Issue Report

Issue 78 'Measurement and monitoring of Settlement performance'

Contents

About This Document

This document is the Issue 78 Group's Report to the Balancing and Settlement Code (BSC) Panel. ELEXON will present this report at the Panel's meeting on 10 October 2019.

There are two parts to this document:

- This is the main document. It provides details of the Issue Group's discussions and proposed solutions to the highlighted issue and contains details of the Workgroup's membership.
- Attachment A contains the Issue 78 Proposal Form.

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1 Summary

Issue

Issue 78 'Measurement and monitoring of Settlement performance' was raised by Opus Energy to consider challenges Suppliers may face around Performance Levels and Supplier Charges.

Issue 78 looked at three primary Issues:

- Volume reduction in Non-Half Hourly (NHH) portfolios increasing risk of non-compliance – driven by the rollout of smart Meters, P272 'Mandatory Half Hourly Settlement for Profile Classes 5-8' and move towards market-wide Half Hourly (HH) Settlement;
- The apparent mismatch between absolute performance standards vs. 'best effort' – the Electricity Supply Licence Conditions (SLC) accept best effort whereas the BSC applies absolute standards; and
- Segmentation across Supplier portfolios– increased specialisation by some Suppliers has led to disproportionate exposure to customers and sites with historical poor performance.

In addition to the above, Issue 78 also looked at how to better incentivise behaviour and the role of the Performance Assurance Board (PAB).

Conclusions

The topics discussed align with the ongoing Performance Assurance Framework (PAF) Review ELEXON is leading and the Issue Group agreed that their discussions should feed into it. The Issue Group noted that that, if the PAF Review's outcomes do not address all of the matters raised; new Changes (Modifications or Change Proposals) could be raised subsequently. The following is a list of topics discussed by the Issue group to feed into the PAF Review for consideration:

- Setting of Supplier Charge targets;
- Reporting the share of estimated data that each Supplier is responsible for and applying Supplier Charges accordingly;
- Supplier Charges could be increased as the length of time that estimated data is submitted into Settlement increases;
- Publishing which Parties are called before PAB and, if they are 'repeat offenders', publish an increasing level of detail of the reasons why they appear before PAB;
- Publish Performance Levels for all Parties to allow performance ranking;
- Standstill period to let Suppliers offer mitigation before applying Supplier Charges;
- The PAB should have the ability to issue fines as part of a graduate escalation process; and
- Aggregated Performance Levels – Performance Level targets could be based on combined Company and countrywide Performance Levels.

2 Background

Opus Energy raised Issue 78 on 29 March 2019 to review Performance Levels, Supplier Charges and monitoring in light of changes occurring, and expected to occur, across the industry over the coming years.

Whereas P366 'Change to Supplier Charge SP08a for hard-to-read sites', (rejected by the Authority on 19 July 2019) was focused on hard-to-read (HTR) NHH non-Domestic Metering Systems, Issue 78 was raised to consider all types of Metering Systems across all markets. Due to the relevance of P366 to Issue 78 discussions, Issue 78 paid a little more attention to HTR Metering Systems and particularly NHH Metering Systems.

Issue 78 ran alongside the Performance Assurance Framework (PAF) Review and there was a designed break between the first and second meetings of several months to allow the PAF Review team to develop their scope of work on Performance Levels and Supplier Charges. The first Issue 78 meeting fed into designing the scope of the PAF Review's work on Performance Levels and Supplier Chares and the second Issue Group meeting was used to provide further input into the PAF Review. As a result, the PAF Review is considering everything that was discussed by the Issue Group.

Since Issue 78 was raised, the PAF Review has started to look at Performance Level and Supplier Charges monitoring as two separate work streams with recommendations due by the end of 2019. The ELEXON Issue 78 team, PAF Review team and the Issue 78 Proposer worked together to drive synergies between Issue 78 and the PAF Review wherever possible.

What is the Issue?

Issue 78 looked at several issues in respect of Performance Levels and Supplier Charges.

Reduction in NHH portfolios increasing risk of non-compliance

With the advent of market-wide HH Settlement, the number of NHH Metering systems will reduce. We have already seen a reduction in NHH volumes (but relatively small number of Metering Systems) due to P272 and the smart Meter rollout.

The Issue 78 Proposer believes future Settlement performance challenges will stem from Suppliers' two-tiered customer portfolios:

- Those with remotely readable HH Meters e.g. smart Meters; and
- Remaining non-HH Meters, where it will not be possible to monitor readings remotely.

Meters not capable of being read remotely can be difficult to access to obtain a read. In some instances, it is either impossible or impracticable to obtain a read. Instances where this may occur include, but are not limited to:

- Customers not willing to allow access to read Meters[1];

[1] It is assumed there is a correlation between those customers who've refused a smart Meter and those more reluctant to allow access or provide Meter reads

- HTR Metering Systems[2].

The transition to Market-wide HH Settlement is likely to highlight the difference in performance between the two 'tiers'. As the HH-settled tier sees its performance improve or maintained at a high standard, the NHH-settled tier could see its performance fall. There will be residual consumers without smart Meters who will remain NHH, which could make achieving the 97% Performance Level target challenging.

There will likely be challenges for Suppliers who use third party Meter Agents to obtain manual Meter reads. Issue Group members suggested a number of these are now focussing on smart Meters rather than manual read collection, which reduces resource availability and impacts cost efficiency. If the number of Party Agents willing to enter into contracts to obtain Meter reads does reduce, this will add further complications and expense for Suppliers. As a result, there could be an increased likelihood of Supplier Charges and associated Error and Failure Resolution (EFR) processes being implemented.

Absolute standards vs 'best effort'

There is a mismatch between the SLCs and BSC Section S, Annex S-1 'Performance Levels and Supplier Charges'. SLC 21B.4 requires Suppliers to 'take all reasonable steps to obtain a meter reading … at least once every year' whereas BSC Section S-1 paragraph 2.1 requires Suppliers to meet the minimum level of performance based on relevant Meter Measurement Class.

The SLC recognises that it is not possible to acquire a Meter read in all instances and that the circumstances leading to not being able to achieve a read may vary, which is why there are no specific targets. The BSC however, only allows 3% leeway for estimated data.

The smart Meter rollout requirements also applies 'all reasonable steps', recognising there will be cases where smart Meters can't be installed. Following the smart Meter rollout, it is likely that a significant number (potentially >15% on an enduring basis[3]) of domestic Sites will not have a smart Meter.

BSC Party customer demographic

Obtaining Meter reads for non-Domestic NHH Metering Systems can be more challenging than for Domestic NHH sites.

Domestic customer Supply contract periods are typically shorter than non-Domestic Supply contracts. If a Domestic customer switches Supplier after 12 months (i.e. when their contract ends), an actual closing/opening read or deemed read will be generated within the 14 month Settlement window and so will count as actuals towards the 97% Performance Level. Non-domestic NHH customers typically have longer contract durations (up to five years) and so do not get the same benefit within the 14 month window. This means that the Change of Supplier deemed reading will count as an 'actual' reading towards the 97% Performance Level but, for the remaining five years, only estimated data will be entered into Settlement if a Meter read is not obtained.

Non-domestic NHH Sites typically have internally located meters whereas newer build domestic premises have externally located meters. In addition, there are higher numbers

[2] See below for commentary on defining HTR
[3] The government target is for 85% installation rate by 2024 but, allowing for all reasonable steps, there are questions over whether this will be achieved.

of non-Domestic Sites that are unoccupied or the person responsible for submitting/permitting Meter reads may be located some distance from a Site. While this problem is not insurmountable, it does add delays, complications and added expense.

3 Issue Group's Discussions

The Issue Group met for the first time on 24 April 2019. The first meeting was used to identify the extent of the Issue. In order to make Issue group members aware of wider context and other work ongoing, ELEXON updated Members on:

- The work of the ELEXON-led Design Working Group regarding market-wide HH Settlement;
- The PAF review; and
- P366 progression – the first Issue Group meeting was the day after the P366 Workgroup agreed their recommendations to the Panel.

PAF Review and P366 updates were presented at the second meeting on 28 August 2019.

At its first meeting, the Issue Group agreed to await the outcome of P366 and allow time for the PAF Review to start its work on Supplier Charges and Performance Levels before determining how to take Issue 78 forward. During that time, the Issue Group asked ELEXON to analyse any data available to support the suppositions put forward by Issue 78 (see issues above).

ELEXON looked at a multitude of data to model the effect of increasing Performance Levels, and in each case, it was clear that some Suppliers would see an increase in their Supplier Charges, while others would see a decrease. At the time of the second meeting, this work was still ongoing and the PAF Review will investigate ways in which the effects can be demonstrated to Parties, while maintaining commercial confidentiality. The Proposer agreed the second meeting could progress without the conclusions of the data analysis being available.

What Issue 78 is aiming to achieve

Three prior Modifications that have investigated Performance Levels and Supplier Charges:

- P157 'Replacement of current Supplier Charges rules' in 2004;
- P182 'Review and redefinition of the Non Half Hourly Settlement performance measures' also in 2004; and
- P366 in 2019.

In all cases, the Modifications didn't provide sufficient weight of argument that the status quo needed to change, and so were rejected. ELEXON noted during its analysis work that, given the swathes of data available, it could likely be interpreted in a variety of ways to support (or dis-support) arguments made.

The Issue Group suggested that any future proposals to change Supplier Charges would only gain approval if the whole premise of Supplier Charges' purposes and roles were re-thought. Any changes would need to be made based on principles and market design rather than relying on data to drive change.

The Issue Group Members were happy to note the work being done by the PAF Review and noted that a member of ELEXON's PAF Review team was present at the Issue Group meetings. ELEXON noted the discussions from the first Issue Group influenced thinking for the PAF Review's ongoing work and it was agreed that Issue 78 should focus on 'quick wins', and the PAF Review should be the focus for long term solutions.

Diversification of Metering System portfolios

During various P366 Work Groups and discussions, it was suggested several times that if Suppliers were to diversify their portfolios to reduce the percentage of HTR Metering Systems, the issue could be alleviated. In light of this, the Issue group discussed whether this is a viable option. It was agreed that this is not a simple process and may cause greater financial harm than incurring Supplier Charges.

The Domestic market is highly competitive, with the average domestic energy bill being £1,184/year[4]. Ofgem estimates that the average domestic profit margin is 2.82%[5]. This gives a pre-tax margin of ~£33/year per customer.

The cost of recruiting a customer via comparison sites (it is acknowledged that this is cheaper, on average, than direct marketing) is £15 - £35 per customer[6]. Most domestic energy contracts are 12 – 18 months. When customer behaviour is considered (i.e. if they are willing to switch at the start, it is reasonable they may switch at the end of the contract).

Whereas Suppliers may have hoped to move new customers to higher tariff rates after the initial contract period to increase profits, this is no longer the case (to some extent) due to price-capping. Similarly, lowering tariff rates below competitors' as a 'loss-leader' to increase later may no longer be viable for businesses.

The Issue Group agreed some of the longer-standing Suppliers might benefit from long-term customers where they are able to switch them to higher tariff rates and therefore increase their profit margins. This is specific to long-standing Suppliers who have had their customers for several years, as their long-term loyalty would suggest they would not switch away. However, we are seeing a rise in switching, so this may soon no longer be the case.

It was noted that there are some domestic Suppliers that appear to be doing relatively well in the Domestic market and are increasing their market share. It was also noted that there have been several Supplier of Last Resort events in the last year where Domestic Suppliers have entered administration.

Suppliers affected by HTR Metering Systems

P366 made the argument that small non-Domestic NHH Suppliers are most affected by the reduction of NHH Metering Systems and this supposition was taken forward into Issue 78.

However, labels such as 'large' (i.e. big six) and 'small' are not always appropriate. As an example, when we consider market share[7] of the non-Domestic NHH market (i.e. Profile Classes (PC) 3-8), then the fifth largest Supplier is not one of the 'large' Suppliers in that particular market. Similarly, when we combine companies into groups (i.e. several Suppliers in the same group), then relative market shares shift again.

Because of this, the Issue Group agreed it would be better to differentiate by 'Domestic' and 'non-Domestic', particularly as Suppliers tend to have (but not exclusively) a larger share in one market than the other.

[4] https://www.gov.uk/government/statistics/quarterly-energy-prices-june-2019
[5] https://www.ofgem.gov.uk/data-portal/retail-market-indicators - Electricity profit margin is 0.73% but it is rare to have single fuel customers
[6] https://www.gov.uk/government/news/cma-steps-in-to-give-people-a-better-deal-on-comparison-sites
[7] https://www.elexon.co.uk/about/key-data-reports/gross-supplier-market-share-data-reports/

The Issue Group discussed why HTR Metering Systems are more likely to be a problem for non-Domestic Suppliers:

- Usually, it is easier to read Domestic Meters as they are relatively easy to access within a home or, increasingly, are on the outside of buildings;
- The increase in switching means a Meter will be read every 12 – 18 months; therefore reducing the amount of Estimated Annual Consumption (EAC) data at the Final Reconciliation run (RF);
- Commercial contracts can be up to 5 years. Non-Domestic Metering Systems may not be read during the contract period, or even longer if no read is taken when the commercial customer's portfolio switches en-masse;
- There is a culture of Domestic customers self-reading or at the least, allowing Meter readers into their homes, but not always. This culture does not exist amongst businesses for whom providing a Meter read is not their priority;
- Domestic customers tend to be really close geographically, making it easier to achieve lots of reads in one day which, in turn, creates cost efficiencies;
- Many commercial properties can be remote or unoccupied for long periods. If a Site is occupied, the occupants may have no knowledge of where the Meter is or it is not in their remit to facilitate a read;
- The Issue Group suggested profit margins are smaller in the non-Domestic market than the Domestic market. Additional costs such as Supplier Charges could have a greater impact;
- Often, Domestic tariffs rise annually to cover increased costs. This is not the case in the non-Domestic market, particularly if tariffs are fixed for five years; and
- Some Issue Group members suggested the number of companies willing to act as Meter readers for NHH Meters may reduce as it's less profitable to take on smaller NHH portfolios that are becoming increasingly geographically widespread.

It was noted that for each assumption and assertion, there are exceptions. This means that defining the Issue cleanly can be difficult as there is not one particular class of Party particularly impacted.

The Issue Group also noted several similarities between the Domestic and non-Domestic markets that are likely to make NHH Metering Systems HTR:

- Landlords/multi-Site owners may be happy with estimated reads;
- It is not always possible to cease Supplying to troublesome customers as they may not be able to switch for several reasons e.g. credit status;
- Moving Metering Systems can be extremely difficult as the customer may not want the extended outage associated with moving a Meter or the Meter location may not be known; and
- Some customers may not wish to have a smart/remotely read Meter.

Separation of Performance Levels and Supplier Charges

The Issue Group noted the PAF Review is considering Performance Levels and Supplier Charges as separate work streams.

Value of reading NHH Meters

It was put forward that NHH Metering Systems represent a small and steadily decreasing proportion of energy by volume. Furthermore, some members suggested NHH EAC volumes could be considered as being immaterial when compared with the total volume Settled.

The Issue Group discussed why it is important to achieve regular NHH Meter reads given the low materiality and, furthermore why there is such a concern about not using EACs. The question was asked whether the cost of personnel attempting to achieve Meter reads was worth the effort compared to what could be gained (or even lost) when an actual Meter read is achieved, i.e. is the revenue difference between EAC and actual read worth the effort? In the same light, it was asked whether the effort involved through ELEXON and the PAB into achieving reads was worth the value gained in accurate Settlement.

Issue Group Members explained that Meter reads are not just important for Settlement purposes. In some cases, the difference in revenue between estimated and actual reads can far outweigh the effort involved in achieving that read. It was however, also acknowledged that there is a risk of losing revenue if the Supplier had previously been over-estimating for billing purposes.

Members also explained that having accurate reads allows for greater accuracy in forecasting which, in turn, feeds into trading and hedging strategies. Estimated data could therefore have a large impact on the business if the Supplier has a misinformed trading and hedging strategy. On a wider level, it also allows companies to justify allocation of resource where there are benefits to the Supplier.

The Issue Group agreed having a target to work towards, and the consequences of failure are useful incentives for Suppliers to achieve Meter reads.

Adjusting Performance Levels

Absolute targets

Some Issue Group members suggested Performance Level targets should be set to 100%. The theory put forward as part of Issue 78 (and as part of P366), is that Suppliers are able to hide their HTR Metering Systems within their 3% leeway. This is particularly applicable to Suppliers with large domestic NHH portfolios as a relatively small number of non-Domestic HTR Metering systems. Therefore, to remove this possibility, the target could be absolute i.e. 100% with the expectation that all Meter reads are actuals and not estimates.

Further, Performance Levels for Party Agents is absolute i.e. they have to submit all data on time, which could achieve consistency across the board.

Some Issue Group members suggested Suppliers continue to push for accurate reads, even where they are already above the 97% standard. However, others suggested this may not always be the case and would depend on business priorities. It was also discussed that for some Suppliers, who may be more resource constrained, redirection of resource post-97% could be vital for their business.

It was suggested that while the BSC should be absolute in principal, in reality it needs to reflect the market it supports and as such, some allowance should be made. The Issue Group noted the 3% tolerance could be further considered by the PAF Review.

Negative/reverse reporting

The Issue Group considered whether further emphasis should be given to the materiality of failing to obtain Meter reads.

The following is an example[8] of how Supplier Charges work under current arrangements:

- Supplier A has a large NHH portfolio. They read 97.1% of their Meters by volume (i.e. 0.1% over target).
  - The 2.9% not read equates 200 MWh of estimated data.
- Supplier B has a small NHH portfolio. They read 96.9% of their Meters by volume.
  - The 0.1% not read equates 20 MWh of estimated data.

In this example, nothing would happen to Supplier A but, in theory; Supplier B could find themselves subject to further action and EFR.

The Issue Group's initial thoughts on how negative/reverse reporting could work are:

- Suppliers' estimated data is summed each reporting period;
- Individual Supplier's estimation is calculated as a percentage of the total estimation;
- If their market share breached a designated threshold (to be determined), they could, in theory, be subject to potential EFR and/or Supplier Charges.

An example of how this may work based on the example above (estimated volume of electricity is 2 GWh):

- Supplier A estimates 200 MWh - 10% of market-wide estimated data
  - Supplier A would be non-compliant by 7%
- Supplier B estimates 20 MWh – 1% of market-wide estimated data
  - Supplier B would be compliant by 2%

The Issue Group recognised that a lot of work would be required to establish a suitable threshold as well as the mechanics of calculation and application. For these reasons, the Issue Group Members asked that this be considered as part of the PAF Review.

[8] The figures used in this example are for demonstrative purposes only and do not represent a particular Supplier. Nor are they representative of levels at which EFR or similar action would be expected to occur

Aggregated Reporting

Company-wide and countrywide reporting

The Issue Group considered whether there is a risk of Parties with multiple MPIDs prioritising resource and effort based on whether one MPID is under-performing compared to other MPIDs within the company's portfolio. Members were split with their views on whether this is an issue.

Reporting Performance Levels on a company-wide basis (i.e. combining MPIDs) has both advantages and disadvantages. Some companies will have better Performance Levels and some will have worse. The Issue Group discussed that any recommendations coming out of the Issue Group should be suitable for the array of company profiles participating in Settlement and not based on anecdotal experiences of the Issue Group Members.

The Issue Group identified that company-wide reporting would allow for averaging of scores whereby exceeding the minimum Performance Level could be rewarded by raising the net Performance Level. Aggregating scores would reduce the number of instances of EFR actions against individual Supplier MPIDs and therefore should lead to efficiencies for ELEXON, PAB and Suppliers. If Suppliers were spending less time working on EFR plans and actions/avoiding EFR, then they would be able to apply resources to other business areas.

There are similar advantages and disadvantages to reporting on a countrywide basis i.e. all 14 GSP Groups within GB combined. Reporting on a GSP basis allows for differing GSP Group Correction Factors (GCFs) to arrive at a final value of energy for each separate GSP. However, there is no reason why the GCF cannot be applied as it is now, and then the sum value for each GSP be used for reporting of Performance Level.

Issue Group recommendations

Aggregating scores could allow companies to manipulate portfolios to positively impact overall performance. To mitigate this, the PAB would still have access to MPID and GSP level data as individual reports. ELEXON's Operational Support Managers (OSMs) would also still see Performance Levels per MPID and per GSP, and it is expected that the OSMs will work with Parties to address any matters arising.

There are around 14,000[9] Performance Level targets monitored each month. The Business Unit Settlement Risk Rating (BUSRR) dashboards show Performance Levels for each MPID (~200) and each GSP Group (14) in a matrix against each of the five Performance Levels (SP01/04/08a/08b/08c). There is no single source of information showing each industry participants overall performance in a simple 'one-sider' of information.

Issue Group Members felt it was far more important that the overall Settlement Performance Levels be considered than individual scores, whether it be by MPID or by GSP Group. Aggregated Performance Levels would provide a view of how the industry is performing as a whole across the whole of Settlement rather than how individual Suppliers are performing. This would allow the PAB to set their priorities and assess risk accordingly.

The PAB is moving towards a risk-based approach and, if they feel that a company is hiding a poorly performing MPID or GSP in their averaged net score, they could call for more detailed reporting. Based on their risk-based approach to compliance, the PAB could

[9] Roughly 200 MPIDs in 14 GSP Groups across 5 Performance Levels (SP01; SP04; SP08a; SP08b; and SP08c)

still choose to focus on MPID and/or GSP Group Performance Levels if they felt there was a particular concern.

The Issue Group identified company-wide countrywide Performance Level reporting as a potential quick-win to be considered in advance of PAF Review recommendations. However, the mechanics of how the reporting would work would need to be worked out during the Assessment Phase of any potential Modifications.

Reporting by Profile/Measurement Class

The Issue Group considered the merits of reporting Performance Levels based on Profile Class and or Measurement Class. However, they agreed that nothing would be gained, as it is the overall Performance Level that is important.

Additionally, it is not easy to break down performance to this level of disaggregation using existing processes. To achieve this level of detail as a regular report would require several different System changes. It is possible to assess Performance Levels based on Profile and Measurement class but it requires the use of multiple systems and there is a degree of error involved.

'All reasonable steps'

The Issue Group discussed whether 'all reasonable steps' should be taken into account when considering mitigating factors leading to non-compliance, and considered whether the following items could constitute 'all reasonable steps':

- At least three attempts to obtain read – attempted at different times of the day and on different days;
- At least three attempts to book a site visit – attempted at different times as above; and
- Be able to demonstrate the following:
    - Cost of obtaining a read is prohibitive;
    - Customer will not allow access to read the Meter;
    - Location within the Site is inaccessible – either physically or due to health and safety concerns;
    - Site is geographically remote such that visiting the site will require substantial application of resource and time e.g. remote Hebridean Island while remainder of portfolio is in south-east England (links to prohibitive cost); and
    - It is not possible to remotely read (physically or cost wise).

ELEXON explained that when this was discussed by the P366 Work Group they could not reach agreement on what constitutes 'all reasonable steps' as what could be reasonable for one Supplier may be deemed as unreasonable for another and vice versa.

The Issue 78 Issue Group agreed that 'all reasonable steps' could be highly subjective and that whatever would be agreed would need to be suitable. Further, they suggested that it could potentially require a Workgroup/Issue Group in its own right to agree recommendations on what may be considered 'all reasonable steps'.

In countenance, it was suggested that this is already done to some extent as part of the EFR process. PAB already has the ability to determine whether a Supplier has taken 'all reasonable steps'. It was suggested that if the PAB had increased discretion (see below), they could consider this before committing a Party to EFR.

If 'all reasonable steps' were to be further considered in the future, the Issue Group considered that clear guidance would be helpful to avoid ambiguity in the market.

Incentivising better Performance

There was group consensus that EFR is taken seriously by Suppliers, with businesses seeking to resolve EFR as soon as possible as attending PAB is not favourable for organisations.

The Issue Group discussed whether EFR alone could incentivise behaviour change, or should other things be done too.

Issuing of fines

The Issue Group discussed whether companies in EFR for sustained periods without significant improvement could be fined by PAB at its discretion. Monies raised from fines could be redistributed to Suppliers with a record of surpassing the minimum Performance levels.

Several Issue Group members were against the principles of fines as they felt that Supplier Charges themselves were a sufficient fine for under Performance. Other members however, were favourable; if most Suppliers are making the effort to comply (and incurring the cost of compliance) but others were not, the administrative discomfort of EFR was not sufficient punishment.

One Issue Group member questioned whether PAB could be entrusted with the issuing of fines, as PAB members could be complicit in fining their employer. It was noted by ELEXON that PAB members sit as industry experts and not representatives of their employer and are required to attest that they will act accordingly[10].

Some members suggested that if Suppliers were to be fined, Supplier Agents should also be fined, as they too have to achieve required targets.

The Issue Group suggested that the PAF Review could consider fines as part of their wider work on non-compliance.

Increased PAB discretion

The Issue Group discussed whether the PAB should have a greater level of discretion when applying Supplier Charges. Supplier Charges cannot be applied until they are approved by PAB but there is no opportunity to present mitigation before application.

The Issue Group discussed whether there should be a standstill period to allow for mitigation before Supplier Charges are applied.

[10] Although not mentioned at the Issue Group meeting, it should be noted that there are provisions within BSC Section Z that mean that a PAB member cannot be involved in a decision regarding their own employer

Illustration of Supplier Charge standstill:

A standstill would allow Suppliers the opportunity to explain why they did not meet the required amount of Meter reads. The PAB would then be able to instruct that Supplier's Charges to be recalculated. Presenting mitigation to the PAB would be voluntary so, if no mitigation was offered or a particular month, there would not need to be a standstill.

There is already a process in place similar to this for Supplier Force Majeure (as described by BSC Section S 'Supplier Volume Allocation' paragraph 3.3) whereby Supplier Charges can be recalculated in extenuating circumstances.

The Issue Group considered the fact that Suppliers do not have to achieve 100% Meter reads is, in itself, a mitigation for circumstances beyond the Suppliers' Control. There were questions over whether a standstill would be necessary, given such 3% grace and existing force Majeure.

If a Supplier were to appeal their Supplier Charges under current arrangements (which they can within 10 Working Days) and this was upheld by the PAB, the next round of Supplier Charges could, essentially, see money being taken away from Suppliers. By delaying Supplier Charges, payments due will be delayed which could have an effect on cash flow. However, as Suppliers are already waiting nearly a year and a half from the period in question until the actual payments are made, it was questioned whether one further month would make material difference. A further complication would be if mitigation were presented by Suppliers in successive months, which could lead to the recalculation of recalculations. This could increase the complexity of applying Supplier Charges and would likely need further scrutiny by ELEXON and the PAB.

The Issue Group requested the matter be considered as part of the PAF review.

Increased visibility of non-compliance

Peer comparison

The Issue Group discussed the merits of publishing all issues of non-compliance. The case was made that by highlighting where Suppliers have not met their obligations, they may suffer reputational damage and as such, the risk of potential reputational damage may incentivise better behaviours. For instance, a Supplier's performance may effect which companies wish to enter into contracts with them and the terms offered e.g. Party Agents.

Concern was raised that a list of non-compliance is too simplistic, as it would not account for any mitigating circumstances. For example, if non-compliance were caused by factors outside the Supplier's reasonable control.

It was suggested that public peer comparison could be one step that forms part of an escalation process leading to the Authority considering action.

The Proposer commented that the Supplier Performance Report produced by Ofgem for its environmental programmes is a good example of peer comparison. They added that there would need to be substantial work to determine the scoring criteria if something similar is to be developed.

PAB transparency

The Issue Group discussed whether PAB should be more open about which companies are called before them for non-compliance. The PAB agenda/minutes could show which Parties were appearing at PAB but may not necessarily provide all details.

Member suggested it may not be appropriate in all circumstances, but could be used for continuous underperformance.

Post Issue Group investigation

ELEXON notes that to allow the PAB to publicly disclose which Parties are discussed at its meetings may require changes to the BSC. Specifically, BSC Section B 'The Panel' paragraph 3.3.8 prevents the Panel, and therefore the PAB as a Panel Committee, from disclosing 'data relating to the affairs of a Party and/or a Qualified Person which might reasonably be considered to be commercially sensitive'.

However, data can be disclosed if: there is a provision elsewhere within the Code; it is necessary to perform the functions of the PAB; or if agreed by the Party or Qualified Person. There are other provisions within BSC Section B paragraph 3 that allow data to be disclosed by the Panel [PAB] when discharging its duties. Another paragraph 3 clause requires the Panel [PAB] to take steps to ensure the Code is given effect and to take steps to ensure compliance.

It could therefore be argued that it is possible to disclose which Parties are discussed at PAB but, there would need to be some discussion and/or consultation on what is considered 'commercially sensitive' and whether naming attendees is in the interest of ensuring compliance. The Issue 78 Issue Group did not provide a recommendation on this matter, rather suggested it for consideration.

The PAF Review intends to look into this. Following discussion with the Proposer, it was agreed that no further action would be taken at this time. If the PAF Review does not form conclusions on this particular point, a subsequent Change could be raised.

Supplier Charges

Purpose of Supplier Charges

The Issue Group discussed whether Supplier Charges are an effective tool for incentivising Meter reads, by charging for underperformance. As described above regarding the effort of reading NHH Meters, Issue Group members felt Supplier Charges are useful for incentivising behaviour within their own companies.

The Issue Group noted that, given the complexity, it would be best to allow the PAF Review to investigate whether Supplier Charges are serving a purpose when considered alongside other potential Assurance changes.

Sliding rates based on age of estimated data

The theory is that the longer EAC data is used, the greater the divergence from actual consumption and the greater the impact on other Suppliers in terms of Settlement. It was suggested there should be a sliding scale of Supplier Charges based on the age of an EAC. If this were to be introduced, Suppliers would reach a tipping point whereby it would be cheaper to read a difficult Meter than accept the Supplier Charges.

It was suggested that this would allow Suppliers to increase tariff rates for customers that did not facilitate a Meter read. The downside is that if Suppliers mitigates Supplier Charges by increasing consumer bills, then there is no incentive for the Supplier to read the Meter, which does not solve the problem of inaccurate data in Settlement. Alternately, the consumer could just switch their business to another Supplier that does not have increasing tariff rates, which would therefore have an effect on competition.

This will require a lot of work to set the rising rates and could take some time, for example, age of estimated data is not reported by NHHDAs or held by BSC Systems, so new processes to obtain the data would need to be designed commensurate with other changes occurring such as market-wide HH Settlement system changes. Considering other work ongoing, such as the PAF Review and the move towards Market Wide HH Settlement (which is also expected to look at Performance Levels) it was felt that now was not the time to take this forward but could be considered as part of the PAF review.

Recertification fund

A suggestion was put forward that rather than redistributing Supplier Charges or potential fines, they could be put into a fund to assist with the replacement of Meters that are due for change in the normal cause of operations when they are due for recertification. An Issue Group member commented that there are similar schemes in place within the insurance and finance industry. This suggestion will be fed into the PAF Review as part of this Issue 78 Report.

4 Conclusions

The majority of discussions held under Issue 78 will be fed into the PAF Review for consideration under its existing work streams, or for further consideration following the outcomes of the PAF Review, (a representative was engaged with Issue 78).

Following the first Issue Group meeting, the PAF Review team incorporated the discussion and findings from Issue 78 and P366 into their work. Considering this, it was agreed with the Proposer that a key objective of the second Issue 78 meeting would be to feed into the PAF Review and other ongoing work for efficiency (e.g. Market Wide HH Settlement).

Short-term actions

There were two short-term actions arising from Issue 78:

- Investigate aggregated Performance Level reporting; and
- Investigate increasing transparency of the PAB.

Since the second Issue Group meeting, both of these have been incorporated into the PAF Review as part of their wider review of Performance Levels and Supplier Charges. As such, the Proposer has agreed that there is no need for further work at this stage. If further consideration is required following the PAF Review, subsequent Changes could be raised.

Considerations for the PAF review

Below is a short summary of each of the points that has been recommended for consideration under the PAF Review:

- Setting of Supplier Charge targets – whether the current targets are appropriate and effective (including setting the targets to 100%);
- Negative reporting – reporting the share of estimated data that each Supplier is responsible for and applying Supplier Charges accordingly;
- Fines – the PAB should be able to issue fines as part of a graduated escalation process;
- Naming non-compliant Parties – publishing which Parties are called before PAB and, if they are continually underperforming, publish an increasing level of detail of the reasons why they are appearing before PAB;
- Peer comparison – publish performance levels for all Parties alongside to allow performance ranking;
- Stand-still period – allow Suppliers to make their case for why Supplier Charges shouldn't be applied due to extenuating circumstances;
- Time related Supplier Charges – rates increase with the length of time estimated data is submitted into Settlement; and
- Aggregated Performance Levels – Performance level targets could be based on combined MPIDs per Company across all GSP Groups.

Appendix 1: Issue Group Membership

Issue Group membership and attendance

Issue 78 Group Attendance			
Name	Organisation	24 Apr 19	28 Aug 19
Douglas Alexander	ELEXON *(Chair)*	✓	✗
Elliott Harper	ELEXON *(Chair)*	✗	✓
Fungai Madzivadondo	ELEXON *(Lead Analyst)*	✓	✗
Chris Wood	ELEXON *(Lead Analyst)*	✗	✓
Matthew McKeon	ELEXON *(Design Authority)*	✓	✓
Nathan Flood	ELEXON *(PAF Review)*	✓	✓
Paul Bedford	Opus Energy *(Proposer)*	✓	✓
Alex Holmes	Shell Energy	✗	☎
Andrea Varkonyi	Shell Energy	✓	✗
Anna Lesniak	Opus Energy	✓	☎
Ben Chamberlain	Shell Energy	✓	✗
Chris Herzog	SSE	✓	✗
Colin Gentleman	SSE	✓	✗
Derek Weaving	Centrica	✓	✗
Emily Bridges	Ovo Energy	☎	✗
Gareth Evans	Water Wye	✓	☎
Gavin Somerville	EDF Energy	✗	✓
Helen Knowles	Smartest Energy	✓	✓
John Greene	SSE	✓	✓
Keren Kelly	Npower	✓	✗
Martin Brooks	Haven Power	☎	✗
Nik Wills	Stark	✓	✓
Oliver Zhe Xing	Orsted	✓	☎
Pete Butcher	SSE	✓	✓
Peter Gray	SSE	✓	✓
Phillipa Burton	Scottish Power	✓	✓
Richard Such	EDF Energy	✓	✗
Seth Chapman	Morrison Data Services	✓	✓
Stephen Johnson	IMServ	✓	✗
Dnieper Cruz	ELEXON	✗	✓
George Player	ELEXON	✓	✗

Appendix 2: Glossary & References

Acronyms

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

Acronyms	
Acronym	Definition
BSC	Balancing and Settlement Code
BUSRR	Business Unit Settlement Risk Rating
EAC	Estimated Annual Consumption
EFR	Error Failure Resolution
GB	Great Britain
GCF	Group Correction Factor
GSP	Gris Supply Point
GWh	Gigawatt hours
HTR	Hard-to-read
MPID	Market Participant Identification
MWh	Megawatt hours
NHH	Non-Half Hourly
OSM	Operational Support Manager
PAB	Performance Assurance Board
PAF	Performance Assurance Framework
PC	Profile Class
RF	Final Settlement Run
SLC	Electricity Supply Licence Conditions

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
2	Issue 78 webpage	https://www.elexon.co.uk/smg-issue/issue78/
2	P366 webpage	https://www.elexon.co.uk/mod-proposal/p366/
2	PAF Review webpage	https://www.elexon.co.uk/reference/performance-assurance/performance-assurance-framework-review/
2	P272 webpage	https://www.elexon.co.uk/mod-proposal/p272-mandatory-half-hourly-settlement-for-profile-classes-5-8/

External Links		
Page(s)	Description	URL
2	Electricity Supply Licence Conditions	https://www.ofgem.gov.uk/licences-industry-codes-and-standards/licences/licence-conditions
4	BSC Section S-1 webpage	https://www.elexon.co.uk/the-bsc/bsc-section-s-annex-s-1-performance-levels-and-supplier-charges/
5	P157 webpage	https://www.elexon.co.uk/mod-proposal/p157-replacement-of-current-supplier-charges-rules/
5	P182 webpage	https://www.elexon.co.uk/mod-proposal/p182-review-and-redefinition-of-the-non-half-hourly-settlement-performance-measures/
14	BSC Section S webpage	https://www.elexon.co.uk/the-bsc/bsc-section-s-supplier-volume-allocation/
15	Ofgem environmental programmes' Supplier Performance Report	https://www.ofgem.gov.uk/environmental-programmes/environmental-programmes-ofgem-s-role-and-delivery-performance/environmental-programmes-supplier-performance-report
15	BSC Section B webpage	https://www.elexon.co.uk/the-bsc/bsc-section-b-the-panel/