

**P272 Assessment Consultation July 2012 on Costs**

What stage is this document in the process?

**01** Initial Written Assessment

**02** Definition Procedure

**03** Assessment Procedure

**04** Report Phase

# P272: Mandatory Half Hourly Settlement for Profile Classes 5-8

The BSC does not currently obligate the use of Half Hourly Settlement for Meters in Non Half-Hourly Profile Classes 5-8. However, some Metering Equipment is already capable of capturing Half Hourly data, and by 2014 the vast majority of such Meters will be capable due to the roll out of 'advanced' Meters with Half-Hourly and remote-reading capability.

P272 proposes to make Half Hourly Settlement mandatory for Profile Classes 5-8, as the use of Non Half Hourly data is not as accurate and masks individual customer behaviour.

This Assessment Consultation on Costs for P272 closes:

**5pm on Friday 27 July 2012**

The Workgroup may not be able to consider late responses.



**High Impact:**  
Meter Operator Agents (MOAs), Half Hourly Data Collectors (HHDCs), Non Half-Hourly Data Collectors (NHHDCs), Suppliers



**Medium Impact:**  
Licensed Distribution Service Operators (LDSOs), meter operators



**Low Impact:**  
ELEXON

## Contents

<b>1</b>	<b>Purpose of Consultation</b>	<b>3</b>
<b>2</b>	<b>Approach to assessing the Cost and Benefits of P272</b>	<b>4</b>
<b>3</b>	<b>Consultation Questions</b>	<b>7</b>

## About this Document

The purpose of this P272 Assessment Consultation is to invite BSC Parties' and other interested parties' to provide additional detail on the impacts and costs that would be incurred if P272 was implemented. The P272 Modification Group will discuss these consultation responses, before making a recommendation to the Panel in November 2012 on whether to approve P272.

There are 3 parts to this document:

- This is the main consultation document. It provides details of the purpose of the consultation, progress of P272 and the consultation questions
- Attachment A contains additional information to help respondents answer the consultation questions
- Attachment B contains the specific questions on which the Workgroup seeks your views. Please use this form to provide your response to these questions.



### Any questions?

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P272  
Assessment Consultation

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Page 2 of 8

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# 1 Purpose of Consultation

## Background

The P272 Workgroup has previously issued Impact Assessments and Consultations (these can be found on the [P272](#) page of the ELEXON website). However, when ELEXON took the Assessment Report to the Panel in January 2012, the Panel decided not to progress P272 to Report Phase and agreed to keep it in the Assessment Procedure.

The Panel noted concerns from Ofgem that there was difficulty in assessing the costs and benefits of P272 which in turn would make it difficult to make a determination on the Modification at that point in time. Furthermore, developments in the market over the coming year may make some of the 'unknowns known' and at that stage the Modification Group would be better placed to complete further analysis of the P272 solution and return to the Panel in September 2012.

The Panel agreed with this and noted that they would like to see more detailed analysis of the costs and benefits. The Panel agreed that the Workgroup should undertake further scenario modelling and provide additional information so as to better understand and quantify the costs and benefits associated with the proposed change.

The Workgroup have developed the scenarios, explored the various cost categories and agreed the structure of the cost benefit analysis. The Workgroup has also identified the most appropriate information to seek from market participants that would provide the greatest benefit to the cost benefit analysis.

This consultation focuses on the cost impacts of the Proposed P272 Solution. There will be a separate consultation in August that will examine the proposed benefits associated with P272.

The results of both consultations will then be assessed by the Workgroup and used as part of their cost benefit analysis.

## Costs

Cost categories for parties needed to be identified to facilitate the IA consultation for the cost benefit analysis for P272. Some costs categories were identified from the PSRG CBA and the previous Consultations for P272 whilst others were identified during the last Workgroup meeting.

Crucially when we speak of costs throughout this consultation we are keen to emphasise that by costs we mean specifically all additional costs for HH Settlement above and beyond the Supplier licence requirement of having Advanced meters for customers in Profile Classes 5-8. For example the cost of the actual meter itself and any installation costs would not be applicable as these costs are sunk within the Supplier licence requirement.

To help the Workgroup complete the cost benefit analysis, please provide a breakdown of the costs you will incur if P272 is implemented (and for the counterfactual cases) in as much detail as possible. Please also explain the assumptions underlying the costs estimates. This information will enable us get a clearer picture of the impact across the industry for Suppliers, Agents, Distribution Businesses, etc.

## Benefits

This consultation does not seek to quantify the benefits for P272, which will be the subject of a further consultation.

## Confidentiality

If you wish your responses to remain confidential please note this in your response. Any confidential responses will not be shared with the Workgroup, but may be shared with Ofgem. Furthermore, should you not wish to share these responses with ELEXON you can submit these direct to Ofgem.

## Further information

Please go to the [P272](#) page of the ELEXON website for all documentation on the assessment of P272 to date, including previous consultations, impact assessment and market participant responses.

## 2 Approach to assessing the Cost and Benefits of P272

The P272 Group submitted the Assessment report in January 2012 to the Panel. On the guidance of Ofgem, the Panel agreed to keep P272 within the Assessment Procedure, noting that Ofgem would return to the Panel March with a detailed plan of what additional analysis that would be need to be conducted.

The Panel noted concerns from Ofgem that the Assessment Report has not addressed difficulties in assessing the costs and benefits of P272 which in turn would make it difficult to make a determination on the Modification at that point in time.

Furthermore, developments in the market over the coming year may make some of the 'unknowns known' and at that stage the Modification Group would be better placed to complete further analysis of the P272 solution and return to the Panel in September.

In April, ELEXON, Ofgem and the Workgroup developed an approach to assessing the costs and benefits associated with P272.

The P272 Workgroup met on the 3 May to agree the approach, the workgroup unanimously agreed that conducting Scenario analysis along with long term modelling was the correct approach. However, the group raised some concerns around identifying specific costs and benefits. ELEXON and Ofgem undertook further work to identify specific cost categories and an approach for calculating the P272 benefits.

The Workgroup met on the 25 June to define specific cost categories that would need to be identified to ensure accurate costs would be provided when industry responded to the consultation. The Workgroup also identified specific benefits and agreed a projected timescale and specific scenarios for the analysis of Modelling.

However, there was still concern surrounding the benefits element of P272 cost benefit analysis and the workgroup noted the difficulty that respondents would have to provide associated 'pound signs' next to each benefit identified. Therefore, further work is required to drill down on each of the benefits, which mean that two consultations (separating costs and benefits) will be undertaken.

This first consultation will focus upon the cost impacts associated with P272. This information will help facilitate the cost analysis and assessment by the Workgroup. Whilst this cost consultation is underway the Workgroup and ELEXON (with support from Ofgem) will develop a methodology for each benefit. The second consultation will seek views on these methodologies and calculated benefits and will seek specific information from market participants that will help the Workgroup to calculate the potential scale of the benefits.

## Assessing P272

The Workgroup agreed with Panel and Ofgem that Modification P272 has the potential to deliver significant benefits for consumers. The Workgroup believe that a standard approach to Cost Benefit analysis would be the appropriate course of action, modelling the cost and benefits over a set period time period.

To do this the Workgroup identified five steps of that they would need to progress in order to complete the analysis of P272:

### Step 1 - Establish potential take-up scenarios

To complete step 1 the Workgroup sought to define the drivers behind take up, for example costs, benefits and any impact upon completion. They also needed to take into account a range of counterfactual (or base case) scenarios<sup>1</sup> for comparison purposes and to help identify the detailed costs and benefits.

There are 4 Scenarios, 1 for P272 and 3 counterfactual as follows:

- Scenario 1: P272 is implemented as of the 1 April 2014;
- Scenario 2: P272 is not implemented and the HH market for elective remains at the same level (as of July 2012);
- Scenario 3: All PC5-8 customers move elective Half Hourly by 2020; and
- Scenario 4: 50% of PC5-8 customers move elective Half Hourly by 2020.

The fundamental proposition behind this step is that costs and benefits are driven by the level of take-up. By comparing P272 implementation with alternative scenarios, the Workgroup can assess the potential impact of implementation.

### Step 2 - Establish how industry costs would change according to the level of take up

The questions in this consultation aim to gather information of the cost according to level of take up (see Step 1). From the information we receive the Group will be able to extrapolate whether there are specific barriers involved with the cost of take up that would either prevent or encourage further take up.

### Step 3 - Estimate benefits, quantify where possible

The Panel specifically wanted the Workgroup to examine in further detail all possible benefits related to the introduction of P272, again by examining the benefits associated with each of the above scenarios, to allow comparison. The group are currently identifying a full range of potential benefits which will be detailed in the follow up consultation document.

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<sup>1</sup> Please see attachment A

In order to do this the Group are prioritising their assessment by examining:

- Which benefits can be quantified?
- Where are the biggest wins?
- The link between benefits and take up where possible.

The Group aims to be clear about the approach to qualitative impacts by defining:

- What is the effect?
- Whether this is sensitive to the scenarios?
- Whilst trying to link this with any quantitative assessment where possible.

An example of the thought process the Group are going through to come to their conclusions is shown below.

- Suppliers will be settled against actual consumption rather than profiles
- Therefore Suppliers will purchase energy to meet forecast of actual demand (Materiality depends on inaccuracy of profiles & Supplier forecasting, backed by analysis) and therefore they will have reduced imbalance costs
- The System Operator as a result will take fewer actions to balance the system (Materiality depends on cost of balancing actions, backed by analysis)
- Which facilitates BSC Objectives (b) and (c)

## **Step 4 - Compare P272 implementation with counterfactual scenarios**

Once the Group has compiled the associated costs and benefits of P272 they will compare the implementation costs and benefits with the counterfactual scenarios and undertake sensitivity testing.

The group is aware however of the need to deal with uncertainty. For example, the original assessment report identified Distribution Use of System (DUoS) charging as a key barrier to half-hourly settlement. To overcome this, the Group is conducting on-going work to address two specific areas:

- Site-specific billing; and
- Structure of the charging methodology.

The Analysis the work will undertake once the two consultations have been completed will accommodate uncertainty as they have a range of scenarios which will reflect a range of outcomes. Additionally the cost aspect of the analysis will quantify the impact of site-specific billing.

## **Step 5 - Assess any impacts on competition, distribution of costs & benefits**

The Group will need to consider competitive and distributional impacts of P272. The Group have identified specific areas to explore:

- Portfolio impacts (impacts on costs – variability, and the impact on tariff offers;
- The differences in customer base – unwinding cross-subsidies and the associated impact on tariff offers;
- Procurement of metering services; and
- Revisit PSRG analysis on DUoS charging.

### 3 Consultation Questions

Please respond to this consultation using the response form in Attachment B.

Respondent:	Your name
Company name:	Your company name
Number of BSC Parties represented	Please give the total number of BSC Parties on whose behalf you are responding (including your own organisation if relevant)
Names of BSC Parties represented	Please list the names of all BSC Parties on whose behalf you are responding (including the name of your own organisation if relevant)
Number of non-Parties represented	Please give the total number of non-Parties (e.g. Party Agents, consultancies) on whose behalf you are responding (including your own organisation if relevant)
Names of non-Parties represented	Please list the names of all non-Parties on whose behalf you are responding (including the name of your own organisation if relevant)
Role of Parties/non-Parties represented	Please state the industry role of the Parties/non-Parties on whose behalf you are responding (including the role of your own organisation if relevant) – e.g. Supplier/Generator/Trader/Consolidator/Exemptable Generator/BSC Agent/Party Agent/Distributors/other – please state
Does this response contain confidential information?	If yes, then please clearly show which information is confidential.

Please respond to the following questions, providing costs as appropriate.

#### Question 1

How much incremental cost would you incur to move the following proportion of your current portfolio to half-hourly settlement?

- Scenario 1: P272 is implemented as of the 1 April 2014;
- Scenario 2: P272 is not implemented and the HH market for elective remains at the same level (as of July 2012) ;
- Scenario 3: All PC5-8 customers move elective Half Hourly by 2020; and
- Scenario 4: 50% of PC5-8 customers move elective Half Hourly by 2020.

We will be using this data to estimate the cost of different levels of take up of half-hourly settlement across today's market. Please therefore base your estimates on your view of current implementation costs.

In providing data, you should:

- Include only incremental costs that are incurred as a direct result of customers moving to half-hourly settlement. Respondents should not include costs incurred in meeting the obligation to roll-out advanced metering to profile Class 5-8 sites;
- Submit costs data per half-hourly settled customer or as a total for all half-hourly settled customers (in each scenario);

- For each scenario, assume that the same proportion of all suppliers' Profile Class 5-8 sites also move to half-hourly settlement; and
- Use the cost categories listed in Attachment A. Each category has been specified as a one-off or on-going cost.

Where you are unable to provide costs at the granularity requested, you should:

- Ensure their responses comprehensively include all incremental costs;
- Map your data to the requested cost categories; and
- Explain the rationale behind your cost estimates.

## Question 2

For the costs you have submitted in response to Question 1:

- In each scenario, would the costs be affected if the half-hourly sites could be settled on an aggregate (all customers for a supplier being billed as one customer) rather than site-specific basis?

If so, please estimate the cost increase or decrease as a result of settling these sites on an aggregate basis?

In providing data, you should explain the rationale behind any cost changes.

## Question 3

Within the counterfactual scenario ranges, are there any levels of take up where constraints on your *capacity* to accommodate half-hourly settled customers would require you to incur one-off expenditure to increase this capacity. If so;

- At what level of take up do these constraints bite?
- What would be the one-off costs that you incur?

In providing data, you should explain the rationale behind your cost estimates.

This question seeks to reveal more information about the cost curve, such as whether it is linear or whether capacity constraints and the characteristics of investing in capacity to accommodate Half Hourly Settlement mean that this cost curve is irregular.