ELEXON

P415 Workgroup Meeting 11 Summary

Summary

1. Meeting Objectives

On 30 May 2022 the P415 Workgroup convened to address the following meeting objectives:

P415 Supplier Compensation Reference Price Methodology

- NOTE the proposed Supplier Compensation Reference Price Methodology
- DETERMINE an opinion whether an alternate methodology better fulfils the requirements
- AGREE the Supplier Compensation Reference Price Methodology

P415 Alternate Supplier Compensation Reference Price

- NOTE the P415 E2E solution
- DETERMINE an opinion whether an alternate price better fulfils the requirements
- AGREE the alternate Supplier Compensation Reference Price

2. Supplier Feedback

A Supplier member of the Workgroup raised the topic of customer consent or mandatory sharing of information under P415. This member reported that as a Supplier they pass through costs to industrial customers and would need to identify which customer has been adjusted by the VLP action and associated third party costs for meter reads (for examples levies on a per kilowatt hour basis such as Contracts for Difference or Feed in Tariff charges). They wondered how they would be able to identify the relevant customer via the aggregated GSP level view they currently receive, stating that this could present difficulty in making sure that billing is correct.

Elexon clarified that P415 is not changing anything to do with meter reads (instead focusing on whether the Supplier has suffered any commercial impact from VLP activity, adjusting their position to counter this activity and) and would expect Suppliers to be able to bill customers as per normal.

Regarding 3rd Party costs, the Workgroup had previously discussed and agreed that the majority of actions taken by VLPs will likely be in the form of load reduction. Therefore, if these charges are based on meter readings, the vast majority would be a reduction in meter readings, which will pass on to these other levies simply as DSOUS, BSOUS or Feed in Tariffs. It had been felt that the minority of situations where there is load increase and meter readings/ consumption go up should be heavily outbalanced by instances of load reduction, describing this as “swings and roundabouts”.

The Supplier noted this, but remained concerned by the inability to identify specific customers within the GSP group, to ensure the right customer receives the correct bill.

Elexon noted the customer consent model where a customer gives the VLP consent to inform Elexon to share its activity on a site-by-site basis. Existing data flow P287, from BSC central systems to the Supplier, details VLP activity for each individual MSID, offering a potential mechanism for Suppliers to receive this data.

The P415 Proposer considered that, for non-energy costs such as levies, the cost to the Supplier would be based on what the meter reads so, if a Supplier bills a customers based on that meter reading, no additional information would be required.

Another Supplier member pushed back on this point, disagreeing with the idea that ‘all that matters are the meter reads’ and that all actions can be considered as absolutely downward or upward in their nature. Describing an example of a residential battery (or other exporting asset) where some downward flexibility is sold, exported back onto the network and then recovered later on. This would face double charging of levies, with no credit received for the exported volume that is imported back at a future time, and the member stated that these costs should also be taken into account.

Elexon noted these concerns about the effect of load shift and the actions taken at different times that would potentially not be accounted for by the compensation mechanism and other charging regimes. Pointing out that the scope of P415 would not be able to change other regimes such as CfD, Elexon will need to consider the matter further, run some numbers and test the interaction between the compensation mechanism, imbalance positions and counting of charges.

In order to help Elexon fully understand (as it had not been discussed by the Workgroup until this 11th meeting), several Supplier members offered to elaborate further outside of this meeting with Elexon via email and conversation, so that this can be brought back to the Workgroup as an agenda item in a future meeting once Elexon has had time to run analysis and develop a robust understanding.

3. Reporting Requirements

One member wondered whether it would be appropriate to consider information sharing from Suppliers to VLPs and the group used a portion of meeting 11 to scope this out for the purposes of potentially returning to this topic in a future meeting.

The same member noted that the importance within demand response of engaging potential customers, for which it is extremely valuable to gain knowledge of which consumers have flexible loads, using examples of a household that consumes much more than its neighbours, potentially indicating the use of a high consumption appliance (such as heat pump), or a customer who has expressed interest in a Supplier's variable pricing options, both of which could indicate their capacity for flexibility.

In these cases the information available to the Supplier would allow them to offer their services as a demand response provider to these customers, which could be seen as an unfair advantage contrary to a 'level playing field' for all demand response providers. If this information could be made available to all VLPs, it was argued that this would create a 'level playing field' on which demand response could be provided more quickly.

A Supplier member noted that, in these scenarios, a competing Supplier would not have any more information than a VLP or demand response provider in order to sell flexibility products and did not see DR providers as under a disadvantage compared to a competing Supplier. They also pointed out that just because a customer has high usage does not mean he is necessarily interested in flexibility products.

The P415 Proposer noted that the incumbent Supplier does have an advantage but questioned whether it is in the scope of this Modification to fix that. Speaking as an aggregator, they wary of privacy concerns around accessing customer data (even in rough form) and would prefer to rely on their own existing methods to find new customers.

Another member agreed and noted the scoping issue, also highlighting that BEIS is looking at third-party intermediaries (TPIs) and 'load controller' with an interest in information transparency and customer harm, so this member couldn't see how this could be used to open up more access to customer information. This member also wondered why Ofgem would take a different position than they have otherwise communicated in the past via decisions on P344 'Project TERRE' and P354 'Use of ABSVD for non-BM Balancing Services at the metered (MPAN) level'.

4. Supplier Compensation Reference Price

Elexon took the Workgroup through some high level principles for the development of a Supplier Compensation Price methodology for the Proposer's solution, which the Workgroup agree were broadly sensible.

Elexon confirmed that, far from being complete, the methodology document was very much a "starter for 10" and aimed at provoking wider discussion and gathering Workgroup views rather than a definitive and enduring solution.

Elexon's initial proposal for calculation of a Supplier Compensation Reference Price for the Proposer's solution where the VLP pays compensation was based on the Baseload Reference Price that EMRS use in the Capacity Market, also explaining that this was not intended to try and capture ever different Supplier's hedging strategy (this would not be possible or proportionate as they are all different), but rather trying to capture the average cost of electricity in a future period.

Several members expressed a desire for the methodology to account for Supplier's shaping costs, feeling that a baseload product that is flattened out across a given length of time will fail to account for these costs.

Some members of the Workgroup noted that Ofgem's Price Cap Methodology (PCM) accounts for these shaping costs and wondered whether this would be more suitable to explore as a starting point for the Supplier Compensation Reference Price methodology.

Elexon noted that this would add considerably more complexity and that in the end the benefits would have to be considered against the costs, but noted the Workgroup desire to examine the PCM in more detail as an existing process that takes into account many of the questions that the Workgroup raised on costs, defined periods and peak/off peak prices.

For avoidance of doubt, the proposal is not to tie P415 directly to the PCM, which was designed to be temporary, but to use its methodology as a starting point. Additionally, the PCM has several sections and the P415 Workgroup propose to only examine aspects of the PCM that is applicable to the wholesale market.

The P415 Proposer reaffirmed that they had no fixed view on the level of complexity in the calculation methodology, but considered that the PCM could have merit and did not violate the principle of P415 capturing a reasonable approximation of the cost that a Supplier probably incurred, that they won't be able to recover from the bill, and so not leave them significantly out of pocket or, conversely, with a windfall.

Ultimately, it was agreed and the PCM could form a good starting point for further discussion and examination, to potentially be mirrored and/or simplified for incorporation into P415.

The group also considered whether a bifurcation in the methodology would be necessary to account for both residential and commercial/industrial load. The Workgroup generally felt that this would be preferable but noted that it was less clear how to implement this, discussing the potential use of LLFCs and look up tables to identify domestic and non-domestic consumers.

Elexon advised the group to aim for simplicity in the first instance and then look to iterate at a future point. One option could be to launch P415 with one methodology that is broadly representative of commercial costs for Suppliers, then look to introduce more as required in a similar manner to the approach taken for P376 'Utilising a Baselining Methodology to set Physical Notifications'.

5. Market Index Definition Statement

Elexon explained the method by which the BSC represents the real time cost of energy – the Market Price.

The Market Index Definition Statement (which is approved by the Authority) and is used in Settlement to define what Market Index Data will be used to calculate a Market Price (£/MWh) for each Settlement Period. The Market Price is used in the place of SSP/SBP when the Net Imbalance Volume equals zero. This Market Price is intended to be reasonably reflective of the price of wholesale electricity in Great Britain, for delivery in respect of a Settlement Period in the short term market. It represents the wholesale market in general, not any particular market or type of market. Short term in relation to a specific Settlement Period, is the period of hours or days immediately prior to the Submission Deadline, but no more than three Business Days prior to the Submission Deadline. Finally, the Panel is responsible for establishing and maintaining, at all times, a Market Index Definition Statement.

Elexon sought feedback from the group on whether the Market Price is a fair representation of the real time value of energy, and whether this would be a suitable starting point for an alternate methodology that aims to compensate Suppliers for the opportunity cost of being unable to sell P415-affected energy on the short term markets.

One Workgroup members noted that there is no true 'real time' price for energy in Britain, but that the Market Price reflects spot prices intraday which could be expected to reflect real time as much as reasonably possible.

Several Workgroup members felt that looking at 'day ahead' prices would be more suitable than intraday to better reflect the likely selling behaviours Suppliers would undertake.

One member recommended further examination of the Intermittent Market Price as an existing option that they felt was as close to a day ahead spot price as possible, that would allow half-hourly application in a compensation methodology.

Elexon agree to examine the Intermittent Market Price in more detail, noting the Workgroup's desire for a day ahead price rather than anything shorter-term.

Actions

No.	Action	Owner
1.	Elexon to revisit the Supplier Compensation Reference Price methodologies and return to the group with an amended proposal	Elexon

Next Steps

- 1 July 2022: Workgroup session with CEPA prior to the submission of the Cost Benefit Analysis to the BSC Panel, to take into account any commentary from the Workgroup
- CEPA to present CBA to BSC Panel on 14 July 2022.