

| BSC Modification Proposal Form | | At what stage is this document in the process? |
|---|---|---|
| <h1>P366 Change to Supplier Charge SP08a calculations to account for small scale non-domestic Non Half Hourly hard-to-read Meters</h1> | | <div style="display: flex; flex-direction: column; gap: 5px;"> <div style="border: 1px solid green; background-color: #00a651; color: white; padding: 5px; display: flex; align-items: center; justify-content: center;">01 Modification</div> <div style="border: 1px solid blue; padding: 5px; display: flex; align-items: center; justify-content: center;">02 Workgroup Report</div> <div style="border: 1px solid purple; padding: 5px; display: flex; align-items: center; justify-content: center;">03 Draft Modification Report</div> <div style="border: 1px solid orange; padding: 5px; display: flex; align-items: center; justify-content: center;">04 Final Modification Report</div> </div> |
| <p>Purpose of Modification:</p> <p>The purpose of this Modification is to amend how Supplier Charge SP08a is applied to Non Half Hourly non domestic Meters that are hard-to-read.</p> | | |
|  | <p>The Proposer recommends that this Modification should:</p> <ul style="list-style-type: none"> be assessed by a Workgroup and submitted into the Assessment Procedure <p>This Modification will be presented by the Proposer to the BSC Panel on 10 May 2018. The Panel will consider the Proposer's recommendation and determine how best to progress the Modification.</p> | |
|  | <p>High Impact:</p> <p>Suppliers BSC Agents BSCCo</p> | |
|  | <p>Medium Impact:</p> <p>Performance Assurance Board</p> | |
|  | <p>Low Impact:</p> <p>None</p> | |

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| Timetable | | |
| The Proposer recommends the following timetable: | | |
| Initial consideration by Workgroup | 7/8 June 2018 |  jamcr@orsted.co.uk |
| Assessment Procedure Consultation | September 2018 |  0207 451 1959 |
| Workgroup Report presented to Panel | 8 November 2018 | Other: Nil |
| Report Phase Consultation | November 2018 |  N/A |
| Draft Modification Report presented to Panel | 13 December 2018 |  N/A |
| Final Modification Report submitted to Authority | 21 December 2018 | Other: N/A |
| | |  N/A |
| | |  N/A |

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N/A



N/A

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N/A



N/A



N/A

1 Summary

Background

Annex S-1, paragraph 2.2.1 of the BSC requires that, in relation to each GSP Group, the percentage of total energy attributable to a Supplier in respect of Non Half Hourly (NHH) Metering Systems settled on the basis of Annualised Advances for each Settlement Day shall be no less than 80% for the Third Reconciliation (R3) Volume Allocation Run (VAR) and 97% for the Final Reconciliation (RF) VAR. This requirement is called Performance Assurance Reporting and Monitoring System (PARMS) Serial SP08a.

Some small industrial sites are unmanned, located in remote areas and have no telecom infrastructure available for advanced/smart Metering (we refer them as 'hard-to-read' (HTR) sites). Despite making all practicable effort, it is often not possible for Suppliers to obtain Meter readings at these locations.

If Suppliers are unable to obtain Meter readings for HTR NHH sites at the R3 and RF VARs, Supplier Charge SP08a will be applied. Suppliers with large NHH customer portfolios e.g. large domestic customer base, can easily 'lose' their HTR Meters within the permitted 3% of estimated reads. However, it is not possible for small non-domestic Suppliers to do this.

What is the issue?

SP08a Supplier Charges are being applied to Suppliers where there is limited practical possibility of obtaining a Meter reading due to reasons beyond the Supplier's control. Due to the nature of the NHH performance requirements, small Suppliers are most susceptible to HTR related SP08a Supplier Charges. They are unfairly disadvantaged and are less able to compete competitively for customers with HTR sites. This is because in contrast to large Suppliers, the inability for small Suppliers to absorb HTR sites into their Settlement performance means that they must price the SP08a cost into their Supply contract, which makes their prices less competitive.

Based on our market research, we estimate that there are approximately 7,200 HTR sites across the Industrial and Commercial (I&C) sector of energy retail market; this is equivalent to 330 MWh daily settled energy volume. Associated SP08a Supplier Charge on the relevant Suppliers is estimated to be £282,000/year.

It is often more expensive for smaller Suppliers to attempt to obtain Meter readings than pay the Supplier Charge. Ultimately that Supplier, and the next, and so on, will need to decide whether to pass on the cost, absorb them or withdraw from the market. Although this does not change the fact that the Meter readings of HTR sites cannot be obtained, the result is a reduction in competition at a time where the Government and Ofgem are keen to promote competition¹. It is our view that the current SP08a calculation on HTR sites is causing competition concerns and should be changed. However, we believe that the general principles of Supplier Charges are fit for purpose and this proposal does not intend to change them.

What is the proposed solution?

Supplier Charge SP08a performance calculations should to be amended to exclude HTR sites. In order to facilitate this, we propose:

Firstly, that a process is established whereby HTR sites are identified and recognised. This will include a set of robust requirements for Suppliers to demonstrate validity of HTR sites.

¹ <https://www.ofgem.gov.uk/publications-and-updates/cma-remedies-implementation-plan>

Secondly, the Data Collector (DC) should notify relevant Agents and/or Parties which Meters are potentially HTR. Suppliers would have to apply for HTR status for a given Metering System. If a Metering System is deemed to be HTR it should not be included in SP08a calculations. The exchange of information between Suppliers, Supplier Agents and BSC Agents could, possibly, be done via the Data Transfer Network (DTN) in a process similar to the 'Identification of Long Term Vacant Sites'.

2 Governance

Justification for proposed progression

This Modification should not be progressed as a Self-Governance Modification and should be presented to the Authority for decision as not implementing the proposal it will have a material impact in so far as:

- Either consumers will be subject to unavoidable regulatory costs or will have a reduced choice of Suppliers
- Small Suppliers will struggle to compete in the non-domestic I&C market

It will continue to allow large Suppliers with a diverse portfolio of clients to 'hide' their HTR sites in the 3% tolerance, something not afforded to small Suppliers.

Requested Next Steps

This Modification should:

- Be assessed by a Workgroup and submitted into the Assessment Procedure

We believe that we have presented a workable solution, however, we realise that this is a potentially complex issue that may have implications beyond our knowledge. As such, all of the implications and the nuances of the solution need to be fully assessed to ensure that the final proposed solution and legal text meets the needs of industry as much as possible.

3 Why Change?

Background

Under the BSC performance framework Suppliers must read NHH sites by the R3 or RF VARs. If Suppliers have not obtained 97% of their meter readings by volume of electricity consumed², then they will incur Supplier Charge SP08a. SP08a Supplier Charges are applied at two stages: they are applied at R3 VAR at a cost of £0.13/MWh; and at the RF VAR a rate of £2.28/MWh.

Amongst other things, these Supplier Charges provide Suppliers with an incentive to obtain Meter readings. Obtaining Meter readings within the required time frame ensures billing is accurate and maintains the integrity of Settlement. However, it is not always practically possible to obtain Meter readings for certain NHH non-domestic sites that are HTR.

² If a Supplier supplies 1000 MWh of electricity, then they must obtain the actual Meter readings associated with 970 MWh of Supply. If they only achieve 950 MWh, then SP08a will apply to the 20 MWh below the required target

Hard-to-read sites

We propose that a definition of HTR, and associated approval of HTR status, should be developed during the Assessment Phase (see section 5). However, for the purposes of this proposal, we would suggest that a HTR site should satisfy the following:

- A site that is operational (i.e. having an energy demand) but not occupied by any personnel for extended periods of time;
- The customer (the owner of the site) is not willing to facilitate/provide a Meter reading (including integration with their own systems); and
- It is not possible to install remotely read/automatic Meters due to communication limitations and/or cost inhibitions.

What is the issue?

SP08a Supplier Charges due to HTR sites are particularly challenging for small and new entry Suppliers and are continuing to cause pricing disadvantages for them. Those Suppliers with larger, established and more 'traditional' customer portfolios are likely to have a similar number of HTR sites, if not more. However, due to their vast number of sites, the HTR sites will account for less than 3% of energy for their total portfolio. The result of this is that, even if the larger Suppliers suffer from the same issues in obtaining Meter readings, they will not attract the associated Supplier Charge SP08a as their HTR sites can be 'lost' within the 3% allowed for estimated energy. As the NHH R3 and RF performance targets cannot be achieved without a large pool of NHH customer base (where Suppliers have large numbers of HTR sites), this translates into significant competitive and pricing disadvantages for smaller Suppliers.

Due to the combination of practical limitations, disproportionate costs and low consumption, customers will likely refuse site access. Installation of Advanced Meters or smart Meters is also proven to be difficult where no mobile telephone signal exists and the cost of installing a landline or using alternative means of communication (e.g. PAKNET radio) is prohibitive.

We have also noted that most HTR sites have not been read for a prolonged period of time and across multiple Suppliers. Therefore, it is evident that despite best efforts being taken, it is often not possible for any Supplier to obtain Meter readings for these sites.

We believe that the Supplier Charge SP08a incentive for HTR NHH non-domestic sites is not functioning effectively as there is nothing Suppliers can do differently to improve Settlement performance on these sites due to practical limitations. Similarly, when Supplier Charges were first proposed and implemented, the market place was very different and it may be that SP08a Supplier Charges are not suitable for the existing market place.

4 Code Specific Matters

Technical Skillsets

Knowledge PARMS

Meter reading collection and reporting, understanding of the Data Transfer Network

Settlement calculations, including Supplier Charges

Knowledge of ELEXON's Performance Assurance Framework

Reference Documents

BSC Section S: Annex S-1 - Performance Levels and Supplier Charges

BSC Section Z - Performance Assurance

BSCP533 - PARMS Data Provision, Reporting and Publication of Peer Comparison Data

BSCP536 – Supplier Charges

Data Transfer Catalogue

5 Solution

Proposed Solution

Supplier Charge SP08a should be removed for HTR sites when Suppliers can demonstrate that Meter readings cannot be obtained, despite reasonable steps being taken. A similar concept has already been applied to Suppliers' obligations in the rollout of advanced & smart Meters, such that exceptions will be permitted when Suppliers have taken all possible steps to meet their obligation. In order to facilitate this, HTR sites need to be approved and subsequently, the relevant volume data will be removed from the SP08a calculation.

Identification of HTR sites

Whilst developing the solution, we would recommend that the Workgroup consider the criteria for long term vacant sites and, where possible and appropriate, the HTR process should align with the long term vacant process as there are some similarities between the two situations.

Prior to removing HTR data from SP08a calculations it is essential that a thoroughly robust process is established to identify HTR sites. The process by which HTR sites are identified should be robust enough that only genuine HTR sites are identified by Suppliers. Suppliers should be required to provide evidence in relation to each HTR site that can, where possible, be independently verified. In order to prove that a Site is HTR the following should be included as evidence of HTR status:

1. Location of Meter (address or Ordnance Survey Grid reference)
2. Proof that the location is not attended by the owner or their representative for extended periods of time (definition of 'extended' to be determined, but should be no less than two years between site visits)
3. It is impossible or prohibitively expensive to install remotely read Meters
4. Proof that the Supplier has made all reasonable attempts to obtain a Meter reading (a recommendation of what is 'reasonable' should be determined by the Workgroup). This could include evidence of failures to read data flows; or proof that the customer is not facilitating the collection of Meter readings
5. Evidence that the consumption would be negligible (a recommendation of what is 'negligible' should be determined by the Workgroup)
6. Proof that the Meter is non-domestic NHH and that SP08a Supplier Charges would apply to the Meter in question

Once the required proof has been submitted, ELEXON should verify the information independently, where possible, and assess whether or not all of the criteria has been met. If it is not possible to independently verify the evidence provided, ELEXON should satisfy themselves as far as possible as to the accuracy of evidence provided.

If ELEXON believes that all of the criteria have been met, then final approval of whether or not a Meter should be classified as HTR should rest with the Panel, although we would expect that this would be delegated to the Performance Assurance Board (PAB). A formal approval procedure, including the dispute channel, should be also created, possibly as part of a BSCP.

It should be noted that in developing this solution we considered whether the site should be audited in some way or whether a baseline reading³ should be obtained. However, for the reason already outlined, if the Supplier is unable to obtain a Meter reading, then there is no reason to believe an auditor would be able to access the site, or a Meter reader to obtain a baseline reading.

Removing HTR data from Supplier Charge SP08a

The SP08a Supplier Charges are closely tied in with the PARMS serials and the PAF arrangements. We prefer to make minimal changes without impacting other areas within PAF and PARMS Serials.

We propose that the DC should identify HTR sites on a Metering System Identifier (MSID) basis and flag the relevant Estimated Annual Consumption (EAC) to the Data Aggregator (DA). The DA would then aggregate energy volumes as usual, but separately aggregate HTR EAC for the use of Supplier Volume Allocation Agent (SVAA). This would allow the SVAA to exclude HTR volume without impacting other business-as-usual aggregation activities, which will then feed into PARMS for the calculation of SP08a Supplier Charges.

In order to facilitate the above, there will be a need to create either new data items within existing data flows, or create new data flows entirely. Our initial thought is that, where possible, new data items should be created within the existing processes. However, we recognise that there may be a need to create new data flows and we would work with the Workgroup to identify the most suitable means of identifying and reporting HTR data.

This would, in due course, require raising a Modification to the Data Transfer Catalogue (DTC) via the Master Registration Agreement Service Company (MRASCo) and we would request that ELEXON liaise with MRASCo to facilitate this so that the implementation of any DTC changes coincide with the implementation of this proposal.

6 Impacts & Other Considerations

Impacts

This Modification will impact:

- Suppliers
 - They will be required to apply for HTR status
 - The SP08a calculation changes will affect how much is paid and received
- BSC, Party Agents and Systems
 - As described above, the DA, DC, SVAA, and PARMS will all be impacted as they will be required to send either new/amended data flows as well as changing their processes
- ELEXON
 - Will be required to determine HTR status which will have resource implications and will need to be balanced against other commitments and obligations
- PAB

³ This would be used to confirm that the EAC value remains accurate from the last actual Meter reading.

- There will be additional papers submitted to PAB and they will be required to make determinations that they have not previously made

As a minimum, we expect that the documents listed in section four will all be impacted. Additionally, BSC systems used by the above BSC and Party Agents will need to be amended in some way.

We are keen, as far as possible, that this Modification does not impact on PARMS serials or Supplier Charge calculations **other than SP08a**.

Does this Modification impact a Significant Code Review (SCR) or other significant industry change projects, if so, how?

At the time of submitting this proposal, the Authority is conducting three SCRs:

- [Switching](#);
- [Electricity Settlement](#); and
- [Targeted Charging Review](#).

We do not believe this Modification will impact any of the above SCRs. And as such, we request that this Modification be exempt from the SCR process. The proposal will not affect transmission or distribution charging. Whilst there are some links to Settlement, by not removing HTR data until the very last possible moment, we do not believe that Settlement will be affected as all volumes will remain 'intact' and HTR volumes will only be removed for the purpose of calculating SP08a Supplier Charges and no other Settlement calculations.

It is not envisaged that this Modification will impact other significant industry change projects, but this will be assessed during the Assessment Phase.

Consumer Impacts

There will be a positive impact for consumers. The proposal will ensure all Suppliers can compete fairly in the relevant market segment. This will facilitate competition and improve consumer choices in the long run.

Environmental Impacts

None identified

7 Relevant Objectives

Impact of the Modification on the Relevant Objectives:

| Relevant Objective | Identified impact |
|--|-------------------|
| a) The efficient discharge by the Transmission Company of the obligations imposed upon it by the Transmission Licence | Neutral |
| (b) The efficient, economic and co-ordinated operation of the National Electricity Transmission System | Neutral |
| (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 | Positive |
| (d) Promoting efficiency in the implementation of the balancing and settlement arrangements | Positive |
| (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] | Neutral |
| (f) Implementing and administrating the arrangements for the operation of contracts for difference and arrangements that facilitate the operation of a capacity market pursuant to EMR legislation | Neutral |
| (g) Compliance with the Transmission Losses Principle | Neutral |

Rationale

Applicable BSC Objective (c):

The Modification solution will remove Supplier Charges applied on sites that cannot be read by Suppliers due to difficulties that are outside of their control. This will level the playing field for all Suppliers to fairly compete in the market, disregarding their portfolio sizes. It will improve competition and remove a barrier of entry for new market participants.

Applicable BSC Objective (d):

The Modification solution will ensure appropriate Supplier Charges are applied on Suppliers that correctly incentivise them to improve Settlement performance. This will improve efficiency and effectiveness of the PAF.

8 Implementation Approach

This Modification should be implemented as part of the first available BSC release following Authority decision, allowing for any lead time for implementation of changes to Systems identified during the Assessment Phase.

9 Legal Text

We believe that appropriate legal text should be developed as part of the Assessment Phase of this Modification. However, it is anticipated that changes will be required to the following BSC Sections and Code Subsidiary Documents:

- BSC Section S: Annex S-1 - Performance Levels and Supplier Charges
- BSCP533 - PARMS Data Provision, Reporting and Publication of Peer Comparison Data
- BSCP536 – Supplier Charges
- SVA Data Catalogue

10 Recommendations

Proposer's Recommendation to the BSC Panel

The BSC Panel is invited to:

- Agree that P366 not be progressed as a Self-Governance Modification Proposal; and
- Agree that P366 be sent into the Assessment Procedure for assessment by a Workgroup.