

P332 'Revisions to the Supplier Hub Principle'

P332 seeks to address issues associated with customers choosing Party Agents, instead of Party Agents being appointed by Suppliers. It is envisaged that this will be done by making Party Agents signatories to the BSC.



ELEXON recommends P332 is progressed to the Assessment Procedure for assessment by a Workgroup

This Modification is expected to impact:

- BSC Parties (particularly Suppliers)
- Party Agents (Data Collectors, Data Aggregators, Meter Operator Agents and Meter Administrators)
- ELEXON

Phase

Initial Written Assessment

Definition Procedure

Assessment Procedure

Report Phase

Implementation

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About This Document

This document is an Initial Written Assessment (IWA), which ELEXON will present to the Panel on 11 February 2016. The Panel will consider the recommendations and agree how to progress P332.

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 P332 Proposal Form.



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1 Why Change?

SmartestEnergy (the Proposer) raised Modification P332 on 28 January 2016. The Proposer contends that customers choosing their own Agents (instead of Suppliers, as envisaged under the Supplier Hub principle) causes issues, and that these issues would be resolved by making Agents signatories to the BSC.

Background

Issue 50

BSC [Issue 50 'Customer Appointed Agents'](#) was raised by npower on 26 June 2013. This Issue was raised to explore the issues associated with customers contracting with Party Agents ('Agents') directly, and to consider potential ways to address these issues.

The Issue 50 Group's Report to the BSC Panel was tabled at the Panel meeting on 11 September 2014. Following the Issue Group's initial discussions, npower concluded that there was no viable Modification and agreed that the Issue be closed. It was however concluded that potential steps could be undertaken to address customer contracted Supplier Agent performance and non-compliance under the Performance Assurance Framework.

Though no BSC Modification or other change was recommended as a result of Issue 50 it should be noted that the Issue was closed with the agreement of the Proposer after the group's initial discussions. As noted by the P332 Proposer, npower identified four potential solutions for discussion under Issue 50, which were:

- To amend the BSC to reflect the customers' ability to choose their own agent(s).
- To change the Qualification process to ensure that customer chosen agents have measures to ensure that non contract services are provided for customers where required.
- A combination of the two above approaches.
- To look at alternative arrangements that could be made outside and/or within the BSC.

What is the issue?

Supplier Hub principle and Suppliers choosing Agents

The BSC envisages that the appointment of Agents will be carried out in accordance with the Supplier Hub principle, under which the Supplier selects and appoints the Agent.

However, some customers choose Agents themselves and contract directly with those Agents. In this situation the Supplier is effectively compelled to appoint the customer's chosen Agent. The BSC facilitates the Supplier Hub principle and is silent on 'customer appointed Agents'. However, the Proposer estimates that 90% of MPANs in the I&C sector are associated with direct contracts between customer and Agent.

The Proposer acknowledges that the industry has evolved to recognise customers' right to choose their own Agents, and for Agents to market their services to customers. However, the Proposer contends that customers typically do not know which services are required

for Settlement purposes and which are “value-added”, and that this causes confusion over what the customer is paying for and what the Agent or Supplier must pay for.

P332 contends that the appointment, effectively, of Agents by customers (outside of the Supplier Hub principle), makes the management of Agent performance and delivery of obligations within the BSC very difficult, resulting in:

- A reduction in Suppliers’ ability to manage performance against industry targets;
- The risk of non-delivery of specific obligations; and
- A conflict of interest as the Agent effectively has two ‘customers’, the Supplier and the end user customer who provides the Agent’s revenue.

The Proposer believes that, while customers choosing Agents is not a new concept, it is increasingly popular and may become more prevalent with the roll out of smart metering and smaller business or residential consumers potentially forming consortia to get the best energy deal. P332 also identifies that Third Party Intermediaries (TPIs) also often have their own preferred Agents, and the number of customers using TPIs is increasing.

Examples of issues

The P332 Modification Proposal (Attachment A) summarises in detail the issues that the Proposer contends are caused by customers choosing and contracting directly with Agents. In brief, these are:

1. Conflict between Supplier Hub process and customers choosing Agents.
2. No process for Suppliers to know when an Agent’s contract with a customer ends.
3. Impact on the commercial relationship and agreements between Supplier and Agent.
4. Change of Tenancy (CoT) related issues.
5. Advanced Meter Reading (AMR) metering with no activated communications:
 - Customer has not arranged for its Meter Operator Agent (MOA) to activate communications; and/or
 - Customer has not contracted a Data Collector (DC) to carry out site visits to read meters.

The Proposer states that these issues have significant impacts on Settlement and Party performance. The P332 Proposal contends that a specific incident in November, involving an error by a Half Hourly Data Aggregator which affected several Suppliers, provides further evidence that Agents should be independently accountable under the BSC.

Participation by Agents

As well as the issues identified, the Proposer notes that though Agents are not signatories to the BSC they attend various working groups and committees and participate in the development of the arrangements, but do not have the ability to raise BSC Modifications (or Change Proposals). The Proposer believes enabling Agents to raise change would contribute to satisfying an Ofgem concern that changes which are not in the interests of Parties are not raised. P332 contends that increasing the range of Parties able to raise BSC changes would facilitate innovation.

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Proposed solution

P332 aims to ensure that obligations and incentives are correctly targeted so Suppliers do not suffer because of the actions (or inaction) of Agents and, conversely, Agents are not penalised for failures of Suppliers.

The main proposal to achieve this is to make Agents signatories to the BSC, revising the Supplier Hub principle to take into account that Suppliers do not always have a contractual relationship with the Agents they are supposed to be managing. The Proposer has also identified for consideration some likely elements of the solution, other possible approaches that could be employed and limits that could potentially be imposed on the solution.

The Proposer's summary of the main changes they anticipate is:

- Data Collectors, Data Aggregators, Meter Operator Agents and Meter Administrators become signatories to the BSC.
- Accreditation and continued fulfilment of these roles is contingent on being a signatory.
- Agents become directly responsible for meeting relevant BSC/BSCP requirements/standards.
- PARMs and Supplier Charges are reviewed and changed as appropriate.

The Proposer believes there are likely to be changes required to the areas of the Code which cover performance assurance, qualification and the constitution of committees, etc.

Make Agents signatories to the BSC

The BSC arrangements are based around the principle of the Supplier Hub, which requires Suppliers to manage Agent performance and ensure Agents meet their responsibilities. Suppliers usually manage this through contracts with Agents.

This Modification seeks to make Agents signatories to the BSC, and make all of their activities directly accountable to the Performance Assurance Board (PAB)/ELEXON.

The breach and default process under Section H3 ('Default') of the BSC applies only to BSC Parties. The Proposer believes it would be appropriate for Agents to be subject to the ultimate sanctions of a breach where their performance is deemed unacceptable.

Solution elements, possible approaches and potential limits

Supplier Charges

The Proposer believes Agent performance would improve if there were a direct relationship between the BSC/ELEXON and Agents, but notes that any possible P332 solution would mean applying standards to Agents. The Proposer therefore believes the nature of Supplier Charges would have to be revisited as part of this Modification.

The Proposer suggests that an area for exploration could be to target Supplier Charges on the causes of poor performance rather than actual poor performance. They believe this would help clarify whether the Agent or Supplier is at fault for actual Meter readings not

entering Settlement, e.g. it could be that an Agent may not be held accountable for not sending a D0268 'Half Hourly Meter Technical Details' Data Transfer Network (DTN) flow if an appointment had not been sent by the Supplier.



Potentially limited solution

The Proposer suggests that another approach could be to revise the Supplier Hub principle only where there is no contractual relationship between the customer and Supplier, and to monitor performance accordingly. This would probably require identifying the relevant contractual situation (i.e. introducing the concept of a Customer Appointed Agent to the BSC) on the appointment flows (a DTC change).

Obligate Agents to remain until another Agent is appointed

To tackle the situation where an Agent's appointment ends by virtue of its contract with its customer ending, the Proposer notes a solution could be that, as a Supplier remains the Supplier until a change of Supplier (CoS) is initiated, the Agent must remain in place until another Agent is appointed. The BSC currently places an obligation on the Supplier to ensure that an Agent is appointed.

Potential to limit the scope to HH Agents

The Proposer suggests there may be an argument to limit the scope of P332 to Half Hourly Agents only given the advent of the DCC, but that this needs further consideration in the light of current uncertainty over future Agent activity for Settlement processes for smart meters.

Applicable BSC Objectives

The Proposer believes that P332 would better facilitate Applicable BSC Objectives (c) and (d) compared with the existing baseline for the reasons set out below.

Objective (c)

The Proposer contends that this Objective would be better facilitated because the Modification would ensure customers would receive comparable levels of service regardless of whether their Agent is customer appointed or Supplier appointed.

In addition, the Proposer contends that P332 would mean that Suppliers are not disadvantaged commercially by the appointment of Agents by customers.

Objective (d)

The Proposer contends that this Objective would be better facilitated because a direct relationship between ELEXON and Agents would lead to better and more consistent performance by Agents.

The Proposer also believes that efficiency in the arrangements would be enhanced by Agents being able to raise BSC changes (Modifications and Change Proposals).

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

This section sets out areas which we believe the Panel should consider when making its decision on how to progress P332, and which a Workgroup should consider as part of its assessment of P332. 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.

Though not directly relevant to assessment against the Applicable BSC Objectives, the Workgroup may consider the extent to which the impact on customers (of issues and solutions) can be assessed and taken into account.

Customers choosing Agents

What issues are caused by customers choosing Agents?

P332 contends that customers choosing, and contracting directly with, Agents creates issues, as set out in this document and the P332 Modification Proposal. The Workgroup should consider and seek to define and substantiate these issues, and identify any other issues not already captured. The Workgroup should assess issues by clearly identifying the participants or processes that are negatively impacted or at risk as a result.

What is the materiality of the issues?

The Workgroup should evaluate the significance and materiality of the issues and seek to quantify their impact where possible. If it is not possible to quantify impacts, a qualitative assessment should be made. The likely future materiality of issues should be considered.

What means are presently available to address the issues?

The Workgroup should consider whether all currently available methods of addressing the issues identified are being effectively utilised.

What is the best way in principle to address the issues?

The Workgroup should consider how, in principle, the issues can most effectively be addressed, e.g. obligations, monitoring, incentives/penalties.

P332 solution

Develop the P332 Proposed Modification solution

The Proposer has control over the Proposed Modification. The Workgroup should assist the Proposer in developing the Proposed solution, taking into account the impact of the solution centrally and on industry participants.

Depending on how the solution is developed, examples of the kind of aspects that may be considered are:

- The scope of P332 - HH Agents only, not NHH? Would CVA Agents be included?

- How the requirement for Agents to become signatories is enforced, e.g. would Agents that are signatories have BSC Party status, and the Code reflect that only Parties can operate in an Agent capacity?
- How to take into account services contracted out to third parties.
- Whether an Agent of last resort process is required.

Consider possible P332 Alternative Modification solutions

The Workgroup can put forward an Alternative Modification if it identifies a solution that better facilitates the Applicable BSC Objectives compared with the Proposed Modification. Taking into account the Proposed Modification the Workgroup should explore and assess options it believes could enable the development of an Alternative Modification.

Areas to consider

The table below summarises the areas we believe a Modification Workgroup should consider as part of its assessment of P332.

Areas to Consider
What issues are caused by customers choosing Agents?
What is the materiality of the issues?
What means are presently available to address the issues?
What is the best way in principle to address the issues?
What changes are needed to BSC documents, systems and processes to support P332 and what are the related costs and lead times?
Are there any Alternative Modifications?
Does P332 better facilitate the Applicable BSC Objectives compared with the current baseline?

4 Proposed Progression

Next steps

We believe that P332 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 P332 Workgroup should comprise participants with experience of the Supplier and Agent roles and any other relevant experts and interested parties.

Timetable

P332 is a significant and potentially complex change, seeking to revise the Supplier Hub principle, which underpins much of the BSC arrangements, by requiring Agents to become signatories to the BSC. In addition the scope and details of the solution are not clear at this stage and it is likely that the Proposer and Workgroup will need to carry out substantial work in order to develop and assess the solution(s). A significant amount of work will be required by ELEXON to assess the impact of the solution (and any solution options).

We therefore recommend an initial nine month progression timetable for the P332 Assessment Procedure, with an indicative timetable as set out in the table below. This would see the P332 Assessment Report presented for consideration at the Panel meeting on 10 November 2016. If possible the Assessment Report will be presented to an earlier Panel meeting; equally, depending on how P332 progresses it may be necessary to request an extension, e.g. if further industry consultation is required.

The significance of P332 coupled with the uncertainty around its solution and scope mean that it is only possible to propose an indicative timetable.

Proposed Progression Timetable for P332	
Event	Date
Present Initial Written Assessment to Panel	11 February 2016
Initial Workgroup Meetings	March - May 2016
Industry Impact Assessment & Consultation	June 2016
Further Workgroup Meeting(s)	July - August 2016
Assessment Procedure Consultation	September 2016
Final Workgroup Meeting(s)	October
Present Assessment Report to Panel	10 November 2016
Report Phase Consultation (13WD)	11 - 29 November 2016
Present Draft Modification Report to Panel	8 December 2016
Issue Final Modification Report to Authority	9 December 2016

5 Likely Impacts

P332 is likely to have significant impacts, but until the solution(s) are developed and the scope determined it is not possible to effectively assess the impacts.

Impact on BSC Parties and Party Agents

Party/Party Agent	Potential Impact
Supplier	Revision of Supplier Hub principle
Party Agents	Data Collectors, Data Aggregators, Meter Operator Agents and Meter Administrators become signatories to the BSC

Impact on Transmission Company

None identified (subject to CVA Party Agents not being included)

Impact on BSCCo

To be determined

Impact on BSC Systems and processes

To be determined

6 Recommendations

We invite the Panel to:

- **AGREE** that P332 progresses to the Assessment Procedure;
- **AGREE** the proposed Assessment Procedure timetable;
- **AGREE** the proposed membership for the P332 Workgroup; and
- **AGREE** the Workgroup's Terms of Reference.

Appendix 1: Glossary & References

Acronyms

Acronyms used in this document are listed in the table below.

Acronym	
Acronym	Definition
AMR	Advanced Meter Reading
BSC	Balancing and Settlement Code
CoS	Change of Supplier
CoT	Change of Tenancy
DC	Data Collector
DTN	Data Transfer Network
MOA	Meter Operator Agent
PAB	Performance Assurance Board
TPI	Third Party Intermediary

DTC data flows and data items

DTC data flows and data items referenced in this document are listed in the table below.

DTC Data Flows and Data Items	
Number	Name
D0268	Half Hourly Meter Technical Details

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	Issue 50 page on the ELEXON website	https://www.elexon.co.uk/smg-issue/standing-modification-group-issue-50/