

## Stage 03: Assessment Report

What stage is this document in the process?

01 Initial Written Assessment

02 Definition Procedure

03 Assessment Procedure

04 Report Phase

# P272: Mandatory Half Hourly Settlement for Profile Classes 5-8

The BSC does not currently obligate the use of Half Hourly Settlement for Meters in Non Half-Hourly Profile Classes 5-8. However, some Metering Equipment is already capable of capturing Half Hourly data, and by 2014 the vast majority of such Meters will be capable due to the roll out of 'advanced' Meters with Half-Hourly and remote-reading capability.

P272 proposes to make Half Hourly Settlement mandatory for Profile Classes 5-8, as the use of Non Half Hourly data is not as accurate and masks individual customer behaviour.



The Majority of the Workgroup recommends **Rejection** of P272 Proposed and Alternative Modifications



High Impact:  
Meter Operator Agents (MOAs), Half Hourly Data Collectors (HHDCs), Non Half-Hourly Data Collectors (NHHDCs), Suppliers



Medium Impact:  
Licensed Distribution Service Operators (LDSOs), meter operators



Low Impact:  
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### Any questions?

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## About this document:

This is the P272 Assessment Report, which ELEXON will present to the Panel on 12 January 2012 on behalf of the P272 Workgroup. The Panel will consider the recommendations of this report and agree an initial view on whether or not this change should be made.

There are two parts to this report. This document outlines the solution, impacts, costs, benefits and the potential implementation activities associated with this change. Attachment A is the Detailed Assessment of P272, and sets out the Workgroup's discussions and development of the P272 solution leading to the conclusions and recommendations in this report.

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## Why Change?

By 06 April 2014, all Meters for Non Half-Hourly (NHH) Profile Classes 5-8 must be an 'advanced' meter capable of recording half-hourly electricity consumption and capable of being read remotely. However, there is no mandate to settle these Half Hourly capable meters on a Half Hourly basis. Instead profiles would continue to be used, resulting in continued use of less accurate NHH data in Settlement.

P272 contends that to settle Half-Hourly (HH) is more accurate than using profiled data.

## Solution

P272 proposes that as of 06 April 2014 all Supplier Volume Allocation (SVA) Metering Systems for Profile Classes 5-8 shall be settled as HH Metering Equipment (where capable metering has been installed).

Suppliers would be required to produce a high level plan to the Performance Assurance Board on how they intend to transfer these Metering Systems to HH settlement.

## Alternative Solution

The Workgroup have developed an Alternative solution which is identical to the Proposed Modification except for the implementation approach. The implementation date for the Alternative Solution is April 2015, 12 months after the implementation date of the Proposed modification. This is to provide Suppliers with an appropriate 'transition phase' between the new licence obligations of 06 April 2014 and the mandating of HH settlement under P272.

## Impacts & Costs

Both the Proposed and Alternative Modifications would impact Meter Operator Agents, Half Hourly Data Collectors, Non Half-Hourly Data Collectors, Suppliers and Licensed Distribution System Operators.

There is also an impact on PARMS to expand the scope of one serial and introduce a new serial. The estimated implementation costs for this change is around £18,800.

## Implementation

The P272 Workgroup recommends an Implementation approach of:

- for the Proposed Modification - **06 April 2014** if an Authority decision is received on or before 14 February 2013; and
- for the Alternative Modification - **06 April 2015** if an Authority decision is received on or before 13 February 2014

## The Case for Change

The **minority** of the Workgroup believe that P272 will **better facilitate the achievement of Applicable Objectives (c) and/or (d)** by:

- Providing greater cost transparency and enable suppliers to offer customers greater flexibility to manage their energy usage, create new customer tariffs and have more accurate billing;
- Increasing competition between Party Agents; and
- Increasing accuracy of Settlement leading to fewer disputes and a reduction in the effort of Parties monitoring and managing inaccurate data.

The **majority** of the Group believe that that P272 will **not better facilitate the achievement of Applicable Objectives (c) and/or (d)** because:

- The impact of using existing HH DUoS charging Structure for customers who move from NHH Profile Class 5-8 to HH Settlement will be detrimental to all existing new entrants in the market and thus affecting competition;
- Although there is nothing stopping Profile Class 5-8 customers from being settled as HH under the current arrangements; the existing DUoS and Agent Costs make this financially unattractive
- Potentially detrimental to the competition of smaller Suppliers and those in the NHH market; and
- It is not beneficial to industry to put through a solution now that doesn't take into consideration both the P280 Modification and the DCUSA DCP103 proposed changes.

## Recommendations

The majority recommendation of the P272 Workgroup is to reject both the Proposed and Alternative Modifications.

### Background

In April 2009 the Secretary of State (through powers granted under the Energy Act 2008) modified the Standard Conditions of an Electricity Supply Licence to mandate that from 06 April 2009 any new Metering equipment installed at non-domestic premises where the metering point falls within Profile Classes 5-8, must be an 'advanced' Meter capable of recording half-hourly consumption and of being read remotely.

Furthermore, from 06 April 2014, all Meters for such Profile Classes will have to be 'advanced' regardless of when installation took place (except where installation has not been possible despite taking all reasonable steps).

Although these changes to Supply Licences mandate the installation of Half Hourly (HH) capable metering for Profile Classes 5-8; the Supply Licences do not mandate that HH data is actually collected and used in Settlement.

### Current Process

Currently SVA metering can be either settled Half Hourly (HH) or Non Half Hourly (NHH) depending on the circumstances. If the Metering system is defined as being 100kW or above, it must be settled as HH. If it is below 100kW then it is usually settled on a NHH basis; unless the Supplier elects to settle it on a HH basis.

For sites where NHH meters are installed a set of generic load profiles used to estimate what customers with a NHH meter would have consumed for any given half-hour in a year.

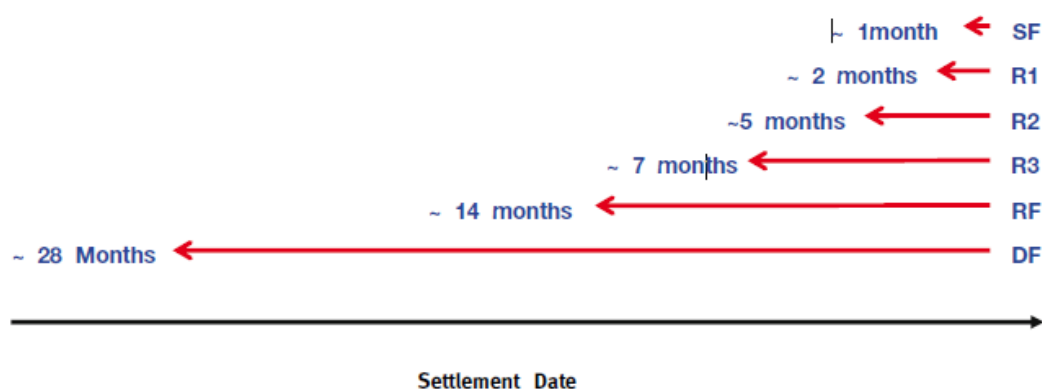
To determine what profile to use, all NHH Metering systems are placed into one of eight Profile Classes. Profile Classes 1 and 2 are for domestic premises and Classes 3 to 8 are for non-domestic premises. The profiles attempt to represent the average customer use within the chosen Profile Class.

### Profile Data into Settlement

Nearly all >100kW HH meters will have accurate data before the Initial Settlement Run (SF). However, the majority of NHH meters will not have been read before SF so the volumes are estimated based on their profile and entered into Settlement.

As time passes actual meter readings from NHH meters become available and replace the estimated data. This takes place in Reconciliation Runs. There are four Reconciliation Runs (R1, R2, R3 and RF) which provide a continually more accurate picture of Settlement at each successive run. For some GSP Groups, a further settlement run (DF) is performed later to rectify systematic data errors in the RF run.

Suppliers have a target to provide NHH meter reads accounting for 97% of energy by the RF run.



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## Measurement Classes

The Measurement Class of a Metering System reflects how it is settled i.e. HH, NHH or HH elective.

- **Measurement Class 'A':**

Is the predetermined Measurement Class for NHH Settled meters. For Measurement Class 'A', suppliers have set performance levels they must adhere to within the Settlement process. These performance levels are determined by the proportion of consumption through NHH Metering Systems that should be settled on actual Meter Advances (rather than estimates) at each of the Supplier Volume Allocation runs.

Reconciliation Run	Performance Level
SF	N/A
R1	30%
R2	60%
R3	80%
RF	97%

- **Measurement Class 'C':**

100kW or above Metering Systems are classified as Measurement Class 'C' (unless they are "unmetered" in Class D). Metering Systems below 100kW that have elected for HH settlement can be choose to be classified as Measurement Class 'C' or 'E'.

Measurement Class C Metering Systems must submit 99% actual Meter reading data by the initial settlement run (and all subsequent Reconciliations). Where actual Meter reading is unavailable, Data Collectors must provide estimated data.

- **Measurement Class 'E':**

Measurement Class 'E' is a Measurement Class for metering systems that would fall under the 100kW limit, and therefore would be settled NHH under Measurement Class A, but their Supplier elects to be settled HH.

The difference in Settlement terms between Measurement Class 'C' and 'E' is that for those metering systems that are HH elective in Measurement Class 'E' the Supplier need only get 99% actual data by RF. Furthermore, there are no Technical Assurance Agent (TAA) checks on metering systems below-100kW.

## What's the issue?

HH capable Meters installed for Profile Classes 5-8 since April 2009 are typically not being used to provide HH data into Settlement. Generally the automatic reading capability is only being used to read periodic meter advances without the need for a site visit. The result is that NHH profiled data is still being used in Settlement for these sites.

Profile Classes 5-8 generally include Metering systems with larger volumes below 100kW. P272 contends that to settle such sites on average profiled data, rather than on HH data, is not as accurate as it could be, and masks individual customer behaviour.

Furthermore, it is deemed prudent that as there is a mandate to install HH capable meters then industry should make better use of the resulting HH data that is made available.

This section summarises the P272 Proposed Modification, which the Proposer has developed with the Workgroup's assistance. It also captures the detailed requirements of the solution. For further detail on how the Group came to this solution please see Attachment A.

### Summary

P272 proposes that as of 06 April 2014 all SVA Metering Systems for the current Profile Classes 5-8 shall be required to be settled using Half-Hourly meter data (where relevant metering has been installed).

It would be left to individual Suppliers to choose how they implement the new requirement prior to 06 April 2014. However, Suppliers would be required to submit a high level transition plan to the Performance Assurance Board by 31 May 2013 (3 months after the approval date of the Modification). This would allow the PAB to make Suppliers aware of any potential timetable clashes where a bulk Change of Measurement Class might take place.

Profiles would remain for those in Profile Class 5-8 who are unable to install an advanced meter. However, the regression equations for these Profiles would be 'frozen'.

### Detailed Requirements

#### **Requirement 1 – All HH capable metering systems in Profile Classes 5-8 Settled HH by 06 April 2014**

With effect from 06 April 2014, customers in Profile Class 5-8 with HH capable metering installed must be settled on a Half Hourly basis.

Suppliers would have to update metering system registration data through the Change Of Measurement Class (CoMC) process to define the profile class as "00" rather than '05' to '08' at present. This would change the customer's MPAN.

#### **Requirement 2 – Supplier plan for Transition to HH**

It would be left to individual Suppliers to choose how they phase in the new requirement for 06 April 2014. For example, some Suppliers might choose to switch customers to HH Settlement as soon as they install Advanced metering; others might choose to perform a bulk Change of Measurement Class on or just before 06 April 2014.

However, Suppliers would be required to produce a high level plan on how they intend to complete their transition for the Performance Assurance Board (PAB) to ensure an efficient transition from NHH to HH. This would enable the PAB to obtain a better view of the impacts of the transition and better liaise / advise Suppliers who, based upon previous Impact Assessment responses, wish to avoid any problems with bulk COMC.

Supplier transition plans would have to be submitted to the PAB by 31 May 2013.

#### **Requirement 3 – Current HH Elective Transition**

Those metering systems under the 100kW limit that would otherwise be within PC 5-8 but for which their Supplier has elected to be settled Half-Hourly, will not be able to switch back to being settled as NHH (unless they leave Profile Classes 5-8 for Classes 1-4) after the approved implementation date of either the Proposed or Alternative solution for the Modification.

For avoidance of doubt, assuming that the Modification is approved, until the approved implementation date, any HH elective customers would still have the option of reverting to being settled as NHH.

#### **Requirement 4 – 99% actual HH data at R1 (SP08c)**

Suppliers would be required to achieve 99% of energy settled on actual data by the First Reconciliation Run (R1) for Measurement Class 'E', instead of currently being 99% at the Final Reconciliation Run (RF). The existing Performance Serial SP08c would be amended accordingly.

#### **Requirement 5 – DTC flows: Increased resolution for HH meter data to 0.001kWh from 0.1kWh**

The DTC flows (D0003, D0022, D0036, and D0275) that contain HH meter data will need increased resolution to ensure low half-hourly volumes are accurately processed. Currently the format is 7,1 resulting in 0.1kWh resolution. It is proposed that this is changed to 9,3 to avoid rounding issues. Increased resolution is required to avoid energy being inaccurately accounted for in Settlement.

The following data flows/items would be amended to increase the format for HH meter readings from 1 to 3 decimal places of kWh/half-hour (0.1 kWh/HH to 0.001 kWh/HH):

Data Item	Data Flow
J0177 (Period Meter Consumption)	D0036 (Validated Half Hourly Advances for Inclusion in Aggregated Supplier Matrix) and D0275 (Validated Half Hourly Advances)
J0021 (Meter Period Value)	D0003 (Half Hourly Advances)
J0281 (Total kWh (and kVArh) of Estimated Periods)	D0022 (Estimated Half Hourly Data Report)

The P272 Workgroup decided against including D0010 (Meter Readings) in this requirement as the D0010 flow is used in both HH and NHH markets. The data it holds is an advance (over many HH periods), not a HH value, so it is not so susceptible to rounding issues.

#### **Requirement 6 – Profiles 5-8 'frozen'**

The Profile Administrator would discontinue load research for Profile Classes 5 to 8. The regression equations for BSC Year 2014/15 would therefore be 'frozen' and apply to all subsequent years. These 'frozen' profiles would be used for those customers who do not have an Advanced Meter installed and for other types of customer currently settled on these profiles, for example NHH Unmetered Supply and Micro-generation profiling. It might also be used for estimation of missing data by Half-hourly Data Collectors.

Although the regression profiles would be frozen, the Default Period Profile Coefficients would still need to be determined annually as they are based on the calendar for each year. ELEXON would develop a process (likely as part of annual refresh) for this to occur.

For clarification the intention is to freeze the regression coefficients for Profile Classes 5 to 8. This means that for these Profile Classes the Profile Administrator will no longer collect sample data for customers and no new regression coefficients will be created. The regression data in Market Domain Data and the SVAA systems will then be used to create the out-turn profile coefficients for these Profile Classes by selecting the regression



coefficients for the appropriate season and day-type and evaluating them at out-turn temperature and sunset variable (as they would normally do).

The regression data would also be used with long run temperatures to calculate date specific 'default profile coefficients' for the HH market. Again this is no change from normal practice it is just that the underlying data has not been updated.

#### **Requirement 7 – Expanding PARMS Serial SP04**

Profile Class 5-8 metering systems with an Advanced Meter that are being settled on a NHH basis after 06 April 2014 will be included within the scope of PARMS Serial SP04.

Serial SP04 – 'Installation of HH Metering' – relates to the obligation to install Half Hourly (HH) Metering at a site which has qualified for mandatory HH Metering. Currently the standards include –

- Number of Days for which a HH Meter should have been installed;
- Number of Days for which HH Meter was not installed, when it should have been;
- Percentage of Days for which a HH Meter was not installed, when it should have been.

For the avoidance of doubt, this means that the Supplier Charge associated with Supplier Serial SP04 would be payable in respect of any Metering System that is subject to the Licence condition requiring an Advanced Meter, has an Advanced Meter installed, but is not being settled Half Hourly (for Settlement Dates on or after 06 April 2014).

#### **Requirement 8 – New PARMS Serial**

For Profile Class 5-8 metering systems that do not have an Advanced Meter (e.g. those where the Supplier has been unable to install one, despite taking all reasonable steps to do so, as required by the Licence Condition) will have a new PARMS serial. This Serial is for monitoring purposes only and does not have an associated Supplier Charge like the performance serial above. This will enable the Performance Assurance Board (PAB) to understand the number (and hence the impact on Settlement) of residual NHH-metered customers.

## 4 Alternative Solution

The implementation date of 06 April 2014 is an integral part of the Proposers solution. They believe that the obligation to settle Profile Classes 5-8 should coincide with the go-live date of the Supply Licence obligation for 'advanced' meters to be installed at these sites.

Some of the workgroup believed that mandating P272 from the 06 April 2014 would not provide enough time for Suppliers to resolve a number of complex issues, and that a 'transitional period' should be introduced. This 'transitional period' would ensure that Suppliers had enough time to deal with any contractual issues of moving customers from NHH to HH, make necessary changes to data flows and consider issues with Meter maintenance.

In addition some of the Group also felt that Industry would not be able to cope with a 'big bang' approach and that providing a transitional period would help avoid the risks associated with a large Change of Measurement Class process.

The Group therefore developed an Alternative solution which would delay the mandating of HH Settlement for Profile Classes 5-8, and the requirements described in section 3 above, until **06 April 2015**.

Suppliers would have until 31 May 2014 to submit their transition to the PAB.

## 5 Impacts & Costs

The below impacts and costs are for the Proposed and Alternative Solution.

### Estimated Central Costs

The estimated ELEXON cost is 18.8K which can be broken down as follows:

ELEXON Cost		ELEXON Service Provider cost	Total Cost
Man days	Cost		
45	£10,800	£8,000 implementation cost	<b>£18,800</b>

### Estimated Industry Costs

The discussion of Industry cost has been at the forefront of the assessment of P272. The Group have noted that it is hard to estimate an accurate cost for the industry of making this change. This is largely due to the fact that that industry is only now coming to terms with the nature of the changes that need to be introduced. Additionally, the lack of a “road map” and the fact that are differing pieces of work ongoing simultaneously all making assumptions on each other’s outcomes has meant that participants find it difficult to assess what changes will occur, when and what they will need to do to address these changes.

The work conducted by the Profiling Settlement Review Group in March 2011 identified that the cost to the industry over the first 5 years would be circa £35m. The Group felt that this was far too low, but agreed that these conclusions had been based upon information provided at the time by the industry. They also noted that the set up costs quoted in the PSRG conclusions included the cost of Change of Measurement Class of meters, but did not include costs of individual Supplier systems development.

In order to get a better understanding of the impacts and costs the Group issued an Impact Assessment in July 2011. The responses showed a wide range of costs from £0 - £20m depending on party type and systems development required.

In order to probe a little deeper the group issued a further 2 consultations to try and identify the detailed impacts and costs on Parties. The range of impacts and costs are summarised at high level below as a number of responses were confidential and can only be shared directly with the Authority.

Indicative industry costs		
Type of Party	Initial (£)	Ongoing (£)
Meter Administrator	Responses stated that the introduction of P272 would not have an impact and that no changes would be needed to current practices. Cost (£0)	As there were no changes necessary there is no impact upon ongoing costs. Cost (£0)
HHDC, HHDA, NHHDC, NHHDA and MOP	Responses varied with regards to the impact. Some stated no changes would be necessary whilst others highlighted specific areas that would need to be addressed. Cost between £0 – £500k	Although in some cases system changes may be needed it was viewed that these would only incur an initial cost and that there would be ongoing costs as a result of P272. Cost (£0)

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NNHDC, NHHDA and MoP	For a party that only operates in the NHH market responses indicated that the initial impact of moving into the HH market would be substantial. Cost (Several millions)	Due to the fact that a party would be entering an entirely new Market respondents felt they were unable to assess what the ongoing costs would be at this stage. Costs (unknown).
Distributors	Responses varied as to the impact P272 would have. Costs (£5– £200k)	Respondents varied depending on what changes would have to be made and what they believed would happen with regards to DUoS charges. Costs (£0 – £250k)
Suppliers	Depending on the size of the Suppliers portfolio within Profile Class 5-8 the impact varied greatly. Costs (£0 – £10million)	The same rules applied with regards to the ongoing impacts. Costs (£250k – £8 million)

## Impacts

BSC Parties / Party Agents	
Type of Party / Party Agent	Potential impact
Supplier	<ul style="list-style-type: none"> <li>Updating customer and Agent contracts</li> <li>Impact on NHH Performance</li> <li>The need to change agents and update forecasting, pricing and billing systems</li> </ul>
LDSO	<ul style="list-style-type: none"> <li>Issues with IT system scalability and timescales</li> </ul>
Agents	<ul style="list-style-type: none"> <li>Existing NHH Agents would need to re-qualify for HH, should they wish to continue to act as MOAs</li> </ul>

Impact on Transmission Company
N/A

Impact on BSC Systems and process	
BSC System/Process	Potential impact
PARMS	Amendment of existing PARMS serials and the creation of a new serial

Impact on BSC Agent/service provider contractual arrangements	
BSC Agent/service provider contract	Potential impact
Profile Administrator	Should ELEXON created frozen profiles the PRA will no longer need to continue annual calculations

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Impact on Code	
Code section	Potential impact
Section L	In order to mandate Metering for Profile Classes 5-8
Section S	In order to mandate the submission of appropriate data

Impact on Code Subsidiary Documents	
CSD	Potential impact
BSCP533	New and amended PARMS Serials would require amendments to BSCP533 and BSCP533 Appendix 1, the SVA Data Catalogue Vol 1 & the PARMS URS (plus lower level PARMS s/w docs).

## The Carbon Reduction Commitment (CRC)

The Workgroup noted that there is a potential interaction the Carbon Reduction Commitment and P272, since P272 would increase approx 164,000 customers being settled HH. This may mean that these customers then qualify for the CRC scheme (subject to other criteria) and must adhere to its obligations. This would result in them having to fulfil requirements to report on consumption data provision. The reporting is an obligation and there would be a tax at a certain level. However, the Workgroup stated that these customers may already come under the CRC obligation as they have maximum demand meters.

## Group Correction Factors (GCFs)

GSP Group Correction is the mechanism that allocates the total error in metered volumes in each GSP Group between Suppliers. The equations for GSP Group Correction in paragraph 9 of Annex S-2 of the BSC refer to a GSP Group Correction Scaling Weight (WTN) for each Consumption Component Class (CCC), which defines how much GSP Group Correction should be applied to that CCC (relative to the others). The Group were asked whether they believed there will be a detrimental impact on NHH errors as more move to HH.

The discussion focused upon the fact that any impact will be based on whether or not the Group Correction Factor (GCF) will be adjusted as more MPANs are moved to HH. The Modification Group also noted that NHH performance standards may become difficult to achieve as companies with larger market shares move to HH.

The Group believe that there is potential for an issue to arise should a number of larger Suppliers move prior to the mandated date. The Group agreed that this is something that should be considered when Suppliers plan their transitions with the Performance Assurance Board (PAB).

Further information and Workgroup discussion on the potential impacts of P272 can be found in Attachment A.

## 6 Implementation

### Proposed Modification

The Workgroup's recommended implementation date for P272 Proposed Modification is:

- **06 April 2014** if an Authority decision is received on or before 14 February 2013.

This approach coincides with changes to the Supply Licence, mandating the installation of 'advanced' meters for Profile Classes 5-8, as directed by the Secretary of State.

### Alternative Modification

The Workgroup's recommended implementation date for P272 Alternative Modification is:

- **06 April 2015** if an Authority decision is received on or before 13 February 2014.

This approach provides Suppliers with 12 months following the Supply Licence amendments in order to resolve any wider issues they may be experiencing.

### Supplier Transition Plans

There is no implementation requirement for how Suppliers must switch NHH customers to HH Settlement. For example, some Suppliers might choose to switch customers to HH Settlement as soon as they install Advanced metering; others might choose to perform a bulk Change of Measurement Class on or just before the P272 implementation date.

However, in order to ensure an efficient transition from NHH to HH, Suppliers will be required to produce a high level transitional plan for the PAB. This plan should cover how and when they intend to switch customers. This will enable the PAB to obtain a better view of the impacts of the transition and better liaise / advise Suppliers who, based upon previous Impact Assessment responses, wish to avoid any problems with bulk COMC.

The high level transition plans must be submitted to the PAB within 3 months of approval of this Modification e.g. 31 May 2013 for the Proposed or 31 May 2014 for the Alternative.

### Legal Text

The Workgroup agreed the Legal text which would implement P272, but noted that the Supply Licence requirement (to which the legal text refers) potentially contains a circular reference. The wording of the Supply Licence requirements refers to customers who are in Profile Classes 5-8. However, mandating HH settlement for Profile Classes 5-8 would in effect remove Profile Classes 5-8. The Group believe the issue is driven by the wording in the Supply Licence and feel the proposed BSC drafting is the most robust way to implement this change.

Overall the **majority** of the P272 Group agreed that **neither** the Proposed nor Alternative should be made, believing that P272 was either neutral or detrimental to facilitation of **Applicable BSC Objectives (c) and (d)**.

### Quantifiable and unquantifiable benefits

In March 2011 the Profiling and Settlement Review Group (PSRG) undertook a cost benefit analysis (CBA) of mandating Half Hourly Settlement for Profile Classes 5-8 by 06 April 2014. The CBA concluded that there would be an estimated £17m benefit to Settlement.

The P272 Workgroup agreed that the work conducted by the PSRG was still relevant and its findings were still accurate. The Group did believe it important to clarify that the figure of £17m does not reflect a direct monetary benefit to Suppliers. In fact the estimated £17m represents the better allocation of money i.e. the amount of money that would be correctly allocated by removing inaccuracies in Settlement.

The £17m cost reallocation had been calculated by looking at how much energy had been put in the 'wrong' Settlement period. The estimated error for all NHH Settlement (i.e. Profile Classes 1-8) was 9TWh per annum. Profile Classes 5-8 make up 10% of the NHH market, so 0.9TWh per annum in error could be accredited to Profile Class 5-8; roughly 5% of Profile Class 5-8. A Group member questioned whether the £17m of cost reallocation was too high since they believed that Profile Classes 5 -8 were more accurate than within 5% and the inclusion of Profile Classes 1-4 may have 'watered down' their accuracy.

ELEXON noted that whilst appreciating Profile Classes 5-8 might be the most accurate of the Profile Classes, this has no bearing on the output of the calculation.

The P272 Group also agreed with the PSRG conclusions that there were other benefits that were not quantifiable<sup>1</sup>:

- Better risk management for Suppliers and less exposure to imbalance costs;
- More accurate demand forecast;
- More cost effective tariffs;
- Reduced carbon emissions, peak load shifting and demand side reduction

The Group were asked to think of any way in which the potential benefits of P272 could be quantified. Whilst there was a desire to assist the progression of the Modification by completing any further quantifiable analysis, no one in the Group could devise what analysis to be undertaken.

It was suggested that we could look at any benefit associated with incremental demand response. However, in order to complete this the Group would have had to:

- Agree what assumptions would form part of the analysis (i.e. what time of use tariffs suppliers would offer)
- Provide rationale for those assumptions
- Agree where the data to complete the analysis would come from

The Group were unable to answer how and what analysis was to be undertaken and believed that in the future when data was available or assumptions were clearer some further benefit analysis may be possible. The Group did agree that the Authority should take note of this section of the Assessment Report which highlights what analysis might be undertaken in any future potential Regulatory Impact Assessment should one be required.

<sup>1</sup> For further information on these please see Attachment C

## Impact of DUoS Charges

One of the key issues that the Group discussed was the impact of P272 on DUoS charges and how switching NHH customers to HH Settlement could be extremely costly.

Distribution network charges (also known as DUoS charges) are calculated for each HH settled customer by Distributors on a site specific basis.

The P272 workgroup, and other groups across the industry looking at this issue, believe that one of the main concerns with moving customers across is that currently Distributors only receive site specific data for each HH site for use in billing. If the number of HH sites was to increase significantly both Distributor and Supplier systems would have to undergo costly changes in order to cope with this increased level of data. The solution to this would be to allow for aggregated HH data to be sent to Distributors as this would reduce the impacts of systems.

Although this concern was noted in the Proposal form, many of the Group believe that it is a fundamental concern that must be overcome before P272 can be approved. The Group noted that potentially new Modification P280 together with DCP103 may alleviate this issue if they were approved.

## Cost vs. benefits

Whilst the concern over DUoS charges tended to dominate discussions on costs, the Group noted that this was not the only cost to Suppliers identified in the impact assessment responses, and that potentially the cost could be extremely high to implement P272 in the foreseeable future.

The Group were supportive of having HH data in Settlement, but many believed that this should not be achieved at any cost. The move to HH Settlement needs to be conducted effectively and efficiently and with a view of what that will look like for the market as a whole in the future.

Some Group members were also concerned that the actual cost of implementing P272 is still relatively unknown. That includes unknown benefits and unknown systems costs. They believed that to implement P272 by 2014 would require a "leap of faith".

It was also noted that to implement a Modification that in the short term would likely raise costs for consumers, when there are already vast amounts of political pressure being placed upon the industry due to rising costs, does not make sense.

## Timing

Taking into consideration some of the concerns raised over unknown costs some of the Group felt that P272 is essential now, as without it there would be no driver for the industry to move to HH Settlement. They felt that systems will always be costly to change and there will always be potential barriers to large industry changes, but now is the right time to drive the industry forward.

There was also a belief that the industry as a whole is moving towards HH Settlement in its entirety. Therefore, it makes sense with the multitude of changes planned throughout the industry over the next 5 years (with the implementation of Smart etc) to resolve the issue of Profile Class 5-8 now so as to free up more time to tackle the more complicated issues that will arise from settling Profile Classes 1-4.



However the majority of the Group, whilst applauding the intent of P272, felt it was “putting the cart before the horse”. They believed that removing the potential barriers was a necessary first step; while P272 may force those changes to happen sooner, this Modification could not be implemented in the current arrangements.

Other Group members also felt that it would be sensible to look at how Profile Classes 1-4 will be changed and what potential impact the Data Comms Co (DCC) may have when it is created. There was a fear that by looking at Profile Classes 5-8 in isolation the industry could end up making expensive systems changes that in 3 years were no longer needed. The industry needs a clear road map of where it is going, without that it is very hard to justify the costs of implementing change.

## Impacts on Consumers

A recurring issue throughout the Workgroup’s discussions related to the possible negative impact in the short term that P272 could have upon customers. Whilst the Workgroup were aware that this was technically outside the remit of the BSC, Ofgem were keen to examine this aspect and stated that they needed more confidence of the likely impacts on customers.

The Workgroup considered the fact that due to DUoS charging currently not being resolved that it was likely to cause an increase in cost to Suppliers and that in turn would result in Suppliers passing this cost on to the consumer.

Suppliers argued that although they wanted more accurate data within Settlement as this would be beneficial for all, they deemed it imprudent in the current climate to pass on an additional cost to customers when there is already mounting political pressure due to rising prices.

The Workgroup concluded that if P272 was not implemented prices would not increase. However, should it be implemented there was a likely hood that in the short term at least there would be an increase. The Workgroup also stated that DCP 103 and P280 should alleviate at least some of the issues caused by this.

## Is P272 Proposed better than the current arrangements?

The **majority** of the Group believed that neither P272 Proposed nor Alternative is better than the current arrangements. They felt so because they didn’t believe that **both the Proposed and Alternative** Modifications **would not** better facilitate:

### Applicable BSC Objective (c) as:

- The current arrangements allow Suppliers to settle NHH customers in Profile Classes 5 – 8 on a half hourly basis. Mandating HH Settlement for these customers does not improve competition and there is no BSC barrier preventing Suppliers and customers from having access to more innovative tariffs that come from having increased access to metered data that could also facilitates load switching.
- The current elective regime effectively improves competition for those suppliers who can differentiate the offerings to customers based on the best combination of factors, including the energy costs, DUoS and DC/DA/MOP costs. P272 could potentially create an additional cost burden for this category of customer and particularly smaller suppliers who could face increased DC/MOP & DUoS costs because of a change in the Settlement arrangements that aren’t combined with increased opportunity or the ability to absorb those additional costs across a larger portfolio;

- Decreasing the size of the NHH market is detrimental to businesses that are focussed solely in the NHH market;
- Using existing DUoS charging regime will have an increased costs for those NHH customers which will now be settled as HH customers, this will be detrimental to new entrants/competition; and
- There are potential benefits for competition in mandating HH settlement for current PC5-8 sites in the longer term, but the total industry costs of mandating it from April 2014 would outweigh the benefits in the short term. A later implementation date would have removed some of the significant transition issues and costs for participants.

**Applicable BSC Objective (d)** as:

- Not efficient to put through a solution now that doesn't take into consideration future changes;
- Whilst this may lead to an increased accuracy in settlements it does not do it in an efficient way. The increased administrative burden and cost to customers via increased metering and DUoS costs renders this change less efficient than the current baseline; and
- ELEXON would still be required to perform profile research for other profile classes, the very marginal benefit that will come from not undertaking the activity for PC 5-8 is immaterial versus the costs of making the change.

The **minority** of the Group believed that both P272 **Proposed and Alternative** Modifications **would** better facilitate:

**Applicable BSC Objective (c)** as:

- increasing the amount of energy which is settled half hourly will provide greater cost transparency and enable suppliers to offer customers greater flexibility to manage their energy usage, create new customer tariffs and have more accurate billing;
- Reduces financial risks and removes barriers to new entrants and smaller Suppliers through improved demand forecasting/settlement providing greater opportunities for better informed cash flow planning; and
- An increase of an additional 164000 MPANs in the HH market will lead to better competition between agents and will potential drive down the price that agents currently charge.

**Applicable BSC Objective (d)** as:

- As there would no longer be the requirement for load research PC5 – 8 sites as profiles would be 'frozen';
- Inaccuracy in settlements would be reduced and the work and resultant costs of all Parties and Agents monitoring and managing the inaccuracy;
- In addition the introduction of a increase in performance completeness to 99% at R1 would bring significant increases in efficiency, particularly for billing and invoice reconciliation; this would be of great benefit to many parties; and
- Using HH data will make Settlement more accurate and lead to fewer disputes.

## Proposed vs. Alternative

The **majority** of the Group believed that the **Alternative Modification is better** when compared to the Proposed Modification.

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The Group felt that the Alternative was better as it provided the industry with more time to resolve a number of complex issues such as contractual issues of moving customers from NHH to HH, make necessary changes to data flows and consider issues with Meter maintenance. They also felt it alleviated some of the risk that Suppliers would be installing advanced meters close to the 06 April 2014 deadline and that a longer implementation would have less impact on systems and processes.

The majority of the Group also believed that an implementation date of April 2015 would enable the industry to handle the required Change of Measurement Class more smoothly, and would remove the risk of a big bang approach. Overall the Group thought the Alternative would provide the following benefits:

- Avoids the need to do a meter exchange and CoMC at the same time;
- Allows a reasonable period of time to resolve issues at problem sites;
- Ability to gain some additional usage history to aid forecasting and hedged position;
- Allows additional time for commercial arrangements to have been put in place with the customer;
- Provides for a slippage in the timing of the removal of the DUoS pricing differential which would impact transition planning and increase system and process costs

The **minority** of the Group believed that the **Proposed Modification is better** when compared to the Alternative Modification.

They did so as they believed that the sooner P272 is introduced the quicker industry can benefit from more accurate HH data in Settlement.

### Removal of potential barriers – A different outcome?

As noted in the sections on 'Timing' and 'Costs' above, many of the group could see the benefit of HH data in Settlement, but believed that until some of the barriers are removed (such as DUoS charges) they would not be able to support P272.

Many of the Group supported the aims of the Modification, but maintained that this should not be implemented at any cost. Consequently, the Group urge the Authority to apply pressure to Parties to get all the issues both identified and rectified without an adverse impact on customers, so that the use of HH data in Settlement can be used as close to 2014/2015 as possible.

The Group also felt very strongly that the Authority should not look at P272 in isolation, and that before they made a determination on the Modification they should consider the work that is being undertaken to resolve the DUoS charges concern under Modification P280 and other industry groups.

## 8 Recommendations

The P272 Workgroup invites the Panel to:

- **AGREE** an initial recommendation that Proposed Modification P272 should not be made;
- **AGREE** an initial recommendation that the Alternative Modification P272 should not be made;
- **AGREE** the draft legal text;
- **AGREE** that Modification Proposal P272 be submitted to the Report Phase; and
- **AGREE** that ELEXON should issue P272 draft Modification Report for consultation and submit results to the Panel to consider at its meeting on 08 March 2012.

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## 9 Further Information

More information is available in

Attachment **A**: Detailed Assessment

Attachment **B**: Legal Text

Attachment **C**: PSRG Cost Benefit Analysis

Additionally, all consultation and impact assessment responses received, and all other P272 documentation, are available from the [P272 page](#) of the ELEXON website.