

# 285/01 – ELEXON REPORT

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<b>MEETING NAME</b>	BSC Panel
<b>Date of meeting</b>	13 December 2018
<b>Paper number</b>	285/01
<b>Owner/author</b>	Mark Bygraves
<b>Purpose of paper</b>	For information
<b>Classification</b>	Public
<b>Summary</b>	This paper provides a summary of recent issues and developments relevant to the BSC and ELEXON since the last Panel meeting.

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## 1. Overview

- 1.1 This paper is provided for the information of the Panel. It presents an overview of activities and developments within ELEXON and the balancing and settlement arrangements and summarises the business of the Panel meeting. Detailed information on operational matters will be provided in other reports, particularly the Trading Operations Report.

## 2. ELEXON News

### Consultation Responses

- 2.1 We have responded to six consultations since our last update to the Panel as follows:
- National Grid’s consultation on Exclusivity Clauses within balancing services contracts
    - ELEXON’s response highlighted the benefits to the business case of flexible generation by the availability of multiple revenue streams. We also noted that the emergence of local flexibility markets may be facilitated by enabling service and revenue stacking.
  - The European Network of Transmission System Operators for Electricity (ENTSO-E)’s consultation on Transmission System Operator (TSO)s’ proposal for classification methodology for activation purposes of balancing energy bids pursuant to Article 29(3)
    - ELEXON’ response supported ENTSO-E new cross balancing product holistic view and continued to promote ELEXON as a trusted partner of ENTSO-E. ELEXON questioned the proposal interpretation of certain European Electricity Balancing Guidelines (EBGL) requirements and also asked for clarification on the implementation timescales. ELEXON also highlighted the importance of engagement and coordination on any changes that ENTSO-E is considering making to the TSO-Balancing Service Provider (BSP)/Balancing Responsible Party (BRP) settlement and data publication roles as ELEXON will need time to incorporate them in GB arrangements.
  - ENTSO-E’s consultation on all TSOs’ proposal on methodologies for pricing balancing energy and cross-zonal capacity used for the exchange of balancing energy or operating the imbalance netting process pursuant to Article 30(1) and Article 30(3)
    - ELEXON’s response supported ENTSO-E’s proposal and commented that a clear and unambiguous distinction in balancing energy bids activation purposes is key in enabling the effective delivery of the electricity balancing settlement.
  - Ofgem’s consultation on supplier agent functions under market-wide settlement reform

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- ELEXON agreed with Ofgem's minded to position that agent functions should remain competitive and that disaggregated data should be provided directly into BSC Central Settlement systems.
- Ofgem's consultation on the Switching Programme: Regulation and Governance – way forward and statutory consultation on licence modifications
  - ELEXON's response welcomed the innovations in the Retail Energy Code (REC) of digitalisation, consolidation and new code governance models and made a number of proposals and recommendations on the corporate and operational governance of the REC Manager based on our experience of managing codes.
- Ofgem's call for input on 2019-20 ESO regulatory and incentives framework
  - ELEXON's response suggested additional reporting on expenditure would be useful for assessing the suitability of incentives and highlights the high volume of information produced by the Electricity System Operator (ESO) on their performance.

2.2 These consultation responses are available on the [industry insights](#) page of the ELEXON website.

### **ELEXON Annual Customer Satisfaction Survey**

2.3 Now that Ofgem has published its Code Administrator performance survey results, we have launched our annual customer survey by ResearchCraft to ensure it occurs during 2018.

## **3. Industry News**

### **European Developments**

- 3.1 The draft Brexit Withdrawal Agreement and accompanying outline Political Declaration regarding the future UK - EU relationship were both [published](#) on 14 November 2018. The deal itself does not touch on electricity matters except in respect of Northern Ireland; and the general transition period (up to end 2020) during which time we will continue to be bound by EU law.
- 3.2 The existence of a transition period has important implications if it goes ahead. For example, we will be bound by the EB GL to join the Trans European Replacement Reserve Exchange (TERRE) (the European balancing platform for Replacement Reserve). Conversely if the deal falls through, we may be blocked from joining TERRE; in April 2018, the European Commission published a stakeholder notice on Brexit and the internal EU energy market including a statement that 'UK based operators will cease to participate in...the European balancing platforms'.
- 3.3 ENTSO-E ran two consultations in October/November 2018 on the pricing and activation of balancing energy as required by the EB GL (the activation element is essentially flagging the purpose of activation, similar to SO flagging in GB and needed to determine the imbalance price.) Both consultations closed on 13 November 2018 and ELEXON responded to both.

### **TERRE Industry Days**

- 3.4 ELEXON, in collaboration with National Grid, is holding two information sessions on Project TERRE and what BSC Parties need to do to prepare to participate in the electricity market, once TERRE is implemented. This event will be useful for anybody who will be impacted by TERRE, especially Suppliers, Generators and Virtual Lead Parties.
- 3.5 The sessions will be held at the ELEXON offices on 11 December 2018 and 18 December 2018. If you need further information or have any questions, please email [events@elexon.co.uk](mailto:events@elexon.co.uk).

### TERRE webinar: An introduction for Virtual Lead Parties

- 3.6 On 20 December 2018 ELEXON and National Grid will co-host the webinar 'An Introduction for Virtual Lead Parties'. The webinar will help Virtual Lead Parties (VLPs) gain a better understanding of the concept of a new entrant, whilst exploring their obligations and participation with TERRE. During the webinar we will cover the following topics:
- 3.7 Matthew Roper, Market Architect, ELEXON and Sophie Hind, EU Senior Change Lead, National Grid will host this interactive session. Participants will receive information in real-time and the session will close with a live Q&A. Please click the following [link](#) to reserve your place. If you have any queries about this webinar, please email [europeancodes.electricity@nationalgrid.com](mailto:europeancodes.electricity@nationalgrid.com).

### Speech by the Secretary of State for BEIS including announcement of Review of Codes

- 3.8 On 15 November Greg Clark presented the Government's response to the Helm Review (which reported in October 2017 and was itself the Government's reaction to the findings of the Competition and Markets Authority (CMA) published in June 2016). The speech was entitled 'After the trilemma - 4 principles for the power sector' [[link](#)]. Key extracts of note:
- The policy conundrum known as "the trilemma" is coming to an end. Greg Clark accepts Dieter Helm's vision that we should move to mechanisms that give businesses more decisions and governments fewer. So, the principles for the future power sector policy after the trilemma:
    - the market principle – wherever possible use market mechanisms that take full advantage of innovation and competition
    - the insurance principle – given intrinsic uncertainty about the future, government must be prepared to intervene to provide insurance and preserve optionality
    - the agility principle – energy regulation must be agile and responsive if it is to reap the great opportunities of the smart, digital economy, and finally
    - the "no free-riding principle": consumers of all types should pay a fair share of system costs.
  - On the Independent System Operator and Network Regulation: "The distinction between Supplier and distributor may no longer hold in this new world. I am therefore launching, with Ofgem, a review of supply licenses (see below), to ensure we eliminate any unnecessary regulatory barriers. This will sit alongside a joint review between Ofgem and my department into the future of the retail market."
  - On data: Data is central to delivering the smart power system of the future. That's the big pay-off from our smart meter programme. "I will therefore initiate an Engineering Standards Review to ensure that the technical standards we have are right for this next phase of our system's development."
  - On renewables/low carbon: The Future: Zero subsidy. "Cheapest full stop. Trilemma well and truly over. Shout it from the rooftops. You, the industry, together with government and science, together people who have been engaged in this most exciting and fundamental of industries will have created a possibility in which low carbon power actually can subtract from consumer bills."
- 3.9 On codes: BEIS and Ofgem are launching a joint review of codes and code governance. Full passage reads:
- "Regulation must be entrant-and innovation-friendly, whilst, of course, maintaining investor confidence. That means a reform of how rules are made. Observers - from the CMA to Dieter - have found that the system of industry code self-regulation has, over the long term, meant less innovation, less competition, and ultimately higher prices for consumers. Incumbents have often been able to put their interests ahead of those entrants or consumers. We need to find a solution that harnesses industry knowledge of the system without handing over the keys to insiders. So the government and Ofgem will launch a full

review into industry codes and code governance, and of course will be prepared to act to reinforce with legislation any changes that may be necessary.”

- 3.10 The review’s [Terms of Reference](#) were published on 26 November 2018 and are to be followed in the New Year by workshops leading to a consultation in summer (especially necessary if changes require legislation). The aim of the review is to ‘consider options for improving the existing arrangements, including scope for fundamental reform’. BEIS/Ofgem aims to revisit the CMA code governance remedies in light of the latest energy market developments.
- 3.11 Identified problems in the ToR: ‘According to many in industry,’ Codes are ‘slow, reactive, overly complex, resource intensive, lacking coordination and fragmented’. So action is necessary says BEIS/Ofgem ‘to create a regulatory framework capable of delivering the changes that will be required to move to a clean smart and consumer led energy system, in line with the Industrial and Clean Growth Strategies.’
- 3.12 Scope of the ToR: The review ‘will consider the entirety of the rules underpinning the electricity and gas networks, and the wholesale and retail markets’. In particular:
- Purposes of Codes: whether a code system is still appropriate for all the areas of rules in the energy system, and whether there is scope to handle some elements of codes differently.
  - Content of Codes: seek stakeholders’ views on whether the content of codes is up-to-date, relevant and applicable, and whether and how it may be improved.
  - Governance of Codes: assess effectiveness of the current industry governance arrangements, including alternative models of governance and whether these may be more effective than the status quo.
  - Process of changing codes: to develop a regulatory framework capable of delivering strategic, whole-system solutions in the interests of consumers.
  - Transition: careful consideration to the process of moving from our current code environment to the desired end state.
- 3.13 We have already spoken with BEIS and Ofgem. BEIS has been complimentary of our work and submissions. BEIS lead is Alena Fielding, Head of Industry Governance, Electricity Systems, who has already agreed to observe the 10 January 2019 BSC Panel meeting. From Ofgem, Tricia Quinn and Lesley Nugent are the main contacts.

### **National Audit Office Report into smart Meter roll out**

- 3.14 A new report from the National Audit Office (NAO) has concluded that the government’s plan to install smart meters in every home by 2020 will not be met. In the document, published on Friday 23 November 2018, the NAO said that BEIS had underestimated how long it would take to implement the infrastructure and technical standards for the second generation of smart meters (SMETS2), resulting in the first SMETS2 meters being installed three years late, in July 2017.
- 3.15 The report highlighted that, as a result of this delay, energy suppliers have had to install 12.5mn SMETS1 meters, which is 7.1m more than the 5.4m BEIS originally planned. The NAO also said that the government’s ongoing attempt to meet the 2020 deadline has led to an increased risk of cost escalation and technology being rolled out before defects have been fixed.

## 4. Operational News

### Pre-Panel briefing trial with BSC Parties

- 4.1 We are hosting a pre-Panel teleconference briefing trial with BSC Parties starting at 12:30 on Monday 10 December 2018. Discussions will be based on the Panel agenda which will be published on the [BSC Panel 285](#) webpage on Thursday 6 December 2018.
- 4.2 Parties can dial into the teleconference using the following details (Dial: 020 7380 4005, Conference ID: 229250). This briefing is intended to help BSC Parties gain a better understanding of the Panel agenda and answer any questions they may have. Participants will also be sent a public version of the Headline Report after the Panel meeting. If you have any questions please contact Claire Kerr at [panel.secretary@elexon.co.uk](mailto:panel.secretary@elexon.co.uk) or on 020 7380 4293.

### New Risk Evaluation Register 2019/20 Consultation and webinar

- 4.3 The Performance Assurance Board (PAB) endorsed the Risk Evaluation Register (RER) 2019/20 for industry consultation on 29 November 2018. We invite Parties to respond to the consultation by 21 December 2018. The consultation sets out the Settlement Risks identified for 2019/20. This new format risk register is a key deliverable from the Performance Assurance Framework (PAF) Review, and is designed to be more concise, informative and effective.
- 4.4 To help Parties respond to this consultation, we are hosting a webinar at 10:00-11:30 on 11 December 2018 to provide an overview of the new register, to offer participants the opportunity to ask questions about the individual risks or the register as a whole. Recommended attendees for this webinar are Performance Assurance Parties, in particular anybody in Compliance, Risk or Operational Settlement roles. Please register at the following [link](#) if you would like to attend. If Parties are unable to make it, we will publish a recording on the [consultation](#) page of our website shortly afterwards.
- 4.5 We will present the consultation responses to the PAB at its meeting on 31 January 2018. At this meeting, the PAB, with delegated authority from the BSC Panel, will approve the RER 2019/20 (subject to any changes it deems necessary). For more information, or if you have any questions, please contact Ryan Dale on 020 7380 4117 or email [ryan.dale@elexon.co.uk](mailto:ryan.dale@elexon.co.uk).

### Credit Assessment Price (CAP) decreased from 4 December 2018

- 4.6 Following a decrease in forward market prices, a CAP review was triggered. We issued a consultation to identify whether BSC Parties agreed with the proposal to decrease the value of CAP to £68/MWh from its current value of £75/MWh. This potentially affects the amount of Credit Cover that Parties are required to lodge, so we encouraged Parties to respond to the consultation.
- 4.7 All respondents and Credit Committee members agreed with the proposed value, so there was no Credit Committee meeting held and the new CAP value was implemented on 4 December 2018.
- 4.8 You can find more information on the CAP, the Credit Committee and the review process on the [Credit Committee page](#) of our website. We have also published [FAQs](#) to help BSC Parties become more familiar with this process.

### Recommendations out of DMAT and CADL consultation

- 4.9 On 24 October 2018, we issued a consultation on the values of the De Minimis Acceptance Threshold (DMAT) and Continuous Acceptance Duration Limit (CADL). These parameters are used to tag and flag actions in the Imbalance Price Calculation.
- 4.10 We recommended that DMAT reduces from 1MWh to 0.1MWh and that CADL reduces from 15 minutes to 10 minutes. The proposed effective date for these changes is 1 April 2019.

- 4.11 The consultation closed on 9 November 2018 and the Imbalance Settlement Group (ISG) considered the consultation responses at its meeting on 20 November 2018. The ISG has recommended to the BSC Panel that DMAT be set to 0.1MWh and CADL to 15 minutes. This will be considered by the BSC Panel at its 13 December 2018 Panel meeting.

### **Technical Assurance Agent (TAA) Audit Commissioning process changes**

- 4.12 Following changes to the Commissioning process which went live on 1 November 2018, the following changes to the [Technical Assurance of Metering \(TAM\) Audit](#) process were made:
- For Metering Systems energised before 1 November 2018 the Technical Assurance Agent (TAA) still requires the Meter Operator Agent (MOA) to provide both the full Part 1 Commissioning record and the Current Transformer (CT)/Voltage Transformer (VT) Calibration certificates.
  - For all Metering Systems energised on or after 1 November 2018 the obligation to hold Part 1 Commissioning records and CT/VT Calibration certificates now sits with the Licensed Distribution System Operator (LDSO).
  - For sites energised after 1 November 2018 the MOA will no longer be required to provide these records to the TAA.
- 4.13 There may still be scenarios where the MOA require the CT/VT Calibration certificates to fulfil its obligation to carry out the overall accuracy assessment for the Metering System.
- 4.14 Changes are currently being progressed to the Technical Assurance Agent Management Tool (TAAMT) and MOA/LDSO site visit notification letters will be issued to clarify these changes, and to accommodate the raising of non-compliances against the LDSO, rather than the MOA, for non-provision of records. If anyone has any queries please email [Jason.Jackson@elexon.co.uk](mailto:Jason.Jackson@elexon.co.uk).

### **Transmission Loss Factor values for the Winter 2018 Season**

- 4.15 The Balancing Mechanism (BM) Unit Specific Transmission Loss Factor (TLF) values for the Winter 2018 Season are available on the TLFs Determination page under BM Unit Specific Transmission Loss Factors (TLFs) on the [ELEXON Portal](#). This file provides the TLF for each BM Unit that is registered to be active during the period 1 December 2018 to 28 February 2019. The file will be updated as a result of any subsequent BM Unit registrations and/or de-registrations that will be effective during this period.
- 4.16 We will change the version number in the file name whenever the content changes in the file. If you have any questions, please email [bm.unit@elexon.co.uk](mailto:bm.unit@elexon.co.uk).

### **EMR Update**

- 4.17 The following EMR Circulars have been issued since the last Panel meeting:
- EMRC169: Suspension of the Capacity Market.
  - EMRC170: Interim solution exempting electricity supplied to Licensed Generators or Storage Facilities from paying EMR levies and charges.
- 4.18 All EMR circulars are all available to download from the [EMR Circulars page](#) of the EMRS website.

### **Suspension of the Capacity Market**

- 4.19 On 15 November 2018, the General Court of the Court of Justice of the European Union found in favour of Tempus Energy, against the European Commission, annulling the Commission's State Aid approval for the UK Capacity Market. The judgement has the effect of suspending State Aid approval for the Capacity Market.

- 4.20 The Department for Business, Energy and Industrial Strategy (BEIS) has reacted to the decision by suspending payments to Capacity Providers for the 2018/19 Delivery Year until further notice which were due to commence in December 2018. All Applicant Credit Cover that is currently being held in relation to the postponed Auctions will be returned. Capacity Providers with agreements may also request the return of Credit Cover from past Auctions.
- 4.21 Contributions already made by Suppliers for the Capacity Market Supplier Charge that Electricity Settlements Company (ESC) is holding and not paid out will be returned for the 2018/19 Delivery Year and suspended. All Supplier Credit Cover provided will be returned upon request. Suppliers' liabilities for the Settlement Costs Levy (which covers ESC, and EMRS, costs) will remain and this levy will continue to be collected.
- 4.22 The EMRS team is working closely with ESC on the further impacts of this decision. ESC is liaising directly with BEIS, Ofgem and the Delivery Body on this.

### 5. Settlement Reform and support for Ofgem projects

#### Ofgem Market wide Half Hourly Settlement

- 5.1 The ELEXON-led Design Working Group (DWG) has agreed its preferred Target Operating Model (TOM) for Market-wide Half Hourly Settlement (MHHS). This is a major milestone in the DWG's deliverables to Ofgem, which form part of Ofgem's Significant Code Review (SCR) on Settlement Reform. The DWG will report to Ofgem in late January 2019 on its preferred TOM, the requirements for the different services comprising the TOM and the potential architecture options to support the TOM. We will bring a presentation to the Panel meeting on 10 January 2019.
- 5.2 Next year's DWG work will focus on developing the approach for transitioning from the current Settlement arrangements to the TOM. ELEXON is beginning to plan this work with the DWG and Ofgem. Ofgem will use the DWG's Stage 2 report in August 2019 in its Final Business Case decision on how and when to proceed with MHHS.
- 5.3 The DWG has written to the BSC's PAB, asking it to oversee identification of any changes to the Performance Assurance Framework that arise from the TOM. ELEXON is continuing to discuss the best approach with the PAB and we will update the Panel on this in January.

#### Ofgem launches a review of Supplier Licensing

- 5.4 This review is to seek views on how to ensure Suppliers are more robust at the time of grant of a supply license (and for 12 months thereafter). There is reference to the need for periodic reviews of suppliers' robustness but that is to be in a separate, later review. We have already made the point that few Suppliers fail in the first 12 months and the second review is important.
- 5.5 Some key point from the review:
- Ofgem is minded to introduce new market entry requirements for new Suppliers: the applicant should have appropriate resources; understand their regulatory obligations; and be 'fit and proper' to hold a license;
  - Ofgem are proposing to move the timing of the licensing process to occur after successful initial testing under the BSC and MRA and prior to controlled market entry;
  - The potential introduction of an Ofgem 'account manager', a role that appears to be the direct equivalent of an OSM.

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## 6. Summaries of Panel Business – Tabled

6.1 Summaries of papers considered and decisions made by the Panel Committees since the last Panel meeting can be found in their headline reports, included as attachments to this paper.

## 7. Recommendations

7.1 We invite you to:

- a) **NOTE** the contents of this paper.

## Appendices

Appendix A – ELEXON monthly KPIs

Appendix B – Report from the ISG

Appendix C – Report from the SVG

Appendix D – Report from the PAB

Appendix E – Report from the TDC

### **For more information, please contact:**

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