Draft Modification Report

P366 'Change to Supplier Charge SP08a calculations to account for small scale non-domestic Non Half Hourly hard-to-read Meters'

P366 will amend how Supplier Charge SP08a is applied to Non Half Hourly non-domestic Meters. It is believed that applying Supplier Charge SP08a to HTR Metering Systems is anti-competitive and limits consumer choice.



The BSC Panel initially recommends **rejection** of P366

This Modification is expected to impact:

- Suppliers

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Phase

- Initial Written Assessment
- Definition Procedure
- Assessment Procedure
- Report Phase
- Implementation

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Contents

1 Summary 3
2 Why Change? 4
3 Solution 10
4 Impacts & Costs 15
5 Implementation 18
6 Workgroup's Discussions 19
7 Workgroup's Conclusions 34
8 Panel's Initial Discussions 36
9 Report Phase Consultation Responses 40
10 Recommendations 43
Appendix 1: Workgroup Details 44
Appendix 2: Glossary & References 50

About This Document

This is the P366 Draft Modification Report, which ELEXON will present to the Panel at its meeting on 13 June 2019. It includes the responses received to the Report Phase Consultation on the Panel's initial recommendations. The Panel will consider all responses, and will agree a final recommendation to the Authority on whether the change should be made.

There are five parts to this document:

- This is the main document. It provides details of the solution, impacts, costs, benefits/drawbacks and proposed implementation approach. It also summarises the Workgroup's key views on the areas set by the Panel in its Terms of Reference, and contains details of the Workgroup's membership and full Terms of Reference.
- Attachment A contains the draft redlined changes to the BSC for P366.
- Attachment B contains the full responses received to the Workgroup's Assessment Procedure Consultation.
- Attachment C contains the full responses received to the Panel's Report Phase Consultation.
- Attachment D contains the business requirements to deliver P366.

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1 Summary

Why Change?

SP08a 'Percentage of Non-Half Hourly (NHH) Energy Settled on Annual Advances' Supplier Charge is applied where it is practically impossible to obtain a Meter read. The Proposer believes that small Suppliers are most susceptible to hard-to-read (HTR) SP08a Supplier Charges. In contrast to large Suppliers, small Suppliers aren't able to absorb HTR sites into their Settlement performance, which is calculated based on the percentage of Suppliers' total Settlement volume. As a result, they must either add the SP08a costs to their tariffs or absorb it themselves or withdraw from the market. This in turn could lead to a reduction in competition at a time where the Government and Ofgem are keen to promote competition[1] and the HTR Metering Systems will still remain unread regardless.

Proposed Solution

The P366 Proposed solution requires that the SP08a Supplier Charge for PARMS Serial SP08a for Settlement Runs R3 and RF are set to £0.00 for all Suppliers, and does not require the declaration of HTR Metering Systems.

Impacts & Costs

The P366 Proposed solution will have negligible impacts or costs on BSC Systems. The solution will impact Suppliers, by removing the SP08a Supplier Charge (for all non-Half Hourly Metering Systems). The impact on Supplier Charges is discussed further in section three.

Implementation

P366 Proposed solution is proposed for implementation on 7 November 2019 as part of the November 2019 BSC Release.

Recommendation

The Workgroup and the Panel's recommendation is that the Authority **should not approve** P366 for implementation as it does not better facilitate the Applicable BSC Objectives.

The majority of the Panel gave the view that SP08a Supplier Charges derived from HTR Metering Systems are not causing a competition issue. This is in line with the Workgroup's conclusions where a majority (3 of 5 – see section 7) did not think that P366 would better facilitate the Applicable BSC Objectives. The Workgroup overall were neutral on whether P366 would better facilitate competition (Objective (c)) but, thought it would remove an essential Settlement Risk control if implemented as there would be no financial incentive to obtain Meter reads. This was also noted by several Panel Members when discussing if P366 should be implemented.

[1] https://www.ofgem.gov.uk/publications-and-updates/cma-remedies-implementation-plan

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2 Why Change?

Background

The Balancing and Settlement Code (BSC) Section S, Annex S-1 'Performance Levels and Supplier Charges' paragraph 2.2.1 requires that, in relation to each Grid Supply Point (GSP) Group, the percentage of total energy attributable to a Supplier in respect of NHH Metering Systems settled on the basis of Annualised Advances (actuals) for each Settlement Day shall be no less than 80% for the Third Reconciliation (R3) Volume Allocation Run (VAR) and 97% for the Final Reconciliation (RF) VAR.

Monitoring of performance

ELEXON monitors compliance with BSC Section S using data provided by the Supplier Volume Allocation Agent (SVAA). As part of the Performance Assurance Framework (PAF) we use Performance Assurance Techniques (PATs) to mitigate Settlement Risks. We use PARMS data primarily to support the Performance Monitoring, Peer Comparison and Supplier Charge techniques, and to report to the Performance Assurance Board (PAB). Data from PARMS supports the BSC Audit and we periodically provide information to the BSC Panel and other Panel Committees or Modification groups as required.

Supplier Charges are liquidated damages that Suppliers incur if they fail to meet certain performance levels. Supplier Charges were designed to be a genuine pre-estimate of loss whether or not this is the actual case has been questioned by some as there is a disparity between imbalance prices and market prices and such (~£40-£50/MWh) and the value of Supplier Charges (SP08a = £2.43/MWh).

When Supplier Charges were originally conceived over 20 years ago[2], it was to compensate Parties disadvantaged by those who aren't meeting defined Standards. We consider Supplier Charges to be a remedial technique within the PAF. However, amongst other things, Supplier Charges can be seen as an incentive to obtain Meter reads, as reflected in both the Assessment Phase and Report Phase consultations responses. Obtaining Meter reads within the required time frame maintains the integrity of Settlement and ensures billing is accurate.

ELEXON and the PAB also monitor performance against Business Unit Settlement Risk Ratings[3] (BUSRRs) to determine, in particular, whether Error and Failure Resolution[4] (EFR) should be applied. EFR requires Parties to put in place a plan to rectify any underperformance. Escalation to the PAB and subsequently the Panel can occur if the Supplier doesn't co-operate, put in place robust plans or make sufficient progress with its EFR plan. Whilst this isn't the P366 issue, many Suppliers highlight to ELEXON and the PAB that customers with HTR Metering System are a source of issues that impact Settlement performance. It is then a matter for the PAB to determine whether this is, in fact, a contributing factor based on the circumstances of the case.

How are NHH Metering System volumes calculated?

The BSC requires that a Supplier settles 97% of its NHH energy for each GSP Group on Actuals.

When an Actual Meter read is taken, an Annualised Advance (AA) is used to calculate the consumption. In simple terms, the AA is an estimate based on the change between two successive Meter reads which is then extrapolated to estimate consumption over the year for each Half Hour.

If it is not possible to use AA then an Estimated Annual Consumption (EAC) is used. An EAC is based on estimated consumption using the Meter's Profile Class and previous read history.

If there have been no recorded Actual Meter reads, then a default EAC is used based primarily on Profile Class.
As a result of how EACs are calculated, it is generally accepted that their accuracy will diminish with time.

All HTR Metering Systems will use EACs. This is on the basis that if it is possible to achieve a Meter read to generate an AA, then the Metering System is not, by implication, HTR.

[2] When there was only a handful of Suppliers with diverse portfolios, still roughly based on historic regional monopolies to a large extent
[3] Use of reporting to monitor how the operations of relevant Business Units (Market Participant IDs – MPIDs) contribute to the level of risk for each of the top Settlement Risks
[4] A remedial PAT used to assure ELEXON, the PAB and the rest of the industry that Parties understand performance issues and have robust plans in place to correct them in a timely manner.

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Calculation of Supplier Charges for SP08a

PARMS calculates Supplier Charges for Certain PARMS Serials each calendar month. The total charges across all PARMS Serials are capped for each Supplier in each GSP Group to limit each Party's liability in any one reporting period. A GSP Group's monthly liability cap is calculated based on its annual take for the previous financial year. A Supplier's monthly liability cap is calculated based on its total active Import energy in the reporting period.

Each month, the PAB authorises Supplier Charges to be distributed among Trading Parties:

- 90% of funds from a GSP Group are re-distributed to the NHH Suppliers operating in the GSP Group, based on their share of NHH energy traded in the GSP Group; and
- 10% are re-distributed to all Trading Parties based on their Main Funding Share (equivalent to market share – HH & NHH).

Applicable PARMS Serial

Compliance with the R3 and RF VAR standards in BSC Annex S-1 paragraph 2.2.1 is monitored by PARMS Serial SP08a. Where a Supplier has failed to reach its R3 and RF target in respect of NHH Metering Systems it will incur a charge.

In calculating the Supplier Charges associated with PARMS Serial SP08a, it is the difference between the VAR target (80% or 97% as applicable[5]) and what is actually achieved that is taken into consideration. For example, if a Supplier supplies 1000 MWh of electricity, they must obtain the actual Meter readings associated with 970 MWh of Supply. If they only achieve 950 MWh, then the SP08a Supplier Charge will apply to the 20 MWh below the required target.

SP08a Supplier Charges are applied at two stages: they are applied at R3 VAR at a cost of £0.22/MWh; and at the RF VAR at a rate of £2.43/MWh for 2019/20.

What is the issue?

The Proposer's belief is that SP08a Supplier Charges incurred as a result of HTR Metering Systems are particularly challenging for small and new entry Suppliers (i.e. Suppliers offering services in the Industrial and Commercial (I+C) market) and cause pricing disadvantages. Suppliers with larger, more established 'traditional' customer portfolios may have similar numbers, or more, of HTR Metering Systems as small Suppliers. However, due to the vast number of (non-HTR) Metering Systems in the large Supplier's portfolio, the HTR Metering Systems will account for less than 3% of energy Supplied per GSP Group and as such, they are able to 'hide' their HTR Metering systems in the 3% tolerance. As the NHH R3 and RF performance targets cannot be achieved without a large NHH customer base (where Suppliers have large numbers of non-HTR sites), this translates into significant competitive and pricing disadvantages for smaller Suppliers, particularly those targeting I+C customers only.

Due to the combination of practical limitations, disproportionate costs and low consumption, customers will likely refuse site access (or may not know how or where to access the site or Meter). Installation of Advanced Meters or smart Meters has also proved to be difficult for these same reasons and can be further exacerbated where no mobile

[5] We have not been able to pinpoint the reason for the targets being 80% and 97%. Anecdotal evidence suggests that they are relatively arbitrary based on performance rates and market conditions in the late 1990s

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telephone signal exists and the cost of installing a landline or using alternative means of communication is prohibitively expensive.

The Proposer also notes that most HTR Metering Systems have not been read for 'a prolonged period of time' across multiple Suppliers. Therefore, it is evident that despite best efforts being taken, it is often impractical for Suppliers to obtain Meter reads.

The Proposer believes that the SP08a Supplier Charge incentive for HTR NHH non-domestic Metering Systems[6] is not functioning effectively as there is nothing Suppliers can do differently to improve Settlement performance on these sites due to practical limitations. Similarly, when Supplier Charges were first proposed and implemented, the market place was very different and it may be that SP08a Supplier Charges are not suitable for the existing market place.

It should be noted that over 90% of uncapped Supplier Charges are made of SP01 Supplier Charges (failure to deliver PARMS report on time). SP08a Supplier Charges however, only account for just over 5% of uncapped charges. It is not possible to translate these proportions directly to capped Supplier Charges due to how they are calculate but, if we assume a roughly linear translation, then prima face, HTR SP08a Supplier charges would only account for a very small amount of all of a Supplier's Supplier Charges.

However, if we assume that a Supplier is able to meet all of their other obligations (which the Proposer acknowledges should be the business-as-usual state) then all of a Supplier's Supplier Charges will be made up of SP08a HTR Supplier Charges. Further, ELEXON is looking into SP01 Supplier Charges as part of the PAF review and PAB has recently endorsed (PAB220/12) raising a Modification to either switch them off or set them to £0.00 but, the actual solution is yet to be finalised.

How HTR sites could be 'hidden' within the 3% tolerance

Due to commercial sensitivities we are unable to quote exact figures. To demonstrate how it can be perceived that large Suppliers are able to 'hide' their HTR sites we have laid out some figures below:

Supplier A

Supplier A is a large Supplier ('big six') specialising in the domestic market but, with a number of non-domestic customers. Their split of customers in the non-Half Hourly market is (percentage figures in brackets is share of Supplier A's NHH portfolio):

- Total NHH Metering System Identifications (MSIDs) – 5.75m MSID, which equates to 2,000 GWh of NHH energy Supplied
- 350,000 MSIDs (6% of Supplier A's NHH portfolio) Non-Domestic[7] (Profile Class 3-8) NHH MSIDs, which equates to 448 GWh (23% of Supplier A's portfolio) of NHH energy Supplied

[6] The proposer's belief is that HTR is only an issue for non-domestic Metering Systems as the same limitations do not exist in the domestic market in their experience

[7] This includes potential NHH HTR Metering Systems

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- 1,400 Non-Domestic (Profile Class 3-8) HTR MSIDs[8] (0.02%) equating to approximately 90 MWh of energy Supplied (0.004%)

Supplier B

Supplier B is a small-medium Supplier specialising in the non-domestic market with a small number of domestic customers and, for disambiguation, is not the Proposer. Their split is (percentage figures in brackets is share of Supplier A's NHH portfolio):

- Total NHH MSIDs – 250,000 MSID, which equates to 230 GWh of NHH energy Supplied
- 210,000 MSIDs (83%) Non-Domestic[7] (Profile Class 3-8), which equates to 4 GWh (23%) of NHH energy Supplied
- 500 Non-Domestic (Profile Class 3-8) HTR MSIDs[8] (0.18%) equating to approximately 23 MWh of energy Supplied (0.01%)

Calculating HTR figures

It should be note that we have only had sight (in confidence) of the Proposer's figures for number and size of HTR Metering Systems and any calculations and assumptions we can make are based on key assumptions and are indicative at best. Where a Supplier has multiple Market Participant IDs (MPIDs), sums are done per MPID then summed.

When determining the number of HTR Metering Systems per Supplier we assume that all MSIDs using default EACs are HTR. The volume of energy associated with HTR is extrapolated as shown for Supplier A (the figures below are rounded at each step whereas the figures in the examples above were calculated using actual number and rounded at the end so can't be replicated exactly below):

1. Gather the total EAC energy from Market Information reports used elsewhere for all Profile Classes (80.6 GWh)
2. Calculate how many NHH MSIDs are in PC3-8 (350,000) and calculate this as a percentage of total NHH MSIDs (6%)
3. Apply the percentage in step 2 to the result of step 1 (21.5 GWh) to give a total of EAC energy in PC3-8 (21.5 GWh[9])
4. Apply the result of step 2 to the Total number of default EAC MSIDs (32,000) to get the default EAC MSIDs for PC3-8 (1,400) i.e. the HTR MSIDs
5. Calculate the number of HTR MSIDs as a percentage of all NHH MSIDs in PC3-8 (0.4%)
6. Apply the result of step 5 to the result of step 3 to arrive at total HTR energy

Based on the assumptions we have made, there are manifest errors e.g. not all default EAC MSIDs are HTR and there will be some other MSIDs that are HTR now but still using EAC or AA). Another error is derived from assuming that percentages are uniform whereas

[8] These figures are indicative and based on different sources of data and 'big-hand' assumptions and are indicative only

[9] One of Supplier A's MPIDs has 90%+ MSIDs in PC3-8 and nearly half of all energy on EACs, hence why 21.5 GWh is not 6% of 80.6 GWh when applied at supplier level but is correct at MPID level

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this will not necessarily be the case i.e. we have assumed that the percentage of energy consumed in PC3-8 is the same as the percentage of MSIDs in PC3-8.

Analysis of data

Supplier A could have up to 172,500 MSIDs that are HTR or HTR MSIDs that account for 60 GWh of energy Supplied (i.e. unread) before they breach the 97% target, assuming all non-HTR Metering Systems have a read.

Supplier B could have up to 7,500 MSIDs that are HTR or HTR MSIDs that account for 7 GWh of energy Supplied (i.e. unread) before they breach the 97% target, assuming all non-HTR Metering Systems have a read.

If Supplier B fails to read 7.001 GWh of energy they will incur Supplier Charges (albeit only on the 10 MWh). If Supplier A manages to read 59.999 GWh of energy, they will avoid Supplier Charges. The result of this is that there will be ~53 GWh of energy that is not compensated as a pre-estimate of loss. If we consider that the average Imbalance Price is roughly £45/MWh, then the uncompensated loss will be roughly £2.4m. Alternately, the 3% tolerance equates to £146k in Supplier Charges for Supplier A.

Another way to assess this is that under the current rules Supplier A will be penalised for a relatively small number of MSIDs (any over 7.5K), whereas Supplier B cannot read 172,500 MSIDs and not be penalised, even though this represents much larger risk to Settlement than Supplier A.

If we accept the premise that HTR Metering Systems are almost always non-Domestic, then Supplier B has more than the double the percentage of HTR Metering Systems relative to their portfolio than Supplier A

It has been argued that all Suppliers are susceptible to HTR problems equally but, based on the figures for these two Suppliers, and assertions from small I+C Suppliers, the problem is more prevalent for smaller Suppliers.

However, given the relatively small difference in portfolio percentages of HTR sites then on the basis of relative portfolio composition alone it is difficult to argue that HTR Metering Systems have a notable impact on Suppliers' margins and therefore it could be argued that there is little to support a competition issue based on these figures alone. For clarity, the fact that Supplier B has 2½ times as many HTR Metering Systems is a sensational figure but, we should not lose sight that we are still talking about less than 0.01% of their respective portfolios in terms of energy volumes (which is the basis for SP08a Supplier Charges).

Competition issues

The electricity market is a highly competitive market to operate in with tight margins. Ofgem estimates that the average profit is around 4% before tax[10] and other obligations.

The tariff rates in the I+C market vary depending on customer size and commercial arrangements, that is, there are no set tariffs. However, the government estimates that the average non-domestic tariff is between £100 - £120/MWh[11]. Furthermore, the Cost of

[10] I+C Suppliers don't have larger Suppliers' environmental commitments and their overheads are lower but, domestic customers only pay 5% VAT compared to 20% for I+C. As such, we have used 4% for this report.
[11] https://www.gov.uk/government/statistics/quarterly-energy-prices-march-2019

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Energy[12] review in 2017 estimated that tariffs vary between £60 and £120 dependant on the customer size, with those in the I+C market between £110 and £65

Taking the above into consideration, I+C Suppliers have a margin of roughly £3.20/MWh. This is before tax and other commitments so, when we consider Supplier Charges of £2.43/MWh, we can see the profits involved with HTR Metering Systems are negligible.

[12] https://www.gov.uk/government/publications/cost-of-energy-independent-review

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3 Solution

Proposed solution

The Supplier Charges for PARMS Serial SP08a will be set to £0.00/MWh for all Suppliers for the R3 and RF VARs. This means that when Supplier Charges are updated annually, the SP08a charge will remain as £0.00/MWh forever. This means that failure to read NHH Metering Systems (Domestic or non-Domestic) will result in zero SP08a Supplier Charges.

The requirement to achieve 80% and 97% Meter read by volume (at R3 and RF respectively) will remain. However, no Supplier Charges will be levied for failure to meet the required level, regardless of Meter type (i.e. the solution will apply equally to all NHH Metering types, both domestic and non-domestic).

Underperformance will be managed using the Error and Failure Resolution (EFR) PAT as is done now (by putting an action plan in place as agreed by ELEXON/PAB), rather than paying Supplier Charges.

The P366 solution will be implemented by amending BSC Section S-1 part 3 so that the charge for SP08a is 'No Charge'. ELEXON informs the PARMS Service Provider each year what the adjusted Supplier Charges will be for the forthcoming year. This is done by e-mail and the change is a manual transposition into PARMS by the PARMS Service Provider. This process will be used to make the SP08a Supplier Charge £0.00/MWh in PARMS.

How P366 will affect SP08a reporting periods

The following is how the annual adjustment to Supplier Charges from 2018/19 to 2019/20 to reflect Retail Price Index (RPI - inflation) adjustments will be made. This is important as the implementation of P366 will follow a similar pattern.

ELEXON will present a paper to the PAB in May 2019 and the adjustments will be made in June so that data reported in July will be subject to the RPI adjustment. More specifically, data reported in July 2019 will be in relation to Meter reads taken in April 2019. That, is, by April 2019 Suppliers should have achieve 80% of their Meter reads by volume relating to Settlement Periods in August 2018 (R3) and 97% of Meter reads by volume for Settlement Periods in February 2018 (RF).

As the P366 solution will use the same methodology as used for annual RPI adjustments, the following will occur (assuming the implementation proposals below are approved):

- 7 November 2019 – P366 is implemented
- 7 November 2019 – ELEXON instructs the PARMS Service to adjust the SP08a Supplier charges to £0.00/MWh
- December 2019 – first PARMS reporting period impacted by P366 for Meter reads achieved by September 2019

Specifically, in December 2019, Suppliers will report where, by September 2019, they had failed to achieve:

- 80% by volume of Meter reads for Settlement Periods in January 2019; or
- 97% by volume of Meter reads for Settlement Periods in July 2018

The result of this will be that Suppliers will not receive SP08a Supplier Charges when they receive their invoice in March 2019.

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Impact on other Supplier Charges

We looked at how reducing/removing SP08a will affect other Supplier Charges. Of the uncapped total Supplier Charges, Supplier Charge SP01 makes up the vast majority (90%[13]). SP08a Supplier Charges make up only a relatively small amount (5.5%) with SP04, SP08b and SP08c accounting for the reminder.

There is an argument that if the SP08a Supplier Charge is reduced/removed, then the proportion of Supplier Charges in the capped pot will change, meaning that the pre-estimate of loss will be re-weighted and there is a danger that people will not be paying fairly for their performance.

The total capped charges for the previous 12 months average roughly £550k/month across all GSP Groups. The capped amount per GSP Group will not change if SP08a Supplier Charges are reduced or removed. While the argument above has merit, given the relatively small amounts involved, there will be little monetary change in the capped weighting between the different Supplier Charges.

It should also be noted that due to the way capping works, just because the uncapped proportion of SP01 Supplier Charges may be 90%, it doesn't follow that SP01 Supplier Charges make up 90% of the capped Supplier Charges. Given these issues, it is not entirely possible to model the impact. However, considering the caveats about monthly variation and GSP Group variation etc., our very rough handful assessment is that the capped proportion of SP01 charges will change by roughly 5% if the SP08a Supplier Charge is changed to £0.00 or, roughly £205k across all GSP groups and all Suppliers.

It follows, equally, that reducing the amount of SP08a Supplier Charges making up the capped 'pot' by not including HTR data would increase the percentage of other Supplier Charges making up the 'pot'. The difference however, will be less but, there is no pragmatic way to model this to a high degree of accuracy, although some indicative modelling did agree with this assertion.

Other work being undertaken

The Workgroup and the Proposer recognise that ELEXON is undertaking the PAF review and that this will look at Supplier Charges in the round from a holistic point of view with a view to creating a new framework within the wider PAF sphere. Similarly, they are aware that with the move to market-wide HH Settlement, coupled with the roll-out of smart Meters, there will be a need for new assurance methods. However, work is on-going in these areas and, due to the scope of the work involved, will still take some time to complete and will be even longer before changes are made to the BSC. P366, as far as the Proposer is concerned, is dealing with the 'here-and-now' and could be seen, potentially, as a stop-gap to deal with a real world concerns until a better and, potentially more robust, solution is found.

[13] The figures in this section are based on data from Dec 17 to Nov 18 which was the latest available Supplier Charge data at time of issuing the Assessment Phase consultation. They will vary over time dependant on Supplier behaviours.

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Legal text

The draft legal text for the Proposed Solution is in Attachment A. The draft legal text deletes BSC Section S-1 paragraph 3.2 which deals with the Suppliers Charges for failure to comply with Serial SP08a. None of the respondents to the Assessment Phase or Report Phase consultations disagreed with the proposed legal text.

Self-Governance

The Workgroup (WG) unanimously agreed that P366 **should not** be progressed as a Self-Governance Modification. They believe that if P366 is implemented, there will be a material effect on consumers and competition (impacts Self-Governance criteria a)i and a)ii) and as such the Authority should determine whether to implement P366. This is based on the Proposer's belief that not implementing the P366 would have an adverse effect on competition and consumer choice.

Similarly, the Panel unanimously agreed that P366 should not be self-governance for the same reasons put forward by the Workgroup. None of the respondents to the Assessment Phase or Report Phase consultations disagreed with the Workgroup or Panel's views.

What are the Self-Governance criteria?

A proposal that, if implemented:

a) is unlikely to have a material effect on:
   i. existing or future electricity consumers; and
   ii. competition in the generation, distribution, or supply of electricity or any commercial activities connected with the generation, distribution, or supply of electricity; and
   iii. the operation of the national electricity transmission system; and
   iv. matters relating to sustainable development, safety or security of supply, or the management of market or network emergencies; and
   v. the Code's governance procedures or modification procedures, and
b) is unlikely to discriminate between different classes of Parties

Are there any alternative solutions?

The original P366 Proposed solution was is in two parts. First of all the Supplier would have needed to identify and notify which Metering Systems it believes to be HTR. The second part was the process by which HTR data is excluded from SP08a Supplier Charges.

In line with the Proposer's identified issue, this solution would only have applied to non-domestic NHH Metering Systems (equivalent to those Metering Systems in Profile Classes 3 – 8). That is, a failure to read domestic NHH Metering Systems will still result in SP08a Supplier Charges.

The P366 solution laid out above was the Alternative solution when the P366 Workgroup conducted its Assessment Phase Consultation. However, in light of the consultation responses received, the Proposer no longer wanted to progress the two part solution for identifying HTR Metering systems and then removing the data from PARMS. Instead the Proposer adopted the Workgroup's Alternative Solution [making SP08a charges £0.00/MWh] as the Proposed Solution. The Proposer recognised that the original Proposed solution was expensive and the Alternative solution was more cost effective and proportionate to addressing the issue[14], especially when considering other reviews that are in–flight such as, the PAF Review and Ofgem's Significant Code Review on Market-wide Half-hourly Settlement. The Workgroup did not identify any other Alternative Solutions.

A summary of the originally proposed (now defunct) P366 solution is laid out below for information.

Identifying HTR Metering Systems

Suppliers would have been responsible for identifying HTR Metering Systems. There would have been no obligation to declare Metering Systems as HTR, meaning that a HTR

[14] Costs, lead times and potential Implementation dates are discussed further in section six as well as the proposer's reasons for changing the solution based on consultation feedback

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declaration may have, more often than not, been a commercial decision. This solution would not have required Meter read data to be changed in anyway other than excluding the HTR volumes from the SP08a Supplier Charges calculation.

HTR Criteria

The three criteria that would all have had to be met were:

- Unoccupied Site;
- Remote location; and
- Lack of communication

Twelve respondents to the Assessment Procedure Consultation agreed with the proposed HTR criteria, whilst two disagreed and one had no comment. Those that disagreed did so because they believe it removes the responsibility of the Supplier to explore all avenues, before determining it to be 'Hard to Read' and because they disagreed with the inclusion of the 'remote location' criteria. The combination of both a) issues with access, and b) issues with communications should be sufficient without needing to consider the geographical location of the site. The location does not automatically make the site HTR. An additional criterion was suggestion for unsafe meter location for example special breathing apparatus required for a chemical waste site. The Workgroup noted these comments, but did not discuss them in detail as the solution taken forward no longer required HTR criteria.

Declaration of HTR Metering Systems

Suppliers would have needed to inform their NHHDA and ELEXON[15] using a non-Data Transfer Catalogue (DTC) data flow (manually generated). Metering Systems would have remained HTR until either:

- The Supplier changes;
- The Metering System no longer meets the HTR criteria; or
- HTR status was found to be incorrect e.g. as a result of a BSC Audit.

HTR status would not have changed for any other reason including, but not limited to, a Change of Agent (CoA) event occurring.

Handling of HTR data

NHHDAs would handle all Meter read data as they do now. The only difference is that they would 'flag' the HTR data. NHHDAs would still have communicated with the SVAA using the data flow D0041 'Supplier Purchase Matrix Data File' with two new data items in the D0041 created specifically for communicating HTR data:

- Total HTR EAC; and

[15] ELEXON would have maintained a register of all HTR Metering Systems as part of a risk based approach to determine whether PATs were needed in regards to Suppliers' HTR declarations.

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- Total HTR EAC MSID count.

The SVAA would have carried out the same corrections and calculations as they do now and, like NHHDAs they will simply 'flag' HTR data and aggregate the flagged HTR data. The SVAA would have communicated with PARMS using the existing P-flow P0145 'SP08 - Energy and MSIDs on Actuals' with two new data items to communicate HTR data:

- Total HTR EAC Energy; and
- Total HTR EAC MSID Count

PARMS would have been required to calculate an alternative value of SP08a excluding the Total HTR EAC Energy. This value would only have been used to calculate Supplier Charges, and the normal SP08a values (including HTR EACs) would have continued to be reported and not split out HTR volumes and Meter counts. PARMS would not have been affected in any other way and all other functions would have been carried out as they are now e.g. issuing of invoices etc.

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4 Impacts & Costs

Estimated central implementation costs of P366

ELEXON's costs to implement the P366 solution are approximately £960. These costs are made up of changes to BSC Section S, and changes to internal documents and Guidance Documents

- 3 day's effort to implement new internal processes and documents; and
- 1 day's effort to implement document changes to the BSC and Code Subsidiary Documents (CSDs).

Ongoing Operational costs

It is not expected that there will be any additional effort required. Once the new performance level is set, no further work will be required beyond what is already undertaken in relation to Performance Assurance.

Indicative industry costs of P366

We do not anticipate any notable costs or impact on industry to implement the P366 solution. Following implementation, there would be no on-going costs as the role of BSC Parties will not change, that is, they will still need to submit data at the same rate as now.

P366 impacts

Impact on BSC Parties and Party Agents	
Party/Party Agent	Impact
Suppliers	Small costs to put in place revised invoice verification processes but expect savings in the longer term

Impact on National Electricity Transmission System Operator
There will be no impact on the Transmission Company

Impact on BSCCo	
Area of ELEXON	Impact
Disputes and compliance	Ongoing monitoring of Performance Assurance – no additional impacts

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Impact on BSC Settlement Risks
The risk Register and Risk Operating Plan would be updated but all other PATs remain unaffected. If the risk is deemed to change, further PATs can be instigated if required. The Panel believed other PATs, such as EFR, are a much stronger control than SP08a Supplier Charges. However, some Panel Members think that P366 would remove an incentive to achieve Meter reads and therefore could reduce Settlement accuracy, increasing Settlement Risk

Impact on BSC Systems and process	
BSC System/Process	Impact
PARMS	SP08a levels will need to be set to £0.00/MWh

Impact on BSC Agent/service provider contractual arrangements	
BSC Agent/service provider contract	Impact
PARMS Service Provider	Will need to enter the new SP08a Supplier Charge

Impact on Code	
Code Section	Impact
Section S: Annex S-1	Deletion of one paragraph in BSC Section S-1

Impact on Code Subsidiary Documents	
CSD	Impact
No impact on any CSDs	

Impact on other Configurable Items	
Configurable Item	Impact
No impact on any other Configurable items	

Impact on Core Industry Documents and other documents	
Document	Impact
Ancillary Services Agreements	No impact on any Core Industry Documents
Connection and Use of System Code	
Data Transfer Services Agreement	
Distribution Code	

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Impact on Core Industry Documents and other documents	
Document	Impact
Distribution Connection and Use of System Agreement	
Grid Code	
Master Registration Agreement	
Supplemental Agreements	
System Operator-Transmission Owner Code	
Transmission Licence	
Use of Interconnector Agreement	

Impact on a Significant Code Review (SCR) or other significant industry change projects
The Authority has not made a determination as to whether P366 is impacted by any Significant Code Reviews. The Panel therefore submitted the SCR Suitability Report to the Authority on 7 June 2018. In the absence of a determination on SCR suitability from the Authority, P366 progressed in accordance with the Panel approved timetable.

Impact on Consumers
The Proposer believes that failure to implement P366 may result in non-domestic consumers having reduced choice of Supplier or having their tariffs increased to reflect SP08a Supplier Charges

Impact on the Environment
Nil impact

Other Impacts	
Item impacted	Impact
Nil other impacts	

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5 Implementation

Recommended Implementation Date

The Workgroup recommends an Implementation Date for P366 of:

- 7 November 2019 if the Authority's decision is received on or before 31 July 19; or
- 27 February 2020 if the Authority's decision is received after 31 July 2019 but on or before 31 October 2019.

As explained at the start for section three, implementation on 7 November will impact the December 2019 PARMS reporting period and implementation on 27 February 2020 will impact March 2020 Supplier Charge period.

None of the respondents to the Assessment Phase or Report Phase consultations disagreed with the proposed Implementation plan.

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6 Workgroup's Discussions

Why has P366 been raised?

The Proposer explained at the first Workgroup (WG) meeting why they raised P366 to help the Workgroup's understanding of the issue ahead of assisting to develop the solution.

The proposer explained that the premise of HTR Metering Systems means that they will never be read. Unless the cost is spilled across a large number of customers, Supplier Charges will be a cost burden. If the distribution of customers was even between all Suppliers, there wouldn't be any type of Supplier disadvantaged. In response to this, a WG Member pointed out that the issue is that some Suppliers focus on particular market areas and in doing so, should accept the consequences there-of as this is a commercial decision.

It was suggested by another WG Member that if all Suppliers add the cost of reading HTR Metering Systems to consumer bills; competition issues would be alleviated and customers would be incentivised to allow Meter reads[16]. It was pointed out in countenance that this still wouldn't deal with the issue of Metering Systems that are HTR for other reasons e.g. due to the location of the site containing the HTR Metering System. It was also mentioned that some consumers with low consumption HTR sites just don't care as the cost of allowing Meter reads is not worth their effort compared to the bills they pay.

The WG discussed that if P366 is implemented, Suppliers will still need to be incentivised to attempt to obtain a Meter Read. Supplier Charges are intended to be a pre-estimate of loss to compensate for inaccuracies in Settlement where some Suppliers have not provided accurate data. The requirement to obtain Meter reads exists to ensure Settlement integrity. However, it is recognised that some will be HTR, which is why the standard is 97% and not 100%.

Even if HTR sites are excluded from SP08a Supplier Charges, Suppliers will still have to obtain Meter Reads and bear the cost of doing so. SP08a charges are relatively small so (and it is questionable whether they are a genuine pre-estimate of loss), it would be easier to scrap SP08a charges altogether. However, this could reduce the incentive to obtain NHH Meter Reads.

It was also pointed out that Supplier Charges are capped, so relatively small amounts of money are involved. A lot of effort is expended in attempting to achieve the 97% target rate when it is not easily achievable. It was pointed out that this is out of the scope of P366 and a separate Modification or Issue would need to be raised to address that defect.

The P366 solution would apply to all Suppliers irrespective of size, the matter is that the reality of the industry means that some Suppliers face the issue of HTR sites more than others. In response to this a WG Member questioned whether the BSC be changed to accommodate for business choices? The counter argument is that it is not necessarily the type of customer (e.g. non-domestic) that is the issue; it is that some customer's portfolios contain a disproportionate number of HTR sites. The fairness of continuously charging Suppliers for failure to obtain a Meter read was questioned if they have no way of preventing the charges. Some WG Members stated that the rules are there for good reason and in due time the market will respond to address any potential competition issues. Suppliers are aware of their obligations and can decide whether to take on HTR customers, and should be factoring in the associated costs for these types of customers, including any Supplier Charges that may result. It was also pointed out that the industry

[16] It was pointed out that if all Suppliers agreed to pricing arrangements there would be a danger of straying into price fixing territory. The commenter pointed out they were only talking hypothetically and that in no way were they suggesting anything improper

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as a whole is not meeting the 97% target rate, so even large Suppliers are not absorbing the HTR costs, following P272, which effectively removed large volumes of energy from the 97% calculations. However, typically larger Suppliers are able to absorb the cost better than smaller Suppliers.

Placing an obligation on Customers to incentivise Meter Reads was discussed. However, this is not permissible under the BSC. It may be something that the Performance Assurance Framework (PAF) review (Issue 69) could consider[17].

Analysis of data

It was discussed that before the WG could develop the solution fully, they would need some approximate data for the number of HTR Meters and Sites in existence. It was suggested that once analysis had been completed, it may be possible to consider a materiality threshold for the maximum EAC to be considered HTR. The alternate view point was that if something is HTR, then it is HTR so the size of the EAC shouldn't matter.

ELEXON carried out data analysis between WG meetings one and two and presented it at the second WG meeting. However, the data was based on several assumptions, including:

- The date chosen as a snap shot was indicative of annual averages;
- All MSIDs with a default EAC equate to HTR Metering Systems[18]; and
- 10% of all Metering Systems using EACs equate to HTR Metering Systems.

In carrying out the analysis ELEXON undertook the following steps:

- Energy volumes and number of MSIDs in GB was taken from SP08a data;
- The number and amount of default MSIDs was taken from PARMS serial SP09 data;
- The proportion of MSIDs for each Metering Profile Class (PC) was calculated using a snapshot of the Supplier Metering Registration Service (SMRS);
- The SMRS snapshot proportion were used to determine the amount of energy and number of HTR for PC 3-8 figures;
- A similar evaluation of data analysis was undertaken on the assumption that 30% of energy consumed is for non-Domestic SVA MSIDs;
- The cost benefit analysis for time to recover charges was calculated; and
- Costings were adjusted once the Service Provider Impact Assessment (IA) was received.

The table below shows the time in years to recover implementations costs. The columns show the total uncapped Supplier Charges, the total capped Supplier Charges (i.e. for all charges) and the assumed proportion of capped charges that are made up of SP08a (which P366 is concerned with). The costs on the left were nominal and based on a working assumption of net costs to industry and ELEXON to implement P366 prior to Service Provider IA - see below of post-IA Cost-Benefit Analysis (CBA)).

[17] The PAF review is due to consider Supplier Charges and Meter read performance in summer 2019. ELEXON will feed this recommendation into the PAF review.
[18] The WG accepted that this is not always the case but, it was a reasonable assumption for data analysis purposes

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Table showing time to recover P366 implementation costs

Summary of average costs - Average of MSID and Energy				
Implenentation cost (ELEXON+Industry)	Uncapped	Capped - Total Charges	Capped - SP08a Assumption	Mean
£500,000	2	16	33	17
£750,000	3	23	50	26
£1,000,000	5	31	67	34
£1,250,000	6	39	84	43
£1,500,000	7	47	100	51

It was agreed that given the numerous caveats and assumptions that the data analysis is far from definitive and should not be used to make any decisions. However, it was very useful for discussion, acted as a broad indicator which helped solidify to some extent what was suspected in terms of time to recover implementation costs and the number of MSIDs that may be HTR.

The first analysis was presented prior to conducting Service Provider IA. The WG's initial thoughts was that the analysis would indicate that there may be a need for an 'interim' simple solution rather than a comprehensive and robust solution, particularly considering other changes in the industry such as the Electricity Settlement Reform Significant Code Reform and ELEXON's PAF Review

Evaluation of potential solutions

A Service Provider IA was conducted by ELEXON on behalf of the WG between WG meetings two and three. In the same period two potential alternate solutions had been discussed with ELEXON and ELEXON discussed them with the WG by e-mail correspondence – one of these (making SP08a £0.00 was subsequently adopted by the EG as the Alternative Solution)

The potential Alternative solution **not adopted** was similar to the Proposed Solution but differed in the fact that it would remove HTR data from SP08a and therefore the 97% target rather than from SP08a Supplier Charges (as per the Proposed Modification). It was proposed on the basis that it reduces the chances of entering Error Failure Resolution (EFR) due to not achieving reads on hard-to-read (HTR) Metering Systems. The argument was that this would be more efficient on all concerned as the number of EFR incidents being dealt with would reduce, with negligible impact on overall Settlement performance or Risk. This option was so similar to the original proposal that it was not felt necessary to carry out another Service Provider IA as the assessment of the Proposed was deemed sufficient for evaluating which solution to take forward.

Each option was evaluated based on the impact once implemented and embedded (i.e. business as usual (BAU)). The table below summarises the discussion and scoring (in red – lowest score is best).

Option	Settlement Risk	Industry effect	Incentive to read Meter	Deterrent to gaming	Total
1. Discounting HTR from the SP08a	Only SP08a Supplier Charges affected. 1	Differentiates between Meter classes	EFR threat remains. 1	Available PATs within the PAF.	20

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Supplier Charge calculation		Reduces re-distribution fund. 3		Cost of declaring vs SP08a saving Obligation to read Meters. 2	
2. Discounting HTR from the SP08a PARMS Serial calculation	Potentially impact Settlement and PAF – accepts that the HTR sites will never be read. Means that 97% of actuals won't be settled – reduces the controls in place. 2	Reduces EFR work for Suppliers and ELEXON (industry saving) Differentiates between classes of meter Reduces re-distribution fund. 2	EFR based on not making efforts rather than 'blaming' HTR. Compliance is, arguably, a greater impact than Supplier Charges. Removing HTR creates more room for EFR 'wiggle room'. 2	Available PATs within the PAF. Cost of declaring vs SP08a saving Obligation to read Meters. 2. Mor e option to game as no EFR risk therefore greater incentive to abuse HTR. More incentive to game. 3	22
3. SP08a charge £0.00	Would impact all meter classes. Removes a Supplier charge for the entire Market. Won't impact Settlement but impacts the PAF. 3	Does not differentiate between Meter classes Reduces re-distribution fund. No need to declare HTR and no System change, so better for Industry. 1	EFR threat remains as incentive to read but, won't be able to use mitigation of HTR at PAB. Not having HTR could incentivise as it is not clear what the HTR tolerance is when mitigating EFR etc. 1	Available PATs within the PAF. Obligation to read Meters. No real inventive to Game as no HTR criteria and everyone is the same. 1	12

Following this evaluation, the WG looked at the three System change options. Some of the guiding principles discussed prior to evaluating were:

- Market place is changing – there are reviews into HH Settlement and PAF;

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- Cheaper option puts more responsibility on Suppliers initially in terms of learning new processes;
- Supplier Costs are not known but for the purpose of evaluation, they can be assumed in order of most expensive to least expensive; and
- The more a Supplier has to do, the greater the cost and impact.

The column titled IA is an evaluation of the Cost, time to implement and the CBA of implementing i.e. the number of years to recover implementation costs based on the figures provided in the IA. As with the scoring above, for the table below the lowest score is the WG's preferred option. For the column 'IA' the WG weighed the cost, time to implement and time to recover costs together to arrive at a single score for which is the best system solution. Given that there is relatively little difference between the first two rows they were scored equally as the least preferred options. The 'SP08a = £0.00' option is preferred as this has the least cost and least implementation time, and therefore the lowest CBA. The 'Supplier/PARMS' option is the second favourite as it has the second lowest cost and implementation time, and therefore second lowest CBA. The reasons for the other scores are shown in the table below.

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	Cost	Time	CBA	IA	Initial Supplier impact	BAU impact	'Robustness'	Initial Industry costs		BAU Industry Costs	Sum
NHHDA/ SVAA/ PARMS	£331k	Nine months	~22	3	Will have minimal impact on Suppliers – will send informatio n as per now 2	Will have minimal impact on Suppliers – will send information as per now 2	Less people doing things, equals less chance of failure. Option A has more potential points of failure so once settled in (BAU) there could be more risk. However, DAs and SVAA will be doing this multiple times which may not be true of Suppliers. Applying PATs to DAs and SVAA costs less than multiple Suppliers. Only Suppliers declaring HTR will use HTR processes. Potentially, once settled in, will there be a difference between Suppliers and it won't be readily apparent where PATs need to be applied. Option A is more transparent in terms of perception of gaming potential around how data is handled.	2	Same as 'Robustness' 2	Same as 'Robustness' 2	13
Supplier/ SVAA/ PARMS	£317k	Nine and a half months	~21	3	Will have to replicate some of the DA's role. 3	Will have to replicate some of the DA's role. 3		3	Same as 'Robustness'. 3	Same as 'Robustness' 3	18
Supplier/ PARMS	£153k	Five months	~10	2	Will have to replicate the DA and SVAA's work. 4	Will have to replicate the DA and SVAA's work. 4		4	Same as 'Robustness'. 4	Same as 'Robustness' 4	22
SP08a = £0.00	Minimal	Minimal	Min.	1	Nil impact on Suppliers. 1	Nil impact on Suppliers. 1		1	Same as 'Robustness'. 1	Same as 'Robustness' 1	6

The Proposer preferred option one over option three as this is closer to the original defect in terms of addressing competition in NHH non-domestic market and there is minimal risk to Settlement integrity.

It was noted that option one would take much longer to implement, due to the system changes needed, whereas option 3 could be implemented relatively quickly. At the time of writing option 1 could be implemented in June 2020 and option 3 in June 2019.

Option 3 was put forward as an Alternative on the basis that it's better for HTR to apply to all NHH rather than classes 3-4 and fits better with Objective C. It could be argued that only excluding HTR from NHH non-domestic created a non-level playing field. Other WG Members agreed with this unanimously as further detailed in section 7 below.

Alternative solution

An Alternative solution was put forward by one of the WG Members and adopted by the WG following the evaluation described above. The Alternative Solution was to make the SP08a Charge £0.00.

The Proposer of the Alternative solution acknowledged that this will reduce the amount of Supplier Charges redistributed but the amounts involved are not expected to be material. Based on the analysis presented at the second WG meeting, the total **UNCAPPED** SP08a charges for May 17 – Apr 18 were c.£2.5m. When this was **CAPPED** (using some broad assumptions) this was less than £500k for the year or less than £42k/month which, across the whole industry, was not considered a large amount by the Workgroup.

HTR Criteria

It was discussed and agreed that HTR should apply to individual Metering Systems. Where a Site has several Metering Systems, the Supplier should identify which are HTR. Suppliers should be able to apply for HTR for all Metering Systems within a site if they are all believed to be HTR.

It was mentioned by several WG Members that there is a lot of difficulty in trying to establish the exact criteria for HTR and a parallel was drawn to why the target is 97% - HTR 'just is' and the 97% figure 'just is'.

Trying to determine objective HTR criteria was found to be exceptionally difficult when, for every suggestion made, a realistic exemption could be found. For this reason the Workgroup agreed to abide with the Proposer's proposed criteria which is that found in Section three above.

Metering System location

Location was considered by the Workgroup. Location of the Metering System may not necessarily be a determining factor, for example, if Meter Read Agents visit a remote Scottish Island once a year, it is not HTR. The Address and/or Ordnance Survey grid reference could be used as well as tools such as the Data Communication Company's (DCC's) data base of areas subject to smart Meter coverage. The WG discussed if using the Metering System's address could create potential for gaming i.e. declaring something HTR even when it isn't because of the post code and it was agreed that HTR needs to be a physical characteristic.

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Access to Metering Systems

In terms of 'customer not allowing access' – it was agreed that warrants probably wouldn't work. It was discussed that even though this is theoretically possible it is generally accepted that a Magistrate would only grant a warrant if the Supplier could show that there was a genuine belief that theft of electricity, or a safety concern, was occurring and not simply to obtain a Meter read. The use of contractual obligation to compel a customer to facilitate access was discussed. However, this comes back to consumer choice ultimately and it was pointed out that while it may be in a contract, it was not enforceable other than by refusing to Supply anymore which would have commercial and possibly legal implications for the Supplier.

It was discussed that the customer not allowing access is not an evergreen factor as meters need to be changed at some point, e.g. they reach life expectancy. As such, at some point the opportunity may present itself to obtain a Meter read, thus negating HTR status.

The use of the customer's own communications was discussed as a means of communicating Metering data i.e. if the customer has their own communications in place for remote monitoring of the site, then it could be used for transmitting Metering data too. It was agreed that it is unlikely that customers will allow access so it should not be considered.

The WG discussed whether a Metering System could be declare as HTR due to Health and Safety risks. It was agreed however that if this was pursued, then it would have to be very robust. For example, the WG discussed if a Metering System should be considered as HTR if it is locate in a dark un-boarded loft space and it was pointed out that the Meter reader could buy (and train to use) temporary loft boards and a head lamp. On the flipside of this, not all Suppliers would consider this as a reasonable measure to obtain a Meter read, and as such the Metering System would be HTR. The workgroup agreed that this was yet another subjective area for determining HTR status.

Costs of obtaining a Meter read

HTR determinations should focus on cost in relation to:

- Customer's bill;
- Cost of obtaining a meter read; and
- SP08a Supplier Charges;

The costs for installing remote monitoring should be considered, if it is possible to install them. However, if it is possible to install remotely monitored Meter, it's possible to read the Meter so HTR isn't appropriate;

Determining HTR status

The WG discussed whether or not determinations should be made by Suppliers themselves, by a Panel Committee or by ELEXON based on evidence submitted. It was discussed that if ELEXON was given the responsibility (either directly or in support of a Panel Committee) they would likely make use of a BSC Agent as they do for other obligations placed on them by the BSC. The cost of contracting a new BSC Agent (or even

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undertaking the work themselves) would be prohibitively expensive compared to the savings across the industry that would be achieved[19].

The number of HTR Metering Systems is expected to be relatively small[20] and as such the Settlement risk is quite low. Similarly, it would take time for ELEXON to make determinations and the potential need to defer to the Panel (or appropriate delegated Panel Committee) could delay the process. Determinations by ELEXON could also lead to disputes and appeals which, in turn, could lead to delays in achieving HTR status, whilst at the same time adding to the cost of operating the HTR process.

It was suggested that it should be left to individual Suppliers to trigger the HTR process. This would mean that declaring a Metering System as HTR would be a commercial decision. The Supplier would need to decide if it is in their interest to expend resource on going through the HTR process. Essentially they would need to weigh the cost of declaring HTR against the SP08a savings after the price cap has been taken into account [see section three for further explanation]. This would, in essence make declaring a Metering System as HTR a voluntary process. On this basis, and the precedence of Long Term Vacant Sites, it was agreed that the best option would be for Suppliers to make their own determinations whether a Metering System is HTR.

It was discussed and agreed that the BSC process will be followed even if other industry bodies determine that a Meter is HTR or similar. The basis for this is that there is too much risk involved in accepting others' determinations, for example if the status proves to be wrong, who is liable? However, such determination may be considered as a starting point for triggering the HTR process if appropriate.

It was agreed that Suppliers should make reasonable efforts to obtain Meter reads. The guidance on reasonable efforts was discussed and it was suggested that industry precedence should be used. An example of industry best practice could be that included within Ofgem's Feed-in Tariffs: 'Guidance for licensed Electricity Suppliers'.

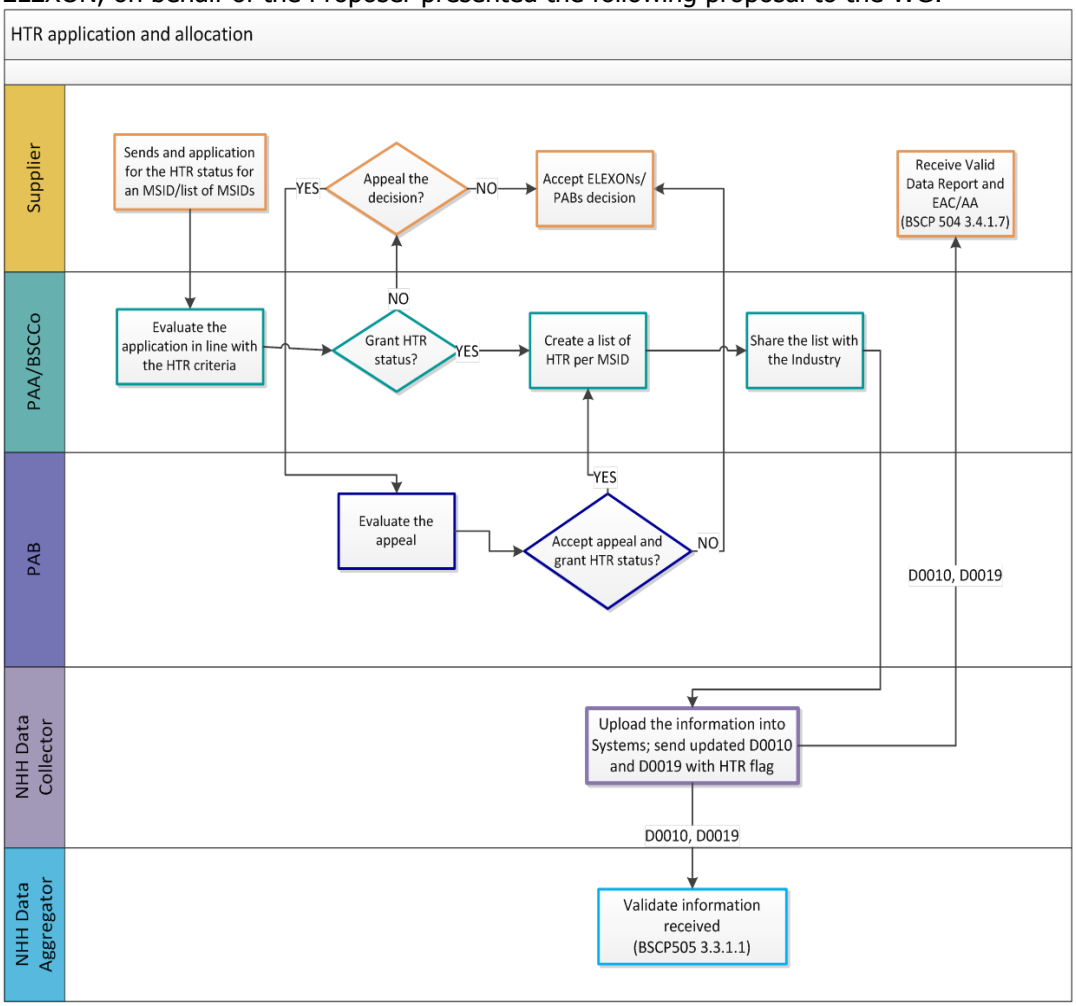
As with the criteria, it was agreed to develop what 'best endeavours' means as part of the implementation phase

[19] The Proposed Solution would save industry roughly £10k - £15k a year. ELEXON's estimated ongoing costs for the P366 Proposed Solution are between £14k and £29k per year. Administering the validation would require more resource and be more expensive. But hasn't been costed formally as it has not been proposed.
[20] Estimates range from 3,500 to 7,000 Metering Systems, or roughly 0.16 – 0.36% of the NHH Market

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How HTR status will be communicated?

ELEXON, on behalf of the Proposer presented the following proposal to the WG:



The following points were made in relation to the above diagram:

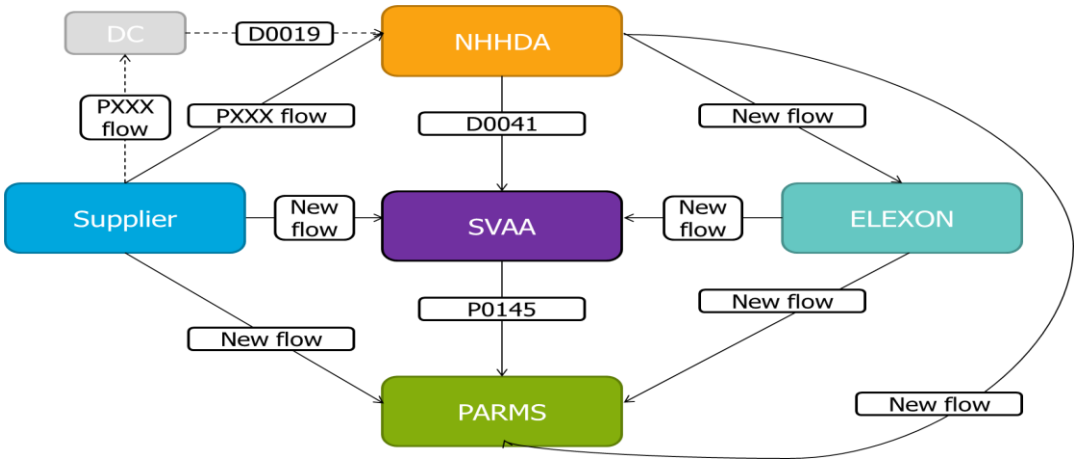
- Changing data flows D0010 'Meter Readings' and D0019 'Metering System EAC/AA Data' will be hard to do and will have significant impacts on industry;
- Suppliers could put flags onto MSIDs and tell NHHDAs to do something different – this would be outside of the DTN and therefore difficult to audit;
- A flag in ECOES[21] could work however, there would still be a need to get the data to the Supplier Volume Allocation Agent (SVAA);
- The Data Collector (DC) doesn't need to be involved. DAs communicate with the SVAA so, need to know which flags to follow. However, DCs don't need to do this.
- Meter read schedules would remain the same, so the DC still needs to try to read the Meter. Costs for this should already be built into Suppliers' billing as this is a licence requirement.
- Creating a new data flow for HTR, and putting it through similar correction process etc. could work but, it would be as complicated as the suggested route;
- DAs can provide MSID level detail for HH Meter and EMR (see BSCP502 for details). Information items wouldn't need too much change other than making it NHH as well as HH;

[21] Electricity Central Online Enquiry Service

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- Could look at the Standard Settlement Configuration (SSC) as a specific code. Similarly, changes to the Time Pattern Regime (TPR) could be considered;
- Potentially may need to communicate HTR outside of the current systems; and
- The cost benefit analysis needs to be considered once service Provider Impact Assessments have been considered.

Based on the discussion at the first WG meeting, the following was presented at the second WG meeting for discussion.



It was agreed that the primary solution (as discussed at the time) should be Suppliers informing NHHDAs which MSIDs are HTR. The NHHDA then communicates the information to the SVAA who then sends data to PARMS. It was agreed that a new P-Flow should be created instead of a D-flow for Suppliers to inform NHHDAs. Creating a P-Flow would be easier than a D-Flow and, considering the relatively low numbers of HTR Metering Systems expected, developing a P-Flow would be more commensurate than a D-Flow.

It was agreed that this would likely be complicated and expensive. A secondary solution was proposed that would require Suppliers to aggregate and correct data (using information from existing data flows) before sending direct to PARMS.

Given that there is potential room for error in asking Suppliers to complete aggregation and corrections a third solution was proposed. This is similar to above but would include the SVAA between Suppliers and PARMS.

Other options that were considered, but discounted due to inherent risk of errors were:

- Default EAC per profile class per GSP group is used by the Supplier to feed into PARMS/SVAA rather than the Supplier aggregating and correcting; and
- The same value being used by ELEXON to simply amend invoices prior to issuing

Commencement and cessation of HTR status

It was agree that in the event of a Change of Supplier (CoS) it would be the responsibility of the new Supplier to re-instigate the HTR process. The reason for this is that what one Supplier may consider to be impractical, another wouldn't or, alternately, some Suppliers may have relatively more recourse to expend (including the tasking of Agents and the associated expense) than others in attempting to obtain a Meter read. Further, this met the principle that it was a Supplier's choice to declare HTR.

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It was discussed that Suppliers have an obligation under their licence conditions to obtain a Meter read so the new Supplier should be doing this regardless of HTR status. This would trigger the new Supplier to instigate the HTR process.

A central database was discussed whereby the new Supplier either asks ELEXON or checks the database to see if the switched Metering System is HTR. This was discounted as there would issues with:

- Data protection – some of the information such as MSIDs could be construed as personal data
- Competition – Suppliers could find a way to use the database to see what portfolios their rivals have; and
- The amount of work to maintain and query – see above.

As part of this discussion there was some concern about whether new Suppliers would not want to take on HTR sites if the cost of Supplier Charges and/or obtaining HTR is prohibitive.

Overcoming these issues was believed to be disproportionate to the P366 defect.

The WG agreed that there is no reason why HTR status should change in the event of Change of Agent. The NHHDA is essentially an extension of the Supplier and acts at the Supplier's behest. This means that, again, it would come down to individual Suppliers whether or not to task their Agents to either seek a Meter Read and/or to process HTR data. This approach would keep the responsibility with the Supplier and reduce costs of having to re-declare HTR status and evidence. However, it will require the Supplier to flag HTR status to the incoming NHHDA.

It was agreed that in the context of HTR a Meter read has to be validated i.e. if a non-validated read is received, that will not automatically end HTR status, but may do so depending on the circumstance and whether the criteria for HTR still applies.

Application by PARMS

At the point of implementation PARMS could use historic determinations e.g. if implementation is June 2020, and Supplier declares that a Metering System was HTR prior to May 19 then benefit will be realised from the Jul 20 Supplier Charges invoice.

PARMS will stop using HTR data from date of declaration i.e. if a Metering System is declared HTR on 15 Aug 20, the R3 benefit will be realised in Feb 21 and the RF in Oct 21.

Monitoring Supplier Performance in relation to HTR

The WG agreed that ELEXON's criteria for selecting Suppliers to be audited should consider the number of HTR Metering Systems a Supplier has. The potential for creating a PAB report or including HTR in existing PAB reports was discussed and it was agreed that this will be re-visited as part of the implementation phase.

NHHDA Qualification

The Workgroup agreed that we will update BSCP537 'Qualification Process for SVA Parties, SVA Party Agents and CVA Meter Operators' and it's associated appendixes so that the

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NHHDA Qualification criteria reflects the additional role. As this will not be a material change to NHHDAs' business models we do not envisage NHHDAs needing to requalify but, they should, at all times, act in accordance with BSCP537 in this respect.

Long Term Vacant process

The WG assumed that determining HTR will be a manual process as the amount of subjective criteria involved doesn't lend itself to an automated process.

The WG agreed that as an initial assumption there is greater a greater risk associated with HTR than Long Term Vacant (LTV). As such, the WG's initial thoughts were that there should be some sort of sampling procedure (10% was discussed as a starting point).

In-between the first and second WG meetings ELEXON drafted a mock-up HTR guidance document based on the LTV guidance document. Having reviewed the draft document, it was agreed that data flow D0004 'Notification of Failure to Obtain Reading' data flow should not but used to trigger the HTR process. The reason why the WG recommended this is that not all of the 'Site Visit Check Codes' (J0024) in the D0004 would be applicable to the HTR process. The WG discussed which data items would be applicable and whether they could be used in the HTR process, even if just to filter some Meters out. However, it was not possible to agree on which were applicable as a consistent and robust approach was not identified. For example, some may be applicable and some may not dependent on the circumstances of the case and site over time.

Other points of discussion

How long a default EAC has been used for could be used as a criteria for establishing HTR status e.g. if a Supplier has used a default EAC for less than six months, it would not be considered HTR. If a Supplier can demonstrate that the previous Supplier wasn't able to obtain a Meter read within a certain time period (e.g. six months) before CoS, it should be considered for HTR status. DCs may be able to assist in determining the last Meter Read date, so long as the read was validated and passed on with the CoS. It was concluded that once a Metering System becomes HTR based on the criteria proposed, then it is HTR, regardless of how long the default EAC has been used. For example, if a Meter read is gained in February but, a new Supplier determines a Metering System is HTR based on the criteria (e.g. too remote based on their evaluation) then it will be HTR form the new Suppliers determination rather than when the last EAC was calculated.

The WG discussed whether a value other than EAC should be used for HTR Metering Systems. It was agreed that the EAC used before declaring a Metering System as HTR (regardless of how the EAC is determined) should still be used post-HTR as there is no other realistic alternative.

The WG discussed the possibility of Supply points with HTR Metering Systems being changed to Unmetered Supply (UMS). It was agreed that UMS could be an alternative to HTR in a lot of cases but, UMS has a lot of strict criteria that need to be met (e.g. rules surrounding actual Meter reads for determining actual consumption). Changing these criteria to facilitate HTR Metering Systems however was not seen as appropriate as it would be beyond the scope of P366 and could have wider ramifications.

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Workgroup's final discussions

The Workgroup met on 23 April 2019 to discuss the Assessment Report consultation comments and make their final recommendations to the Panel.

The Workgroup discussed whether Supplier Charges or other PATs are more effective in encouraging better performance. ELEXON put forward that some PAF Review research indicates that no matter how often Suppliers receive Supplier Charges, their performance rarely improves. However, evidence suggests that other PATs, such as EFR are more effective. The 'annoyance factor' of taking up senior staff time (within a Supplier) spurs more change than anything. Workgroup members echoed this based on their own anecdotal experience.

The Workgroup discussed that the 97% target has no known basis for being 97% and, as far as Workgroup members are aware, is an arbitrary figure. This led to discussion on whether the current targets are fit for purpose in an evolving industry with 60+ participants, whereas the 97% target was set 20 or so years' ago when there was only a handful of participants. The Workgroup discussed whether there is a competition issue and the perception of smaller Suppliers that there is an issue. It was agreed that whether or not there is an issue, there is clearly a perception amongst small Suppliers that there is an issue, as borne out by consultation responses (8 respondents to the Assessment Consultation agreed that SP08a Supplier Charges applied to HTR sites cause competition concerns, whilst 7 disagreed), and the clear divide between small and large Suppliers in response to the question of whether there is a competition issue.

The Workgroup discussed that the PAF review is reviewing Supplier Charges and is due to report to the PAB in May and will be looking at what the right model is for Supplier Charges and more widely how best to incentivise Meter reads and whether Supplier Charges are appropriate.

Proposed versus Alternative Solution

The Workgroup discussed Assessment Procedure consultation respondents (13 out of 15) favouring the Alternative Solution [SP08a = £0.00/MWh] over the Proposed solution [HTR Criteria and exclusion from SP08a Supplier Charges] put forward in the consultation. The Proposer announced that on reflection they no longer wished to take forward their Proposed Solution and would instead like to take forward the Alternative Solution as the P366 solution. Their reason for this decision is that it became clear from the consultation responses that the Alternate has more support in industry[22] and, considering the cost-benefit-analysis of the Alternate (see above), they now think that the Alternate would better facilitate the Applicable BSC Objectives. They noted the work that would be undertaken by Issue 78 'Measurement and monitoring of Settlement performance'. Specifically, that Issue 78 will look at Supplier Charges from a wider perspective and that any work undertaken regarding HTR Metering Systems could still be taken forward by Issue 78.

On the basis that the Workgroup had discussed potential alternatives previously, including removing HTR data from the 97% target – discounted as this would affect Settlement integrity, and that no other Alternatives had been put forward by industry, the Workgroup did not put forward a new Alternative Solution and therefore the P366 Proposed solution became making SP08a Supplier Charges £0.00/MWh.

[22] 7 out of 15 respondents thought that the Alternate better facilitates the Applicable BSC Objective whereas only 5 out of 15 thought the same for the Proposed solution

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Other Assessment Procedure consultation responses

The workgroup discussed the responses to the remaining consultation questions and noted that most (if not all) respondents had agreed with the implementation plan, the draft proposed legal texts, the potential impacts and that P366 should not be self-governance. No new arguments were put forward. As industry respondents were, for the most part, in agreement with the Workgroup's views, no further discussion or amendments to the solution were warranted. We have not summarised all of the responses to the original proposed solution as they were no longer relevant once the solution was not taken forward for the reasons given above. Attachment B contains the full responses to the Assessment Procedure Consultation.

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Proposed Solution

The **majority** of the Workgroup believe P366 will not better facilitate the Applicable BSC Objectives and so should be **rejected**. The Workgroup were split regarding Applicable BSC Objective (d), whilst the majority were neutral against all other Applicable BSC Objectives. The Proposer believes that the P366 will better facilitate Applicable BSC Objectives (c) and (d) compared to the current baseline.

Please note that a neutral view is equivalent to a vote against the Proposed solution as either the Workgroup Member:

1. Was unable to decide whether something is better or not better than the Applicable BSC Objective; or
2. Has reached a clear conclusion that it neither facilitates nor inhibits the relevant BSC Objective.

Applicable BSC Objective (c)

The **majority** of the Workgroup (3 of 5) were **neutral** about Applicable BSC Objective (c). Two were neutral as they believed it will have neither a positive or negative effect on competition as they don't believe the current arrangements are detrimental to competition, therefore changing the rules wouldn't have any effect. The third Workgroup member was neutral as they could see both sides of the argument for and against the P366 solution and did not feel able to make a determination one way or another.

One Workgroup member thought that the P366 solution **would better** facilitate Applicable BSC Objective (c) as they believe that there is clearly a competition disparity between small and large Suppliers and the P366 solution would go some way to resolving this (but acknowledged that further work would likely need to be undertaken by Issue 78).

The **Proposer** believes that the P366 Solution **would better** facilitate Applicable BSC Objective (c). They argued that removing the cost of Supplier Charges will level the playing field as no Suppliers will need to make the decision as to whether they pass on costs to their customers.

Applicable BSC Objective (d)

The Workgroup were **split** on whether the P366 solution would facilitate Applicable BSC Objective (d). Two thought it would be detrimental, two thought it would be positive and one was neutral. However, only a **minority** (2 of 5) thought that the **P366 solution would be better** than existing BSC arrangements.

Two Workgroup members thought that it would be **detrimental** as they thought it would be removing a control measure within the Performance Assurance Framework.

One workgroup member was **neutral** in their view as they could see the pros and cons for the solution and did not feel able to make a determination one way or another.

One Workgroup member thought that the P366 solution **would better** facilitate Applicable BSC Objective (d) as they believe that the P366 solution would be an efficient

What are the Applicable BSC Objectives?

(a) The efficient discharge by the Transmission Company of the obligations imposed upon it by the Transmission Licence

(b) The efficient, economic and co-ordinated operation of the National Electricity Transmission System

(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

(d) Promoting efficiency in the implementation of the balancing and settlement arrangements

(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]

(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

(g) Compliance with the Transmission Losses Principle

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way of reducing the disparity between large and small Suppliers (but, again, acknowledged that further work would likely need to be undertaken by Issue 78).

The **Proposer** believes that the P366 Solution **would better** facilitate Applicable BSC Objective (d). They argued that removing the cost of Supplier Charges will allow Suppliers to work towards achieving Meter reads and not working towards avoiding Supplier Charges as well as gains that could be achieved from reducing the effort involved in validating Supplier Chare invoices.

Applicable BSC Objectives (a), (b), (e), (f) and (g)

All Workgroup Members believe that the P366 Solution is neutral against Applicable BSC Objectives (a), (b), (e), (f) and (g).

Does P366 Proposed solution better facilitate the Applicable BSC Objectives?		
Obj	Proposer's Views	Other Workgroup Members' Views[23]
(a)	• Neutral	• Neutral
(b)	• Neutral	• Neutral
(c)	• **Positive**	• Majority Neutral • Minority positive
(d)	• **Positive**	• **Split positive and detrimental** • **Minority neutral**
(e)	• Neutral	• Neutral
(f)	• Neutral	• Neutral
(g)	• Neutral	• Neutral

[23] Shows the different views expressed by the other Workgroup Members – not all Members necessarily agree with all of these views.

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8 Panel's Initial Discussions

The P366 Assessment Report was presented to the Panel on 9 May 2019.

Impact on Settlement

A Panel Member disagreed with the Assessment Report's assertion that there would be no impact on Settlement. They argued that removing SP08a Supplier Charges would remove a key incentive to obtain Meter reads, reducing the controls in place for achieving 97% by volume of energy consumed.

However, another Member noted that it could be argued that Supplier Charges may have little impact as a PAT if other PATs, such as EFR, are already more effective at controlling Settlement Risk and, arguably, could have a greater effect.

Efficacy of Supplier Charges

A Panel Member agreed with the Workgroup's views that Supplier Charges are seen as a penalty and not as liquidated damages. Overall though, the Panel had mixed views over whether Supplier Charges acted as an incentive to obtain Meter reads or if EFR is seen to be a much stronger control against the risk to Settlement. They agreed though that, ultimately, it is a commercial decision for Suppliers to either spend money on obtaining a Meter read or accept the costs of Supplier Charges and/or other PATs.

The Panel were split on whether Supplier Charges or other PATs are more effective in encouraging Suppliers to obtain Meter Reads. However, the majority of the Panel believed that EFR and other PATs are more effective than Supplier Charges in achieving 97% Actuals.

Panel Members agreed that there was an issue with HTR Meters that needed to be addressed. One Member believed that finding a way to better incentivise Suppliers to obtain Meter reads for HTR Metring Systems (thus being able to reach 97%), before considering Supplier Charges would have been a better approach.

It was also suggested that looking at why the Meter reads by volume of energy target is 97%, rather than trying to remove SP08a charges may have been more effective in aiding those Suppliers operating in the I+C market who perceive there to be a competition issue.

Impact on competition

In discussing the P366 Assessment Report the Panel noted that the majority (53%) of Assessment Phase consultation respondents agreed that there is a competition issue but, were relatively evenly split between small Suppliers (agreeing that there is a competition issue and that they are effected) and large Suppliers (disagreeing that there is an issue).[24]

The majority of the Panel however, did not believe P366 would have an impact on competition. They argued that even if SP08a charges were removed, it would likely have little impact on most Supplier's capped Supplier Charges. This is because

[24] Although the breakdown of responses was not fully discussed, if the response from the trade body is split into individual electricity Suppliers (discounting where members also responded individually), the majority becomes 61%. Furthermore if non-Supplier views are discounted, the majority agreeing that there is a competition issue rises to 71%. Even if the trade body response is counted as one 'vote'; when non-Suppliers are discounted, 63% of respondents believe that SP08a charges applied to HTR Metering Systems cause competition concerns.

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underperformance from other PARMS Serials, particularly SP01 (non-delivery of PARMS Reports for both HH and NHH Metering Systems), causes most Suppliers' Supplier Charges to be above the Supplier Chare cap. This means that even if SP08a is removed, a lot of Suppliers' overall Supplier Charge invoices would not be affected.

One Panel Member believed the underlying issue was not one of competition, but one of scale. The large Suppliers are able to absorb HTR volumes because they have a larger customer base, but this 'scale benefit' applies in many other, more material areas, such as ability to purchase energy.

One Member believed that P366 was trying to address the symptom rather than the root cause. By removing one of the Supplier charges for NHH underperformance, the solution was seen to be a 'sledgehammer to crack a nut.'

The cost-benefit-analysis undertaken for the Workgroup for each of the potential solutions during the Assessment Phase was discussed. It was noted that it was relatively high-level and does not incorporate how pass through of savings would affect consumers.

One Member believed there was a theoretical competition issue but, given the relatively low amounts of money that will be saved across the industry (i.e. the percentage of all Supplier Chares that SP08a accounts for across the entire industry), it was not, in their opinion, a material issue. The Member believed there are other more material costs to focus on as a Supplier.

A Member did not believe P366 was having a material impact on competition. The estimated number of HTR Metering Systems is between 3,500 and 5,000 NHH Metering Systems. Even allowing for 5,000 HTR Metering Systems, this is a relatively small percentage of all NHH Metering Systems (~0.02% - there are approximately 30.3m NHH Metering Systems) across the industry as a whole. Further, 5,000 Metering Systems was a tiny fraction of all Metering Systems Settling on an estimated reads (~0.5% - there are approximately 1m NHH Metering Systems on estimated reads).

However, another Panel Member noted that, as the number of NHH Metering Systems reduces as a result of:

- The roll-out of smart Meters;
- The transition to mandatory HH Meters required by P272; and
- The move to market-wide HH Settlement

The 'pot' of NHH (by volume of energy) will reduce[25][26]. However, the number of HTR Metering Systems will not reduce correspondingly[27]. The consequence of this is that the percentage of HTR Metering Systems will increase and therefore the instances of Suppliers failing to reach 97% will increase [28]. The remaining NHH Metering Systems will also include

[25] The National Audit Office expect 70-75% roll-out by 2020 and that 5% of households will not be able to accept smart Meter technology. We have assumed the final smart Meter roll-out will be 90%. This assumes smart Meter roll-out will continue past 2020; some homes can't accept smart Meters; and there will be some consumer refusal

[26] Although not discussed by the Panel, if we assume smart Meter roll out will be around 90% and therefore 90% of the total NHH MSIDs will become HH, this will leave ~3m Metering Systems as NHH. HTR will account for ~0.16% of all NHH Metering systems (8 fold increase)

[27] The assumption by the Proposer and the P366 Workgroup is that there will be negligible change in the total number of HTR Metering Systems

[28] If we assume 90% of the 1m currently on estimates become HH, leaving ~100k estimated meter reads, then HTR will account for 5% of all estimated reads (10 fold increase) or, in theory (if we accept the premise that HTR will never be read), the industry, as a whole, will not be able to meet the 97% required target and even more Suppliers will be incurring SP08a Supplier Charges. (we have assumed the 97% target will remain as an alternate is yet to be proposed

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those consumers who have refused to change to smart Meters despite the Supplier's best efforts.

One of the Panel Members was sympathetic to the Proposer's position. Non-domestic consumers with HTR Metering Systems may not be accepted by large Suppliers keen to improve their Settlement performance. These consumers will likely be picked up by smaller Suppliers who, due to competition in the industry, are only able to provide services to certain types of customer. However, another Member believed Supplier's should be doing due diligence on new I+C customers before accepting them e.g. checking whether a business's Metering Systems are accessible and readable before that business becomes the Supplier's customer.

It was noted that SP08a charges will have an impact for Suppliers with a high percentage of HTR Metering Systems. In theory, Suppliers shouldn't receive SP01 Supplier Charges so, where this is the case, the SP08a Supplier Charges caused by HTR Metering Systems will account for all of a Supplier's Supplier Charges, even after capping.

A Member noted HTR is not just an issue for Settlement. The example they cited from their own experience is that in the Capacity Market, Capacity Providers cannot get paid if it is not possible to obtain a Meter read, even where it is beyond the control of the Capacity Provider to get access to the Meter e.g. Meter access is controlled by a third party.

Issue 78 and PAF Review

A Member believed P366 is not addressing the HTR issue. However, a different Panel Member believed it was a step in the right direction, as it would partially address an issue caused by HTR Metering Systems and P366 would remove a barrier, real or perceived, for smaller Suppliers. The Member believed P366 should be seen as an interim solution until the issue of HTR Meters was addressed, hopefully by Issue 78 or the PAF Review. The Member believed the effect of P366 could be measured, if approved, and remedial action taken if not as expected.

The Panel Chair asked the Panel if they would consider approving P366, only for the PAF Review or a subsequent Modification from the Issue 78 Issue Group superseding the P366 solution. However, it was agreed that the Panel should only judge P366 against the current baseline and should not speculate on what may or may not happen as a result of other Changes.

Panel's initial views against the Applicable BSC Objectives

The **majority** of the Panel agreed with the Workgroup that P366 did **not better facilitate** the Applicable BSC Objectives[29] for the reasons put forward by the Workgroup. The minority of the Panel believed P366 better facilitated Objective (c) and (d) for the reasons put forward by the Proposer[30].

[29] It should be noted that The Workgroup noted the 53/47 split (see section 6) and the relative demographic split between large and small Suppliers in response to numerous consultation questions.

[30] The Panel did not discuss how the Assessment Phase consultation respondents' views could be given further granularity in terms of whether the Proposed Solution better facilitates the Applicable BSC Objectives. The majority of respondents (53%) agreed with the Workgroups initial views that the P366 Proposed Solution **does not** better facilitate the Applicable BSC Objectives.
However, if the response from the trade body is split into individual electricity Suppliers (discounting where members also responded individually), then the majority (55%) **does** think that the P366 Proposed Solution better facilitates the Applicable BSC Objectives. Furthermore if non-Supplier views are discounted, the majority

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Panel's views on draft legal text

The Panel unanimously agreed the draft legal text for P366.

Panel's views on the proposed Implementation Date

The Panel unanimously agreed with the Workgroup's recommended P366 Implementation Date, as detailed in section 5.

Panel's views on Self-Governance

The Panel unanimously agreed with the Workgroup that P366 does not meet the Self-Governance criteria as there is a potential for material impact on competition. Given that potential competition issue (even though the majority of the Panel disagreed that there is a competition issue) it was agreed unanimously that P366 should not be progressed as a Self-Governance Modification and it should be for the Authority to make a determination on whether to approve P366.

agreeing that the P366 Propose Solution **does** better facilitate the Applicable BSC Objectives rises to 71%. Even if the trade body response is counted as one 'vote'; when non-Suppliers are discounted, 63% of respondents believe that the P366 Propose Solution **does** better facilitate the Applicable BSC Objectives.

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9 Report Phase Consultation Responses

This section summarises the responses to the Panel's Report Phase Consultation on its initial recommendations. You can find the full responses in Attachment C.

Summary of P366 Report Phase Consultation Responses				
Question	Yes	No	Neutral/ No Comment	Other
Do you agree with the Panel's initial unanimous recommendation that P366 should be approved?	6	4	0	0
Do you agree with the Panel that the redlined changes to the BSC deliver the intent of P366?	8	0	1	1
Do you agree with the Panel's recommended Implementation Date?	8	0	1	1
Do you agree with the Panel's initial view that P366 should not be treated as a Self-Governance Modification?	10	0	0	0
Do you have any further comments on P366?	3	7	n/a	n/a

Views on whether P366 should be implemented

Overall, there were ten responses received. Three of these were from Supplier Agents, one was from a trade body (ICoSS) representing I+C Suppliers and the remaining six were from Suppliers. If we consider ICoSS as a Supplier respondent, there were seven Supplier responses.

The three Suppliers that agreed with the Panel that P366 should not be implemented were all large Suppliers. Two of them stated that removing SP08a charges would remove a financial incentive to achieving the 97% target. The third offered no reason for their agreement.

The four Suppliers that do not agree with the Panel's initial views, and that P366 should be implemented are all small-medium Suppliers operating in the I+C market. All of these Suppliers argued that there is a competition issue and rejecting P366 will not address that issue. Some made the comment that while the financial incentive will be removed, the EFR and other PAF techniques will remain an incentive to comply and are more effective.

Proposer's response to consultation

The proposer's response to the consultation was extensive, as may be expected. In addition to the arguments put elsewhere in this paper (effect on competition, profit margins, ability to 'hide' HTR Metering Systems in the 3%) they made the following points too:

- 'It is broadly recognised that the existing NHH supplier performance targets and charges do not reflect the fast-changing market condition today, where an

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increasing number of suppliers choose to target specific market segments by providing specialised services and products to enhance consumer benefits';

- 'Further, we agree with some Panel members' view that the EFR/Code compliance process is the true incentive for suppliers to read their meters, not SP08a charge. As such, we are unsure about purpose of SP08a charges and why it gets redistributed back to all suppliers based on market share, so that large suppliers receive most of the payment[31]'; and

- 'While other wider reviews of supplier performance and charges are on-going (e.g. Issue 78 and PAF review), it is important for the Panel and Ofgem to recognise the competition concerns expressed by many small Suppliers including us. Rather than waiting for an unknown outcome in the future, we'd like to see an agile regulatory framework that can act quickly to put things right to promote competition and benefit consumers.'

In addition to these comments, Orsted also made a point about SP08a Charges for HTR Metering Systems being a barrier to market-wide HH Settlement. They argue that by moving 'good' NHH Meters into HH, Suppliers' portfolios will only contain 'bad' NHH Metering systems, making it even harder to reach 97% (assuming the 97% target remains given other changes afoot) and as such far more likely to incur Supplier Charges. Therefore to mitigate an increase in Supplier Charges, it is in Suppliers' interests to keep Meters as NHH. This sits alongside a comment from a Supplier Agent that (as expressed in their consultation response) P366 would hamper the roll-out of smart Meters and therefore delay the move towards market-wide HH Settlement, which is reliant on widespread installation of smart and advanced Meters.

Views on competition

For both the Assessment Phase consultation and the Report Phase consultation Suppliers views were consistent in their views of the issue. The views expressed in the consultation responses can be surmised as follows:

- Large Suppliers do not think there is an issue whereas smaller Suppliers believe there is a competition issue.

When we look at the report Phase consultation responses, there were seven Supplier responses. Of these only three Suppliers (43% - all large Suppliers) agree with the Panel that P366 should be rejected. However, four Supplier respondents (3+ ICoSS) disagreed with the Panel, making the case that SP08a Supplier Charges for HTR Metering Systems cause competition issues. When we consider that ICoSS replied on behalf of its members, then the number of suppliers arguing there is a competition issue can be considered to be notably larger than those arguing against.

In addition to Suppliers we also received four responses from Supplier Agents for the Assessment Phase consultation and three for the Report Phase Consultation.

For the Report Phase consultation, we received responses from three Supplier Agents. One Supplier Agent disagreed that there is a competition issue on the basis that while I+C Suppliers may be disadvantaged by SP08a Supplier charges for HTR Metering Systems but, in a competitive Supply market Suppliers are able to target different market segments.

[31] It has been shown by the PAF review that he reason most r-distribution goes to large Suppliers is because of SP01. They have modelled the effect of removing SP01 and as a result, redistribution patterns will change and large Suppliers, as a rule, will no longer be net receivers

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Some bring advantages (e.g. like high load factor and/or night time consumption) where as other market segments bring disadvantages (e.g. access difficulties such as HTR). They argued that Suppliers should, essentially, know enough about their customers to offer tariffs that allow the Supplier to meet their BSC obligations. The other two Supplier Agents offered no competition views and their Report Phase consultation responses are discussed further in section nine.

PAF Review

We know from the PAF review[32] that there is a view that the way in which Supplier Charges are applied now is not, in itself an incentive to comply and that substantial changes are likely to be necessary. As discussed in section three, P366 is not intended as a replacement or alternative to the wider PAF but, would be a stop-gap until the PAF review completes and changes are implemented some time later. The PAF review does however, believe that there should be an incentive to comply but acknowledges that a lot of work needs to be done to arrive at a better solution, which will take time and in the interim are taking action to remove SP01 charges. This will be advantageous to the whole of industry to prevent the bulk of Supplier Charges from being applied ineffectively. However, P366 is not concerned with all classes of BSC Parties but a distinct class of Parties (I+C Suppliers).

Other comments, and our response/analysis are in Appendix 1.

[32] See PAB220/12

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10 Recommendations

We invite the Panel to:

- **AGREE** that P366:
    - **DOES NOT** better facilitate the Applicable BSC Objectives;
- **AGREE** a recommendation that P366 should be **rejected;**
- **APPROVE** an Implementation Date for P366 of:
    - 7 November 2019 if an Authority decision is received on or before 31 July 2019; or
    - 27 February 2020 if the Authority's decision is received after 31 July 2019 but on or before 31 October 2019;
- **AGREE** that P366 should **not** be treated as a Self-Governance Modification;
- **APPROVE** the draft legal text; and
- **APPROVE** the P366 Modification Report.

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Appendix 1: Additional Report Phase consultation comments received

P366 Report Phase consultation responses Timetable	
Consultation comment	ELEXON response/analysis
The split decision referred to in the footnote [see section 8 for replication] is arbitrary. It is more likely that stakeholders supportive of the proposal will respond. Whilst not a good reflection of the industry it is the nature of the process, particularly when the workgroup has already recommended rejection.	The split between individual Suppliers responding was roughly equal and the overall response was relatively good and consisted of a cross section of Parties and industry participants
Taking one group of customers and treating them differently opens up a raft of issues. Why not apply the same exemption to Domestic HTR? Why not apply same exemption to HH sites with comms failures or meter faults preventing reading? Ultimately the Supplier charges compliment the obligations in the BSC to achieve 97%.	The solution will apply equally to both domestic and non-domestic HH Metering Systems regardless. The exemptions referred to in the second part of this statement will be covered by removing SP08a chares completely. Regardless, they are out of the scope of P366 but, there is nothing to prevent a new Modification/Issue being raised to address these potential problems.
In the past, when the industry has sought to differentiate between different groups of customers it reveals a series of 'edge cases' that need identifying and determining. This takes additional industry resource to manage, debate, audit and enforce.	This is reflective of the problem the Workgroup had in trying to create criteria to determine HTR Metering Systems and a strong contributor to why the Workgroup raised an Alternative Modification (now adopted as the P366 Solution by the proposer) to avoid such problems.
With reference to BSC Objectives (c) & (d) agree with the assertion that the P366 proposals do not have any significant improvements to the current baseline & is not the appropriate action to take considering other reviews i.e. PAF (Issue 69) where the specific problem faced by the proposer (& other smaller Suppliers) can be taken into account; Supplier charges are to be reviewed & changes likely to be made & the category of sites deemed "Hard to read" with potentially disproportionate charges are a symptom of the wider problems with the current Supplier charge process.	As mentioned elsewhere in this report, P366 is intended to be a stop-gap solution until the PAF review etc. deliver wider reaching changes in due Couse. Our initial estimate is that this will be 2021 at the earliest.

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P366 Report Phase consultation responses Timetable	
Consultation comment	ELEXON response/analysis
The provision of settlement reads also impacts customer billing. The lack of meter reading impacts the directly impacted customers with inaccurate energy invoicing but has a consequential impact on all other customers through the Group Correction adjustments. The argument that customers are 'happy' or paying 'over the top' does not ring true – they may be 'happy' because they are under paying compared with the actual usage or the meter has gone faulty – these errors remain undetected until a metering is obtained and cannot be corrected in settlement beyond 14 months.	The proposer, and the Workgroup, are aware of this and that Settlement will not be accurate. However, the Proposer's view is that these Metering Systems will never, ever, be read. As such, the data from these Meters is a 'constant' in Settlement. It is not practicable to read these Meters, so no matter how much Suppliers are incentivised, the Meters still will not be read and therefore Supplier Charges for these Metering Systems serve no purpose.
The settlement arrangements rely on 'everyone playing the game', the 97% threshold was set at a level which was judged to be acceptable recognising that there will always be a small number <3% which are a problem. Any exclusion of a section of customers would presumably result in a corresponding change in the threshold to reflect that a group previously allowed for in the 3% has been excluded. This change does not therefore provide any net benefit.	The reason for setting the target at 97% is not known and anecdotal evidence suggests that it is arbitrary based on what 'felt right' 20 years ago when here was only a handful of Suppliers at the time all wit very similar portfolios. As mentioned above, P366 was raised to ensure a specific class of Parties is not discriminated against (as per BSC Section B 1.2.1(c)) and will address a 'here-and-now' problem until the PAF review etc. put in place longer term alternatives and/or new arrangements
We would highlight that all Suppliers will have a percentage of their portfolio which are 'Hard to Read' irrespective of the size of that Suppliers portfolio, therefore the argument that smaller Suppliers are disproportionately impacted by SP08a Supplier Charges and this causing competition concerns is spurious. The obligation to obtain actual reads should remain for all Suppliers in order to maintain fair competition. In fact, removing the SP08a Supplier Charges would also remove the incentive to continue attempts to get these HTR sites read, which in turn will detriment the integrity of settlement because HTR sites will be consigned to have estimated reads applied indefinitely.	As shown in section two, the fact that the fact that all Suppliers are impacted by HTR sites is not disputed. However, as shown in section two, it is harder for smaller Suppliers to meet their targets. The Proposer's view is that there is no need to try and incentivise reading these meters because all of the incentivisation in the world will not belay the fact that is it is simply not possible to read these meters and that yes, HR meters should be accepted as having estimated reads in perpetuity.

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P366 Report Phase consultation responses Timetable	
Consultation comment	ELEXON response/analysis
The lesson that some suppliers may learn from the P366 debate is that perhaps they should make a commercial offering to their HTR customers which encourages customers to either have an advanced/smart meter or to regularly provide meter readings.	This was discussed at length by the Workgroup and it was generally agreed that there are no realistic means by which customers can be incentivised while allowing Suppliers to remain competitive. If customers are financially rewarded for facilitating a Meter read, then they will block the read until such point they are eligible for reward. On the flipside, if the ae penalised, then they will simply seek a Supplier that will not penalise them, which leads back to the whole competition issue.
There is an issue here impacting an increasing percentage of parties, & whilst some bigger parties are uninterested, with the overall impact also being considered at non-material, this issue warrants inclusion and consideration in future reviews & developments.	This is why the PAF review's review of Supplier Charges has been brought forward and Issue 78 has been raised, in order to give wider consideration the issues raised by P366.

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Appendix 2: Workgroup Details

Workgroup's Terms of Reference

Specific areas set by the BSC Panel in the P366 Terms of Reference
Criteria for determining a HTR site
How HTR evidence can be verified
Who will be responsible for requesting HTR status
Should 'best effort' be proved and how is 'best effort' determined
Who will be responsible for determining HTR status and can this be delegated
Appeals and disputes process where Suppliers disagree with determinations
Whether remoteness is a factor to be considered and how it should be determined
Impact of material changes to site (e.g. change of equipment) on EAC volumes
How long should a site be deemed HTR and what happens on expiry of HTR status
How might Suppliers be incentivised to attempt to achieve Meter reads or updated EAC values
The potential impact on Settlement calculations and how they can be avoided
The impact on PAF and how it can be mitigated
The impact on PARMS serials and how it can be mitigated
Should other Suppliers be compensated in some other way for the energy resulting in accepted use of HTR EAC data and if so, how
The point at which HTR data should be separated from other PARMS data when calculating SP08a Supplier Charges
The route that HTR data should take from source to end user and how HTR data is communicated between Parties
Should there be additional reporting of HTR sites in relation to PARMS
Are EAC/AA applicable for HTR sites when entering data into Settlement
Whether there should be a threshold for costs of compliance when considering HTR status
Other industry wide projects that may impact on P366 or be impacted by P366
Precedence set by other industry wide projects e.g. smart Meter roll out
The impact of a large number of applications being received to coincide with implementation and how this may be mitigated
The cost of ongoing management of the HTR determination process compared to the benefit for industry
What changes are needed to BSC documents, systems and processes to support P366 and what are the related costs and lead times
Are there any Alternative Modifications
Should P366 be progressed as a Self-Governance Modification
Does P366 better facilitate the Applicable BSC Objectives than the current baseline

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Assessment Procedure timetable

P366 Assessment Timetable	
Event	Date
Panel submits P366 to Assessment Procedure	10 May 18
Workgroup Meeting 1	7 Jun 18
Workgroup Meeting 2	7 Aug 18
Workgroup Meeting 3	22 Nov 18
Assessment Procedure Consultation	25 Mar 19 – 15 Apr 19
Workgroup Meeting 4	23 Apr 19
Panel considers Workgroup's Assessment Report	9 May 19

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Workgroup Membership and attendance

P366 Workgroup Attendance					
Name	Organisation	7 Jun 18	7 Aug 18	22 Nov 18	23 Apr 19
Members					
Lawrence Jones	ELEXON *(Chair)*	✓	✓	✓	✓
Chris Wood	ELEXON *(Lead Analyst)*	✓	✓	✓	✓
Oliver Zhe Xing	Orsted *(Proposer)*	✓	☎	✓	✓
Andy Colley	SSE	☎	☎	✗	✗
Anna Lesniak	Opus Energy	✓	✗	✗	✗
Claire Henderson	TMA Data Management	✓	✓	☎	✗
Derek Weaving	Centrica	✓	✗	✓	✓
Gareth Evans	Waters Wye	✓	✓	✗	☎
Jonathan Moore	Engie	✓	✓	✗	✗
Julia Vidot	Haven Power	✓	✗	✓	✗
Keren Kelly	Npower Group	✓	✗	☎	✗
Nik Wills	Stark	✓	✓	✗	✗
Peter Gray	SSE	✗	✓	✓	✓
Phil Russell	Self-employed	✓	✓	✓	✗
Robert Johnston	Smartest	✗	✓	✗	✗
Stephen Johnson	IMServ	✓	✓	✗	✓
Attendees					
Helen Knowles	Smartest Energy	✗	✗	✗	✓
Colin Berry	ELEXON *(Design Authority)*	✓	✓	✓	✓
Aditi Tulpule	ELEXON *(Lead Lawyer)*	✗	✗	✓	✓
Paulina Stelmach	ELEXON Subject Matter Expert	✓	✓	✗	✗
Sam Daoudi	ELEXON Subject Matter Expert	✗	✓	✓	✗

[33] Part Meeting

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Appendix 3: Glossary & References

Acronyms

Acronyms used in this document are listed in the table below.

Acronyms	
Acronym	Definition
BAU	Business as usual
BSC	Balancing and Settlement Code
BSCCo	BSC Company
BSCP	BSC Procedure
BUSRR	Business Unit Settlement Risk Rating
CBA	Cost Benefit Analysis
CoA	Change of Agent
CSD	Code Subsidiary Document
CVA	Central Volume Allocation
DC	Data Collector
DCC	Data Communications Company
DTC	Data Transfer Catalogue
DTN	Data Transfer Network
EAC	Estimated Annual Consumption
ECOES	Electricity Central Online Enquiry Service
EFR	Error Failure Resolution
EMR	Electricity Market Review
GSP	Grid Supply Point
HTR	Hard-to-read
IA	Impact Assessment
LTV	Long term vacant
MPID	Meter Participant Identifications
MRASCo	Master Registration Agreement Service Company
MSID	Metering System Identifier
MWh	Megawatt hours
NHH	Non Half-Hourly
NHHDA	Non Half-Hourly Data Aggregator
PAB	Performance Assurance Board
PAF	Performance Assurance Forum
PARMS	Performance Assuring Reporting and Monitoring System
PAT	Performance Assurance Technique

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Acronyms	
Acronym	Definition
PC	Performance Class
SCR	Significant Code Review
SMRS	Supplier Meter Registration Service
SSC	Standard Settlement Configuration
SVAA	Settlement Volume Allocation Agent
TPR	Time Pattern Regime
UMS	Unmetered Supply
URS	User Requirement Specifications
VAR	Volume Allocation Run
WG	Workgroup

DTC data flows and data items

DTC data flows and data items referenced in this document are listed in the table below.

DTC Data Flows and Data Items	
Number	Name
D0041	Supplier Purchase Matrix Data File
P0145	SP08 - Energy and MSIDs on Actuals'

External links

A summary of all hyperlinks used in this document are listed in the table below.

All external documents and URL links listed are correct as of the date of this document.

External Links		
Page(s)	Description	URL
3	Performance Assurance Reporting and Monitoring System (PARMS)	https://www.elexon.co.uk/reference/performance-assurance/performance-assurance-techniques/parms/
5	BSC Section S, Annex S-1 'Performance Levels and Supplier Charges'	https://www.elexon.co.uk/bsc-and-codes/balancing-settlement-code/bsc-sections/
5	BUSRRs	https://www.elexon.co.uk/guidance-note/business-unit-settlement-risk-ratings-busrrs/
5	Performance Assurance Framework (PAF)	https://www.elexon.co.uk/reference/performance-assurance/performance-assurance-techniques/parms/
6	PAB paper about PAF review of Supplier Charges	https://www.elexon.co.uk/meeting/pab220/

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External Links		
Page(s)	Description	URL
8	Cost of Energy Review	https://www.gov.uk/government/statistics/quarterly-energy-prices-march-2019
11	Data Transfer Catalogue	https://dtc.mrasco.com/listdataflows.aspx
12	BSCP537 'Qualification Process for SVA Parties, SVA Party Agents and CVA Meter Operators'	https://www.elexon.co.uk/bsc-and-codes/bsc-related-documents/bscps/?show=all
19	SCR Suitability Report	https://www.elexon.co.uk/mod-proposal/p366/
22	P272 webpage	https://www.elexon.co.uk/mod-proposal/p272-mandatory-half-hourly-settlement-for-profile-classes-5-8/
27	Issue 78 webpage	https://www.elexon.co.uk/smg-issue/issue78/
30	Feed-in Tariffs: 'Guidance for licensed Electricity Suppliers'	https://www.ofgem.gov.uk/environmental-programmes/fit/electricity-suppliers
34	LTV guidance document	https://www.elexon.co.uk/guidance-note/long-term-vacant-sites/
34	National Audit Office report on smart Meter roll out	https://www.nao.org.uk/report/rolling-out-smart-meters/

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