

Update on reporting of exempt supply volumes to EMRS

BSC Panel

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Summary **This paper provides an update on questions raised by the Panel in August 2020, in relation to the process established by the Supplier Volume Allocation Group (SVG) for treating Metering Systems as exempt supply. We invite the Panel to agree a way forward on these questions, in order that SVG can continue to operate the process.**

1. Background

- 1.1 At its August 2020 meeting, the Panel considered an application for a number of Supplier Volume Allocation (SVA) Metering Systems to be treated as recording exempt supply. This application was originally submitted to the Supplier Volume Allocation Group (SVG), in accordance with the process established in [paper SVG215/02](#), but was referred to the Panel because the SVG was unable to reach a unanimous decision.
- 1.2 The Panel discussion of the application raised further questions on the SVG process. The key questions raised during the SVG and Panel meetings can be summarised as follows:
 - Why are applications considered under BSC governance, when the decision made affects only Electricity Market Reform (EMR) charges (not BSC Settlement)?
 - Why has no Modification Proposal yet been raised to provide a more appropriate enduring solution for this issue?
 - Should Elexon perform more due diligence on applications received, to verify that the proposed exempt supply arrangements are consistent with the relevant class or individual exemption?
 - The SVG process is intended for Metering Systems for which there is evidence to show that all the consumption recorded will be exempt supply (not licensed supply) under “**normal circumstances**” – but what exactly does this mean, and what criteria should SVG apply?
- 1.3 These questions are of relevance to Parties generally, and we are therefore addressing them in the public domain.

2. Why are applications considered under BSC governance (when they relate to EMR charges)?

- 2.1 Legally, electricity can only be supplied to premises in GB under the terms of:
 - An electricity supply licence, issued by Ofgem. The holders of such licences are required to sign up to industry codes, including the Balancing and Settlement Code (BSC); or
 - An electricity supply licence exemption. These can be class exemptions which any qualifying person can make use of, such as those in Schedule 4 of [The Electricity \(Class Exemptions from the Requirement for a Licence\) Order 2001](#); or individual exemptions issued to specific parties. Individual supply licence exemptions are rarely granted, but one was [granted](#) to E.ON UK CHP Limited in June 2020, in relation to the Port of Liverpool.

- 2.2 Licence exempt suppliers are not able to sign up to all the industry codes that a licensed Supplier can, and are therefore required to obtain certain services (including registration of their customers' Metering Systems) from a licensed Supplier. As a result, the portfolio of Metering Systems registered by a licensed Supplier may include both:
- a) Metering Systems for customers to whom that licensed Supplier is supplying electricity; and
 - b) Metering Systems for customers supplied by an exempt supplier (for whom the licensed Supplier is providing meter registration services).
- 2.3 For most BSC purposes, there is no need to distinguish between (a) and (b), as the licensed Supplier is responsible for Trading Charges relating to both. However, the distinction is important for the purpose of reporting licensed Suppliers' gross demand data to the EMR Settlement Services Provider (SSP), in accordance with BSC Section V5:
- Suppliers are only required to pay EMR charges on electricity they supply themselves. In order to correctly charge Suppliers, the EMR SSP needs data on how much electricity each Supplier has supplied (not including exempt supply);
 - The EMR SSP is not able to adjust the data provided by Elexon using exempt supply data from other sources (such as from the Suppliers themselves), because the EMR Regulations require that they calculate charges based on BSCCo's determination of the electricity supplied by each licensed Supplier to premises in GB. The accuracy of EMR charges therefore depends upon the accuracy of the data supplied by BSCCo to the EMR SSP under Section V5 of the BSC.
- 2.4 For these reasons, the BSC Panel agreed on 8 November 2018 (following a consultation on '[Aligning BSC Reporting with EMR Regulations](#)') that the SVG should establish an interim process for agreeing which Metering Systems should be treated as exempt supply (and hence not included in the totals of Supplier gross demand used for calculating EMR charges) – see paper [284/07](#).
- 2.5 On 30 October 2020, the Department for Business, Energy and Industrial Strategy (BEIS) issued a [Call for Evidence](#) on the exemption regime. One of the stated aims of this Call for Evidence is "to ensure that all market participants, including those who are exempt, pay their fair share of administrative, policy and network costs". This suggests that any proposals for reform following the Call for Evidence could potentially impact the recovery of policy costs (such as EMR charges). But for now it remains the case that exempt supply volumes are not subject to EMR charges, and the EMR SSP is dependent on BSC processes to exclude them from the volumes used in EMR charging. We therefore invite the Panel to agree that the SVG should continue to operate a process for identifying Metering Systems that record exempt supply.

3. Why has no Modification Proposal been raised to provide an enduring solution to this issue?

- 3.1 The process introduced by SVG was only intended as an interim solution, because it cannot handle Metering Systems that record a mixture of exempt supply and licensed supply. For example, this situation may arise when a customer buys electricity from a Class A exempt supplier; as such a supplier is only able to supply electricity that they have generated themselves. If the exempt supplier is unable to generate sufficient electricity to meet the customer's demand (in a given half-hour Settlement Period), the additional energy used by that customer cannot be supplied under the exemption, and must therefore be supplied by a licensed Supplier. An enduring solution for reporting licensed Suppliers' gross demand to the EMR SSP should address this situation (in which some of the customer's electricity was supplied by an exempt supplier, and some by a licensed Supplier).
- 3.2 Modification Proposal P379 ('[Enabling consumers to buy and sell electricity from/to multiple providers through Meter Splitting](#)') could potentially have provided an enduring solution to the issue, but as explained in the second interim Assessment Report ([Panel paper 300/10](#)), the Proposer chose to simplify the solution by excluding exempt supply from scope.
- 3.3 Modification Proposal P395 ('[Excluding generators from BM Unit Gross Demand and the calculation of EMR Supplier Charges](#)') addresses the related issue of ensuring that Imports to sites with licensed Generation are correctly reported to the EMR SSP, but does not address the issue of exempt supply.
- 3.4 The Workgroup for Issue 88 ('[Clarification of BSC Arrangements relating to Complex Sites](#)') has recently issued a Request for Information, seeking views on whether the BSC should allow netting of Exports from Imports (in certain clearly defined circumstances) to facilitate local energy schemes. Such a Modification – if it were to be

recommended by the Issue 88 Workgroup – might address the issue for those exempt suppliers whose customers and generation assets are located close together (but not for all exempt suppliers).

- 3.5 Another possible option for an enduring solution would be to split customers' metered data into exempt and licensed supply using BSC Procedure (BSCP) 550 ('[Shared SVA Meter Arrangement of Half Hourly Import and Export Active Energy](#)'). The BSC does not currently allow this (because it requires any Shared SVA Arrangement to involve two or more licensed Suppliers). Therefore any Supplier wishing to use this route would need to raise a Modification Proposal (or apply to the BSC Sandbox procedure) to remove this constraint.
- 3.6 To summarise the position on potential enduring solutions:
- The Issue 88 Workgroup is expected to make a recommendation on whether to allow a solution based on netting Imports and Exports, but this would only be appropriate for certain types of exempt supply;
 - A full enduring solution would need a process for comparing generators' metered data with customers' metered data in order to calculate volumes of exempt supply. This calculation could be done by Suppliers (who would then provide data to central BSC Systems); by Half Hourly Data Collectors (HHDCs) (using the BSCP550 process); or by central BSC Systems (as originally envisaged in Modification P379).
- 3.7 Until recently, the lack of an enduring solution has been mitigated by the apparent low level of interest, with only two applications received (the first in January 2020, the second in August 2020). However, interest does appear to be growing, as we have received a number of enquiries in recent months. We have also received a third application to the SVG process (which the applicant has agreed to pause, pending the resolution of the issues discussed in this paper).
- 3.8 Some of the parties who have recently enquired about the exempt supply process are licensed Suppliers, and are therefore able to raise a Modification Proposal to progress the enduring solution. Others are exempt suppliers (or third parties seeking to facilitate exempt supply) who are not BSC Parties, and would therefore need to seek designation from the BSC Panel to raise a Modification as a Third Party Proposer, according to BSC Section F2.1A.

4. Verification of compliance with supply licence exemptions

- 4.1 The August 2020 meeting of the Panel raised the question of whether we should be performing due diligence on applications received, to establish that the proposed arrangements did comply with the terms of the relevant supply licence exemption. The Panel requested that we raise this question with BEIS, as well as taking advice from our legal team (which we have now done).
- 4.2 Based on these discussions, we do not believe that it is appropriate for Elexon to ensure Parties are complying with other regulatory or legal requirements, and we would not be able to give a definitive statement as to whether or not exemption requirements are met. We believe the onus should remain on the party making use of an exemption to satisfy themselves that they meet its requirements.
- 4.3 In order to clarify this, we recommend that the SVG process should be tightened up to require a declaration from a director of the exempt supplier, identifying the class or individual exemption that applies, and confirming that its conditions are (or will be) met.

5. Clarification of the criteria to be applied by SVG

- 5.1 One of the reasons that the SVG was unable to reach a unanimous decision on the application it considered in August 2020 was uncertainty over what it means for a Metering System to be recording exempt supply under "normal circumstances". In this specific case, it was clear that the energy recorded on the customers' Metering System would be exempt supply in most Settlement Periods, but not all.
- 5.2 In order to continue operating their process, the SVG will need guidance on what criteria to apply. Possibilities would include:
- 5.2.1 **Minimising the error:** This option would treat the Metering System as exempt or not (for purposes of reporting to the EMR SSP) based on which would minimise the error in the data reported to the EMR SSP. In practice this would mean that a Metering System could be treated as exempt if the historical data showed that over 50% of the energy it recorded would be exempt (50% being the threshold value that minimises the error).
- 5.2.2 **Setting a percentage threshold:** the SVG (or Panel) would set a percentage threshold (not necessarily 50%), and a Metering System would be treated as exempt (for purposes of reporting to the EMR SSP) if the

percentage of energy recorded on the Metering System that was exempt supply (based on historical data) exceeded that threshold.

- 5.2.3 **Strict interpretation of ‘normal circumstances’.** This option would only allow a Metering System to be treated as exempt if it could be demonstrated that the circumstances under which it might record licensed supply were genuinely unusual i.e. not circumstances that would be expected to arise in the normal operation of the business.
- 5.3 Option 5.2.1 (which minimises the error in the data reported to the EMR SSP) could be justified, provided one believed that the ‘cost’ (to parties and consumers) of an error in the data was the same regardless of which direction the error was in. But arguably this is not the case:
- If exempt supply is incorrectly treated as licensed supply, the result will be overcharging of the licensed Supplier facilitating the exempt supply (and corresponding undercharging of all other licensed Suppliers). Although this is undesirable, the Supplier will be aware that it is happening, and has the option of raising a Modification Proposal to address the issue (see paragraph 3.6).
 - If licensed supply is incorrectly treated as exempt supply, the result will be undercharging of the licensed Supplier facilitating the exempt supply (and corresponding overcharging of all other licensed Suppliers). The disadvantaged parties will not necessarily have visibility of what is happening, and costs may therefore be smeared across many customers, with limited likelihood of anyone having the information needed to address the issue.
- 5.4 Option 5.2.2 could address this, by implicitly placing a higher value on errors in one direction than errors in the other. For example, setting the threshold at 90% would imply that incorrectly treating one unit of licensed supply as non-chargeable was equally undesirable as incorrectly treating nine units of exempt supply as chargeable. However, from an administrative viewpoint this option seems problematic, due to the difficulty of developing an appropriate and justifiable methodology for setting the threshold.
- 5.5 Option 5.2.3 would exclude many exempt suppliers from making use of the SVG process, and hence expose their customers to overcharging for EMR costs, which is clearly not a desirable outcome. It would be particularly problematic for exempt suppliers with a single generating unit and a single customer, who would not have the option of managing their portfolio to continue supplying when the customer or generator was temporarily unable to operate. However, given the difficulties with options 5.2.1 and 5.2.2, we propose that SVG should adopt option 5.2.3 as the basis for the interim solution.
- 5.6 As discussed in paragraph 3.8, exempt suppliers excluded from the interim process by this decision have the option (through the licensed Supplier facilitating their exempt supply, or through designation as Third Party Proposers) to progress a Modification Proposal. Alternatively some of the potential options could be progressed through applications to the BSC Sandbox procedure. We will seek to provide assistance and guidance to parties who may wish to pursue these options (as we do to all parties wishing to progress change to the BSC).

6. Recommendations

- 6.1 We invite you to:
- a) **AGREE** that the SVG should continue to operate a process for identifying Metering Systems that record exempt supply;
 - b) **AGREE** that the SVG process should require a declaration from a director of the exempt supplier, identifying the class or individual exemption that applies, and confirming that its conditions are (or will be) met;
 - c) **AGREE** that the SVG process should only treat a Metering System as exempt if the circumstances under which it may record licensed supply are genuinely unusual i.e. not circumstances that would be expected to arise in the normal operation of the business; and
 - d) **NOTE** that there are a number of options for a more enduring solution (see paragraph 3.6), which could be progressed as Modification Proposals (or, in some cases, through the BSC Sandbox procedure).

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