

## P346 'Change to Specified Charges for Elective Half Hourly Settlement'

This Modification looks to amend the BSC Specified Charging Methodology to remove a barrier to Elective Half Hourly (HH) Settlement.



ELEXON recommends P346 is progressed to the Assessment Procedure for an assessment by a Workgroup

This Modification is expected to impact:

- Suppliers
- ELEXON

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## About This Document

This document is an Initial Written Assessment (IWA), which ELEXON will present to the Panel on 14 July 2016. The Panel will consider the recommendations and agree how to progress P346.

There are two parts to this document:

- This is the main document. It provides details of the Modification Proposal, an assessment of the potential impacts and a recommendation of how the Modification should progress, including the Workgroup's proposed membership and Terms of Reference.
- Attachment A contains the P346 Proposal Form.



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# 1 Why Change?

## History of the change

On 5 April 2016 Ofgem held a stakeholder event on the future of Electricity Market Elective HH Settlement. This was to further investigate issues raised in response to the December 2015 open letter on HH Settlement.

In May 2016 [a conclusions paper](#) was published. Under section 5.27 of the paper it was recommended that a Supplier should raise a Modification to the BSC to reform the pricing structure for Elective HH Settlement.

## How are SVA Charges recovered from participants?

BSCCo Charges are recovered from all BSC Parties in line with BSC Section D 'BSC Cost Recovery and Participation Charges'. A portion of these charges relate to the operational aspects of the Supplier Volume Allocation (SVA) systems, and these SVA Charges are split equally between Generators and Suppliers.

- Generators contribute to the Production half, with these costs referred to as the Production Charging SVA Costs.
- Suppliers pay the other half of the SVA Charges, with this portion split between the SVA Specified Charge and the Monthly Consumption Charging Net SVA Costs.

The SVA Specified Charge is a fixed tariff levied on Suppliers based on the number of HH Metering Systems that they are the Registrant. This charge is re-determined annually, with the intent that it recovers approximately half of the 'Supplier' share of the total SVA Charges. The charge for the 2016/17 BSC Year has been set at £0.35 per HH Metering System Identifier (MSID) per calendar month. Suppliers are therefore allocated this charge based on the number of HH Metering Systems they have registered.

The remainder of the 'Supplier' share of the SVA Charges is allocated through the Consumption Charging Net SVA Costs. This portion of costs is levied on Suppliers based on their SVA (Consumption) Funding Share. This Funding Share, determined for each calendar month, is based on each Supplier's Non Half Hourly (NHH) Supplier Deemed Take (the volume of energy deemed to have been consumed through NHH Metering Systems) as a ratio of the total NHH Supplier Deemed Take. Suppliers are therefore allocated this charge based on the proportion of the total NHH energy their customers have consumed.

## What is the issue?

The current methodology does not cater for the different types of HH Measurement Classes, so all HH Metering Systems are charged at the same fixed rate regardless of the end customer (e.g. a large industrial unit or a domestic customer). Due to this single charge for all HH sites, each individual domestic customer electing into HH Settlement will result in an approximate £2.00 cost to the Supplier per MSID annually. This cost is based on estimations that ELEXON completed for the Settlement Review Advisory Group (SRAG). In the calculation an assumption was made that with increased volumes of HH sites due to the smart meter roll out, the current charge of £0.35 per calendar month would reduce.



## Measurement Classes

The Measurement Class of a Metering System reflects how it is settled i.e. HH or NHH. There are seven Measurement Classes:

- A: NHH metered
- B: NHH Unmetered Supply (UMS)
- C: 100kW or above HH metered
- D: HH equivalent UMS
- E: HH current transformer (CT) Metering Systems that have site specific DUoS billing and are not 100kW Metering Systems
- F: domestic HH CT and whole current (WC) Metering Systems that have aggregated DUoS billing and are not 100kW Metering Systems
- G: non-domestic HH WC metered Metering Systems that have aggregated DUoS billing and are not 100kW Metering Systems

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The cost increase of HH Charges versus Charging DCC enrolled meters as NHH ,may act as a disincentive to Suppliers promoting Elective HH Settlement in the market, limiting the number of domestic and small non-domestic customers entering into HH Settlement.



### Proposed solution

[P346 'Change to Specified Charges for Elective Half Hourly Settlement'](#) was raised by British Gas on 23 June 2016. It proposes that the SVA Charges are modified to reflect the different types of HH customer and the level of strain they put on BSC Systems. This will remove the barrier and encourage Suppliers to be active in the Elective HH market.

The Proposer has identified two potential solutions:

1. Charge HH sites in Measurement Class C as they are currently (using the SVA Specified Charge) but charging sites in Measurement Classes "E", "F" and "G" through the NHH method (using the SVA (Consumption) Funding Share). This would have the effect of applying the same charges going forward as have been historically.
2. Create a new SVA Specified Charge to reflect the different customer types in the HH market. There would be one tariff applied to Measurement Class "C" and a separate new tariff for Measurement Classes "E", "F" and "G". This method would reflect that the demands on the SVA systems are not the same, reducing the cost to Suppliers if they wish to promote the HH market to their customers.

The Proposer considers that solution 1 would be the simpler approach to removing the cost. However, this is only possible if the Workgroup determines there are no further costs that need to be recovered for HH Metering Systems. If there is a cost associated with HH Metering Systems then Method 2 would provide a means to recover these costs while differentiating between the different types of customer in the HH market. They also note that there are potentially extra costs within NHH Charging which do not apply to HH Meters.

No changes are proposed to any charges relating to Measurement Classes "A", "B" and "D".

### Applicable BSC Objectives

#### Applicable BSC Objective (c)

The Proposer believes that removing barriers to HH Elective Settlement will allow Suppliers, who choose to, to develop innovative new products for elective HH sites. This will increase competition by enabling the development of a range of product offerings.

#### Applicable BSC Objective (d)

The Proposer believes reducing the cost of HH Settlement for domestic and small non-domestic sites will increase the number of HH sites in the market. Settlement accuracy will be improved as well as the speed that consumption is entered into Settlement.

The current Specified Charges within the BSC are set at a limit to allow ELEXON to recover its costs in line with expectations. Should Elective HH Settlement occur in any significant volumes ELEXON may over-recover its costs under the current mechanism, which would have to later be corrected through future cost recovery adjustments. This Modification would remove any potential inefficiency in the Code Administration by removing this possibility.

### What are the Applicable BSC Objectives?

(a) The efficient discharge by the Transmission Company of the obligations imposed upon it by the Transmission Licence

(b) The efficient, economic and co-ordinated operation of the National Electricity Transmission System

(c) Promoting effective competition in the generation and supply of electricity and (so far as consistent therewith) promoting such competition in the sale and purchase of electricity

(d) Promoting efficiency in the implementation of the balancing and settlement arrangements

(e) Compliance with the Electricity Regulation and any relevant legally binding decision of the European Commission and/or the Agency [for the Co-operation of Energy Regulators]

(f) Implementing and administering the arrangements for the operation of contracts for difference and arrangements that facilitate the operation of a capacity market pursuant to EMR legislation

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### 3 Areas to Consider

In this section we highlight areas which we believe the Panel should consider when making its decision on progression of this Modification Proposal, and which a Workgroup should consider as part of its assessment of P346. We recommend that the areas below form the basis of a Workgroup's Terms of Reference, supplemented with any further areas specified by the Panel.

#### Is potential solution 1 or 2 the most appropriate to take forward and approve?

Proposed solution 1 is potentially simpler but may not be the most appropriate as it would apply some NHH Specific Charges to HH sites. Proposed solution 2 may be more effective but will require more significant changes to BSC Section D. The Workgroup should consider the two potential solutions and any other options to determine which provides the best outcome for all BSC Parties.

#### Recovery of costs for NHH-specific services

The total SVA Charges include the costs of services that are not required by HH Meters, such as Tele-switch and Software support. The Workgroup should consider if the changes to the charging structure should include changes to the way these services are accounted for.

#### Accuracy of proposed Method 2

The Workgroup should consider if the proposed method of creating two SVA Specified Charge tariffs be accurate enough to account for the differences between the different Measurement Classes?

#### Future Changes to Measurement Classes "F" and "G"

BSC Modification [P339 – 'Introduction of new Consumption Component Classes for Measurement Classes E-G'](#) seeks to introduce new Consumption Component Classes (CCCs) for Measurement Classes "E", "F" and "G" to enable aggregated consumption volumes for both Active Import (AI) and Active Export (AE) to be identified separately. If implemented the new CCCs will provide the opportunity split out consumption for these Measurement Classes separately. This will allow the methodology and application of Specified Charges to be reconsidered. Proposed Modification P346 does not have a dependency on P339.

#### Section D Terminology

Approved Modification [P273 'Make the SVA Funding Share Calculation robust to changes in Scaling Weights'](#) made changes to the algebra in BSC Section D Annex D-1 to define terms using NHH terminology. The Modification's solution involved defining a new term, 'Non Half Hourly Supplier Deemed Take' (NHSDT), to be used in the calculation of the SVA (Consumption) Funding Share. The Workgroup should consider whether further changes



#### What are the Self-Governance Criteria?

A Modification that, if implemented:

(a) is unlikely to have a material effect on:  
(i) existing or future electricity consumers; and  
(ii) competition in the generation, distribution, or supply of electricity or any commercial activities connected with the generation, distribution, or supply of electricity; and  
(iii) the operation of the national electricity transmission system; and  
(iv) matters relating to sustainable development, safety or security of supply, or the management of market or network emergencies; and  
(v) the Code's governance procedures or modification procedures; and

(b) is unlikely to discriminate between different classes of Parties.

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are required in this Section to define any new calculation for a combined HH/NHH SVA (Consumption) Funding Share under proposed Method 1.

## Should P346 be progressed as a Self-Governance Modification?

We consider that P346 may have material impacts on BSC Parties and commercial activities connected with the generation, distribution, or supply of electricity, as it seeks to amend the Specific Charging methodology. We therefore consider that P346 does not meet the Self-Governance Criteria and should not be progressed as a Self-Governance Modification. We believe the Workgroup should consider this point and make a recommendation to the Panel in its Assessment Report.

## Areas to consider

The table below summarises the areas we believe a Modification Workgroup should consider as part of its assessment of P346:

Areas to Consider
Is potential solution 1 or 2 the most appropriate to take forward and approve?
Is it appropriate to recover costs for NHH specific services from Elective HH sites?
Is the accuracy of proposed Method 2 acceptable?
Is the Modification impacted by future changes to Measurement Classes F and G?
What changes are required to Section D Terminology?
Should P346 be progressed as a Self-Governance Modification?
What changes are needed to BSC documents, systems and processes to support P346 and what are the related costs and lead times?
Are there any Alternative Modifications?
Does P346 better facilitate the Applicable BSC Objectives than the current baseline?

## 4 Proposed Progression

### Next steps

We believe that P346 should go into an Assessment Procedure so that a Workgroup can consider the areas set out in Section 3.

### Workgroup membership

We recommend that the P346 Workgroup should be formed of experts on HH and NHH Specific Charges and Settlement along with any other relevant experts and interested parties.

### Timetable

We recommend that P346 undergoes a three month Assessment Procedure, with the Assessment Report being presented to the Panel at its meeting on 13 October 2016. This will allow time for the Workgroup to discuss the areas in Section 3 and develop the solution before issuing its 15 Working Day industry consultation.

Proposed Progression Timetable for P346	
Event	Date
Present Initial Written Assessment to Panel	14 Jul 16
Initial Workgroup Meetings	W/C 29 Jul 16
Industry Impact Assessment and Consultation	10 Aug 16 – 24 Aug 16
Further Workgroup Meetings	W/C 29 Aug 16
Assessment Procedure Consultation	09 Sep 16 – 27 Sep 16
Final Workgroup Meeting	W/C 26 Sep 16
Present Assessment Report to Panel	13 Oct 16
Report Phase Consultation (13WD)	14 Oct 16 – 01 Nov 16
Present Draft Modification report to Panel	10 Nov 16
Issue Final Modification Report to Authority	11 Nov 16

## 5 Likely Impacts

### Impact on BSC Parties and Party Agents

Party/Party Agent	Potential Impact
Suppliers	Change to costs of HH Settlement

### Impact on Transmission Company

No impact

### Impact on BSCCo

Area of ELEXON	Potential Impact
Finance	Change to Specified Charges Methodology

### Impact on BSC Systems and processes

BSC System/Process	Potential Impact
PARMS	Potential change to HH algorithm

### Impact on Code

Code Section	Potential Impact
Section D	Changes are expected to be required to deliver this Modification.

### Impact on Code Subsidiary Documents

CSD	Potential Impact
To be determined	

### Impact on other documents

Document	Potential Impact
Specified Charges Guidance notes	Changes will be required as part of this Modification
Specified Charges Simple Guide	

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## 6 Recommendations

We invite the Panel to:

- **AGREE** that P346 progresses to the Assessment Procedure;
- **AGREE** the proposed Assessment Procedure timetable;
- **AGREE** the proposed membership for the P346 Workgroup; and
- **AGREE** the Workgroup's Terms of Reference.

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## Appendix 1: Glossary & References

### Acronyms

Acronyms used in this document are listed in the table below

Acronym	
Acronym	Definition
AE	Active Export
AI	Active Import
CCC's	Component Consumption Classes
HH	Half Hourly
IWA	Initial Written Assessment
MSID	Metering System Identifier
NHH	Non Half Hourly
NHSDT	Non Half Hourly Supplier Deemed Take
SRAG	Settlement Review Advisory Group
SVA	Supplier Volume Allocation

### External links

A summary of all hyperlinks used in this document are listed in the table below.

All external documents and URL links listed are correct as of the date of this document.

External Links		
Page(s)	Description	URL
3	The conclusion paper from Ofgem's consultation on Elective HH Settlement	<a href="https://www.ofgem.gov.uk/system/files/docs/2016/05/elective_hhs_conclusions_paper.pdf">https://www.ofgem.gov.uk/system/files/docs/2016/05/elective_hhs_conclusions_paper.pdf</a>
4	Link to the P346 webpage	<a href="https://www.elexon.co.uk/mod-proposal/p346/">https://www.elexon.co.uk/mod-proposal/p346/</a>
4	Link to the P339 webpage	<a href="https://www.elexon.co.uk/mod-proposal/p339/">https://www.elexon.co.uk/mod-proposal/p339/</a>
4	Link to P273 webpage	<a href="https://www.elexon.co.uk/mod-proposal/p273-make-the-sva-funding-share-calculation-robust-to-changes-in-scaling-weights/">https://www.elexon.co.uk/mod-proposal/p273-make-the-sva-funding-share-calculation-robust-to-changes-in-scaling-weights/</a>

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