



Making a positive difference
for energy consumers

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6 February 2014

Dear Michael,

Direction to the Balancing and Settlement Code (BSC) Panel to consult on a revised proposed implementation date for BSC Modification Proposal 272

In accordance with Section F, Paragraph 2.11.18 of the Balancing and Settlement Code (BSC), this letter directs the BSC Panel to consult on a revised proposed implementation date for BSC Modification Proposal 272 ('P272').¹ This is to allow our decision on P272 to fully take account of ongoing proposed changes to the Distribution Use-of-System (DUoS) charging arrangements.

BSC Modification P272

Smartest Energy raised P272 in May 2011. The original proposal ('P272 Proposal') would mandate that electricity consumers in Profile Classes 5-8² are settled using half-hourly (HH) consumption data from 1 April 2014. The BSC Panel established a workgroup to assess the impacts of P272. This workgroup recommended that 13 months and two weeks would be required to implement P272, such that, should Ofgem³ decide to approve P272 Proposal, it would need to do so on or before 14 February 2013.

The workgroup also developed an alternative proposal ('P272 Alternative'). This is identical to P272 Proposal, except that it proposes implementation one year later on 1 April 2015. The workgroup recommended the same implementation lead time, such that Ofgem would need to approve P272 Alternative on or before 13 February 2014.

Ofgem impact assessment consultation

Ofgem received the Final Modification Report⁴ on P272 in December 2012. Subsequently, we published an impact assessment⁵ on P272 for consultation in October 2013. This document considered P272 Alternative only, as there was not sufficient time to implement P272 Proposal.⁶ In the impact assessment, we set out that we were minded to approve P272 Alternative.

¹ P272 'Mandatory Half Hourly Settlement for Profile Classes 5-8'.

² Consumers settled using estimates of consumption are assigned to Profile Classes. Conventionally, consumers in Profile Classes 5-8 are considered to be larger non-domestic consumers.

³ The terms "the Authority", "Ofgem" and "we" are used interchangeably in this document. Ofgem is the Office of the Gas and Electricity Markets Authority.

⁴ ELEXON, 2012. *P272 'Mandatory Half Hourly Settlement for Profile Classes 5-8' – Final Modification Report*.

⁵ Ofgem, 2013. *Balancing and Settlement Code Modification Proposal 272 – draft impact assessment*.

⁶ There was not sufficient time in the absence of Ofgem directing the BSC Panel to consult on a revised proposed implementation date, which was not necessary when our impact assessment was published.

In our impact assessment, we recognised that there is not currently a DUoS HH tariff designed for Profile Classes 5-8. We noted that work was underway to propose a change to the Distribution Connection and Use of System Agreement (DCUSA), in particular the Common Distribution Charging Methodology, which would create new HH tariffs for these consumers.⁷ We stated that we would monitor progress of this modification and, in reaching a decision on P272, would take into account any further developments in this area.

Responses to consultation

We received 22 responses to our impact assessment consultation. We have reviewed these carefully and taken into account respondents' views on our assessment of the impacts.

At this time, we remain of the view that approval of P272 would facilitate the applicable BSC Objectives (c) and (d)⁸, and is consistent with our statutory duties. By mandating use of HH consumption data in settlement for consumers in Profile Classes 5-8, P272 would more accurately allocate the costs that suppliers incur in purchasing energy and transporting it to these consumers. This would put in place stronger incentives on suppliers to manage these costs efficiently, including by encouraging demand-side response (including dynamic forms) among all consumers. In contrast, settling consumers on load profiles dampens these incentives even where the arrangements allow the offer of static time-of-use tariffs to Profile Classes 5-8.

More than half of respondents to the consultation emphasised the interactions between P272 and DUoS charging arrangements. Some argued that DUoS charges for Profile Classes 5-8 would increase if P272 is implemented. For consumers as a whole, P272 will not increase the revenue that DNOs can collect because this is capped by us through the price control framework. However, we recognise that the HH DUoS tariff is not designed specifically for the consumption pattern of Profile Classes 5-8 and the costs they impose on the network. Therefore, the subsequent charge that this group of customers face if they move to HH settlement may be disproportionate to the costs they impose on the network.

Some respondents also emphasised that, if P272 is approved, DUoS charges for consumers in Profile Classes 5-8 will be billed on a site-specific rather than an aggregate basis. These respondents suggested that P272 may be implemented more efficiently if market arrangements allowed for aggregation of DUoS bills for some or all consumers in Profile Classes 5-8. Aggregation of bills for DUoS charges would require a further modification to the BSC. Such a modification would need to consider the reduced costs in relation to billing against the dampening of price signals that aggregate billing could deliver.

Direction to BSC Panel

Paragraph 2.11.18 in Section F of the BSC sets out that Ofgem may direct the BSC Panel to consult on a revised proposed implementation date for a modification. The BSC provides for us to do so where we consider that the proposed implementation date is, or may no longer be, appropriate or might otherwise prevent us from making a decision due to the passing of time.

As described above, respondents to the consultation have reinforced our view that our decision on P272 Alternative should take into account ongoing industry work that is seeking to put in place new HH DUoS tariffs for Profile Classes 5-8 and is considering aggregated billing of HH sites. The current proposed implementation date for P272 Alternative of 1 April 2015 will not allow us to do so because it requires that Ofgem issues a decision by 13 February 2014 to allow industry 13 months and two weeks implementation lead time. For this reason, we are directing the BSC Panel to consult on a revised proposed implementation date for P272 Alternative.

⁷ DCUSA Change Proposal 179 is the current proposal to modify the charging methodology set out in the DCUSA.

⁸ As set out in Standard Condition C3 (3) of the electricity transmission licence.

We recognise that the proposed changes to DUoS charging arrangements are undergoing assessment by the industry as per the DCUSA governance arrangements. Our decision on any modifications will be assessed against the DCUSA objectives and our statutory duties. The content of this letter is without prejudice to Ofgem's discretion in respect of any such modifications.

We understand that the ambition is to implement changes to the DCUSA by April 2015. We urge industry to progress work to meet this target. Based on this timescale, we recommend that the BSC Panel consults on a revised proposed implementation date for P272 Alternative that would mandate that all consumers in Profile Classes 5-8 are settled HH by a date that falls between April and June 2016. Our recommendation is subject to the progress of relevant changes to the DCUSA, which might require the BSC Panel to consider a later revised proposed implementation date for P272 Alternative.

In directing the BSC Panel, paragraph 2.11.22 in Section F of the BSC sets out that Ofgem may specify that the revised proposed implementation date shall not be prior to a specified date. Based on our understanding of the timescale for implementing changes to the DCUSA, we specify that the revised proposed implementation date for P272 Alternative shall not fall before 1 April 2016. The revised proposed implementation date should fall on or as soon as is possible after this date, noting the interactions with relevant changes to the DCUSA discussed above.

We also recommend that the BSC Panel conducts its consultation on the revised proposed implementation date in a way that allows it to provide a recommendation to Ofgem as soon as it is able once there is clarity on the timetable for any relevant changes to the DCUSA.

Next steps

In coming to a final decision on P272, we will take into account the progress of DCUSA changes as well as any other new developments relevant to our assessment of the modification. We will also take the decision in light of a full appraisal of the views raised by respondents to our impact assessment. Our final decision on P272 will explain how we took into account responses to our impact assessment consultation.

Alongside this letter, we have published today another letter that sets out our expectations with regard to industry's role in helping to support realisation of the benefits of smart metering.⁹ The importance of this role has been highlighted by P272. The letter highlights our concern at the lack of co-ordination between industry parties - suppliers and electricity distribution networks (DNOs) alike - which is hindering the timely consideration of code modifications, the consideration of cross-code issues and delaying the realisation of smart metering benefits for consumers.

If you would like to discuss this letter further please contact Jonathan Amos or Grant McEachran at smartermarkets@ofgem.gov.uk. I look forward to your response.

Yours sincerely,



Rachel Fletcher
Interim Senior Partner, Markets

⁹ Ofgem, 2014. *Industry role in creating market conditions necessary to support realisation of the benefits of smart metering.*