

<b>Modification Proposal – BSCP40/03</b>	<b>MP No: P332</b> <i>(mandatory by BSCCo)</i>
<b>Title of Modification Proposal:</b> Revisions to the Supplier Hub Principle	
<b>Submission Date:</b> 28 January 2016	
<b>Description of Proposed Modification</b>	
<p>Unlike Suppliers, Agents are currently not signatories to the Balancing and Settlement Code (BSC). As such, the BSC arrangements are based around the principle of the ‘Supplier Hub’. This puts a requirement on Suppliers to manage Agent performance and ensure that the Agents meet their responsibilities. Suppliers usually manage this through contracts with the Agents.</p> <p>The purpose of this Modification is to revise the nature of the Supplier Hub principle to take account of the fact that Suppliers do not always have a contractual relationship with the Agents they are supposed to be managing. It is envisaged that this will be done by making Agents signatories to the BSC and making all of their activities directly accountable to the Performance Assurance Board (PAB)/ELEXON.</p> <p>Agents are also not licensed as BSC Parties are (i.e. Suppliers and Distribution Network Operators). We do not see this as an impediment to change. In order to operate in the market Agents need to be accredited and we do not foresee any issues if, in order to become/remain accredited, they must sign up to a BSC which contains direct obligations and possibly financial incentives.</p> <p>At present the breach and default process under Section H3 (‘Default’) of the BSC applies only to BSC Parties and not Agents. We believe it would be appropriate for Agents to be subject to the ultimate sanctions of a breach where their performance is deemed to be unacceptable.</p> <p>Another less extreme solution under this Modification could be to revise the Supplier Hub principle only where there is no contractual relationship between the customer and Supplier and monitoring performance accordingly. This would probably require identifying the relevant contractual situation (i.e. introducing the concept of a Customer Appointed Agent) on the appointment flows (a DTC change).</p> <p>There may also be an argument to limit the scope of this Modification to Half Hourly Agents only given the advent of the DCC. This needs further consideration in the light of the current uncertainty over future Agent activity for Settlement processes for smart meters.</p> <p>We believe, however, that the full version of the Modification (i.e. making all Agents directly accountable for all their activities) can be justified on the grounds that Agent performance generally would improve if there were a direct relationship between ELEXON and Agents. But any version of the Modification would mean applying standards to Agents and the nature of Supplier Charges would have to be revisited as part of this Modification.</p>	

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<p>Indeed, given that in the main Agents already follow the various BSCPs, the greater part of this Modification could be a revamp of Supplier Charges. We are of the view that Supplier Charges are becoming increasingly inappropriate with more and more actual HH data available; the arrangements based on a genuine pre-estimate of loss and for redistributing 90% of the monies to the NHH market clearly need to be revisited soon as a result of P272. Serial SP04 ‘Installation of Half Hourly (HH) Metering’ would also have to be revisited sooner or later as there should be no &lt;100kW meters left which need to go Half Hourly.</p> <p>An area for exploration could be to target Supplier Charges on the causes of poor performance rather than actual poor performance. This would help clarify whether it is the Agent or the Supplier who is at fault for actual meter readings not entering Settlement. For instance, Agents could not be held accountable for not sending at D268 if an appointment had not been sent by the Supplier in the first place.</p> <p>In essence, this Modification is aimed at ensuring that the incentives are in the right place. It is important that Suppliers do not suffer financially because Agents have not invested in their systems and processes but equally Agents should not be penalised for failures on the part of Suppliers.</p> <p>Summary of main anticipated changes:</p> <ul style="list-style-type: none"> <li>• Data Collectors, Data Aggregators, Meter Operators and Meter Administrators become signatories to the BSC.</li> <li>• Accreditation and continued fulfilment of these roles is contingent on being a signatory.</li> <li>• Agents become directly responsible for meeting relevant BSC/BSCP requirements/standards.</li> <li>• PARMs and Supplier Charges are reviewed and changed as appropriate.</li> </ul> <p>There are likely to be changes required to the areas of the Code which cover performance assurance, qualification and the constitution of committees etc.</p>	
<p><b>Description of Issue or Defect that Modification Proposal Seeks to Address</b></p> <p>Issue 50 (sponsored by npower) identified the problem of customers having the ability to choose an Agent of their own choice resulting in Agents not being accountable for their performance in line with the Suppliers’ expectations within the BSC. It was established that the issue affects both the HH and NHH sectors and that the main focus for the customer is energy management, with Meter readings not something it is concerned with. As individual NHH customers are less valuable, there is less of an incentive to resolve issues in that sector; and the whole problem is more of an issue for smaller Suppliers who have less influence over Agents.</p> <p>Potential solutions discussed were:</p>	

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<ul style="list-style-type: none"> <li>• Option 1 – Amend the BSC to reflect the customer’s ability to choose its own agent(s).</li> <li>• Option 2 – Change the qualification process to ensure that customer chosen agents have measures to ensure that non contract services are provided for customers where required.</li> <li>• Option 3 – Combination of the two above approaches.</li> <li>• Option 4 – Look at alternative arrangements that could be made outside and/or within the BSC.</li> </ul> <p>SmartestEnergy estimates that 90% of MPANs in the I&amp;C sector are on directly appointed contracts between customer and Agent. In this situation the Supplier has to appoint the customer’s chosen Agent, as opposed to the process, as captured under the BSC, of the Supplier selecting and appointing the Agent. Industry has evolved to recognise the customer’s right to choose their own Agent and for Agents to actively market their services to customers accordingly. We believe that this Modification will help open up the market further. However, as customers are typically ignorant of which services are required for Settlement purposes and which are “value-added” there is confusion over what the customer is paying for and needs to pay for. Ideally, we believe that protection should be provided to customers through the licensing of Agents. However, greater consistency can be achieved to a large extent through a direct relationship between ELEXON and Agents.</p> <p>The BSC when originally created was designed to support the Supplier Hub principle and to this end is silent on the practice of customer appointed Agents. The appointment of Agents by customers, outside of the Supplier Hub principle, makes managing Agent performance and delivery of obligations within the BSC very difficult, resulting in a reduction in a Supplier’s ability to manage performance against industry targets and risking non-delivery of specific obligations. There is a conflict of interest as the Agent effectively has two ‘customers’; the Supplier and their end user customer who is providing their revenue.</p> <p>Examples of issues this causes:</p> <ol style="list-style-type: none"> <li>1. A Supplier’s terms and conditions cannot realistically dictate that the Supplier will choose the Agent, as envisaged in the BSC, without creating a conflict between the customer and their chosen Agent. It is not good for the customer experience if the Supplier insists on appointing its preferred Agent.</li> <li>2. There is no process for Suppliers to know when an Agent’s contract with the customer ends, which means that there is a risk that Agents are appointed (in the view of the Supplier) but are not servicing the meter (because the Agent’s contract with the customer has ended). If the meter fails (or a period of estimation occurs because a contract has ended and the Agent has turned off the comms) the Supplier would have to arrange a new Agent contract and retrospectively appoint that new Agent. This can be unsatisfactory to both incoming Agents and Suppliers as it immediately impacts the new Agent’s</li> </ol>	

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<p>performance against the assurance techniques by submitting ‘late’ meter details.</p> <ol style="list-style-type: none"> <li>3. It is commercially unsatisfactory for Suppliers to have a ‘default’ Agent agreement to deal with customers who fall out of contract with their chosen Agent. There is no guarantee of the volume of meters that the Supplier can offer to the Agent. As supply volumes are gained, it is only confirmed as part of the sales process whether the customer has their own agreement in place with an Agent. Agents are unable to offer preferential rates in this circumstance.</li> <li>4. Change of Tenancy (CoT) was identified by the Issue 50 Working Group an issue causing delays. A common source of new appointments for an Agent from a Supplier in the I&amp;C sector comes as a result of a CoT, the company at site going into receivership or the existing Agent contract having not been renewed. This is not an attractive proposition to an incoming Agent taking over from a customer appointed Agent.</li> <li>5. AMR Metering with no activated communications was also identified by the Issue 50 Working Group as an issue impacting Suppliers; the customer often either hasn’t arranged with its MOA to activate communications, usually because they don’t want the additional charges; and/or it hasn’t contracted with a DC to carry out site visits to do meter reading. This then means that the Supplier needs to arrange and pay for visits for a DC to collect meter readings taken with a Hand Held Unit (HHU). These reads are not as accurate and the customer usually doesn’t understand the need for additional costs.</li> </ol> <p>All of these types of issue impact Settlement and lead to lower performance Annualised Advance (AA) and higher instances of ‘untimely’ dataflows (e.g. D268) which are highly significant. One solution could be that, just as a Supplier remains the Supplier until a CoS is initiated, the Agent must remain the Agent until another is appointed. This would require a change to BSC Section J, 1.2, for example, which currently places an obligation on the Supplier to ensure that an Agent is appointed. We anticipate that Agents would have deemed arrangements which follow on from the end of a customer contract.</p> <p>The practice of customers choosing their own Agent is not a new concept. However, it is becoming increasingly popular and the trend may grow with the roll out of smart metering and smaller business or residential consumers forming consortia to get the best energy deal. Third Party Intermediaries (TPIs) also often have their own preferred Agents and the numbers of Customers using TPIs is increasing year on year. Therefore, the potential for performance issues and non-compliance will increase. The confusion associated with TPIs was also noted in the Issue 50 Working Group. It was noted that this often creates a situation where a Supplier appoints their own Agent but then has to reverse this, usually resulting in performance issues. Agents, however, have more knowledge of their preferred Agent status than Suppliers.</p> <p>It should also be noted that, even though Agents are not signatories to the BSC, they do take up opportunities to attend various working groups and standing committees and influence the development of the arrangements. However, they do not have the ability to raise Modifications. We believe that the ability for Agents to raise change would go a long way to satisfy Ofgem’s</p>	

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<p>concerns that changes are not raised because they are not in the interests of Parties; a wider base of Parties with this ability will lead to the introduction of change which facilitates innovation.</p> <p>The recent serious incident in Settlement due to an error by a single Half Hourly Data Aggregator which affected several Suppliers during November is further evidence that Agents need to be independently accountable to the BSC.</p>	
<b>Impact on Code</b>	
<b>Impact on Core Industry Documents or System Operator-Transmission Owner Code</b>	
<b>Impact on BSC Systems and Other Relevant Systems and Processes Used by Parties</b>	
<b>Impact on other Configurable Items</b>	
<p><b>Justification for Proposed Modification with Reference to Applicable BSC Objectives</b></p> <p>We believe that this modification meets:</p> <p>Objective (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. This objective is met on the grounds that customers will receive comparable levels of service regardless of whether their Agent is customer appointed or Supplier appointed. It would also mean that Suppliers are not disadvantaged commercially.</p> <p>Objective (d) Promoting efficiency in the implementation and administration of the balancing and settlement arrangements. This objective is met on the grounds that a direct relationship between ELEXON and the Agents will lead to better and more consistent performance. Efficiency would also be enhanced by giving Agents the ability to raise Modifications.</p>	
<p><b>Is there a likely material environmental impact?</b></p> <p>No.</p>	
<p><b>Urgency Recommended:</b></p> <p>No.</p>	
<p><b>Justification for Urgency Recommendation</b></p> <p>N/A</p>	

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<b>Self-Governance Recommended:</b>	
No.	
<b>Justification for Self-Governance Recommendation</b>	
N/A	
<b>Fast Track Self-Governance Recommended:</b>	
No.	
<b>Justification for Fast Track Self-Governance Recommendation</b>	
N/A	
<b>Should this Modification Proposal be considered exempt from any ongoing Significant Code Reviews?</b>	
Yes, the Modification Proposal should be exempt from any ongoing SCRs. A faster switching SCR has been launched. We do not believe the issues overlap.	

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**Attachments:** No