BSC Modification Proposal Form	At what stage is this document in the process?

P446

Mod Title: Energy Price Guarantee Scheme for domestic customers

01 Modification
02 Workgroup Report
03 Draft Modification Report
04 Final Modification Report

Purpose of Modification:

To enable Elexon (BSCCo) to implement and administer the payment scheme for Suppliers as part of the Government's Energy Price Guarantee scheme for domestic electricity customers. This Modification intends to implement an arrangement to provide subsidy payments to Suppliers that would be proportionate to consumption for domestic customers. The intention of the subsidy would be to reduce consumer tariffs in light of the recent rises in energy costs.

Does this Modification impact any of the European Electricity Balancing Guideline (EBGL) Article 18 Terms and Conditions held within the BSC?

☐ Yes ☒ No

The Proposer recommends that this Modification should:

- be treated as urgent and progressed under a timetable agreed by the Authority
- not be a Self-Governance Modification Proposal

This Modification will be presented by the Proposer to the BSC Panel on 13 September 2022. The Panel will consider the Proposer's recommendation and determine how best to progress the Modification.

High Impact:

Suppliers

Medium Impact:

None

Low Impact:

BSCCo

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Timetable

The Proposer recommends the following timetable:

Modification presented to Panel	13 September 2022
Submitted to Authority for decision on urgency	13 September 2022
Urgent Modification Consultation (5WD)	14 September 2022 to 21 September 2022
Draft Urgent Modification Report presented to Panel	22 September 2022
Final Urgent Modification Report submitted to Authority	22 September 2022
Implementation	+1WD after Authority decision

Any questions?

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1 Why Change?

What is the issue?

European energy prices have increased dramatically, following the ending of lockdown and the gas crisis initiated by Russia's invasion of Ukraine. On 26 August 2022 Ofgem announced[1] that the energy price cap will increase to £3,549 per year for a typical household gas and electricity bill in Britain from October. Further rises are expected in the future and, as we approach winter, there are concerns over the wellbeing of those who may not be able to afford energy costs.

The increase in wholesale energy costs could also have wider economic impacts. There has already been an impact on inflation, and the cost of living crisis is expected to cause a recession, as predicted by the Bank of England[2]. It is also possible that the increased energy costs could cause further Supplier failures. Previously, rising wholesale gas costs caused several Suppliers[3] to fail, as the price cap meant they were unable to pass the increasing costs on to customers. With increasing numbers of customers unable to make payments or who may begin to refuse to pay their bills, there are concerns that additional Supplier failures may be triggered.

As a result of these concerns the Government has proposed the Energy Price Guarantee (EPG) Scheme for domestic customers, to secure reductions in the electricity bills of domestic consumers in Great Britain. The intention is for Elexon to act as the EPG Scheme Administrator.

The activities that Elexon are permitted to undertake are outlined in BSC Section C 'BSCCo and its Subsidiaries'[4]. Currently, the activities stipulated in BSC Section C do not include provisions for administering such a scheme.

Note that this Modification relates only to the EPG Scheme in relation to domestic customers.

Desired outcomes

The desired outcome from this Modification is to enable BSCCo to fulfil the role of Scheme Administrator for the Energy Price Guarantee Scheme.

The object of the Scheme is to ensure that consumers' energy bills are lower than they would otherwise be under the current price cap arrangements. The intention is for Suppliers to reduce the tariffs that would otherwise be charged to consumers by the value of the support payments made under the Scheme.

[1] https://www.ofgem.gov.uk/publications/ofgem-updates-price-cap-level-and-tightens-rules-suppliers
[2] https://www.bankofengland.co.uk/monetary-policy-report/2022/august-2022
[3] https://www.forbes.com/uk/advisor/energy/failed-uk-energy-suppliers-update/
[4] https://www.elexon.co.uk/the-bsc/bsc-section-c-bscco-subsidiaries/

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2 Solution

Proposed Solution

Implementing the solution to this Modification will require changes to BSC Section C 'BSCCo and its Subsidiaries' to extend the vires for Elexon. The amendment would have to allow Elexon to undertake a new non-BSC related function, administering the payment scheme. There will also be an amendment required to Section X 'Annex X-1 'General Glossary'[5]. Proposed legal text can be found in Attachment A.

The proposed BSC Modification will describe and limit Elexon's role and functions as Scheme Administrator by reference to the more detailed Scheme Document, to ensure consistency and prevent divergence between obligations set out in the Scheme Document and the BSC. Having the details of the scheme within the Scheme Document, rather than the BSC, ensures that the Government have appropriate control over the scheme and hold the risks as the scheme owner. Additionally, not all BSC Parties will be party to the scheme.

The Scheme Document established by the Secretary of State, which will include the Scheme Agreement, will set out the details of the Energy Price Guarantee Scheme and the obligations of the Scheme parties. Suppliers will need to accede to the Agreement to become a party to the Scheme and to be eligible to receive payments. The Scheme Document will detail the payment calculations, payment timetable and reconciliation processes.

As Elexon will be performing a separate and distinct role as Scheme Administrator, the proposed Modification provides that the Panel and Panel Committees will not have any responsibilities in respect of Elexon's functions as Scheme Administrator.

The Scheme Document and the proposed BSC Modification ensure that Scheme payments are accounted for separately from other BSC Costs and Trading Charges and that BSC Parties are not responsible for funding payments under the Scheme. The Modification does provide for Elexon's administrative and operational costs in undertaking the role of Scheme Administrator to be included as BSC Costs.

The administration of the payment scheme will require the development of calculation and payment systems that will utilise BSC data. The proposed system solution involves information extracted from the Supplier Volume Allocation Agent (SVAA).

The non-half hourly (NHH) domestic consumption volumes are calculated using the Estimate of Annual Consumption (EAC) and Annualised Advance (AA) for customers registered to Profile Classes 1 and 2, excluding unmetered supplies. The Period Profile Coefficient from D0018 is used to convert the EAC/AA data to Settlement Day volumes.

The half hourly (HH) domestic consumption volume is recorded by Supplier Market Participant Identifier (MPID) and will be calculated using customers registered with a consumption component class ID of 42 or 45.

The NHH and HH consumption data is aggregated to provide a sum of the daily domestic consumption volumes by Supplier. This is multiplied by a pence/kWh rate specified by the Secretary of State.

[5] https://www.elexon.co.uk/the-bsc/bsc-section-x-annex-x-1-general-glossary/

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Benefits

The benefits of the Modification would primarily be the securing of reductions in the electricity bills of domestic consumers in Great Britain. This would have a positive impact on the wellbeing of consumers as well as on the economy. The Modification would also support Suppliers, reducing the likelihood of Supplier failure during the current wholesale energy price increases, and reducing the burden of Supplier failures on those who remain in the market and would have to pick up any mutualisation costs.

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3 Relevant Objectives

Impact of the Modification on the Relevant Objectives:	
Relevant Objective	Identified impact
a) The efficient discharge by the Transmission Company of the obligations imposed upon it by the Transmission Licence	Neutral
(b) The efficient, economic and co-ordinated operation of the National Electricity Transmission System	Neutral
(c) Promoting effective competition in the generation and supply of electricity and (so far as consistent therewith) promoting such competition in the sale and purchase of electricity	**Positive**
(d) Promoting efficiency in the implementation of the balancing and settlement arrangements	**Positive**
(e) Compliance with the Electricity Regulation and any relevant legally binding decision of the European Commission and/or the Agency [for the Co-operation of Energy Regulators]	Neutral
(f) Implementing and administrating the arrangements for the operation of contracts for difference and arrangements that facilitate the operation of a capacity market pursuant to EMR legislation	Neutral
(g) Compliance with the Transmission Losses Principle	Neutral

Applicable BSC Objective (c)

In the view of the Proposer this Modification will better facilitate Applicable BSC Objective (c) as it will support the continued operation of Suppliers through the current wholesale energy price crisis. This will facilitate more robust competition when market conditions return closer to normal. Many Suppliers went in to Default previously, with a factor being that the increasing cost of energy could not be passed on to customers due to the price cap, resulting in large mutualisation of failed Supplier debts between those Suppliers who were left in the market. This Modification would, at a time of significant wholesale electricity price rises, reduce the number of Supplier failures as a result of a price cap[6] set lower than the costs that the Supplier incurs by facilitating a scheme to compensate Suppliers and ensure that they are not forced to make a significant loss on the energy they sell. The implementation of the Modification would also reduce the likelihood of future Supplier failure caused by the non-payment of electricity bills by domestic customers, as the bills to consumers will be more affordable.

[6] https://www.gov.uk/government/news/government-announces-energy-price-guarantee-for-families-and-businesses-while-urgently-taking-action-to-reform-broken-energy-market

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Applicable BSC Objective (d)

This Modification will better facilitate Applicable BSC Objective (d) as the proposer anticipates that there would be a reduced number of expected Supplier failures as a result of this scheme. Supplier defaults are resource intensive for the BSC Panel and for BSCCo, and therefore reduce the efficiency of the balancing and settlement arrangements. If the payment scheme results in fewer defaults then there will be an administrative benefit and lower levels of mutualised costs for other Parties.

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4 Potential Impacts

Impacts on Core Industry Documents

Impacted Core Industry Documents			
☐Ancillary Services Document	☐Connection and Use of System Code	☐Data Transfer Services Agreement	☐Use of Interconnector Agreement
☐Retail Energy Code	☐Transmission License	☐System Operator Transmission Owner Code	☐Supplemental Agreements
☐Distribution Code	☐Grid Code	☐ Other (please specify)	☒ None

This Modification does not impact on any existing Core Industry Documents. However, there will be an equivalent Modification required to the Uniform Network Code (UNC) to enable the related gas payment scheme for domestic customers.

Impacts on BSC Systems

Impacted Systems				
☐CRA	☐CDCA	☐PARMS	☐SAA	☐BMRS
☐EAC/AA	☐FAA	☐TAAMT	☐NHHDA	☐SVAA
☐ECVAA	☐ECVAA Web Service	☐Elexon Portal	☐Other (Please specify)	☒ None

This Modification does not directly impact any BSC systems. It utilises existing data from the SVAA, but the calculation and repayment process will be outside of existing BSC systems.

Impacts on BSC Parties

Impacted Parties			
☒Supplier	☐Interconnector User	☐Non Physical Trader	☐Generator
☐Licensed Distribution System Operator	☐National Electricity Transmission System Operator	☐Virtual Lead Party	☐Other (Please specify)

This Modification will positively impact Suppliers as they will receive subsidy payments proportionate to their consumption.

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Impacts on consumers and the environment

Impact of the Modification on consumer benefit areas:	
Consumer benefit area	Identified impact
Improved safety and reliability	Neutral
Lower bills than would otherwise be the case This Modification would enable the implementation of a scheme that will lower consumers' bills by providing a subsidy to Suppliers. This would slow the increase in consumer energy bills in light of the increase in energy cost.	**Positive**
Reduced environmental damage	Neutral
Improved quality of service	Neutral
Benefits for society as a whole This Modification would enable the implementation of a scheme that will have a significant impact on the wellbeing of consumers, as it will result in lower bills than would otherwise be expected. There are also wider benefits to the economy anticipated, as the cost of living crisis has impacts on inflation and the potential for a recession. Goldman Sachs have predicted that a cap on household energy bills could reduce the peak in inflation to 10.8%, as opposed to the previously predicted 14.8%. The payment scheme that will be facilitated by this Modification would also reduce the likelihood of Supplier failure as a result of the increased wholesale energy prices, which could mean fewer jobs lost as a result of the energy crisis and would avoid non-defaulting Suppliers picking up the default payments of any defaulting Supplier.	**Positive**

Legal Text Changes

BSC Section C 'BSCCo and its Subsidiaries' and Section X 'Annex X-1 'General Glossary' will be impacted by this Modification, with proposed legal text in Attachment A of this Proposal Form.

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5 Governance

Self-Governance

☒ **Not Self-Governance –** A Modification that, if implemented:	
☒ materially impacts the Code's governance or modification procedures	☐ materially impacts sustainable development, safety or security of supply, or management of market or network emergencies
☒ materially impacts competition	☒ materially impacts existing or future electricity consumers
☐ materially impacts the operation of national electricity Transmission System	☐ is likely to discriminate between different classes of Parties
☐ involves any amendments to the EBGL Article 18 Terms and Conditions related to Balancing; except to the extent required to correct an error or as a result of a factual change	
☐ **Self-Governance –** A Modification that, if implemented:	
Does not materially impact on any of the Self-Governance criteria provided above	

This Modification Proposal should not be treated as Self-Governance. It will materially impact competition, as the subsidy is likely to reduce the risk of Supplier failure in relation to the recent energy cost increases. The Modification will also materially impact electricity customers as it will result in lower bills than could be expected otherwise. Further, it amends Elexon's vires so materially impacts the Code governance.

Progression route

☐ **Submit to assessment by a Workgroup** –:A Modification Proposal which:	
does not meet any criteria to progress via any other route.	
☐ **Direct to Report Phase** – A Modification Proposal whose solution is typically:	
☐ of a minor or inconsequential nature	☐ deemed self-evident
☐ **Fast Track Self-Governance** – A Modification Proposal which meets the Self-Governance Criteria and:	
is required to correct an error in the Code as a result of a factual change including but not limited to:	
☐ updating names or addresses listed in the Code	☐ correcting minor typographical errors
☐ correcting formatting and consistency errors, such as paragraph numbering	☐ updating out of date references to other documents or paragraphs
☒ **Urgent –** A Modification Proposal which is linked to an imminent issue or current issue that if not urgently addressed may cause:	
☒ a significant commercial impact on Parties, Consumers or stakeholder(s)	☐ a Party to be in breach of any relevant legal requirements.
☐ a significant impact on the safety and security of the electricity and/or gas systems	

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Considering Ofgem's Urgency Criteria, we believe that this Modification should be treated as urgent because it will have a significant commercial impact upon Parties and consumers and is related to a current issue. This Modification is seeking to facilitate the Energy Price Guarantee Scheme that will support consumers and Suppliers during the wholesale energy price increase and associated cost of living crisis. The predicted future energy costs mean that many consumers may be unable to afford their energy bills, which could result in widespread hardships and have a significant negative impact on the health and wellbeing of the public, as well as on the economy as a whole. Additionally, failure of consumers to pay bills, or Suppliers being forced to charge below market rate for energy, could result in Supplier failure and significantly disrupt the market. The scheme would also guarantee that Suppliers have money to enable them to make payments to Generators, ensuring the continued efficient operation of the energy market.

The impending price cap increase on 1 October 2022 is likely to exacerbate these impacts, with estimates that the proposed price cap level of £3,549 in October 2022 will see 9.1m consumers in fuel poverty[7]. For this reason the Proposer believes that this Modification should be given urgent status by Ofgem.

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

No impacts on any active SCR have been identified by the Proposer and so it is requested that it be treated as an SCR-exempt Modification Proposal.

Does this Modification impact any of the EBGL Article 18 Terms and Conditions held within the BSC?

This Modification will not impact the EBGL Article 18 terms and conditions as BSC Section C is not specified in the mapping given in Section F Annex F-2[8]. It is not anticipated to extend the terms or conditions either.

Implementation approach

This Modification would be required before Elexon is able to sign a contract to become EPG scheme administrator, prior to the scheme start date of 1 October. As such, we propose that this Modification be implemented at the earliest possibility and +1WD after Authority decision as a special release.

[7] https://www.endfuelpoverty.org.uk/about-fuel-poverty/#:~:text=9.1%20million%20%E2%80%93%20The%20estimated%20number,poverty%20from%201%20October%202022.
[8] https://www.elexon.co.uk/the-bsc/bsc-section-f-modification-procedures/

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