Draft Modification Report

P442 ‘Reporting to EMRS of chargeable volumes for SVA Metering Systems that record both exempt and licensed supply’

This Modification seeks to allow correct reporting of chargeable volumes to the Electricity Market Reform (EMR) Settlement Services Provider (SSP) for Supplier Volume Allocation (SVA) Metering Systems that record both exempt supply and licensed supply through the addition of a new Party Agent role, the “Exempt Supply Notification Agent”.

The BSC Panel initially recommends **approval** of the P442 Alternative Modification and **rejection** of the P442 Proposed Modification

The BSC Panel **does** believe that the P442 Proposed Modification impacts the European Electricity Balancing Guideline (EBGL) Article 18 terms and conditions held within the BSC and that the Alternative Modification **does not** impact the EBGL

This Modification is expected to impact:

- Licensed Suppliers;
- Licence exempt suppliers;
- Half Hourly Data Collectors (HHDCs);
- EMR SSP.

ELEXON

Phase

Initial Written Assessment

Definition Procedure

Assessment Procedure

Report Phase

Implementation

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About This Document

You can find the definitions of the terms and acronyms used in this document in the BSC Glossary[1]. Where we refer to a Supplier, this means a licensed Supplier. Whereas supplier means a licence exempt supplier, also known as a licence exempt generator.

This is the P442 Draft Modification Report, which Elexon will present to the Panel on 8 February 2024. 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 seven 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, and contains details of the Workgroup's membership and full Terms of Reference.
- Attachment A contains the P442 Proposal Form.
- Attachment B contains the draft redlined changes to the BSC for P442.
- Attachment C contains the draft redlined changes to the Code Subsidiary Documents (CSDs) for P442.
- Attachment D contains a detailed process diagrams for P442.
- Attachment E contains the full responses received to the Workgroup's Assessment Procedure Consultation.
- Attachment F contains the full responses received to the Panel's Report Phase Consultation.

[1] https://www.elexon.co.uk/glossary/?show=all

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Not sure where to start?

We suggest reading the following sections:

- Have 5 minutes? Read section 1
- Have 15 minutes? Read sections 1, 7 and 8
- Have 30 minutes? Read all except section 6
- Have longer? Read all sections and the annexes and attachments.

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1 Summary

Why Change?

Licensed Suppliers are required to pay charges (levies) on the electricity they supply, but energy supplied by an exempt supplier should not be subject to these charges. 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 licensed and exempt supply. A licensed Supplier should therefore be charged based on its total supply minus any exempt supply.

The BSC requires provision of the Metered Volumes needed to accurately calculate these charges, but there is currently no process that allows for the correct allocation of appropriate chargeable volumes for Metering Systems where a portion should be exempt and another portion should be licensable.

There is a limited interim solution in place where Metering Systems can be treated as recording exempt supply, but this is only applicable where the entire volume is exempt.

What is a Party Agent?

A Party Agent is appointed by a Party for the purposes of carrying out BSC functions or performing obligations of or on behalf of that Party.

Solution

The Proposed and Alternative solutions both involve a new Party Agent role, the "Exempt Supply Notification Agent" (ESNA). The ESNA would calculate the volumes of licensed and exempt supply, and submit them to BSC central Systems, based on metered data provided by the HHDC or Supplier. The ESNA would be required to undergo a Qualification process to ensure compliance with Settlement requirements.

The Proposed solution allows for corrections to the Energy Imbalance positions, using BSC Central Systems, of the licensed Suppliers facilitating the exempt supply arrangements. This is not required for the Alternative solution, which encourages arrangements where a single licensed Supplier has registered both the customer's Import Metering System and the exempt supplier's Export Metering System.

There is no risk of exposure to Imbalance Charges when limited to these types of arrangements. Where different Suppliers are involved, it would be possible for them to agree bilaterally to address the impact on Imbalance Charges. This means the Alternative solution mirrors the Proposed but excludes this Energy Imbalance adjustment within Central Systems.

Impacts & Costs

P442 is expected to impact:

- Licensed Suppliers who facilitate exempt supply arrangements, as P442 will offer a mechanism to avoid erroneous EMR charges, subject to optional system and process development to work with ESNAs;
- Exempt suppliers, as the solution would reduce instances where licensed Suppliers pass incorrect charges through to the exempt suppliers' customers;
- Half Hourly Data Collectors (HHDCs), as they will have the option to provide metered data to ESNAs which would involve system and process development;

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- Exempt Supply Notification Agent (ESNA), as there will be system development needed to meet role requirements and undergo Qualification;
- EMR Settlement Services Provider (SSP), as process changes will be required and, after a transition period, they will not have to support the interim solution.

Costs Estimates			
Organisation	Implementation (£)	On-going (£)	Impacts
Elexon	M	L	Settlement Administration Agent (SAA) system updates, Customer Solution development and Qualification process development with 30k – 50k additional costs for the Proposed solution to include the Imbalance adjustment. Ongoing costs for Qualification and Audit.
Industry	M	M	There will be no mandated system or process changes for industry, costs will only be incurred by those choosing to facilitate exempt supply arrangements.

Implementation

The Workgroup recommends an Implementation Date for P442 of:

- **7 November 2024** as part of the Standard November 2024 BSC Release, if a decision is received by 8 March 2024; or
- **27 February 2025** as part of the Standard February 2025 BSC Release if a decision is received after 8 March 2024 but before 10 May 2024.

Recommendation

The BSC Panel recommends that the P442 **Alternative Modification** be **approved**. The BSC Panel unanimously believe that the P442 Alternative Modification would better facilitate Applicable BSC Objective (d) compared to both the existing baseline and Proposed Modification. The Panel also unanimously believes that the P442 Proposed and Alternative Modifications better facilitate Applicable BSC Objective (c) and (f) than the current Baseline.

The Panel agree that the P442 Alternative Modification will not impact the BSC provisions that constitute EBGL Article 18 Terms and Conditions, but that the Proposed Modification will. As such, P442 was issued for a one month EBGL Consultation - all respondents agreed with the Panel recommendations and that the P442 Proposed Modification is neutral against the EBGL Objectives.

The Panel also agree that P442 should not be considered as a Self-Governance Modification and should therefore be submitted to Ofgem for decision.

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2 Why Change?

What is the issue?

The Balancing and Settlement Code Company (BSCCo) is required by BSC Section V5 'Reporting'[2] to provide the Electricity Market Reform Settlement Services Provider, EMR Settlement Ltd (EMRS), with the BSC Metered Volumes it requires to accurately calculate Contracts for Difference (CFD) and Capacity Market (CM) charges.

The Metered Volumes recorded in Settlement for each licensed Supplier generally include both power they have supplied to customers themselves, and power supplied by an exempt supplier (where the licensed Supplier has contracted to facilitate the exempt supply by providing meter registration and other BSC-related services). In order to provide accurate data to EMRS, BSCCo must remove these exempt supply volumes which are not subject to CFD or CM charges.

The interim solution for identifying and removing exempt supply volumes currently operated by the Supplier Volume Allocation Group (SVG) and EMRS is very limited in when it can be applied and is time consuming for Parties and the SVG. There is currently no process that allows for correct allocation of appropriate chargeable volumes for Supplier Volume Allocation (SVA) Metering Systems where a portion should be treated as exempt supply (and therefore not subject to such charges), and another portion should be treated as licensed (and therefore subject to such charges).

Background

Licensed Suppliers are required by legislation to pay a number of charges on the electricity they supply to premises in Great Britain, including the Feed in Tariff (FIT), Renewables Obligation (RO), charges to fund Contracts for Difference (CFD), and Capacity Market (CM). Energy supplied by a supplier that is exempt from having to hold an electricity supply licence (known as an exempt supplier) should not be subject to these charges, even though it may be recorded on a Supplier Volume Allocation (SVA) Metering System registered by a licensed Supplier. A licensed Supplier should therefore be charged based on its total supply minus any exempt supply.

In the case of CFD and CM charges it is BSC Systems (not the individual Suppliers) that calculate the chargeable volumes for each licensed Supplier and report them as “gross demand data” to EMRS. These systems cannot currently net off exempt supply volumes from each Supplier’s gross demand. licence exempt suppliers are not able or expected to sign up to all the industry codes that a licensed Supplier is obligated to and are therefore required to obtain certain services from a licensed Supplier. As a result, the portfolio of Metering Systems registered by a licensed Supplier may include their own customers as well as customers supplied by an exempt supplier, where the licensed Supplier is providing metering services.

For other charges, for example relating to trading or network charging, distinguishing between exempt and non-exempt supply is not important. However, as Suppliers are only required to pay EMR charges on the licensed volumes of electricity that they supply themselves, the EMR SSP needs to receive volume data excluding exempt supply.

What is Electricity Market Reform?

The UK Government committed to a series of reforms in 2010-2015 in order to ‘ensure that our future electricity supply is secure, low-carbon and affordable.’ These reforms were known collectively as Electricity Market Reform (EMR).

EMR is intended to deliver the low carbon energy and reliable supplies that the UK needs, while minimising costs to consumers. The reforms introduced two key mechanisms to provide incentives for the investment required in our energy infrastructure – Contracts for Difference (CFD) and Capacity Market (CM).

What is EMRS?

The EMR Settlement Ltd (EMRS) is a subsidiary of Elexon. It is the Settlement Services Provider on behalf of the Low Carbon Contracts Company (LCCC) in relation to CFD and on behalf of the Electricity Settlements Company in relation to CM.

[2] https://bscdocs.elexon.co.uk/bsc/bsc-section-v-reporting#section-v-5

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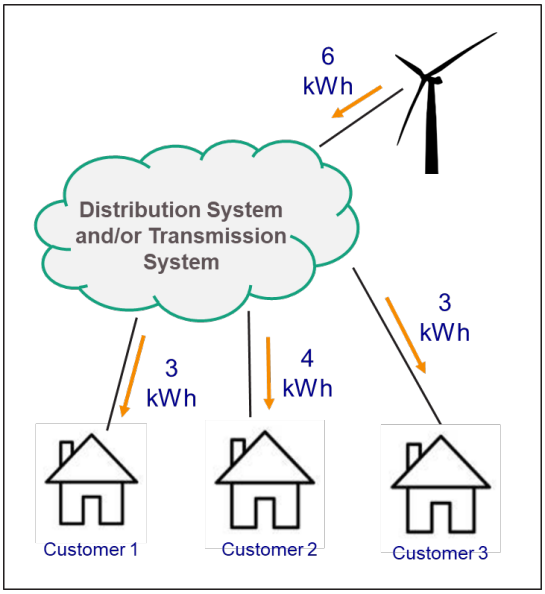
Energy Imbalance positions of licensed Suppliers

A further issue with the current BSC treatment of exempt supply is that there are no specific arrangements for adjusting the Energy Imbalance positions of licensed Suppliers who have facilitated exempt supplies. In the situation where a single licensed Supplier has registered both the customer's Import Metering System and the exempt supplier's Export Metering System there will be no impact on Imbalance as a result of the exempt arrangements. This is because both sides of the exempt supply are on the same Supplier Energy Account, and so they cancel out. However, if different Suppliers have registered the two Metering Systems, they both risk exposure to Imbalance Charges as a result of facilitating the exempt supply.

It should be noted that, while the scenarios requiring adjustment to Energy Imbalance positions can be referred to as involving "different Suppliers" or "multiple Suppliers", there is still only one Supplier registering each MSID. These types of arrangements are currently possible and no Code change is required to allow these arrangements. However, a Code change would be required to remove the exposure to Imbalance Charges as a result of facilitating the exempt supply arrangements.

As an example, consider a scenario with a renewable generator wanting to make an exempt supply to local households, working with a licensed Supplier. The licensed Supplier has an arrangement with an ESNA that has multiple Suppliers who have agreed to work with the ESNA and provide top-up supply. There are then customers of those Suppliers who wish to buy their energy from the generator as an exempt supply.

In this scenario the customer can change their top-up Supplier, without impacting the generator's offtaking arrangements, providing the new Supplier is one of those working with the ESNA.



Worked example with multiple licensed Suppliers		
Customer	Exempt Supply	Licensed (top-up) supply
Customer 1	3 kWh	0 kWh
Customer 2	3 kWh	1 kWh
Customer 3	0 kWh	3 kWh

If we do not adjust the imbalance positions, the Suppliers involved will incur Imbalance Charges as a result of facilitating the exempt supply, and have to pass those costs on to customers:

- Generator's Supplier will be long 6 kWh;
- Customer 1's Supplier will be short 3 kWh;
- Customer 2's Supplier will be short 3 kWh.

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There are workarounds that the affected Suppliers can currently use to address this risk, but the Proposer feels that these are not suitable for an enduring solution:

- Energy Contract Volume Notification (ECVN); and
- Metered Volume Reallocation Notification (MVRN).

The licensed Suppliers could require the exempt supplier to estimate (ahead of Gate Closure) the volume that each of their customers will purchase, in order that the affected Suppliers can notify ECVNs. However, this approach requires the exempt supplier to forecast their customer's purchases ahead of Gate Closure (which is one of the complexities of the BSC arrangements from which the exemption regime is intended to protect them).

Alternatively, the Export Supplier could place each exempt supplier in an appropriate Additional BM Unit, depending on which Import Supplier has registered the Metering System(s) to which they will be selling exempt supply. This then allows the Suppliers to submit a MVRN to transfer the exempt supply volumes from Export Supplier to Import Supplier (removing the Imbalance exposure). However, this workaround only works when all the exempt supplies generated by a given exempt supplier are facilitated by the same Import Supplier (and would therefore not cater for any trading arrangement that allowed generators to sell to different Suppliers' customers).

Interim Solution

As a workaround to this issue, the BSC Panel agreed on 8 November 2018 (paper 284/07[3]) to delegate to the Supplier Volume Allocation Group (SVG) the power to agree that SVA Metering Systems should be treated as recording exempt supply. Where the SVG makes such a decision, the SVA Metering System will be treated as non-chargeable for CFD and CM purposes using similar interim processes to those established by EMRS for SVA registered licensed Generation.

The interim solution currently operated by SVG assesses applications from Parties to have a supply considered as exempt and therefore the volume associated with that Metering System Identifier (MSID) removed from reporting for the purposes of EMR charging. The interim process operates on the basis that an application can only be approved if it relates to:

- An Import Metering System with accompanying evidence that, under normal circumstances, the exempt supplier would always be generating enough electricity to meet the demand; or
- An Export Metering System with accompanying evidence that, under normal circumstances, the exempt supplier would have enough customers to use the generation.

This means that the interim process is only applicable to Metering Systems where the entire volume is exempt, and would not allow for volumes where a portion should be exempt and another portion should be subject to EMR levies. These limitations were introduced for practical reasons but mean the interim solution cannot endure.

[3] https://www.elexon.co.uk/documents/groups/panel/2018-meetings/284-november/284-07-aligning-bsc-reporting-with-emr-regulations/

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EMR Charges

Contracts for Difference Charges

Contracts for Difference (CFD) is a long-term contract between an electricity generator and Low Carbon Contracts Company (LCCC). The contract enables the generator to stabilise its revenues at a pre-agreed level for the duration of the contract. Under the CFD, payments can flow from LCCC to the generator, and vice versa. The Contracts for Difference (Electricity Supplier Obligations) Regulations 2014[4], as amended, specify payments to be made by licensed Suppliers to LCCC, in order to fund payments to CFD generators (and the costs of administering the CFD scheme).

Capacity Market Charges

The Capacity Market (CM) Supplier charge funds the payments made by the Electricity Settlements Company (ESC). It is invoiced monthly based on a supplier's share of net demand for periods of high demand in the delivery year multiplied by Total Annual Capacity Provider Payments. The Electricity Capacity (Supplier Payment etc.) Regulations 2014[5], as amended, specify payments to be made by licensed Suppliers to ESC, in order to fund payments to capacity providers (and the costs of administering the CM scheme).

Related Changes

Issue 96 'Assessing the reporting to EMRS of chargeable volumes for SVA Metering Systems that record both exempt and licensed supply'

Issue 96[6] was raised to develop an enduring solution to allow correct reporting to EMRS of chargeable volumes for SVA Metering Systems that record both exempt supply and licensed supply. The P442 solution was considered during Issue 96, as Option 3, and the Workgroup recommended that this Modification should be raised.

During Issue 96 the benefits and drawbacks of several different solutions were discussed, and the Workgroup selected which solutions should be considered further. Strawman solutions were developed for these shortlisted options, which were then refined by the Workgroup through the exploration of specific questions. These discussions helped to refine the solution presented here. For example, the Workgroup discussed assurance of the ESNA role, considering the benefits of validation vs Qualification. A majority agreed that Qualification for anyone wishing to undertake this role would be required, even if they held Qualification for an existing role.

P395 'Aligning BSC Reporting with EMR Regulations - an enduring solution'

P395[7] 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. P395 was implemented as part of the November 2023 BSC Release.

Issue 88 'Clarification of BSC Arrangements relating to Complex Sites'

Issue 88[8] was raised with a view to discussing a number of issues and ambiguities relating to the complex site arrangements. Elexon proposed a set of principles, which may have

[4] https://www.legislation.gov.uk/uksi/2014/2014/made
[5] https://www.legislation.gov.uk/uksi/2014/3354/made
[6] https://www.elexon.co.uk/smg-issue/issue-96/
[7] https://www.elexon.co.uk/mod-proposal/p395/
[8] https://www.elexon.co.uk/smg-issue/issue-88/

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addressed some issues relating to exempt supply by allowing a solution based on netting Imports and Exports. However, these solutions did not address an enduring solution for comparing generators' metered data with customers' metered data in order to calculate volumes of exempt supply. The recommendations of the Issue 88 group only consider very local supplies and schemes, therefore do not deal with the broader issues.

P441 'Creation of Complex Site Classes'

P441[9] looks to progress a recommendation of the Issue 88 WG to introduce Complex Site classes. These classes would categorise the types of Complex Site, each having clearly defined criteria within the BSC. A new type of Complex Site, a Class 6 Complex Site, would also be introduced to allow approval of non-standard complex sites. This Modification would also clarify when the netting of Imports from Exports for multiple Metering Systems registered in SVA is permitted. This would facilitate consistency across the market and as Local Energy Schemes become more popular.

Department for Energy Security and Net Zero (DESNZ) and Department for Business, Energy & Industrial Strategy (BEIS) call for evidence

From 30 October 2020 to 8 March 2021 BEIS ran a call for evidence regarding exemptions from the requirement for an electricity licence. The purpose of the call for evidence was to increase government's knowledge of the exempt sector and provide a better understanding of what changes might be required to align the exemptions regime with current and future market features and broader policy goals.

On 24 July 2023 DESNZ published the responses[10], indicating that views would be taken into account when developing possible options in the future. 77 responses were received from a wide range of stakeholders, including energy companies, trade associations and local authorities. The summary does not indicate what the plans for the exemption arrangements may be, though some respondents believed that generation thresholds for renewable technologies should increase to facilitate investment.

The BSC Panel were concerned that the review resulting from the call for evidence could alter the exempt arrangements significantly, and potentially mean that any work done to develop the P442 solution would become pointless. However, there has been no indication of the timeline for a future review of the exempt arrangements. Elexon continues to monitor and engage with DESNZ on this matter.

Desired outcomes

The desired outcome is a sustainable enduring solution which allows correct reporting to EMRS of chargeable volumes for Supplier Volume Allocation (SVA) Metering Systems that record both exempt supply and licensed supply via:

- The detailed Qualification process to become an ESNA;
- The specification of the systems required from ESNAs to conduct their role;
- The outputs required from ESNAs, their formats, and the submission process to the BSC system;

The relevant changes required in the BSC based on the above actions.

[9] https://www.elexon.co.uk/mod-proposal/p441/
[10] https://www.gov.uk/government/calls-for-evidence/exemptions-from-the-requirement-for-an-electricity-licence-call-for-evidence

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3 Solution

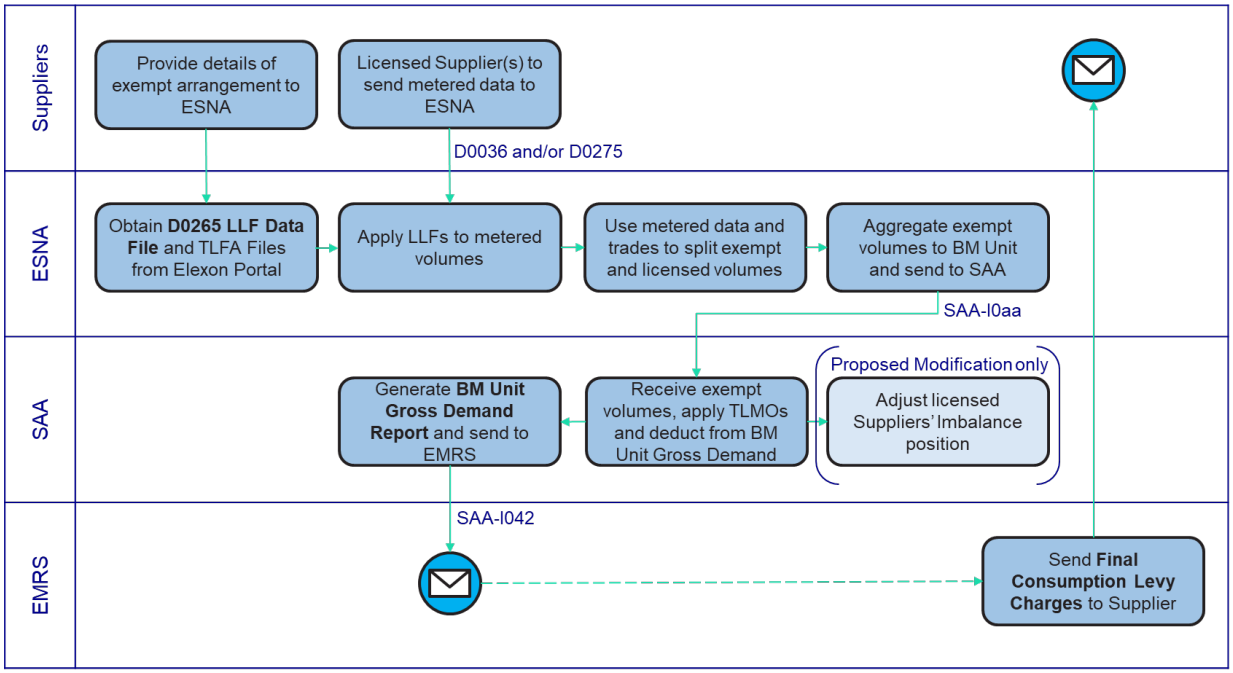
In this section the Proposed and Alternative solutions are detailed, while the rationale for the agreed solutions and other options considered is detailed in Section 6. It should be noted that at the time of the Assessment Consultation, no formal Alternative had been raised. The Proposed Modification was then amended and what was referred to as the Proposed solution (excluding the Imbalance adjustment) became the Alternative.

Proposed solution (including Imbalance adjustment)

The Proposed solution involves a new Party Agent role, the "Exempt Supply Notification Agent" (ESNA), which would calculate the volumes of licensed and exempt supply and submit them to central BSC Systems. The ESNA would perform the calculation based on Settlement metered data provided by the HHDC or Supplier.

The ESNA will be a Party Agent role, which could be fulfilled by any organisation, so long as they successfully complete Qualification. However, in practice it is expected that the ESNA role will likely be fulfilled by a Supplier facilitating the exempt supply arrangement, a HHDC, or a third party, such as the operator of an online auction platform that facilitates the sale and purchase of exempt supply. The ESNA would be required to undergo a Qualification process to ensure compliance with Settlement requirements. Qualification would be required for all prospective ESNAs including those already Qualified in another role such as licensed Suppliers.

A high level process flow diagram showing the interactions between the parties involved in the P442 solution is below. Detailed process flow diagrams which includes the potential interactions with HHDCs can be found in Attachment D.



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Appointment of ESNAs

There is no requirement for a central register of which ESNA is appointed to which MSID. Licensed Suppliers will be responsible for ensuring that an ESNA is appointed where necessary, including on a change of Supplier event. Suppliers currently use the D0148 (MM00043) 'Notification of Change to Other Parties' to notify HHDCs of changes to Agent appointments and could use this Market Message to inform HHDCs of ESNA appointments.

The methodology for sharing details of the exempt supply arrangements is not specified as part of the P442 solution so as not to limit the wide possibly of forms the arrangements could take.

ESNA Processes

The ESNA will be responsible for applying Distribution Losses via Line Loss Factors (LLFs) and the Seasonal Zonal Transmission Losses (TLFA). In order to do this, the ESNA must obtain relevant losses data from the Elexon Portal via the D0265 (MM00152) 'LLF Data File' and the TLFA Files, in preparation to apply the losses when the metered data is received.

The ESNA will use the loss-adjusted Metering System Half Hourly Metered Data and details of the exempt supply arrangements to determine loss-adjusted volumes of energy. The ESNA will ensure that:

- It only identifies Eligible Exempt Supply Volumes that relate to exempt supply arrangements notified by the relevant Supplier(s);
- Each Eligible Exempt Supply Volume relates to both an Import Metering System and an Export Metering System for which the ESNA has received Metering System Half Hourly Metered Data for that Settlement Period; and
- The total volume of Eligible Exempt Supply Volumes identified in relation to a given Metering System and Settlement Period does not exceed the value of the loss-adjusted Metering System Half Hourly Metered Data for that Metering System and Settlement Period

The ESNA will aggregate the Eligible Exempt Supply Volumes to BM Unit level, in order to calculate the BM Unit Eligible Exempt Supply Volumes. The BSC will not specify the detail of the calculations performed by the ESNA, as P442 is intended to support a wide variety of arrangements, and the calculations will vary depending on the nature of each exempt supply arrangement. THE ESNA will then send values of BM Unit Eligible Exempt Supply Volume to the Settlement Administration Agent (SAA) using a new data flow [SAA-I0aa] in time for each Settlement Run.

SAA Processes

The SAA will receive values of BM Unit Eligible Exempt Supply Volume from ESNAs via the new data flow. The Variable Transmission Losses will then be applied by the SAA using the Transmission Losses Adjustment (TLMO) values. The SAA will then calculate the BM Unit Gross Demand, taking into account the exempt supply, and will report the chargeable volumes to EMRS to facilitate the correct charging of CM and CFD charges.

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Energy Imbalance positions of licensed Suppliers

The Proposed solution includes adjustments to the Energy Imbalance positions of the licensed Suppliers. This is so that the Suppliers involved in the exempt supply arrangement do not incur incorrect Imbalance Charges as a result of facilitating the exempt supply.

The SAA would receive exempt supply volumes by Import BMU and Export BMU, and then, for purposes of the Imbalance adjustment, the net volume of exempt supply sold by each Energy Account would be calculated.

In respect of each Settlement Period, for each Energy Account, the Account New Exempt Supply Volume shall be determined as follows:

$$QAES_{aj} = \left(1 + TLMO_j^-\right) \times \left(\sum_{i2 \in a} QBES_{i1i2j} - \sum_{i1 \in a} QBES_{i1i2j}\right)$$

This value would then be included in the calculation of Account Energy Imbalance Volumes:

$$QAEI_{aj} = QACE_{aj} - QABS_{aj} - QABC_{aj} - QAES_{aj}$$

This would involve an amendment to the SAA system to include calculation of the Account New Exempt Supply Volume, $QAES_{aj}$, value, to update the calculation of the Account Energy Imbalance Volumes, $QAEI_{aj}$. Verification would then be required that the new calculation is used to report $QAEI_{aj}$ values on all sub flow reports i.e. S0141, S0142, S0143, S0144, S0131 - refer to the NETA Interface Definition and Design (IDD) spreadsheet Part 1[11] and Part 2[12] for the detailed definition of physical file structures.

Assurance

The ESNA will be a Party Agent, and any market participant wishing to operate in this role will be required to follow the Qualification process. This process will mirror that of the current SVA Qualification process. As part of Qualification, the Qualification Service Provider (QSP) will check:

- The Eligible Exempt Supply Volumes the ESNA submits to the SAA relates to the exempt supply arrangements notified by the relevant Supplier(s);
- The total volume of Eligible Exempt Supply Volumes submitted to the SAA in relation to a given Metering System and Settlement Period does not exceed the value of the loss-adjusted Metering System Half Hourly Metered Data for that Metering System and Settlement Period; and
- The ESNA has applied the correct Distribution and Transmission losses to the HH Metered Data for the relevant Metering Systems.

The ESNA role will also be considered for inclusion in the BSC Audit, as a Performance Assurance Party, performed by the BSC Auditor as part of the annual Process Assessment Audit. The Process Assessment Audit is used to ensure compliance and does not require a Risk to Settlement. The scope of the BSC Audit Process Assessment is determined for each year by Elexon and the Performance Assurance Board (PAB).

[11] https://bscdocs.elexon.co.uk/interface-definition-documents/neta-interface-definition-and-design-part-1-spreadsheet
[12] https://bscdocs.elexon.co.uk/interface-definition-documents/neta-interface-definition-and-design-part-2-spreadsheet

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A number of factors for inclusion in the BSC Audit will be considered when deciding if this role is included in a particular year. These are (but not limited to):

- Impact to Settlement;
- When the role was last included in the Audit;
- Performance of an individual Party for the related process;
- Number of Parties applicable for an ESNA Audit work paper in a given year; and
- Other Party roles and work papers that may take priority over this one.

Reporting

Elexon will publish and maintain a public record of Exempt Metered Volumes on the BSC website on a monthly basis. The data for the report will be the total Import and Export Exempt Metered Volume (in MW), Settlement Day and Settlement Period. Elexon should ensure not to publish data that may be attributed to a single Supplier to maintain anonymity.

Transition from the Interim Solution to the P442 solution

P442 would remove the need for the current interim solution facilitated by SVG and EMRS. It is proposed that once the first ESNAs have qualified and begun operation, at a time agreed by SVG, the Committee should cease approvals for SVA Metering Systems to be treated as recording exempt supply. After stopping the SVG approvals at least six months should then be allowed for those using the interim system to migrate to an ESNA facilitated arrangement before the interim solution is ended.

The BSC Panel agreed that the interim process should be delivered and that authority to approve SVA Metering Systems as recording exempt supply should be delegated to the SVG, but it was never codified. This means there will be no BSC Change required to end the interim solution.

All respondents to the Assessment Procedure Consultation agreed with the transition approach, with one respondent adding that Elexon should issue clear communications to industry parties in advance of the ending of the interim solution. Elexon agree that clear communication would be necessary, and would work with SVG to ensure appropriate communications with industry.

Alternative solution (excluding Imbalance adjustment)

The P442 Alternative solution is exactly the same as the Proposed solution, except that it excludes the adjustments to the Energy Imbalance positions of the licensed Suppliers. This means that calculation of Account Energy Imbalance Volumes would be unchanged:

$$QAEI_{aj} = QACE_{aj} - QABS_{aj} - QABC_{aj}$$

Licensed Suppliers that risk exposure to Imbalance Charges as a result of facilitating the exempt supply will be able to address the risk using the workarounds detailed in Section 2 – utilising ECVNs or MVRNs. There is no risk of exposure to Imbalance Charges where a single licensed Supplier has registered both the customer's Import Metering System and the exempt supplier's Export Metering System.

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Legal text

The legal text to deliver the P442 Proposed and Alternative solutions can be found in Attachment B. It should be noted that BSC Section T is the only drafting that differs between the two solutions.

The redlined changes to CSDs to deliver the P442 Proposed and Alternative solutions can be found in Attachment C. The changes to the SAA Service Description and User Requirements Specification will be drafted during the Implementation Phase.

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Estimated costs of P442

For those roles the Workgroup believe will be impacted, the costs have been assessed via the Assessment Procedure Consultation and the Workgroup based on the following categories:

- High (H): >£1 million
- Medium – High (M–H): £500k - £1 million
- Medium (M): £100k-500k
- Low – Medium (L–M): £50k - £100k
- Low (L): <£50k

There are no anticipated differences in costs and impacts between the Proposed and Alternative Modifications, other than the additional BSC system development cost associated with the Proposed solution. However, the additional cost has no impact on the cost category.

Implementation costs estimates			
Organisation	Item	Implementation costs (£)	Comment
Elexon	Systems	M: 250k – 450k	SAA system updates, Customer Solution development and Qualification process development with 6-8 months development time. Costs of 30k – 50k more for the Proposed solution to include the Imbalance adjustment.
	Documents	L: <10k	Updates and implementation of six BSC Sections and seven CSDs
Industry	Systems & processes	M	There will be no mandated system or process changes for industry, costs will only be incurred by those choosing to facilitate exempt supply arrangements

On-going costs estimates		
Organisation	On-going costs (£)	Comment
Elexon	L	Ongoing Qualification and audit costs including a cost per new ESNA for the QSP to review submissions
Industry	M	There will be ongoing operational costs for those facilitating exempt supply arrangements

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P442 impacts

Impact on BSC Parties and Party Agents		
Party/Party Agent	Impact	Estimated cost
Suppliers	Positive impact on Suppliers who facilitate exempt supply arrangements, as the solution will provide them with a mechanism that they can use to provide Settlement with details of their exempt supply volumes, and hence avoid erroneous CFD and CM charges. There will be optional system and process changes, but only for those who wish to facilitate exempt supply arrangements. Impacts include appointing suitably qualified ESNAs, providing details of exempt supply arrangements to those ESNAs and sending metered data to ESNAs.	M
HHDCs	There will be optional system and process changes to provide Settlement metered data to ESNAs, but only for those who wish to facilitate exempt supply arrangements and agree that they will provide data to the ESNA.	M
ESNAs	System development to meet role requirements and undergo Qualification.	M

Impact on the NETSO	
Impact	Estimated cost
None identified	None

Impact on BSCCo		
Area of Elexon	Impact	Estimated cost
Settlement & Invoicing	Updates to the SAA system	L – M
Participant Management Product	Development and management of the new Qualification process for ESNA and updates to the Customer Solution	M
Assurance	Development and management of the new Audit process and BSC Audit Paper for ESNAs	L
Analysis & Insight	Development and management of reporting mechanism	L

Impact on EMR SSP
Positive impact on EMRS as they will not have to support the interim solution any longer. Limited process and system changes required to enable the solution, purely to receive and load the revised data. There is no requirement to publish the data.

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Impact on BSC Settlement Risks
P442 may impact 029 CVA Risk 'SAA Calculations and processing', but no new mitigating actions required as HHDC data will still be used for Settlement, with ESNA data used only for the purposes of EMR levies.

Impact on BSC Systems and process	
BSC System/Process	Impact
SAA	System update to receive ESNA data, apply TLMO values, and exclude exempt volumes from the data sent to EMRS. Will involve acquisition and technical validation, business validation rules, amending existing calculations for Gross Demand Volumes, reporting new calculated volumes in S0421 Gross Demand Report, and testing of new S0421. The Proposed solution would involve additional amendment to the SAA system to include updated calculation of $QAES_{aj}$ value, verification that new calculation is used to report $QAEI_{aj}$ values on all sub flow reports.
Customer Solution	Addition of new role into Customer Solution.
Qualification	Development and management of the new Qualification process for ESNA.
BSC Audit	Development and management of new ESNA Audit process.
Insights Solution	Updates to allow Insights Solution to ingest new data, and present this data on the Insights website.

Impact on BSC Agent/service provider contractual arrangements	
BSC Agent/service provider contract	Impact
QSP	Updates to QSP contract to add qualification for new role.

Impact on Code	
Code Section	Impact
Section J 'Party Agents and Qualification Under the Code'	Amendments to define the new ESNA role, and associated requirements for Qualification.
Section S 'Supplier Volume Allocation'	Amendments to define the Settlement requirements that ESNAs must meet.
Section T 'Settlement and Trading Charges'	Amendments to define the adjustments to Suppliers' Energy Imbalance positions arising from exempt supply volumes.
Annex X-1 'General Glossary'	Amendments to include appropriate definitions.
Annex X-2 'Technical Glossary'	Amendments to include appropriate definitions.
Section Z 'Performance Assurance'	Amendments to include ESNA as a Performance Assurance Party.

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Impact on Market Wide Half Hourly Settlement (MHHS)
There are no impacts to MHHS anticipated, particularly now that the involvement of HHDCs is not mandated. Following implementation of MHHS there may be a desire to raise a separate Change Request to add the ESNA as a new Data Integration Platform (DIP) User, so that the DIP can be used by ESNAs, HHDCs and SAA to send and receive the metered data.

Impact on EBGL Article 18 terms and conditions
The Alternative Modification is not expected to impact the EBGL Article 18 terms and conditions as specified in the mapping given in Section F Annex F-2[13]. However, the Proposed Modification is, as it would amend BSC Section T4 'Settlement Calculations', specifically determination of Energy Imbalance for each Energy Account. This means P442 was issued for a month long EBGL Consultation – all respondents agreed that the Alternative Modification does not impact EBGL and that the Proposed Modification does impact EBGL. The Workgroup believe the P442 Proposed solution is consistent with the EBGL Objectives.

Impact on Code Subsidiary Documents	
CSD	Impact
BSCP01 'Overview of Trading Arrangements'	Amendments to update the Trading Arrangements to include the new ESNA role.
BSCP70 'CVA Qualification Testing for Parties and Party Agents'	Amendments to update the Qualification process to include the new ESNA role.
BSCP502 'Half Hourly Data Collection for SVA Metering Systems Registered in SMRS'	Amendments to include the optional interactions between the HHDC and ESNA.
BSCP537 'Qualification Process for SVA Parties, SVA Party Agents and CVA Meter Operators'	Amendments to update the Qualification process to include the new ESNA role.
BSCP606 'BM Unit Eligible Exempt Supply Volumes for Exempt Supply Notification Agents'	New BSCP created to define the process by which the SAA receives BM Unit Metered data for Suppliers from the ESNA. The BSCP number will be allocated in the implementation phase, subject to approval.
SAA Service Description	Updates to reflect the system updates. These will be completed as part of the Implementation phase in tandem with the system development
SAA User Requirements Specification	Updates to reflect the system updates. These will be completed as part of the Implementation phase in tandem with the system development

What is the Data Integration Platform?

The Data Integration Platform (DIP) is the new message orientated event-driven middleware component that will support the flow of events and messages between industry participants after Market Wide Half Hourly implementation.

[13] https://www.elexon.co.uk/the-bsc/bsc-section-f-modification-procedures/

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Impact on other Configurable Items	
Configurable Item	Impact
Self Assessment Document	Update to include self assessment for the ESNA role.

Impact on Core Industry Documents and other documents	
Document	Impact
Ancillary Services Agreements	No impacts identified
Connection and Use of System Code	
Data Transfer Services Agreement	
Distribution Code	
Grid Code	
Retail Energy Code	
Supplemental Agreements	
System Operator-Transmission Owner Code	
Transmission Licence	
Use of Interconnector Agreement	

Impact on other industry participants	
Industry Participant	Impact
Exempt suppliers	Reduced instances where licensed Suppliers pass incorrect charges through to the exempt suppliers' customers.

Impact on a Significant Code Review (SCR) or other significant industry change projects
No impacts identified. On 14 July 2022 at the BSC Panel meeting Ofgem confirmed that this Proposal should be treated as an SCR Exempt Modification Proposal.

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Benefits

The implementation of the P442 Proposed or Alternative Modification would allow for exempt supply to be treated correctly in terms of EMR levies. Currently Suppliers are only required to pay EMR charges on electricity they supply themselves, which means the EMR SSP needs to receive volume data excluding exempt supply. This would bring the BSC in line with existing regulations, which are clear that exempt supply should not be subject to EMR levies.

The Proposer believes that P442 could have wider benefits, through encouraging renewable generation. Distributed generators such as rooftop solar, wind, or hydro do not have competitive advantage in the current electricity retail market due to their low generation volumes and intermittent nature. Assurance that exempt supply will not incorrectly charge EMR levies will improve the financial viability of distributed generation.

The Proposer also believes that this Modification is a critical step towards upgrading BSC systems for new forms of supply and generation, allowing for efficient peer-to-peer trading, and creating an exemplar system at the international scale.

The following table summarises the Proposer's views, unless otherwise stated. The benefits for the Proposed and Alternative solutions were considered to be the same, other than for quality of service, as detailed below.

What are distributed generators?

Distributed generators refer to those using a variety of technologies that generate electricity at or near where it will be used, such as solar panels and combined heat and power. These small scale generators may act as exempt suppliers, but are not generally registered as a BSC Party.

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Impact of the Modification on the environment and consumer benefit areas:	
Consumer benefit area	Identified impact
1) Improved safety and reliability As P442 will allow for the correct reporting of exempt supply, including renewable generation, which will reduce the costs associated with generation as erroneous EMR charges will be avoided. For this reason P442 could be seen as encouraging renewable generation. Increased renewable generation would improve security of supply as fossil fuel resources are depleted. However, the P442 Workgroup believed that this Modification would not necessarily improve security of supply, as the Modification is not specifically related to renewable generation.	**Positive**
2) Lower bills than would otherwise be the case The correct charging of EMR charges on bills for exempt supply would reduce bills for some, but as the cost of the levies is redistributed this will mean higher charges for other customers.	Neutral
3) Reduced environmental damage The Proposer believes that this Modification is a crucial step towards the journey toward statutory net-zero targets as P442 will remove an error discouraging entry into renewable generation, and more renewable distributed generation will result in lower greenhouse gas emissions,. However, a Workgroup Member commented that this Modification is technology agnostic and therefore does not necessarily encourage renewable generation.	**Positive**
4) Improved quality of service P442 will improve quality of service for the exempt generators by facilitating exempt supply arrangements. More end consumers will be able to benefit from distributed generation assets for their own consumption needs without facing incorrect EMR charges. The Workgroup were concerned about the Proposed Modification introducing customer protection issues and potential reduced quality of service where two unrelated Suppliers facilitate an exempt supply arrangement. These could include problems determining which Supplier is responsible for the consumer, as described further in Section 6.	**Positive**
5) Benefits for society as a whole If P442 encourages renewable generation, through removing incorrect EMR charges, and thus helps to decarbonise the energy supply of Great Britain, then it will have benefits for society as a whole. However, the Modification is generation agnostic and does not specifically relate to renewable energy.	**Positive**

What are the consumer benefit areas?

1) Will this change mean that the energy system can operate more safely and reliably now and in the future in a way that benefits end consumers?

2) Will this change lower consumers' bills by controlling, reducing, and optimising spend, for example on balancing and operating the system?

3) Will this proposal support:
i) new providers and technologies?
ii) a move to hydrogen or lower greenhouse gases?
iii) the journey toward statutory net-zero targets?
iv) decarbonisation?

4) Will this change improve the quality of service for some or all end consumers. Improved service quality ultimately benefits the end consumer due to interactions in the value chains across the industry being more seamless, efficient and effective.

5) Are there any other identified changes to society, such as jobs or the economy.

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5 Implementation

Recommended Implementation Date

The Workgroup recommends an Implementation Date for P442 of:

- **7 November 2024** as part of the standard November 2024 BSC Release, if an Authority decision is received on or before 8 March 2024; or
- **27 February 2025** as part of the standard February 2024 BSC Release, if an Authority decision is received after 8 March 2024 but on or before 10 May 2024.

This approach would mean that P442 could be implemented in the next available release following decision, allowing for the estimated system development time.

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6 Workgroup's Discussions

The Workgroup met over three meetings to discuss the Terms of Reference for P442, develop the solution and provide initial views on the proposal.

Inclusion of CVA systems

While considering the solution, a Workgroup Member highlighted that Central Volume Allocation (CVA) systems are not included and questioned whether this should be considered. The Workgroup felt that there could be CVA customers and generators excluded by this solution, though they noted that the majority of exempt supply is SVA. The Proposer was keen for the P442 solution to be as inclusive as possible and was happy to include CVA in the P442 solution.

After developing a potential solution including CVA systems, Elexon presented process diagrams for SVA and CVA systems to the Workgroup. The majority of the Workgroup felt that the inclusion of CVA would add additional complexity with minimal benefit due to its limited applicability. As such, the Workgroup did not feel that the solution should be expanded to include CVA systems. The Proposer agreed with the majority decision and so the P442 Proposed and Alternative solutions remain applicable to only SVA systems. The Workgroup noted that another Modification could be raise to tackle CVA if there was appetite.

The respondents to the Assessment Procedure Consultation agreed with the Workgroup that the P442 solution should not be expanded to include CVA systems. One respondent commented that given the 5MW restriction to Class A exempt supply, they did not see any practical application for larger Transmission-connected CVA sites.

Role of HHDCs

The P442 Proposed solution puts the burden of development on the ESNA rather than on HHDCs. The intention of this was to address potential priority differences and to clearly separate out the new calculations, which were sufficient enough to warrant the creation of a new role. Additionally, there are many different forms that the commercial arrangements for exempt supply could take, many of which do not exist yet and have not been tried. The Proposer and Workgroup were keen for the P442 solution to support a wide variety of arrangements, and did not think it necessary for the innovation to be tied to a Qualified HHDC.

The solution that was initially proposed did still have some reliance on HHDCs, as the data going to the ESNA had to be validated data from a HHDC. The P442 Workgroup considered whether it should be mandated for HHDCs to share data with the ESNA, or if it should be a value added service that not all HHDCs have to support. Data could instead come from the Supplier, which would remove the reliance on HHDCs. The Proposer felt that it would be easy for the ESNA to get data from a Supplier, as they would be working closely with the Suppliers.

A Workgroup Member worried that HHDC involvement may be necessary, as otherwise the metered data would be entered into Settlement twice, by both the HHDC and ESNA. Elexon confirmed that this was not a concern, as the HHDC will enter all data into Settlement and the ESNA will have a separate input simply to indicate the volumes that were exempt for the purposes of EMR levies, outside of Settlement.

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Elexon highlighted that another advantage of not making HHDC involvement mandatory was that it would remove an impact on the MHHS Programme. If P442 were to include a requirement for HHDCs to send metered data to the ESNA, then this would be a new requirement for the Advanced Data Services (ADS) and Smart Data Services (SDS) in MHHS. This would impact upon the MHHS Programme and require an MHHS Change Request (CR) to include these requirements.

Following these discussions, the Workgroup decided that there was no benefit to mandating HHDC involvement. The P442 solution allows for the Supplier to provide the data to the ESNA, or for HHDC to supply the data if agreed between the Supplier and HHDC. HHDCs would be able to become an ESNA and form a commercial arrangement with Suppliers if desired.

Limit on Exempt Supply

The Class A exemption[14] applies to suppliers who supply of up to 5MW of self-generated electricity, but no more than 2.5MW to domestic premises. The Workgroup discussed who has responsibility for ensuring the limit on exempt supply is adhered to, as it is a legal requirement. There was agreement that this should not be for Elexon to police, but should be part of the assurance and Qualification considerations. It is important that the ESNA is not breaking the law on behalf of the exempt suppliers, but this will be the responsibility of the exempt supplier, as they will only be considered exempt if they comply with the Class A exemption.

A Workgroup Member pointed out that the responsibility for ensuring the exempt supply limit is not exceeded falls on the exempt supplier. This is not a national Settlement issue, so is not required for the P442 solution under the BSC. Another Workgroup Member retorted that the ESNA should have the capability to help in meeting the exempt supplier's obligations. If the exempt supplier is generating more than can be exempt, then there needs to be a process to ensure only the allowed portion can be supplied via the ESNA.

Clear allocation rules should be agreed between the exempt supplier, licensed Supplier, and ESNA during set up of each exempt supply arrangement. The limit on exempt supply should be considered during creation of the allocation rules, and as part of the ESNA process when matching supply with customers, and the ability to correctly ensure that the exempt supply limit is not exceeded will be included in the SAD.

Applicable Meters

A Workgroup Member questioned whether the P442 solution would only apply to HH settled meters. Elexon confirmed that, due to the exemption criteria which limits exempt supply to 5MW, exempt supply must be considered on a HH basis. The Proposer stated that when they queried this with Ofgem and they were told the same thing. The Workgroup agreed that the P442 solution should be applicable to HH settled meters. In the current world, this means DCC smart meters and Advanced Meters. Post-MHHS this means the Smart and Advanced segments.

ESNA Role

A Workgroup Member questioned whether the ESNA should become a BSC Party. Elexon explained that the initial assumption was that the ESNA would be a Party Agent, which

[14] https://www.legislation.gov.uk/uksi/2001/3270/schedule/4/made

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would mean they would not be signed up as a BSC Party but could still undergo BSC Qualification and assurance.

A Workgroup Member warned that they have found that it can be difficult for central assurance to force the right behaviour from Party Agents, as they are not directly signed up to the BSC. They felt that, as the ESNA role would be instrumental in ensuring that the exempt supply law is not broken, the role should be carried out by a BSC Party. However, as discussed above, the responsibility for exempt supply limit lies with the exempt supplier and is not a Settlement issue, so responsibility does not need to sit under the BSC.

After further consideration of the P442 solution, Elexon and the Proposer still felt that the ESNA should be a Party Agent. Usually only those trading within the BSC accede to it, which would not apply to an ESNA. This would be consistent with how similar roles are handled, such as Energy Contract Volume Notification Agent (ECVNA) and Metered Volume Reallocation Notification Agent (MVRNA). Additionally, Party Agents can still be controlled through Performance Assurance, including Qualification. After presenting this rationale to the Workgroup, there were no objections and the Proposer agreed.

Application of Losses

Elexon initially presented a draft solution to the Workgroup in which ESNAs would provide exempt supply data for individual Metering Systems to the Supplier Volume Allocation Agent (SVAA). The SVAA would then apply Line Loss Factors (LLFs) to adjust the data for losses on the Distribution System, before passing aggregated data to the Settlement Administration Agent (SAA). This methodology is utilised in other Modifications such as P376 and P383, possibly because it had been seen as more efficient if new LLF-related processes were developed centrally, rather than requiring individual Half Hourly Data Collectors or Data Aggregators to develop them.

A Workgroup Member questioned whether the ESNA could apply the LLFs instead. This could simplify the solution and would likely reduce the implementation timescale. However, this solution would require the ESNA to collect and/or receive LLFs and apply them, including mid-year revisions, requiring additional assurance. Initially, several Workgroup Members, including the Proposer, felt that the ESNA should be matching with LLFs applied and should thus be applying the losses. This would avoid the possibility of the ESNA notifying exempt supply volumes which appeared to be matched by generation from the exempt supplier, but which didn't quite match after losses were applied (due to differences in the applicable LLFs), leading to an unanticipated Imbalance exposure for the Supplier who appointed the ESNA.

After further developing the solution, Elexon presented process diagrams for two options, one where the SVAA would apply losses, and one where the ESNA would apply losses. The Proposer and Workgroup felt that the ESNA should apply losses, as this would require fewer changes to BSC systems and would allow allocation of loss-adjusted volumes.

Elexon then explained the different types of losses for the Workgroup to consider:

- Distribution Losses – Line Loss Factors (LLFs);
- Locational Transmission Losses – Transmission Loss Factor (TLF);
- Variable Transmission Losses – Transmission Losses Adjustment (TLMO).

The Proposer and Workgroup considered the extent to which the network losses should be taken into account in the P442 solution, and agreed that all losses should be accounted for. They also felt that the losses should all be applied by the ESNA if possible. As a

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design principle the solution should seek to calculate volumes as accurately as possible, taking into consideration complexity and costs.

It was noted that TLMO values would not be available in the appropriate timeframe for the ESNA to apply them, as they are only available after the first Settlement Run and the ESNA has to make its submission before the first Run.

After further consideration, Elexon presented four options for the handling of TLMO:

- Option 1 – use actual TLMO values (problematic because they are not available until Settlement produces them);
- Option 2 – use estimated offtaking TLMOs (published in advance per Season, but still problematic, because some GSP Groups in North of UK 'flip' from offtaking to delivering in certain Settlement Periods);
- Option 3 – do not apply TLMOs (inaccurate in all scenarios);
- Option 4 – SAA applies TLMOs in Settlement (requires central system change).

Elexon explained that, while distribution loses could be up to 10%, the TLMO would increase or reduce volumes by only 1%. The Workgroup debated the preferred options, with some Members feeling that some inaccuracy was preferable to complexity, while others felt that the purpose of the Modification, to get the correct volumes to EMR, should not be compromised. Option 3 would have the least administrative burden but would be inaccurate. Under Option 3, the licensed Supplier would be exposed to the levy on the variable transmission losses for the exempt supply.

The Workgroup considered worked examples for the options under different scenarios to highlight the pros and cons of each (see Appendix 2). The Proposer and the Workgroup preferred Option 4. This Option resulted in the least inaccuracy, as the correct TLMO values would be applied once they have been produced. One Member stated that a benefit of the SAA applying TLMOs is that the data will then be the same as other data in Settlement.

Assurance

The Workgroup showed a preference for Assurance of the ESNA, rather than monitoring by a Qualified Party such as a HHDC. After consideration of the P442 solution, Elexon presented the recommended assurance requirements, which included the Qualification Performance Assurance Technique (PAT), and the BSC Audit. The ESNA will be made a Performance Assurance Party and the Audit will be used to ensure compliance. The Workgroup and Proposer agreed with the proposal as detailed in Section 3 of this report.

The Workgroup discussed whether Qualification could begin once the Modification was approved but before Implementation. Elexon confirmed that usually Qualification only takes place after Implementation, as part of the Qualification involves checking that parties can interface with the BSC systems.

Elexon also explained that other PATs could be applied in the future if any issues are identified during the BSC Audit, but that these two had been selected as the most appropriate for now.

Central register of ESNA appointments

A Workgroup Member suggested that it could be useful to have a central register of ESNA appointments. They felt that it would be particularly valuable if something went wrong with

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the exempt supply allocations. Initially, some other Workgroup Members agreed in principle. However, there would be a cost to maintain a central register, which may not be proportional to the benefit. The responsibility to assign an ESNA would sit with the licensed Supplier, and not every Supplier would need an ESNA. A Workgroup Member also questioned why anyone would need to know which ESNA is working with a Supplier, and no likely scenarios were envisaged by the Workgroup.

Change of Supplier considerations

A Workgroup Member wondered, if there was no central register, what would happen if a customer switched Supplier without informing them of an exempt supply arrangement. Elexon explained that the exempt supply arrangement would be broken, as the arrangement requires cooperation between the Supplier and the exempt supplier. This is the case for other similar arrangements where the customer should be strongly incentivised to keep Suppliers informed of the need for exempt supply arrangements. It was agreed that any issues around interoperability would be more efficiently dealt with under a separate Modification Proposal.

Data sharing

The Workgroup discussed how the ESNA should receive data, considering the possibility of data sharing via the Data Transfer Network (DTN), the Data Integration Platform (DIP), or by a method agreed with the Supplier. There was a desire to create a solution that would work prior to MHHS and DIP implementation, in order to not delay the Modification. However, the relevant DTN data flows will be replaced by DIP flows following MHHS implementation, so it was not viewed as cost efficient to mandate a DTN solution.

The Workgroup felt there was no need for the ESNA to be signed up to both the DTN and DIP, which would double the development required and necessitate a change be raised to make the ESNA a DTN user. The Workgroup also considered that the ESNA may send or receive data via a newly defined P-flow, which is a BSC defined flow that would list the data items required to be sent, but not necessarily the format or structure.

The Workgroup asked if any HHDC representatives present had a view of whether they could provide data via a separate process, or if they would prefer for it to be over the DTN. A HHDC Member stated that they would be happy to accommodate via a bilateral agreement with data shared as agreed, given the likely short lifetime of a DTN solution. This could be via email rather than over the DTN. The Workgroup liked the idea of this flexibility and showed a preference for the data sharing method to be left open.

Following further development of the solution, the Workgroup agreed that the ESNA should receive valid consumption data from the Supplier or HHDC by any agreed method via the D0036 (MM00413) ‘Validated Half Hourly Advances for Inclusion in Aggregated Supplier Matrix’ and/or D0275 (MM00206) ‘Validated Half Hourly Advances’. The ESNA would not be mandated as a DTN user due to the reasons laid out above. The ESNA output will be BM Unit Eligible Exempt Supply Volumes in a Supplier BM Unit via SAA-I0aa ‘BM Unit Eligible Exempt Supply Volume Notification’.

Published data

The Panel requested that the Workgroup consider what data will be made publicly available, and Elexon proposed that exempt supply volumes be published by GSP group either daily or Half-Hourly. A Workgroup Member commented that reporting data on exempt supply would be useful for the Capacity Market, and another commented that it

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would be useful for Supplier forecasting. They felt that publishing this data Half-Hourly would be required as CM and CFD both use data for specific Half-Hours.

The Workgroup agreed that BSCCo should publish on the BSC website on a monthly basis and maintain a public record of anonymised Exempt Metered Volumes. The data for the report will be the total Import and Export Exempt Metered Volume (in MW) per Settlement Day and Settlement Period.

Retrospection

The Panel asked the Workgroup to consider whether the solution should be applied retrospectively. There is an argument for retrospection, given that the regulations have always been clear that exempt supply should not be subject to EMR levies. However, Elexon highlighted that this would invite uncertainty for industry on what charges would be due, the added complexities and costs this would bring to the solution development. Additionally, there has been an interim solution in place since 2018. Ofgem typically set the bar high for approving retrospection, and the norm is to apply solutions prospectively from a future agreed Implementation Date. After some consideration, the Workgroup could not make a case for retrospection that they felt would overcome the additional costs involved, especially as there has been an interim (partial) solution in place.

Adjustments to Supplier Energy Imbalance positions

As explained in Section 2, if different Suppliers have registered the customer's Import Metering System and the exempt supplier's Export Metering System they both risk exposure to Imbalance Charges as a result of facilitating the exempt supply.

The Proposer felt that an Energy Imbalance adjustment should be included in the P442 solution as this would enable arrangements where the Import and Export Metering Systems are registered by different Suppliers without the need for ECVNs or MVRNs. The Proposer felt this would be beneficial as it would allow consumers to change their top-up Supplier without impacting the exempt supply arrangements, encouraging competition and avoiding monopolies. It should be noted that the Suppliers working with the customer and exempt supplier would need to have appointed the same ESNA to allow the ESNA to allocate exempt supply to the customer.

Throughout the Workgroup discussion, the majority of the Workgroup were opposed to the inclusion of adjustments to the Energy Imbalance positions of the licensed Suppliers. The discussions detailed below fell into the following topic areas:

- Necessity of the Imbalance adjustment;
- Potential additional system complexity;
- Implementation concerns;
- Potential consumer impacts.

Necessity of the Imbalance adjustment

Several Workgroup Members felt that adjustments to the Energy Imbalance positions of the licensed Suppliers should not be included in the P442 solution, as it is not necessary for correct reporting to EMRS. They felt that P442 should be a compliance Modification to allow for exempt supply to be treated correctly in terms of EMR charges, and that the Imbalance adjustment is not required for this outcome. Elexon highlighted that not including the Imbalance adjustment would mean that there are situations in which the

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licensed Suppliers facilitating the exempt supply arrangements could incur incorrect Imbalance Charges without using a workaround, which could be considered unsatisfactory as an enduring solution.

It was noted that the situations where incorrect Imbalance Charges would be incurred were only where the customer and exempt supplier were registered with different Suppliers. The majority of Workgroup Members felt that these types of arrangements did not need to be accommodated, as exempt supply arrangements could be limited to those where the customer and exempt supplier are registered with the same Supplier. P442 without the Imbalance adjustment (now the Alternative Modification) would still be enabling scenarios where exempt suppliers have excess supply that they want allocated to non-specific customers. In that case, the ESNA will allocate the supply to customers with the same Supplier. A Workgroup Member stated that the only situations impacted by not including the Imbalance adjustment would be where an exempt supplier specifies the customers that should receive the supply and that customer is not registered with the same Supplier, or vice versa. In those instances they felt that the customer could simply switch Supplier.

The Proposer felt that limiting exempt supply arrangements that could be facilitated without an ECVN or MVRN to those where both the customer and exempt supplier are registered with the same Supplier would be very detrimental to competition. They posed the example of a Local Authority facilitating exempt supply schemes across their area. If arrangements were limited to those facilitated by the same Supplier, then all of the exempt suppliers and customers would be required to register with the same Supplier to benefit from the scheme. A Workgroup Member queried whether this would actually increase competition, as customers would have the choice of the Local Authority facilitating their supply or going with another Supplier.

There was also concern expressed that the inclusion of the Imbalance adjustment could risk the approval of the Modification, as it could be considered as out of scope of the original issue regarding data flows to EMRS and facilitating exempt supply. Elexon do not believe it is outside the scope of P442 as the issue of Imbalance was included in the Proposal Form and it is appropriate for an enduring solution to seek to resolve this issue. The Workgroup, however, were keen for evolution, not revolution. They explained that, while they felt adjustments to the Energy Imbalance positions of the licensed Suppliers was not required at this stage, it could be revisited once P442 was implemented and the arrangements were running smoothly.

Potential additional system complexity

Initially, the Workgroup were concerned about the credit implications of the Energy Imbalance adjustment and the impact it could have on balancing the system. Elexon presented worked examples for a single licensed Supplier and multiple licensed Suppliers, to demonstrate the impact on cash flow and Imbalance. The examples indicated that the proposed Imbalance adjustment would not impact credit, and that there would be minimal impact to Settlement Risk as the adjustment would only impact upon the Account Energy Imbalance Volume for the two Supplier's involved.

The Workgroup also had concerns around the potential complexity for ESNA systems if they were expected to facilitate arrangements involving different licensed Suppliers. A Workgroup Member highlighted that facilitating arrangements with two licensed Suppliers would not be mandated, and any ESNA could restrict themselves to arrangements with only one licensed Supplier involved if they wish. Including the Imbalance position adjustment in the P442 solution would allow ESNAs to facilitate these arrangements without the Suppliers incurring incorrect Imbalance Charges. However, the potential

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spectrum of arrangements would be much larger, which would require significantly more complex systems to facilitate them.

Implementation concerns

Following initial Workgroup discussions Elexon conducted analysis of the system development involved in the Energy Imbalance adjustment. The analysis involved discussions internally, with EMRS and with Service Providers. Elexon concluded that including the adjustments to the Energy Imbalance positions of the licensed Suppliers would require additional BSC system development and testing that would result in an increase in cost (an additional 30k – 50k). The inclusion of the Imbalance adjustment would not increase the overall system development time, as the Customer Solution development was the determining factor in the Implementation timeline, not the SAA system development.

The Workgroup continued to have concerns about the increased costs associated with including the Imbalance adjustment in the P442 solution, as they did not believe the benefits outweighed the cost. This was in contract to the Proposer, who believed the benefits of including the Imbalance adjustment would outweigh the costs, but noted that the benefits were difficult to quantify.

Potential consumer impacts

Several Workgroup Members expressed concern about the practicalities of supporting exempt supply arrangements in which customers can have a different licensed Supplier to that used by the exempt supplier. One Member explained that involving multiple Suppliers could leave customers unsupported if anything goes wrong due to increased complexities over who is responsible for the customer, which could lead to poor consumer outcomes.

Elexon suggested that the customer's licensed Supplier would retain responsibility for the customer and would supply any top-up that was not provided by the exempt generator. Each site would still only have two suppliers potentially supplying energy – the exempt supplier and the customer's licensed Supplier, regardless of who the exempt supplier was registered with. If the exempt supplier is working with a different Supplier this would only impact the arrangements between the suppliers and the ESNA. This should mean that any issues could be addressed through the agreements set up between the parties.

A Workgroup Member strongly disputed Elexon's explanation, stating that for domestic customers there was a lot of potential for problems with responsibilities between the parties involved:

- The exempt supplier;
- The licensed Supplier registering the exempt supplier's Export Metering System;
- The licensed Supplier registering the customer's Import Metering System;
- The ESNA.

The Workgroup Member described an example where there is a customer care issue if a customer signs up to an exempt supply arrangement but then does not receive any exempt supply. If the exempt supplier is registered with a different Supplier, then the customer's Supplier cannot help explain what has happened to the customer or rectify it. Additionally, for understanding customer bills and debt they felt it was necessary to have one port of call. If a customer were in debt with the licensed Supplier and the exempt supplier it is

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unclear how that would be effectively handled unless the exempt supplier were also registered with the same Supplier.

Due to the concerns over the potential consumer impacts of exempt supply arrangements facilitated by more than one Supplier, the Workgroup briefly considered whether they should be prohibited. After some discussion, it was realised that this is not something that could realistically be prohibited as part of the P442 solution, as limiting the commercial arrangements of industry parties are outside the scope of the BSC. The P442 solution could theoretically prohibit the ESNA from facilitating the correct reporting of these types of arrangements to EMRS, but a change that intentionally supports incorrect reporting to EMRS would not better facilitate the Applicable BSC Objectives.

It was also noted that some Suppliers will use different Supplier MPIDs owned by the same company or under the same Company Group to register the Import Metering Systems and Export Metering Systems as part of their standard practice. This is technically a case where the customer and exempt supplier have different licensed Suppliers, and which could be impacted by any rule prohibiting this type of arrangement. However, where the Suppliers are part of the same Company Group it is assumed that these arrangements would not result in issues identified for customers due to the established internal operating procedures.

The majority of the Workgroup agreed with the issues raised around potential impacts to customers, and were uncomfortable with the idea of P442 encouraging exempt arrangements being facilitated between parties without established understanding and communication routes. They indicated majority support for a solution not including the Imbalance adjustments, believing that this would discourage unrelated Suppliers from entering into exempt agreements, but that such arrangements should not be prohibited.

Assessment Procedure Consultation Responses

At the time of the Assessment Procedure Consultation the Proposed solution reflected the majority Workgroup opinion that P442 should not include the Energy Imbalance adjustment. However, the Proposer felt that adjustments to the Energy Imbalance positions of the licensed Suppliers should be included. Several Workgroup Members had made it clear that if the Proposed solution contained the Energy Imbalance adjustment then they intended to propose an Alternative where it was not included. The Assessment Consultation document highlighted that it was possible that the Proposed solution could change, and an Alternative solution could be raised following the consultation.

The majority of respondents agreed with the Workgroup view, as they were also Workgroup members. One respondent did not agree with the Workgroup, stating that they would be supportive of both options being presented to Ofgem.

Another respondent clarified that their support was based upon the assumption that multiple Supplier Market Participant Identifiers (MPIDs) would be allowed under the same Company Group, as this would be necessary to facilitate Supplier set-ups where Suppliers register all of the Import Metering Systems and Export Metering Systems under different Supplier MPIDs. In this situation the export volumes may then be aggregated to MVRN the volume across to the import Supplier MPID. This assumption is correct, these arrangements would be possible under both the Proposed and Alternative Modification.

Conclusion on Energy Imbalance adjustments

While some Members agreed intellectually that allowing arrangements where the exempt supplier and customer were registered with different Suppliers would be the ideal, the

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majority view was that it would not be practical for customers. The majority of the Workgroup also did not see the issue with restricting exempt supply arrangements to being facilitated by a single licensed Supplier, as customers could simply switch providers.

After the Workgroup discussions, the Proposer still felt that it was important for the P442 solution to include adjustments to the Energy Imbalance positions of the licensed Suppliers. They felt that exempt supply should be more than a line of business, and including the Energy Imbalance adjustments would integrate exempt supply into the existing systems and processes properly. The Proposer also believed that a solution that allows for a different Supplier to register the Import and Export Metering Systems would make the solution more open and inclusive, encouraging competition between Suppliers and offering a better service to customers.

The Workgroup agreed to formally raise an Alternative Modification Proposal where the adjustments to the Energy Imbalance positions of the licensed Suppliers was not included. Details on the views against the Applicable BSC Objectives to support this can be found in Section 7.

Implementation Approach

The Workgroup considered an alternative Implementation approach, where the amendments to the BSC could be implemented prior to completion of the BSC system changes. The Workgroup considered this as the usual Implementation approach, where the BSC document changes and system changes go live on the same date, would mean a significant delay between BSC System Implementation and use of the P442 solution, as ESNAs would then have to qualify.

The P442 Workgroup considered whether a staggered Implementation approach would speed up the implementation of P442 and enable Qualification to start earlier (although it still could not finish until BSC systems were live and ready for testing with the ESNAs). A similar approach has been used previously, such as for P344, where sections of the legal text came into effect from the date of the Implementation Notice rather than from the Implementation Date itself.

Elexon conducted analysis to estimate the potential time savings from the alternative Implementation approach. It was determined that the time savings would depend on how long the ESNA system development would take. Through discussions with potential ESNAs the time for ESNA system development was estimated to be at least six months.

The potential time savings would also depend on how long the ESNA Qualification elements with no BSC System dependency would take. Role Qualification generally takes between six and nine months, but Elexon were unable to estimate the time that the elements without BSC System dependency would take. The majority of the Self Assessment Document (SAD) is dependent on BSC Systems being available for ESNA system development and testing.

The following table shows some indicative dates for the two implementation approaches, showing a potential time saving of only two months, dependant on whether there are two months' worth on Qualification activities that could be completed prior to the BSC Systems going live.

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Potential Implementation Approach Timelines		
Activity	Traditional Implementation Approach	Alternative Two Stage Implementation Approach
BSC Modification approved	March 2024	March 2024
ESNA system development	March – September 2024 (6 months)	March – September 2024 (6 months)
BSC System development	March – November 2024 (8 months)	March – November 2024 (8 months)
BSC legal text live	November 2024	March 2024
BSC Systems live	November 2024	November 2024
ESNA Qualification	November 2024 – May 2025 (6 months)	September 2024 – March 2025 (6 months)
Qualified ESNA	May 2025	March 2025

To assess the viability of the alternative implementation approach, Elexon liaised with the Qualification Service Provider (QSP). The QSP stated that this approach was not something they would recommend as the SAD is made up of a large number of sections which report on the testing performed by the applicant showing how they are able to interact with external systems, including the BSC system. As such, without the system being live, the applicant couldn't perform large sections of the SAD.

The majority of respondents to the Assessment Procedure Consultation had no views on the alternative implementation approach. One respondent commented that, as an interim process was already in place, they did not feel there was sufficient urgency to justify the alternative Implementation approach. Another respondent stated that it would be good if an earlier implementation date could be achieved.

The Proposer and several of the Workgroup Members agreed that an earlier Implementation date would be preferable, if it were feasible. However, due to the comments from the QSP the Workgroup all agreed that the traditional implementation approach would be more sensible for P442.

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7 Workgroup's Conclusions

The Workgroup provided its views on both the P442 Proposed and Alternative Modifications against the Applicable BSC Objectives, which are summarised below. The Workgroup views for each solution against the current baseline are summarised first, followed by discussion of the Workgroup views on the Proposed vs the Alternative Modification.

The **majority** of the Workgroup believes that the P442 **Alternative Modification** would better facilitate the Applicable BSC Objectives than both the existing baseline and the Proposed Modification, and should therefore be **approved**. The Workgroup believe the Alternative better facilitates Applicable BSC Objective (d) than the Proposed.

Proposed Solution vs current baseline

Overall the Workgroup and Proposer believe the Proposed Modification is better than the current baseline. The majority of the Workgroup agreed that the Proposed solution would better facilitate Applicable BSC Objective (c) and unanimously agreed that it would better facilitate Applicable BSC Objective (f) when compared to the current baseline. The majority of the Workgroup believed that the Proposed Modification would be neutral (not better than the current baseline) against all other Applicable BSC Objectives.

Does the P442 Proposed solution better facilitate the Applicable BSC Objectives?		
Objective	Proposer's Views	Other Workgroup Members' Views
(a)	• Neutral	• Neutral (unanimous)
(b)	• **Positive**	• Neutral (majority), Positive (minority)
(c)	• **Positive**	• **Positive** (majority), Neutral (minority)
(d)	• **Positive**	• Neutral (majority), Negative (larger minority), Positive (smaller minority)
(e)	• Neutral	• Neutral (unanimous)
(f)	• **Positive**	• **Positive** (unanimous)
(g)	• Neutral	• Neutral (unanimous)
Overall	• **Better than baseline**	• **Better than baseline**

Applicable BSC Objective (b)

The majority of the Workgroup thought that the P442 Proposed solution would have no impact on Applicable BSC Objective (b). The Proposer and a minority of the Workgroup believed that it would better facilitate the efficient operation of the National Electricity Transmission System, as P442 would encourage the development of renewable assets at the distribution level. The Proposer also believes that data recorded from the P442 solution could provide valuable insight for the National Electricity Transmission System.

Applicable BSC Objective (c)

The Proposer and a majority of the Workgroup believed that P442 Proposed solution will promote effective competition, better facilitating Applicable BSC Objective (c). The provision of an environment where distributed electricity generators can secure higher fixed rates for their micro- to small-scale renewable assets will promote effective competition in the sale and purchase of electricity. It will also promote effective competition

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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in the installation of different distributed generators of electricity by various consumers in order to offset their consumption volume with their self-generation volume.

A minority of the Workgroup did not think the P442 Proposed solution will impact competition, as the Modification would be improving upon the interim solution already in place, and any impact on competition has already been realised.

Applicable BSC Objective (d)

The majority of the Workgroup agreed that the Proposed solution will be neutral against Applicable BSC Objective (d). They believed that the additional cost and potential inefficiency caused by the additional arrangements that could be facilitated would cancel out the benefits to efficiency gained by replacing the interim process. A minority of the Workgroup believed that the Proposed solution would negatively impact the efficiency of the balancing and settlement arrangements for the same reasons.

The Proposer and a minority of the Workgroup believe that the Proposed Modification would better facilitate Applicable BSC Objective (d). They believed the solution would improve the administrative efficiency of the BSC arrangements by removing the need for the interim solution for exempt supply, which is time-consuming The Proposed P442 solution also better addresses the issue than the interim solution, as the interim solution is only applicable where the whole volume from an SVA metering system is exempt.

Applicable BSC Objective (f)

The Proposer and the Workgroup unanimously agree that this Modification will improve the arrangements for the operation of contracts for difference and arrangements that facilitate the operation of a capacity market, better facilitating Applicable BSC Objective (f). P442 will allow for the correct calculation of CM and CFD charges.

Alternative Solution vs current baseline

Overall the Workgroup and Proposer believe the Alternative is better than the current baseline. The majority of the Workgroup believed that the P442 Alternative Modification would better facilitate Applicable BSC Objectives (c) and (d) and unanimously agreed that it would better facilitate Applicable BSC Objective (f) when compared to the current baseline. The majority of the Workgroup believed that the Alternative Modification would be neutral (not better than the current baseline) against all other Applicable BSC Objectives.

Does the P442 Alternative solution better facilitate the Applicable BSC Objectives?		
Objective	Proposer's Views	Other Workgroup Members' Views
(a)	• Neutral	• Neutral (unanimous)
(b)	• **Positive**	• Neutral (majority), Positive (minority)
(c)	• Neutral	• **Positive** (majority), Neutral (minority)
(d)	• Neutral	• **Positive** (majority), Neutral (minority)
(e)	• Neutral	• Neutral (unanimous)
(f)	• **Positive**	• **Positive** (unanimous)
(g)	• Neutral	• Neutral (unanimous)
Overall	• **Better than baseline**	• **Better than baseline**

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Applicable BSC Objective (b)

The majority of the Workgroup did not think that the P442 Alternative solution would have an impact on the efficient operation of the National Electricity Transmission System and thus would be neutral against Applicable BSC Objective (b). The Proposer and a minority of the Workgroup believe that the Alternative Modification will better facilitate the efficient operation of the National Electricity Transmission System for the same reasons as the Proposed, believing that P442 will encourage independent distributed electricity generators and consumers with their own generation assets to develop more renewable assets at the distribution level.

Applicable BSC Objective (c)

The majority of the Workgroup believe that the P442 Alternative Modification will promote effective competition, better facilitating Applicable BSC Objective (c). They believe that the correct treatment of EMR levies for exempt supply will promote effective competition in the sale and purchase of electricity and encourage the installation of distributed generators. A minority of the Workgroup do not think P442 will impact competition, as the Modification would be improving upon the interim solution already in place, and any impact on competition has already been realised.

The Proposer believes that the Alternative solution will be neutral against this Objective, as not including the Energy Imbalance adjustments for licensed Suppliers will discourage arrangements where the customer and exempt supplier are registered with different Suppliers.

Applicable BSC Objective (d)

The majority of the Workgroup agree that the Alternative Modification will promote efficiency in the implementation of the balancing and settlement arrangements, better facilitating Applicable BSC Objective (d) than the current baseline. They believe the solution will improve the administrative efficiency of the BSC arrangements by removing the need for the interim solution for exempt supply operated by the SVG, which is time-consuming for applicants, for SVG, and also for the BSC Panel (as SVG has on more than one occasion been unable to agree an application, and referred it upwards to the BSC Panel). The Alternative P442 solution also better addresses the issue than the interim solution, as the interim solution is only applicable where the whole volume from an SVA metering system is exempt.

The Proposer believes that the Alternative solution would not better promote efficiency of the balancing and settlement arrangements and would be neutral against Applicable BSC Objective (d). This is because the Energy Imbalance positions of licensed Suppliers would need to be adjusted using workarounds such as ECVNs or MVRNs.

Applicable BSC Objective (f)

The Proposer and the Workgroup unanimously agree that the Alternative Modification will improve the arrangements for the operation of Contracts For Difference and arrangements that facilitate the operation of a Capacity Market, better facilitating Applicable BSC Objective (f) than the current baseline. This is for the same reasons as the Proposed, as it will allow for the correct calculation of CM and CFD charges for Metering Systems that record both exempt supply and licensed supply.

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Proposed vs Alternative

Overall the Workgroup believe the Alternative is better than Proposed Modification.

The Proposer preferred the Proposed Modification as they believe it takes a holistic view, incorporating the ESNA role into the industry by accounting for exempt supply as part of the Energy Imbalance calculations. They also believe that the Proposed solution is better for competition, Objective (c), as it will facilitate arrangements where the customer's Import Metering System and the exempt supplier's Export Metering System are registered with different Suppliers, allowing customers to switch Suppliers without impacting their exempt arrangements.

The majority of the Workgroup preferred the Alternative Modification due to the additional complexity of the Proposed solution and impacts to consumers negatively impacting Objective (d). There were also concerns around unintended consequences and the additional cost of system development associated with the Proposed solution. Some Members indicated that they viewed P442 as a compliance Modification to eliminate the workarounds associated with the interim process, and felt that the Proposed solution included the possibility of different business models that were not required.

Self-Governance

The Proposer and Workgroup agree that P442 should not be progressed under Self-Governance. P442 may have a material effect on existing or future electricity consumers (Self Governance Criteria (b)(i)) as high uptake could increase bills to cover the reduction in CM and CFD charges being paid. Additionally, it would have a material impact on competition (Self Governance Criteria (b)(ii)) and is likely to discriminate between different classes of Parties (Self Governance Criteria (c)), namely between exempt and non-exempt customers. P442 should therefore be submitted to Ofgem for decision.

EBGL Article 18 Terms and Conditions

The Proposer and Workgroup agree that the P442 Alternative Modification will not impact the European Balancing Guideline (EBGL) Article 18 Terms and Conditions, as listed in the mapping in BSC Section F, Annex F-2.

The Proposer and Workgroup agree that the P442 Proposed Modification will impact the EBGL Article 18 Terms and Conditions, as listed in the mapping in BSC Section F, Annex F-2. This is because the Proposed solution would amend BSC Section T4 'Settlement Calculations', specifically determination of Energy Imbalance for each Energy Account. The Workgroup believe that P442 is consistent with the EBGL Objectives.

Despite the Workgroup's preferred solution not impacting EBGL, P442 was issued for a one month EBGL Consultation due to the EBGL impact of the Proposed Modification.

What is the Self-Governance Criteria?

A Modification that, if implemented:
(a) does not involve any amendments whether in whole or in part to the EBGL Article 18 terms and conditions; except to the extent required to correct an error in the EBGL Article 18 terms and conditions or as a result of a factual change, including but not limited to:
(i) correcting minor typographical errors;
(ii) correcting formatting and consistency errors, such as paragraph numbering; or
(iii) updating out of date references to other documents or paragraphs;
(b) 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.

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8 Panel's Initial Discussions

The P442 Assessment Report was presented to Panel on 14 December 2023 (345/06[15]).

A Panel Member queried whether there has been any indication from DESNZ around the timing of a decision on whether the exemption order will continue, and suggested that Elexon communicate with the exemptions team at DESNZ to inform them this Modification is progressing. Elexon noted that they have been liaising with DESNZ, but that DESNZ were unable to disclose when a decision on the future of exemptions might be taken.

Another Panel Member commented that it seemed unlikely that provision for two Suppliers would be necessary, and that where they did occur Suppliers should use trades via ECVN or MVRN. They could not envisage a situation where two Suppliers would be involved.

The Panel questioned the reasoning behind the Proposed solution and the difference in opinion between the Proposer and the rest of the Workgroup. Elexon explained that the Proposer viewed the Modification as an opportunity to create new business models with peer-to-peer trading, while the Workgroup thought that P442 should simply be about ensuring BSC compliance with legislation. The Proposer is primarily a third party interested in facilitating these kinds of arrangements in the future, while the Workgroup were not supportive of that type of business model.

A Panel Member asked whether P442 could work with Virtual Lead Parties (VLPs) rather than Suppliers, and Elexon confirmed that it could not.

The BSC Panel unanimously agreed with all Workgroup recommendations. They agreed an initial recommendation that the P442 **Alternative Modification** should be **approved**, and that the Proposed Modification should be rejected.

The Panel unanimously agreed that the P442 Alternative Modification would better facilitate Applicable BSC Objective (d) compared to both the existing baseline and Proposed Modification. The Panel also agreed that the P442 Proposed and Alternative Modifications better facilitate Applicable BSC Objective (c) and (f) compared with the current baseline.

The Panel agreed that P442 should not be considered as a Self-Governance Modification and should therefore be submitted to Ofgem for decision.

The Panel agree that the P442 Alternative Modification does not impact the BSC provisions that constitute EBGL Article 18 Terms and Conditions, but that the Proposed Modification does impact the BSC provisions that constitute EBGL Article 18 Terms and Conditions.

[15] https://www.elexon.co.uk/meeting/bsc-panel-345/

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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 F.

Four responses were received – three from Suppliers and one from a Supplier Agent. All respondents were in agreement with the Panel's initial recommendations, and no new comments or arguments were made.

Summary of P442 Report Phase Consultation Responses

Question	Yes	No	Neutral/ No Comment	Other
Do you agree with the Panel's initial unanimous recommendation that P442 should be approved?	4	0	0	0
Do you agree with the Panel that the redlined changes to the BSC deliver the intention of P442 Proposed and Alternative Modifications?	3	0	1	0
Do you agree with the Panel that the draft amendments to the CSDs BSC deliver the intention of P442 for the Proposed and Alternative Modifications?	3	0	1	0
Do you agree with the Panel's recommended Implementation Date?	4	0	0	0
Do you agree with the Panel's initial view that P442 should be treated as a Self-Governance Modification?	4	0	0	0
Do you agree with the Panel's initial view that the P442 Proposed solution does impact the EBGL Article 18 terms and conditions related to balancing held within the BSC?	4	0	0	0
Do you agree with the Panel's initial view that the P442 Alternative solution does not impact the EBGL Article 18 terms and conditions related to balancing held within the BSC?	4	0	0	0
Do you have any comments on the impact of P442 on the EBGL objectives?	0	4	0	0
Do you have any further comments on P442?	0	4	0	0

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10 Recommendations

We invite the BSC Panel to:

- **AGREE** that the P442 Proposed Modification:
    - **DOES** better facilitate Applicable BSC Objective (c); and
    - **DOES** better facilitate Applicable BSC Objective (f);
- **AGREE** that the P442 Alternative Modification:
    - **DOES** better facilitate Applicable BSC Objective (c);
    - **DOES** better facilitate Applicable BSC Objective (d); and
    - **DOES** better facilitate Applicable BSC Objective (f);
- **AGREE** that the P442 Alternative Modification is better than the P442 Proposed Modification;
- **AGREE** that P442 **should not** be treated as a Self-Governance Modification;
- **AGREE** that the P442 Proposed Modification **DOES** impact the EBGL Article 18 terms and conditions held within the BSC;
- **AGREE** that P442 is consistent with the EBGL objectives;
- **AGREE** that the P442 Alternative Modification **DOES NOT** impact the EBGL Article 18 terms and conditions held within the BSC;
- **AGREE** an initial recommendation to the Authority that the P442 **Alternative** Modification should be **approved** and that the P442 **Proposed** Modification should be **rejected**;
- **AGREE** an initial Implementation Date for the Proposed and Alternative Modification of:
    - **7 November 2024** as part of the Standard November 2024 BSC Release if an Authority decision is received on or before 8 March 2024; or
    - **27 February 2025** as part of the Standard February 2025 BSC Release if an Authority decision is received after 8 March 2024 but on or before 10 May 2024;
- **AGREE** the draft Legal Text for the Proposed Modification;
- **AGREE** the draft Legal Text for the Alternative Modification;
- **AGREE** the draft amendments to the Code Subsidiary Documents for the Proposed and Alternative Modification; and
- **DELEGATE** ownership of BSCP606 ‘BM Unit Eligible Exempt Supply Volumes for Exempt Supply Notification Agents’ as a Category 1 BSC Configurable Item to the Supplier Volume Allocation Group (SVG).

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Appendix 1: Workgroup Details

Workgroup's Terms of Reference

Specific areas set by the BSC Panel in the P442 Terms of Reference	Conclusion
What are the specific requirements of the ESNA role, including system requirements?	ESNA must be able to receive and process data from Supplier and/or HHDC, apply LLFs and TLMs, and send the data to SAA.
What outputs are required from ESNAs, including formats and submission process?	ESNA output will be BM Unit Eligible Exempt Supply Volumes in a Supplier BM Unit via SAA-I0aa BM Unit Eligible Exempt Supply Volume Notification.
Is any monitoring required for data submitted to the BSC systems by an ESNA?	Qualification and assurance for ESNA, rather than monitoring by a Qualified Party e.g. HHDC.
What assurance requirements should there be for the ESNA role?	Qualification and assurance for ESNA role as part of the BSC Audit.
What arrangements are appropriate for adjusting the Energy Imbalance positions of licensed Suppliers?	Energy Imbalance adjustment is not included in the P442 solution, due to concerns over the practicalities of multiple Supplier arrangements.
What data will be made publicly available?	BSCCo to publish on the BSC website on a monthly basis and maintain a public record of anonymised Exempt Metered Volumes. The data for the report will be the total Import and Export Exempt Metered Volume (in MW), Settlement Day and Settlement Period.
Should the arrangements be retrospectively applied?	Solution should not be applied retrospectively, due to added complexities/costs and uncertainty for industry.

Assessment Procedure timetable

P442 Assessment Timetable	
Event	Date
Panel submits P442 to Assessment Procedure	14 July 2022
Workgroup Meeting 1	15 February 2023
Workgroup Meeting 2	24 May 2023
Workgroup Meeting 3	15 September 2023
Assessment Procedure Consultation	2 October– 20 October 2023
Workgroup Meeting 4	25 October 2023
Panel considers Workgroup's Assessment Report	14 December 2023

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Workgroup membership and attendance

P442 Workgroup Attendance					
Name	Organisation	15 Feb 2023	24 May 2023	15 Sep 2023	25 Oct 2023
Members					
Lawrence Jones	Elexon *(Chair)*	✓	✗	✓	✗
Ivar Macsween	Elexon *(Chair)*	✗	✓	✗	✗
Patrick Matthewson	Elexon *(Chair)*	✗	✗	✗	✓
Jenny Sarsfield	Elexon *(Lead Analyst)*	✓	✓	✓	✓
Somayeh Tehari	UC Energy Ltd (Proposer)	✓	✓	✓	✓
Andrew Colley	Scottish and Southern	✓	✓	✓	✓
John Bone	Energis Consulting	✓	✗	✓	✓
Joseph Henry	National Grid ESO	✓	✓	✓	✗
Lyndsey Antrobus	BPG Energy	✓	✓	✓	✓
Mark Bygraves	Sitigrid	✓	✗	✓	✓
Mary Gillie	Energy Local	✓	✓	✓	✓
Mike Jarman	IM Serv	✗	✓	✓	✓
Nik Wills	Stark	✓	✓	✓	✓
Paul Bedford	Drax	✓	✓	✓	✓
Phil Russell	Consultant	✓	✓	✓	✗
Sophie Payne	Drax / Opus Energy	✓	✓	✓	✓
Attendees					
Lorna Lewin	Elexon (Market Design)	✓	✓	✓	✓
John Lucas	Elexon (Market Design)	✓	✓	✓	✓
Nick Brown	Elexon (Lead Lawyer)	✓	✗	✗	✗
Robert Holmes	Elexon (Lead Lawyer)	✗	✗	✓	✓
Beth Proctor	Elexon (Subject Expert)	✗	✗	✓	✗
Harrison Clark	BPG Energy	✗	✓	✗	✗
James Hall	BPG Energy	✓	✓	✓	✗
James Orme	Juno Energy	✓	✓	✓	✓
Steve Hoy	Enosi	✗	✗	✓	✗

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Appendix 2: Losses Worked Examples

Consider an exempt supplier selling 1 kWh to a customer (and taking losses into account). For the sake of a simple example, we will assume the following:

- LLF and TLF are the same;
- Offtaking TLMO = +0.01;
- Delivering TLMO = –0.01.

Losses Worked Examples			
Option	Customer and supplier both offtaking (normal situation)	Customer offtaking, supplier delivering	Customer delivering, supplier offtaking
Option1: Actual TLMO	Exempt supplier must Export 1 kWh (to supply 1 kWh) Whole volume supplied (including losses) is non-chargeable No Supplier imbalance	Exempt supplier must Export 1.02 kWh (to supply 1 kWh) EMR levy 'rebate' correct as ESNA notifies 1.01 kWh which matches Settlement No Supplier imbalance	Exempt supplier must Export 0.98 kWh (to supply 1 kWh) EMR levy 'rebate' correct as ESNA notifies 0.99 kWh which matches Settlement No Supplier imbalance
Option 2: Offtaking ETLMO	Exempt supplier must Export 1 kWh (to supply 1 kWh) Whole volume supplied (including losses) is non-chargeable Small Supplier imbalance (due to errors in ETLMO)	Exempt supplier must Export 1 kWh (to supply 1 kWh) EMR levy 'rebate' correct as ESNA notifies 1.01 kWh which matches Settlement Supplier pays Imbalance on 2% difference in TLMOs	Exempt supplier must Export 1 kWh (to supply 1 kWh) EMR levy 'rebate' too high, as ESNA notifies 1.01 kWh, vs 0.99 kWh in Settlement Supplier receives Imbalance on 2% difference in TLMOs
Option 3: Do not apply TLMO	Exempt supplier must Export 1 kWh (to supply 1 kWh) Variable transmission losses are charged on EMR levies No Supplier imbalance	Exempt supplier must Export 1 kWh (to supply 1 kWh) EMR levy 'rebate' too small as ESNA notifies 1 kWh vs 1.01 kWh in Settlement Supplier pays Imbalance on 2% difference in TLMOs	Exempt supplier must Export 1 kWh (to supply 1 kWh) EMR levy 'rebate' too large as ESNA notifies 1 kWh vs 0.99 kWh in Settlement Supplier receives Imbalance on 2% difference in TLMOs
Option 4: SAA applies TLMO	Exempt supplier must Export 1 kWh (to supply 1 kWh) Whole volume supplied (including losses) is non-chargeable No Supplier imbalance	Exempt supplier must Export 1 kWh (to supply 1 kWh) EMR levy 'rebate' correct Supplier pays Imbalance on 2% difference in TLMOs	Exempt supplier must Export 1 kWh (to supply 1 kWh) EMR levy 'rebate' correct Supplier receives Imbalance on 2% difference in TLMOs

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