
Wholesale Retail Code Change Proposal – Ref CPW046

Modification proposal	Wholesale Retail Code Change Proposal – CPW046 – Changes to the unplanned settlement process
Decision	The Authority has decided to approve this change proposal
Publication date	30 November 2018
Implementation date	3 December 2018

Background

The Market Operator (MOSL) is responsible for the publication of Planned Settlement Runs, which provides a calculation of the settlement charges between Trading Parties, and will lock in new and updated data about each Supply Point. The market codes set out the process by which subsequent corrective action, including the process for dealing with Disputes, will be processed. The corrective action takes place in the form of an Unplanned Settlement Run. There are three types of Unplanned Settlement Run; Corrective, Post RF and Dispute.

A Corrective Settlement Run is a complete recalculation of Primary Charges in respect of all Supply Points. Trading Parties can request MOSL to undertake a Corrective Settlement Run for an invoice period if the Primary Charges outlined within the Settlement Report are materially erroneous. The purpose of Corrective Settlement Runs is to aid Trading Parties to resolve any issues relating to Settlement Reports published for Planned Settlement Runs.

There is a limited window within which a Trading Party can request that MOSL processes a Corrective Settlement Run. The market codes stipulate that requests must be made prior to the issuing of the invoice (which is within 10 Business Days after the Settlement Reports have been published). The request must also meet the Materiality Thresholds set out in the Market Terms. There are two components to the Materiality Threshold and the Trading Party submitting the request must meet both. The Materiality Thresholds are that the request must have an absolute value of a minimum of £10,000 and it must meet a 1% threshold of the primary charges of the relevant wholesale-retail pairing.

The issue

Meeting both the deadline and the Materiality Thresholds present issues for some Trading Parties. The limited window does not allow some Trading Parties enough time to fully investigate the issues relating to the incorrectly calculated Primary Charges. When the deadline is reached and the window closes, the only way in which a Trading Party can progress an issue is to raise a Trading Dispute with the Trading Disputes Committee (TDC) to request the processing of a Dispute Settlement Run in order to get the Primary Charges recalculated. The TDC has noted an increase in the number of Trading Disputes raised, purely to request the processing of Dispute Settlement Runs as the parties ran out of time to meet the deadline on requesting Corrective Settlement Runs.

The TDC also considers that smaller Trading Parties have difficulty in meeting the absolute value of £10,000. Further, the TDC considers that larger Trading Parties with a high concentration of Supply Points in one wholesale area may have difficulty meeting the 1% threshold of a wholesale-retail pairing, as significant financial sums may be involved.

The TDC has dealt with a total of 19 Trading Disputes, of which 10 have been in order to progress Unplanned Settlement Runs. The TDC is concerned at the level of Trading Disputes raised for the purpose of requesting Dispute Settlement Runs. The TDC is not the most efficient way to resolve the processing of a Dispute Settlement Run where it has simply been the case that Trading Parties did not have sufficient time to identify errors.

The modification proposal¹

The proposed solution is two-fold and includes extending the timescale within which a Corrective Settlement Run can be requested prior to the Final Settlement Run, and to reduce the Materiality Threshold. The market codes will be amended to reflect this. It is not proposed that any changes are made to the Materiality Thresholds or the timescale to request a Dispute or Post RF Settlement Run.

On the timescale, the TDC has proposed that the deadline be extended from the point prior to the issuance of an invoice (within ten business days of the publication of the Settlement Report) to the end of the month prior to the next Planned Settlement Run. The proposal will provide all Trading Parties with sufficient time to properly investigate materially erroneous information. It remains the expectation that

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>

Trading Parties will use the extra time effectively, and will continue to act as quickly as possible to request an Unplanned Settlement Run. The extra time is proposed purely to enable Trading Parties to identify errors.

On materiality, the TDC has proposed a reduction in the thresholds for Unplanned Settlement Runs by changing the requirement for Trading Parties to meet the higher of either 1% of the primary charges of the wholesale-retail pairing, or £10,000, to meeting the lower of the two criteria.

Industry consultation and assessment

The Request for Information (RFI) sought responses on the proposal to extend the deadline for requesting an Unplanned Settlement Run, the proposal to reduce the Materiality Threshold, a proposal to review the impact of implemented proposals in 9 months' time, and a request for views on other potential improvements.

There were a total of 13 responses to the RFI (seven wholesalers and six retailers). The responses were mixed. Most Trading Parties agreed to the proposal on extending the time window to request Corrective Settlement Runs, with three wholesalers disagreeing. Those who supported the proposal felt that the extension will allow Trading Parties to properly investigate material errors in Planned Settlement Reports, improve the accuracy of billing and settlements and reduce the number of Trading Disputes. Disagreeing Trading Parties argued that the proposal would create administrative burdens, increase billing costs, and disincentivise the provision of good quality data.

Trading Parties also provided a mixed response on reducing the Materiality Threshold. Eight agreed with the proposal (three retailers and five wholesalers). Five disagreed (three wholesalers and two retailers). Those who supported the proposal were in favour of making Corrective Settlement Runs easier, while those that did not felt that the proposal will make invoicing more difficult.

Trading Parties had a mixed response to the suggestion that the impact of implementing the changes should be kept under review, with three wholesalers disagreeing and the other 10 Trading Parties in favour. Those in favour cited the benefits of reviewing the impact of the change proposal on the basis of operational experience, while those not in favour of the review were not in favour of the proposal generally.

Panel recommendation

The Panel considered this change proposal at its meeting on 30 October 2018. It recommended, by a unanimous decision, that the Authority approve this proposal on the basis of improving the principles of efficiency, proportionality, simplicity, cost-effectiveness and security and non-discriminatory. The recommended date of implementation is 3 December 2018.

Our decision

We have considered the issues raised by the modification proposal and the supporting documentation provided in the Panel's Final Report. We have concluded that the implementation of CPW046 will better facilitate the principles and objectives of the Wholesale Retail Code detailed in Schedule 1 Part 1 Objectives, Principles and Definitions and is consistent with our statutory duties.

Reasons for our decision

We set out below our views on which of the applicable Code principles are better facilitated by the modification proposal.

Efficiency

The proposed changes will enable Trading Parties to request Corrective Settlement Runs for a longer period of time, rather than working through the formal Trading Disputes process, when it would be unnecessary to do so. In the long term, allowing Trading Parties to identify and therefore address errors will mean that data quality in the market will be more accurate.

Proportionality

Reducing the Materiality Thresholds will enable Trading Parties, who would otherwise be unnecessarily excluded from requesting Unplanned Settlement Runs, to request these. Approving the proposal is proportionate to the benefits gained.

Simplicity, Cost-effectiveness and Security

The change allows greater opportunity for settlement inaccuracies to be rectified without resorting to the formal Dispute resolution process.

Non-discrimination

Reducing the Materiality Threshold prevents potential discrimination against smaller Trading Parties who would not be able to meet the threshold. Lowering the threshold removes any potential discrimination against smaller Trading Parties.

Decision notice

In accordance with paragraph 7.2.8 of the Market Arrangements Code, Ofwat approves this change proposal.

Emma Kelso

Senior Director, Customers and Casework