CONSIDERING THE OPPORTUNITY FOR FLEXIBILITY IN THE DISAPPLICATION OF SUPPLIER CHARGES DUE TO COVID-19

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Purpose of paper	Decision
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Summary	This paper considers the possible opportunities for further flexibility in the P406 'Temporary disapplication of Supplier Charge Serials SP08 and SP04 due to COVID-19' in regards partially reapplying Supplier Charges and subsequent disapplication if social distancing measures are periodically switched on and off.

1. Background

1.1 Due to the ongoing COVID-19 pandemic, ELEXON has been working with the BSC Panel and its sub-committees to deliver solutions that seek to ease the pressure on BSC Parties and Party Agents. One of these solutions is to cease Supplier Charges over the COVID-19 period, as Suppliers are unable to collect manual Meter reads due to social distancing measures. In turn, due to their inability to meet Settlement Performance targets, Suppliers are exposed to increased levels of Supplier Charges.

1.2 The disapplication of Supplier Charges is being progressed through Modification P406, which the Panel raised at its meeting on 9 April 2020. As Ofgem granted P406 Urgent status on 16 April 2020, the Panel considered the Draft Modification Report at an ad-hoc meeting on 23 April 2020 (301A). The Panel made a unanimous recommendation that P406 be approved, which Ofgem subsequently approved on 5 May 2020 for implementation on 11 May 2020.

1.3 In considering the Draft Modification Report, the Panel discussed the opportunity for further flexibility in the P406 solution, with regards to partial re-introduction of Supplier Charges, or the further disapplication of Supplier Charges if social distancing measures are periodically switched on and off. The Panel was not unanimous in its view that further flexibility would be beneficial, as any temporary re-application of Supplier Charges may not be long enough to recover Settlement performance.

1.4 The Panel kindly requested that ELEXON considers the opportunity for further flexibility in the P406 solution, and return with an update at its next meeting. This paper considers these potential opportunities for further flexibility, which could be progressed as a new Modification.

2. What flexibility is there in the current P406 solution?

2.1 The original P406 legal text linked social distancing measures to the re-application of Supplier Charges, which possibly included a level of flexibility to reintroduce Supplier Charges in a phased manner based on Government advice. At the time P406 was raised, the Panel amended the legal text to remove the link to social distancing guidelines. This improved the flexibility of when the Panel could determine that Supplier Charges are re-applied, but removed the possible flexibility of how they are re-applied.

2.2 Whilst the legal text is therefore intended for single use, the Panel does have the flexibility to decide the right time to reinstate Supplier Charges, based on an assessment of Settlement performance and issues affecting as undertaken by ELEXON. With such discretion, the Panel may seek to consult with market participants before giving Parties 3 months' notice of the reinstatement of Supplier Charges.

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2.3 Due to the nature of the P406 solution being implemented at the earliest opportunity to help protect Suppliers, P406 needed to be progressed without convening an industry Workgroup. Therefore, ELEXON developed a solution that would meet the self-evident criteria of a straight to Report Phase Modification. It's unclear whether, if further flexibility was built into the P406 solution, it could have been progressed directly to the Report Phase, which could have increased the time period that Suppliers were exposed to Supplier Charges, if Ofgem did not subsequently grant P406 Urgent status.

3. What are the opportunities for further flexibility in the P406 solution?

Re-introduction of serials by differing geography (Grid Supply Point (GSP) group)

3.1 One option for further flexibility in the P406 solution is to reinstate Supplier Charges in selected GSP Groups. In the case of a partial regional relaxation of social distancing, the BSC Panel could reinstate Supplier Charges for individual GSP Groups where Suppliers and their Party Agents were in a position to resume Meter read and installation activities.

3.2 The benefit of re-introducing Supplier Charges by GSP Group is that Suppliers may be incentivised to maintain the integrity of Settlement at an earlier point in comparison to the blanket re-application of Supplier Charges at a later time. ELEXON would need to provide notice to Suppliers affected by any changes to Supplier Charges.

3.3 However, introducing flexibility on a geographical basis would require system changes to the Performance Assurance Reporting and Monitoring System (PARMS). The costs and lead times for such changes would be of a higher magnitude than those under P406, and would need to be assessed as part of a further Modification if progressed.

3.4 Due to the increased costs and lead times, it's unclear whether significant benefit would be delivered over the COVID-19 impacted period. Further, as the UK Government advice thus far has not been geographically based, it's unclear whether there would be any material benefit from the re-application of Supplier Charges based on GSP Group.

Re-introduction of individual Serials

3.5 The existing PARMS supports the separate configuration of charges by serial. Therefore, the individual serials that have been dis-applied by P406 could be 'switched on' independently by re-setting the charge value from zero back to the currently applicable value for 2019/20.

3.6 This could offer useful flexibility where the conditions for reintroducing the charges may differ between serials or parts of the market. For example, SP04 which places the obligation on Suppliers to fit Half Hourly capable metering, could be reintroduced once the conditions allow Suppliers to access sites, whereas the SP08 serials which relate to settlement performance at specific reconciliation runs, may require deeper consideration of the recovery time for Suppliers to meet the performance standards. Further where Meter readings can be retrieved remotely, it may be easier for Suppliers to meet Settlement standards, whereas sites requiring manual visits may take longer.

3.6.1 This approach, while technically more straightforward than partial reintroduction of Supplier Charges, may include some configuration charges, which would need to be impact assessed with our service provider.

3.6.2 However, any phased reintroduction of the three SP08 serials (SP08a, SP08b and SP08c) will need to carefully consider the impact on the redistribution of Supplier Charges as well as the charges paid. This is because 90% of all Supplier Charges are redistributed to NHH Suppliers in proportion to their market share. The impact of COVID-19 measures on Suppliers' Settlement performance will also differ between the serials as they are calculated based on the performance at different reconciliation runs (SP08a is levied at R3 and RF, SP08b at SF and R1 and SP08c at RF).

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3.6.6 The status of any other derogations will also need to be considered where they may result in the true level of estimated data being understated, as will the accuracy of NHH profiles during the affected period.

Further disapplication of Supplier Charges if social distancing measures are switched off and back on again

3.7 The final opportunity for flexibility would give the Panel the opportunity to turn off and on the P406 solution, and would be beneficial if the Panel wished to realign with Government advice on social distancing.

3.8 If this solution were progressed as part of a further Modification, it would be appropriate to consider whether a Workgroup should be convened to assess the solution, as the Panel would have greater control over the administration of the Supplier Charges process than it currently has. For instance, consideration would need to be given to any criteria the Panel may wish to follow, and whether there should be a defined process for the further disapplication of Supplier Charges

3.9 Similar to the other opportunities for flexibility considered in this paper, the tangible material benefit from introducing this extra flexibility over the time period of COVID-19 is unknown.

4. Conclusions

4.1 This paper outlines three possible opportunities for further flexibility in the P406 solution. Each of these solutions would require a Modification to implement, of which may include assessment by a Workgroup and BSC Central System development costs/lead times.

4.2 Our conclusion is that, there are potential benefits to introducing further flexibility into the P406 solution. However, as time progresses, the potential benefit of such further flexibility may be shortened, depending on the time social distancing measures are in place for. Therefore, in consideration of the progression timescales of a further Modification, and the possible system implementation costs, we are unclear whether the resource efforts at this time would deliver tangible benefits for market participants.

4.3 We invite the Panel to consider the options outlined in this paper, and advise whether it would like ELEXON to draft a Modification Proposal for any of the options outlined within this paper.

5. Recommendations

5.1 We invite you to:

a) **DISCUSS** the opportunities for further flexibility in the P406 solution;

b) **AGREE** that no further Modification be raised to amend the flexibility of the P406 solution.

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