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| Approach to agreeing whether SVA Metering Systems should be treated as recording volumes of exempt supply | | |
| Meeting name | | SVG 215 |
| Date of meeting | 8 January 2019 | |
| Paper number | | 215/02 |
| Owner/author | | John Lucas |
| Purpose of paper | | Decision |
| Classification | | Public |
| Summary | | The BSC Panel has agreed to delegate to SVG the power to agree which SVA Metering Systems should be treated (for purposes of the BSC and specifically the provision of charging data to EMRS) as recording volumes of exempt supply. ELEXON has drafted an approach in this paper to receiving and agreeing applications for exempt supply volumes (to be excluded from the gross demand data reported to EMRS in accordance with Section V of the BSC). The SVG is requested to agree this approach. |

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1. Background
   1. The Low Carbon Contracts Company (LCCC) and the Electricity Settlements Company (ESC) are the Government-owned private limited companies responsible for settlement of Contracts for Difference (CFDs) and the Capacity Market (CM). Payments made to generators and capacity providers under these schemes are funded by payments from licensed electricity Suppliers, collected in accordance with relevant secondary legislation.
   2. Sections V5 and C11.2 of the BSC require ELEXON (or its appointed BSC Agents) to provide LCCC and ESC (or EMR Settlement Limited (EMRS), their appointed EMR Settlement Services Provider) with any data required for purposes of EMR Settlement (“EMR Settlement Data”). The specific data items required are agreed by the BSC Panel, and include gross demand data for licensed Suppliers, which are used to calculate CFD and CM charges[[1]](#footnote-1).
   3. ELEXON’s role in calculating the supply volumes used to calculate CFD charges is set out in the [Contracts for Difference (Electricity Supplier Obligations) Regulations 2014](http://www.legislation.gov.uk/uksi/2014/2014/contents/made), as amended, which require charges to be calculated based on “the amount of electricity which the BSCCo determines was supplied [to premises in Great Britain] by that Supplier”. This severely limits any discretion that LCCC might have to adjust the values provided by ELEXON.
   4. As a result, the correct determination of CFD charges is in effect dependent on ELEXON and the BSC Panel ensuring that the gross demand data provided to EMRS does accurately reflect the amount of electricity each licensed Supplier has supplied to premises in Great Britain in each half hour. This is not necessarily the same as the amount of electricity each licensed Supplier is responsible for in Imbalance Settlement (which is the volume that Supplier Volume Allocation processes were originally designed to determine).
2. ELEXON Consultation on Aligning BSC Reporting with EMR Regulations
   1. On 15 October 2018, we published a consultation on ‘[Aligning BSC Reporting with EMR Regulations](https://www.elexon.co.uk/consultation/consultation-align-bsc-reporting-emr-regulations/)’. This document identified two specific instances where the gross demand data, currently reported to EMRS, does not accurately reflect the amount of electricity each licensed Supplier has supplied to premises in Great Britain. These are where:

* Electricity is provided by a licensed Supplier to an SVA-registered Licensed Generator (for purposes of licensed generation). This falls outside the definition of ‘supply’ in the Electricity Act, and is therefore not subject to CFD or CM charges (as stated in action 1.3 in the [Smart Systems and Flexibility Plan](https://www.gov.uk/government/publications/upgrading-our-energy-system-smart-systems-and-flexibility-plan), published by the Department for Business, Energy and Industrial Strategy (BEIS) and Ofgem in July 2017); or
* Electricity is provided to a customer by an exempt Supplier across the Distribution System, with a licensed Supplier facilitating the supply (by providing meter registration services). In this scenario the licensed Supplier will be responsible for the electricity in Imbalance Settlement, but will not be supplying it. The [Class A exemption for small Suppliers](http://www.legislation.gov.uk/uksi/2001/3270/schedule/4/made) allows an exempt Supplier to supply up to 5 MW of electricity they have generated themselves across the Distribution System (2.5 MW to domestic customers).
  1. On 8 November 2018 we presented the responses to this consultation to the BSC Panel ([paper 284/07](https://www.elexon.co.uk/documents/groups/panel/2018-meetings/284-november/284-07-aligning-bsc-reporting-with-emr-regulations/)), who agreed an approach to addressing these issues. In the case of electricity provided to SVA-registered licensed Generators, the Panel has agreed a two-stage approach:
* In the short term, we will establish an interim solution to deal with the more straightforward case of SVA Metering systems that record only Imports to licensed Generation (i.e. not including licensed Generation ‘behind the Settlement Meter’). This solution will operate under BSC governance and the control of the BSC Panel, but will be implemented by LCCC and EMRS. On 22 November 2018 EMRS issued [EMR Circular 170](https://www.emrsettlement.co.uk/interim-solution-exempting-electricity-supplied-licensed-generators-storage-facilities/) notifying Suppliers of how the solution will work; and
* In the longer term, we propose that a BSC Modification Proposal is required to define, assess and agree an appropriate enduring solution. We anticipate that Ofgem’s decision on their 27 November 2017 consultation on ‘[Clarifying the regulatory framework for electricity storage](https://www.ofgem.gov.uk/publications-and-updates/clarifying-regulatory-framework-electricity-storage-licensing)’ may be helpful in clarifying the issues that such a Modification Proposal will need to address.
  1. Similarly, the consultation proposed a two-stage approach to the question of electricity supplied by customers by exempt suppliers:
* A long-term solution would depend on the development of new industry processes for tracking how much electricity each customer has purchased from exempt suppliers. In April 2018 we published a [white paper](https://www.elexon.co.uk/about/innovation-developments-industry/enabling-customers-buy-power-multiple-providers/) on enabling customers to buy power from multiple providers, which outlined our views on how such processes could be delivered. We are optimistic that a BSC Party will raise a Modification Proposal to progress these ideas shortly, but the timescales for assessing a Modification Proposal and making system changes are such that this could not be delivered before 2020.
* In the meantime, the Panel agreed to delegate to SVG the power to agree which SVA Metering Systems should be treated (for purposes of the BSC and specifically the provision of charging data to EMRS) as recording volumes of exempt supply. Where SVG makes such a decision, the SVA Metering System will be treated as non-chargeable for CFD and CM purposes using the same interim processes established for SVA‑registered licensed Generation.

1. ELEXON’s Proposed Approach to Agreeing to Treat SVA Metered Data as Exempt Supply
   1. Because the Class A exemption for small supply only covers electricity that the exempt Supplier has generated themselves, an accurate long-term solution requires a process of matching metered data from:

* The Half Hourly Export Metering System(s) recording the electricity exported to the Distribution System; and
* The Half Hourly Import Metering System(s) recording the electricity supplied to customers.
  1. In the context of the enduring solution, we expect that the Modification Workgroup will wish to consider the systems and processes needed to perform this matching. However, these systems will not be available for an interim solution.
  2. We therefore propose for the interim solution that any decision to treat the volumes recorded on an SVA Metering System as exempt supply (for purposes of CFD and CM charges) should **not** be based on *ex post* analysis of metered data in each Settlement Period. Instead the decision would be made on the basis of a credible argument (based on historic metered data and other evidence provided by the exempt supplier and/or licensed suppler) that, under normal circumstances, all metered data recorded on the Metering System is supplied under a supply licence exemption.
  3. A request to SVG to make such a decision could relate to either:
* 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).
  1. Clearly such an approach raises the possibility that under abnormal circumstances (such as generator outage or customer disconnection) volumes recorded on the Metering System in one or more Settlement Periods might be incorrectly treated as exempt supply. However, the error involved would be much smaller than that currently (where all the volumes recorded on the Metering System under normal circumstances are incorrectly treated as licensed supply).
  2. ELEXON has limited knowledge or experience of Class A exempt supply. Our understanding is that these arrangements have been little-used in the past. However, the level of interest is currently increasing, with innovation funding (available from government and Ofgem) being used to support a number of trials in areas such as licence exempt peer-to-peer trading. We therefore suggest that it would be premature to operationalise the process of applying to SVG (e.g. by creating a *pro forma* for applications). We propose a less formal process, in which ELEXON will support interested parties in presenting any application to SVG in the form of a paper, with attached evidence. This will allow each application to be treated as an opportunity for ELEXON (and SVG) to support trials of innovation, and learn about the issues facing exempt suppliers.
  3. The Panel has agreed that ELEXON should report to them by August 2019 (or sooner if appropriate) on the level of take-up and the learning achieved. We hope the learning from the process will also be helpful to the Modification Workgroup that progresses an enduring solution to allow customers to buy power from multiple providers.
  4. Clearly the approach proposed here does not prevent SVG from adopting a more formal and operationalised process at a later date, once experience has been gained, say after 6 months of operation.
  5. The BSC Panel also noted that the BSC Sandbox process (introduced by Modification P362) represents another potential route (not involving SVG) for exempt suppliers wishing to be treated in a different manner to that outlined by the usual BSC rules.

1. Recommendations
   1. We invite you to:
2. **NOTE** that the BSC Panel has delegated to SVG the power to agree that SVA Metering Systems should be treated (for purposes of the BSC, and specifically the provision of charging data to EMRS) as recording volumes of exempt supply;
3. **AGREE** that SVA Metering Systems should be so treated only if the exempt supplier or licensed supplier has provided credible evidence that, under normal circumstances, all metered data recorded on the Metering System is supplied under a supply licence exemption;
4. **AGREE** that – at this stage – a *pro forma* for applications is not required, and that ELEXON should support applicants in submitting evidence to SVG in the form of a paper with appropriate attachments; and
5. **NOTE** that ELEXON must report back to the BSC Panel on the level of up-take and learning achieved by August 2019.

For more information, please contact:

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1. Collection of CM charges is currently suspended. This follows a European Court judgment that the European Commission should have conducted a formal investigation of the compatibility of the CM with rules regarding State Aid. [↑](#footnote-ref-1)