queries into the report.

Decision notice

In accordance with paragraph 6.3.7 of the Market Arrangements Code, Ofwat approves this Change Proposal subject to the implementation of the revised legal drafting set out at Appendix A.

Georgina Mills
Director, Business Retail Market

Appendix A – Legal drafting to be implemented

Amend WRC Schedule 1 Part 4 Market Terms, Section 4.13.2(a) as follows:

for each Corrective Settlement Run undertaken in respect of all the Supply Points for the applicable Wholesaler-Retailer pair, the Contracting Wholesaler and Contracting Retailer agree that the Market Operator will provide an Aggregated Settlement Report and a Disaggregated Settlement Report in accordance with CSD 0201 (Settlement Timetable and Reporting). The revised Aggregated Settlement Report will replace the original Aggregated Settlement Report and be the basis for invoicing Primary Charges; and

Amend WRC Schedule 1 Part 4 Market Terms, Section 4.13.2(b) as follows:

for each Corrective Settlement Run for a specified set of combination of Supply Points and Service Components, Post RF Settlement Run and Dispute Settlement Run undertaken the Contracting Wholesaler and Contracting Retailer agree that the Market Operator will only provide a Disaggregated Settlement Report in accordance with CSD 0201 (Settlement Timetable and Reporting) and these Reports will be the basis for invoicing the Contracting Retailer.

Insert new sub-section in WRC Schedule 1 Part 4 Market Terms, Section 4.13.4(d) at (ix):

- (ix) Where the Contracting Wholesaler and Contracting Retailer request a Corrective Settlement Run in respect of a specified set of combination of Supply Points and Service Components, the Settlement Run will take into account only the new and updated Data Items submitted to it relating to these combinations of Supply Points and Service Components.

Retain the current drafting of the WRC, CSD 0201: Settlement Timetable and Reporting, Section 2.3.12 as follows:

2.3.12 The Market Operator may also carry out Unplanned Settlement Runs in accordance with Section 4.13 of the Market Terms. The Unplanned Settlement Runs are Corrective Settlement Runs, Post RF Settlement Runs and Dispute Settlement Runs. Each Unplanned Settlement Run will relate to a Planned Settlement Run. For the avoidance of doubt, when the Market Operator carries out any Unplanned Settlement Run, it will **only** be in respect of a specific Wholesaler-Retailer pair or specified set of combination of Supply Points.