

ALIGNING BSC REPORTING WITH EMR REGULATIONS

MEETING NAME	BSC Panel
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Purpose of paper	For Decision
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Summary	This paper provides the Panel with details of responses to our recent consultation on ' Aligning BSC Reporting with EMR Regulations ', and asks the Panel to approve our approach to implementing interim and enduring solutions to the issues identified in the consultation document.

1. Background

- 1.1 Section V of the Balancing and Settlement Code (BSC) requires BSC Agents to provide the Electricity Market Reform (EMR) Settlement Services Provider (SSP) with data on the volumes of electricity supplied by each Licensed Supplier in each half hour ('gross demand data'). This data is required by the EMR SSP in order to charge Licensed Suppliers for the costs of the Capacity Market (CM) and Contract for Difference (CFD) schemes, which were introduced by the Government in 2014 as part of their EMR programme.
- 1.2 On 12 July 2018 ELEXON presented [paper 280/11](#) to the Panel. This paper explained that the gross demand data currently reported to the EMR SSP includes certain volumes of electricity for which Suppliers are responsible (for the purpose of Section K of the BSC), but which they are not 'supplying' (for purposes of the Electricity Act and EMR Regulations):
- Electricity provided to a Licensed Generator (for purposes of licensed generation); and
 - Electricity supplied by an exempt Supplier across a licensed Distribution System, where the Licensed Supplier is facilitating the supply (by providing meter registration services).
- 1.3 The first of these issues needs to be solved to address action 1.3 in the [Smart Systems and Flexibility Plan](#) (SSFP), published by the Department for Business, Energy and Industrial Strategy (BEIS) and Ofgem in July 2017. In October 2018, BEIS and Ofgem published a [Progress Update](#) on the SSFP, which recognised this as an outstanding action, and stated that "the Government and Ofgem are working with ELEXON, the Low Carbon Contracts Company (LCCC) and the Electricity Settlements Company (ESC) to ensure that the supply volumes used to settle amounts due under the CFD scheme and Capacity Market auctions are calculated appropriately for storage".
- 1.4 Paper 280/11 proposed a two-stage approach to addressing these issues:
- In the longer term, the normal BSC Modification process should be used to assess and deliver an enduring solution. We believe this BSC Modification process may be quite complex, and interact with other current initiatives, such as [Issue 70 'Settlement of Secondary BM Units using metering at the asset'](#), and ELEXON's [white paper](#) on enabling customers to buy power from multiple providers (including exempt Suppliers).
 - In the short term, an interim solution should be delivered under BSC governance, but making use of existing EMR systems and industry data flows. Implementation would therefore be led by LCCC and EMR Settlement Limited (EMRS), with a target Implementation Date of January 2019.

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1.5 The Panel agreed that we should consult BSC Parties (and other interested parties) on this approach.

2. ELEXON Consultation on Aligning BSC Reporting with EMR Regulations

2.1 On 15 October 2018, we published a consultation on '[Aligning BSC Reporting with EMR Regulations](#)', which set out our proposed approach to addressing these issues. We requested responses by 5pm on 30 October 2018.

2.2 We received sixteen responses by the deadline. Additionally one BSC Party has indicated that they intend to provide a late response. We will provide the Panel with a verbal update on this.

2.3 Attachment A includes the collated responses to the consultation (except the response from the Renewable Energy Association, which was not structured to answer our specific consultation questions, and is therefore attached separately as Attachment B).

3. Aligning BSC Reporting with the SSFP

3.1 Question 1 in the consultation requested views on the principle that we should align the data we provide to the EMR SSP with the SSFP, by calculating gross demand values that exclude any electricity provided to Licensed Generators for purposes related to licensed generation. Of the 13 responses that expressed a view, all agreed with this.

3.2 Two of the responses (from Centrica and Hartree Partners) suggested that the same approach should be applied to electricity provided to Exempt Generators (i.e. those without a Generation Licence). We agree with Centrica that this is a policy question, and we believe it would require changes to EMR Regulations and/or primary legislation. It is therefore not a proposal that ELEXON or the BSC Panel can progress.

3.3 The Centrica response requested clarification on whether Metered Volume Reallocation Notifications (MVRNs) affect whether CFD and CM charges are payable. We can confirm that they do not. Suppliers are required to register Metering Systems and BM Units in relation to electricity they supply, and are then liable to pay CFD and CM charges on this electricity. Using an MVRN to transfer the volume to another BSC Party's Energy Account does not transfer the liability for CFD and CM charges (or other final consumption levies). Conversely, Suppliers are not required to pay these charges on volumes transferred into their Energy Account by an MVRN from another Party.

3.4 Question 2 in the consultation requested views on the principle that parties holding Generation Licences should still pay CFD and CM charges on Imports for non-generation related purposes. All the responses that expressed a view agreed with this, although a number of them recognised that the question of how to define and separately identify these Imports raised complex issues, which could not be addressed in the interim solution.

3.5 Question 3 in the consultation sought views on our proposed approach of delivering an interim solution quickly (for generation that is not 'behind the Settlement meter'), and then using the BSC Modification process to deliver a more complex enduring solution. All responses that expressed a view were supportive of delivering an enduring solution through the Modification process. A number of responses flagged up sub-metering and the definition of generation-related activities as complex issues that a Workgroup would need to consider.

4. Interim Solution for Licensed Generation (including Licensed Storage)

4.1 Responses to question 3 were also supportive of the proposal to deliver an interim solution in January 2019. Responses to question 5 were supportive of the 'hybrid' approach of a solution established under BSC governance but implemented in collaboration with LCCC/ESC/EMRS using existing EMR settlement systems and industry data flows (recognising that this was the quickest way to deliver the interim solution).

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- 4.2 The Centrica response to question 3 proposed that the interim solution should be extended to handle BM Units registered in Central Volume Allocation (CVA), as well as Metering Systems registered in Supplier Volume Allocation (SVA). This falls outside the scope of the solution currently planned for delivery in January 2019, but we and LCCC agree with Centrica that in principle this is right, and we will investigate it further. In the meantime, a potential workaround for a Licensed Generator to avoid being incorrectly charged on Imports to a BM Unit containing Licensed Generation (or Licensed Storage) is to ensure that the BM Unit is registered by a BSC Party who does not hold a Supply Licence.
- 4.3 The Centrica and Limejump responses to question 3 proposed that the scope of the interim solution should be extended to Licensed Generation and Storage that sit 'behind the Settlement Meter', and whose Imports are therefore measured by non-Settlement 'sub-metering'. We agree that this should be addressed by the enduring solution, but we believe it raises issues around metering assurance and agent appointment that cannot be addressed in the interim solution. The [Issue Report](#) for Issue 70 discusses these issues in detail.
- 4.4 The GM&T and Statera responses proposed that Suppliers should be retrospectively refunded for charges incurred prior to the introduction of the interim solution. However, LCCC's view is that EMR charges have to be calculated using supply volumes determined under BSC governance, and therefore they cannot backdate any change prior to the point at which the BSC Panel has agreed that it is appropriate to implement an interim solution (and processes have been put in place for Suppliers to make an application). Subject to Panel approval of recommendations c) and d) (in section 7.1), LCCC and EMRS will put the necessary arrangements in place and notify Suppliers of the required process (including the date from which charges can be corrected, which is expected to be in November 2018).
- 4.5 Questions 6 to 9 in the consultation asked for information on the number and type of Metering Systems that might make use of the interim solution. Information received was incomplete, and two large Suppliers indicated that the two-week consultation period did not provide sufficient time to collate this information (although they would provide additional information when they had it). In total, six responses provided answers to these questions (three public, three confidential), and these identified roughly 20 Metering Systems that might make use of the interim solution. The majority were battery storage (with sizes ranging from 1 MW to 49.99 MW), but five were 150kW gas-fired reciprocating engines.
- 4.6 Given the limited response, it is not possible to draw too many conclusions on data volumes from the responses to questions 6 to 9. If we receive further information prior to the Panel meeting, we will provide a verbal update.

5. Assurance Issues Raised by the Interim Solution

- 5.1 The proposed interim solution relies on Licensed Suppliers to provide a declaration confirming that a Metering System is measuring Imports to Licensed Generation only. The responses to questions 3 and 4 expressed differing views on the appropriateness of this:
- The ScottishPower response suggested that the licensing regime (and Ofgem's associated enforcement powers) would adequately incentivise Licence holders not to make erroneous declarations;
 - The E.ON response suggested that there should be a monitoring process (that can assess the Metered Volumes of a site against other comparable sites, and identify potential anomalies); and
 - The SmartestEnergy response suggested that "audit checks are an absolute must from day one", and that the Panel should be able to suspend use of "excluded" electricity values and refuse further submissions to any party providing false information.
- 5.2 The interim solution delivered for January 2019 will include some provisions for monitoring, including:
- Provisions for the EMR SSP to collect Export data as well as Import data, in order to facilitate monitoring and validation; and

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- Reporting processes for providing LCCC with reports of the energy volumes being treated as non-chargeable.
- 5.3 These monitoring processes will potentially allow LCCC to identify anomalies in the volumes being treated as non-chargeable. However, there is no clear mechanism for LCCC to take such issues further (given that the determination of supply volumes is treated as a BSC matter in the CFD Regulations, and the interim solution is being delivered under BSC governance). We therefore agree with Smartest Energy that investigating and addressing anomalies is a role better undertaken by a Panel Committee.
- 5.4 We do not believe that the interim solution will necessarily warrant a large assurance effort, but we do agree with E.ON and SmartestEnergy that there should be a mechanism for identifying and addressing issues (so that any risk of erroneous data entering the EMR settlement system, whether through fraud or negligence, can be mitigated). We therefore intend to investigate further with LCCC how arrangements can be put in place to ensure that:
- ELEXON can receive data on Metering Systems and metered data being settled under the interim solution (either on request from ELEXON, or where LCCC is concerned that there may be an issue);
 - ELEXON can investigate any issues and report to an appropriate Panel Committee; and
 - If there were ever to be evidence of negligent or fraudulent submission of data to the interim solution, the appropriate Panel Committee could revoke the decision to treat one or more Metering Systems as recording Imports to Licensed Generation (in addition to any other remedies that may arise from the licensing regime or elsewhere).

6. Interim Solution for Exempt Supply over the Distribution System

- 6.1 Question 10 in the consultation sought views on extending the interim solution to cover trials of exempt supply over the Distribution System. Eight responses expressed a view on this, all of which stated that they support the proposal (although the ScottishPower response did have some caveats). We therefore propose that the interim solution should allow the BSC Panel to agree that certain SVA Metering Systems should be treated (for purposes of the BSC, and specifically the provision of charging data to EMR) as recording volumes of exempt supply (which are not subject to EMR charges).
- 6.2 Question 11 sought views on the more specific proposal that the interim solution could treat all Exports from a generation asset as non-chargeable (for CFD and CM purposes) if there is evidence that all (or almost all) of those Exports will be supplied to customers by an exempt supplier. This radically simplifies the interim solution by avoiding the need to keep track of which customers the exempt supply went to in each half hour. Six responses agreed, and one (Scottish Power) did not.
- 6.3 Question 12 sought views on whether applications to the BSC Panel should be made through the [BSC Sandbox Procedure](#), introduced via BSC Modification [P362 'Introducing BSC arrangements to facilitate an electricity market sandbox'](#) or a less formal process of application to the BSC Panel. Only two responses expressed a clear view on this, and each favoured a different option.
- 6.4 We note that the majority of responses to our consultation focused on issues with Licensed Storage, not issues with exempt supply. We believe this may reflect the fact that community energy schemes (and other forms of exempt supply over the Distribution System) are still at a more experimental stage than Licensed Storage (which has seen large-scale investment over the last year or two). We believe this may justify taking a more open-ended approach, focusing on each application as an opportunity to learn and support innovation, rather than attempting to streamline and operationalise the business process. We therefore propose that both routes should be supported for now (subject to review in nine months, or earlier if sufficient learning is achieved sooner):
- The existing BSC Sandbox Procedure provides one route; and

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- Alternatively we should allow exempt supply schemes (not in the BSC Sandbox) to request a decision directly from the BSC Panel. In practice they would do this with assistance from ELEXON. We further propose that the Panel delegate responsibility for considering such applications to the Supplier Volume Allocation Group (SVG).

7. Recommendations

7.1 We invite you to:

- a) **NOTE** that the consultation responses strongly supported the principle that BSC processes should be amended to provide the EMR SSP with gross demand values that exclude any electricity provided to Licensed Generators for the purpose of licensed generation (see paragraph 3.1 above);
- b) **NOTE** that the consultation responses supported use of the BSC Modification process to assess and implement an appropriate enduring solution (see paragraph 3.5 above);
- c) **AGREE** that, as an interim solution (prior to Modification of the BSC), a process should be established for identifying Boundary Point Metering Systems that are recording only Imports provided to Licensed Generators for the purpose of licensed generation (and which therefore fall outside the Electricity Act definition of 'supply', and are not subject to EMR charges);
- d) **AGREE** that, in order to facilitate timely implementation of this interim process, it should be delivered by LCCC and EMRS (using existing EMR settlement systems and industry data flows), and rely on self-declaration by Licensed Suppliers of eligible Metering Systems (see paragraph 4.1 above);
- e) **NOTE** that the interim solution will not be able to address Licensed Generation that sits 'behind the Settlement meter', and therefore shares a Boundary Point Metering System with other demand (see paragraph 4.3 above);
- f) **NOTE** that we intend to investigate further with LCCC how processes can be put in place to detect erroneous data submitted into the interim solution (see paragraph 5.4 above);
- g) **AGREE** that, in order to support ongoing trials of community energy (such as the Smart Energy Islands project on the Isles of Scilly), there should be a process for the BSC Panel to agree that certain SVA Metering Systems should be treated (for purposes of the BSC, and specifically the provision of charging data to EMR) as recording volumes of exempt supply (see paragraph 6.1 above);
- h) **NOTE** that the BSC Sandbox process (introduced by Modification P362) represents a potential route for agreeing to treat SVA Metering Systems in this way (see paragraph 6.4 above);
- i) **AGREE** to delegate to SVG the power to agree that SVA Metering Systems (outside the BSC Sandbox process) should be treated in this way (see paragraph 6.4 above); and
- j) **AGREE** that ELEXON reports back to the BSC Panel (in nine months, or sooner if appropriate) on the level of take-up and the learning achieved (see paragraph 6.4 above).

Attachments

Attachment A – Collated Consultation Responses

Attachment B – Consultation Response from Renewable Energy Association

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