

Gas and Electricity Market Authority
c/o Colin Down
Senior Policy Manager
Consumers & Markets
The Office of Gas and Electricity Markets
10 South Colonnade
Canary Wharf
London
E14 4PU

XX June 2018

Dear Colin,

RE: SCR Suitability Assessment Report for Modification Proposal P366 'Change to Supplier Charge SP08a calculations to account for small scale non-domestic Non Half Hourly hard-to-read Meters'

This is the BSC Panel's Significant Code Review (SCR) Suitability Assessment Report for Modification Proposal P366 'Change to Supplier Charge SP08a calculations to account for small scale non-domestic Non Half Hourly hard-to-read Meters'. ELEXON has prepared this report on the Panel's behalf and submits it in accordance with BSC Section F5.2.2.

The Panel believes that P366 should be treated as a **SCR Exempt Modification Proposal**.

P366 was raised by Orsted on 26 April 2018. The Panel considered the P366 Initial Written Assessment at its meeting on 10 May 2018 and agreed that P366 should be submitted to a six month Assessment Procedure.

At the time of writing the Authority has not determined whether P366 should be treated as a SCR Exempt Modification Proposal, pursuant to BSC Section F5.2.1. Our SCR Suitability Assessment Report for P366 is in Appendix 1 with our assessment of:

- a) whether such Modification Proposal falls within the scope of a Significant Code Review and its reasons for that assessment;
- b) whether such Modification Proposal is a SCR Modification Proposal; and
- c) any other matters which the Panel considers to be relevant including the urgency or otherwise of the Modification Proposal.

You can view all documentation in relation to P366 on the [P366 page of ELEXON's website](#). If you require any further information, please do not hesitate to contact either myself or the ELEXON Lead Analyst, Chris Wood, who can be contacted at bsc.change@elexon.co.uk or 020 7380 4142.

Yours sincerely,

Michael Gibbons CBE
BSC Panel Chair

APPENDIX 1 – SCR SUITABILITY ASSESSMENT REPORT

The BSC Panel's assessment is that P366 should be treated as a **SCR Exempt Modification Proposal** in regards to all SCRs currently in the SCR Phase and is based on the following:

Electricity Settlement Reform SCR

a) Whether P366 falls within the scope of the Electricity Settlement Reform SCR?

We believe that **P366 does not fall within the scope** of the [Electricity Settlement Reform SCR](#). P366 is concerned with a single Performance Assurance Technique (PAT), Supplier Charges, in relation to non Half Hourly (NHH) Metering Systems that are hard-to-read (HTR¹). The HTR sites will still exist if the Authority determines to implement market-wide Half Hourly (HH) Settlement and the SCR will only deal with these as secondary consequences of introducing market-wide HH Settlement. Furthermore, the SCR has not yet identified any changes to Supplier Charges and it is not certain whether it will.

The Proposer's (Orsted's) view is that Supplier Charges for Performance Assurance Reporting and Monitoring System (PARMS) Serial SP08a when applied to HTR sites hinders competition as they apply disproportionately to small non-domestic Suppliers. Orsted believe that small non-domestic Suppliers are more likely to have a higher percentage of NHH Metering Systems that are HTR and the diversity of their portfolio is less than more established Suppliers. This means that small non-domestic Suppliers are less able to 'absorb' their HTR sites within the 3% estimated energy allowed for when calculating PARMS Serial SP08a Supplier Charges. Orsted has stated that Supplier Charges for PARMS serial SP08a should exclude data associated with HTR Metering Systems.

The Authority launched the Electricity Settlement Reform Significant Code Review in 2017 with the objective of developing and then, subject to Impact Assessment, implementing an enduring process to enable market wide HH Settlement. ELEXON are leading a Design Working Group (DWG) to develop Target Operating Models (TOMs) to deliver market wide HH Settlement, which were consulted on in May 2018. Each of the TOMs has been designed on the premise that there will be no NHH Settlement if implemented.

Some DWG members have acknowledged (in relation to The Authority's request for feedback and assessment²) that there would still be some NHH Metering Systems post implementation. If a Metering System is genuinely HTR, and access is not possible to collect a Meter read, it is unlikely that access will be possible to exchange the Meter. The customer may also refuse to have a smart Meter installed. For these remaining NHH Metering Systems it would not be possible to update Estimated Annual Consumptions (EACs)(or the post SCR equivalent) to calculate the estimated HH consumption as it would not be possible to obtain a Meter read.

¹ HTR in this instance refers to Metering Systems at sites where it is either impossible to gain a meter read or, if possible, the cost of doing so is prohibitively expensive.

² Ofgem have been unable to share these with the Panel, but ELEXON have been copied into some replies from DWG members and ELEXON discussed initial DWG responses with Ofgem ahead of the May 2018 Panel meeting.

Nothing within the scope of the SCR gives any indication whether Supplier Charges will be considered as part of the SCR or outside of the SCR (either in parallel or afterwards). Given that there is insufficient evidence to claim that P366 falls within the current scope of the SCR, and Orsted's strong view that it would not be acceptable to wait several years to find out how NHH HTR Metering Systems will be dealt with, the Panel's assessment is that P366 should be a **SCR Exempt Modification Proposal** at this time. However, the Authority would still retain the ability to determine that P366 should be a SCR Subsumed Modification Proposal at a later date should they amend the scope of the SCR.

b) Is P366 a SCR Modification Proposal?

P366 is **not a SCR Modification Proposal**. P366 has not been raised by the Transmission Company as a SCR Modification Proposal pursuant to BSC Section F5.3.1, or by the Authority as a SCR Modification Proposal pursuant to BSC Section F5.3.1A.

c) Any other matters we consider to be relevant:

In assessing P366, we consider the following to be relevant:

- Even if it is determined that P366 falls within the scope of the Settlement Reform SCR, the Authority may still allow P366 to proceed pursuant to BSC Section F5.2.6. The reason for this would be that implementing P366 will resolve the issue identified by Orsted until a SCR related solution replaces P366 in due course. Additionally, the work undertaken by the P366 Workgroup may assist the DWG with designing how legacy NHH HTR Metering Systems should be dealt with under the new arrangements.
- P366 will continue as planned unless the Authority determines that it shall be a SCR Subsumed Modification Proposal. The first P366 Workgroup meeting was on 7 June 2018; there will be two more Workgroup Meetings before consulting in September 2018. The Final Modification Report is scheduled to be submitted to the Authority for consideration in December 2018.
- The issue identified by Orsted would remain even if the Authority determines that P366 shall be a SCR Subsumed Modification Proposal and directs all work to cease pursuant to BSC Section F5.2.9. In Orsted's view, Suppliers would remain subject to anti-competitive measures until the HH TOM implements a new PAT in relation to legacy NHH HTR Metering Systems.
- The implementation date for P366 is yet to be determined however, it is likely that date would not be before 2020, due to the duration of the Assessment Procedure for P366 and the fact that there are other significant Modifications to be implemented in 2019 and early 2020.
- The DWG is expected to present their recommendations to Ofgem next year and Ofgem is not expected to make a determination on whether to implement mandatory HH Settlement until the second half of 2019. If they decide to implement mandatory HH

Settlement, then the DWG will need to refine whichever TOM Ofgem determines should be taken forward, and, potentially, an alternative TOM. The DWG is not planning to consider the transition from the 'as-is' state to the 'to be' state for the chosen TOM until later this year. The BSC Modifications for the selected TOM would not be raised until spring 2020 and implementation would not commence until late 2020 at the earliest, and would require a significant time due to the impact on Participants. This is based on our experience of the time taken to develop and deliver complex changes to Settlement Systems, as well as the associated lead time for changes to industry participants systems'.

- We expect that there will not be a 'big bang' implementation for the chosen HH Settlement TOM, rather a gradual change. We do not believe that it is too far to imagine that the replacement for PARMS Supplier Charges will not be implemented for potentially six years; four years after P366 could be implemented.
- ELEXON are conducting a [review of the Performance Assurance Framework \(PAF\)](#) and it is expected that they will start to consider Supplier Charges later this year. At this time it is unclear what the scope of the review of Supplier Charge workstream will be but, the PAF review team are liaising with the P366 Lead Analyst to identify any potential overlaps and where they may draw on the work of the P366 Workgroup.

In assessing these criteria, the Panel has not invited representations from parties listed in BSC Section F2.1.10(a) or conducted a consultation pursuant to BSC Section F5.2.3 because we believe that we have sufficient evidence available already to make an assessment and we understand that Ofgem has received views from the DWG.

Switching SCR

a) Whether P366 falls within the scope of the Switching SCR?

The Panel believes **P366 does not fall within the scope** of the [Switching SCR](#).

The objective of the Switching Programme, and the Switching SCR, is to improve customers' experience of switching, leading to greater engagement in the retail energy market by designing and implementing a new switching process that is reliable, fast and cost-effective. In turn, this will build consumer confidence and facilitate competition, delivering better outcomes for consumers.

P366 is not related to switching in any way and so the proposed solution will not have any effect on switching. We believe therefore that it is self-evident that P366 should be a SCR Exempt Modification Proposal with respect to the Switching SCR.

b) Is P366 a SCR Modification Proposal?

P366 is **not a SCR Modification Proposal**. P366 has not been raised by the Transmission Company as a SCR Modification Proposal pursuant to BSC Section F5.3.1, or by the Authority as a SCR Modification Proposal pursuant to BSC Section F5.3.1A.

c) Any other matters we consider to be relevant:

There are no other matters we consider to be relevant.

In assessing these criteria, the Panel has not invited representations from parties listed in BSC Section F2.1.10(a) or conducted a consultation pursuant to BSC Section F5.2.3 because we believe that we have sufficient evidence available already to make an assessment.

Targeted Charging Review SCR

a) Whether P366 falls within the scope of the Targeted Charging Review SCR?

The Panel believes **P366 does not fall within the scope** of the [Targeted Charging Review SCR](#).

The main objectives of the Targeted Charging Review SCR are:

- to consider reform of residual charging for Transmission and Distribution, for both Generation and demand, to ensure it meets the interests of consumers, both now and in future; and
- to keep the other 'embedded benefits' that may be distorting investment or dispatch decisions under review.

P366 is not related to Transmission or Distribution in any way so the proposed solution will not, in any way, have any effect on them. We believe that it is therefore self-evident why P366 should be a SCR Exempt Modification Proposal with respect to the Targeted Charging Review SCR.

b) Is P366 a SCR Modification Proposal?

P366 is **not a SCR Modification Proposal**. P366 has not been raised by the Transmission Company as a SCR Modification Proposal pursuant to BSC Section F5.3.1, or by the Authority as a SCR Modification Proposal pursuant to BSC Section F5.3.1A.

c) Any other matters we consider to be relevant:

There are no other matters we consider to be relevant.

In assessing these criteria, the Panel has not invited representations from parties listed in BSC Section F2.1.10(a) or conducted a consultation pursuant to BSC Section F5.2.3 because we believe that we have sufficient evidence available already to make an assessment.