

## Options for evolving the assessment of requests to consider supply as exempt for EMR purposes

### Supplier Volume Allocation Group (SVG)

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**Summary** Elexon has seen an increase in enquires from organisations wishing to submit an application to the SVG in order to have supply considered as exempt for EMR purposes. These requests are currently facilitated by Elexon and brought to the SVG for decision in an unspecified format. This paper considers whether to evolve the current Interim Process and also examines potential enduring solutions.

### 1. Background

- 1.1 Licensed Suppliers are required by legislation to pay a number of charges on the electricity they supply to premises in Great Britain, including the Renewables Obligation (RO), charges to fund Contracts for Difference (CFD) and Capacity Market (CM). Energy supplied by an exempt supplier should not be subject to these charges, even though it may be recorded on an SVA Metering System registered by a Licensed Supplier. A Licensed Supplier may therefore net off such exempt supply from their meter readings when calculating their supply volumes (for submission to Ofgem).
- 1.2 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.
- 1.3 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 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 licenced Supplier is providing metering services.
- 1.4 For other charges, for example relating to trading, distinguishing between exempt and none exempt supply is not important. However, as Suppliers are only required to pay EMR charges on electricity they supply themselves, the EMR SSP needs to receive volume data excluding exempt supply.
- 1.5 As a workaround to this issue, the BSC Panel agreed on 8 November 2018 (see paper [284/07](#)) to delegate to the SVG the power to agree that SVA Metering Systems should be treated as recording exempt supply.
- 1.6 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.

### 2. Current Process

- 2.1 Currently an organisation needs to submit an application to the SVG for consideration; no specified format has been prescribed for these applications. Prior to any application, Elexon will work with organisations to assist them

in understanding the application process and also understand the BSC and exemption rules to try and ensure an application is well thought out and includes an appropriate amount of evidence. This usually involves a number of meetings to understand the proposals and review the evidence.

- 2.2 Ultimately, it is the applicant's responsibility to provide credible evidence based on historic metered data and other relevant information which may be needed in support of their application. However, the format, level and content of the evidence is not prescribed.
- 2.3 Based on the information provided, the SVG will take a decision on the basis that, under normal circumstances, all metered data recorded on the Metering System is supplied under a supply licence exemption.
- 2.4 Rather than introducing a pro forma for applications, Elexon supports applicants in submitting evidence. Such an application 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).
- 2.5 Following discussion of paper [308/06](#), the BSC Panel agreed that the SVG should:
  - Continue to operate a process for identifying Metering Systems that record exempt supply;
  - Require a declaration from a director of the exempt supplier, identifying the class or individual exemption that applies, and confirming that its conditions are (or will be) met; and
  - Only treat a Metering System as exempt if the circumstances under which it may record licensed supply are genuinely unusual, i.e. not circumstances that would be expected to arise in the normal operation of business.

### **3. Applications to date**

- 3.1 To date there has been two successful applications to the SVG:
  - A previous application in January 2020, which was agreed by the SVG. The agreed application approved that 22 export Metering Systems could be treated as exempt supply (and therefore netted off the licenced suppliers gross demand for purposes of EMR charging) with effect from 1 February 2020. The basis of the decision was that it was very clear due to the size and demand of the sites being supplied that, under normal circumstances, the customers being supplied would have enough demand to use the generation.
  - An application was approved to have one Import Metering System treated as exempt supplier, for EMR purposes. The set up included two generating sites which in all circumstances had enough capacity to supply the Import Metering System. The evidence provided clearly demonstrated that in every half hour the generating units were providing on average fifty times more than the customers demand. The two generating units were also in different GSP Groups, meaning both would not be impacted by any localised Distribution System.
- 3.2 Two further applications have been received, and will be discussed in the confidential session of the April SVG meeting.
- 3.3 Further initial enquires have also been received from other organisations who are seeking to understand how they could utilise the exemption regime and what the process is to make an application to the SVG.

### **4. Links to other work**

- 4.1 Modification Proposal P379 'Enabling consumers to buy and sell electricity from/to multiple providers through Meter Splitting'
  - Could potentially have provided an enduring solution to the issue, but the Proposer chose to simplify the solution by excluding exempt supply from scope. However, they did pass recommendations to BEIS and Ofgem that the exempt supply arrangements should be dealt with separately.
  - Has subsequently been Withdrawn by the proposer in March 2021
- 4.2 Issue 88 - Clarification of BSC Arrangements relating to Complex Sites
  - The issue was raised on 18 March 2020 with a view to discussing a number of issues and ambiguities relating to the complex site arrangements.

- Elexon has proposed a set of principles which would apply to Class 5 Complex Sites, these proposals may address some issues relating to exempt supply by allowing a solution based on netting Imports and Exports. However, it does not currently address an enduring solution for comparing generators metered data with customers' metered data in order to calculate volumes of exempt supply.
- The workgroup is proposing to split out some of the issues that may have simpler solutions, for example arrangements for Complex Sites 1-4, but is not intending to address all aspects of exempt supply.
- This may give rise to multiple Modifications/Change Proposals which seek to address issues that could be resolved in the short term and those that may require more detailed workgroup consideration.
- The recommendations of the Issue 88 group are yet to be finalised and will only consider very local supplies and schemes, therefore any proposals are not likely to solve the broader issues.

#### 4.3 BEIS Call for Evidence

- On 30 October 2020, the Department for Business, Energy and Industrial Strategy (BEIS) issued a Call for Evidence on the exemption regime. One of the stated aims of this Call for Evidence is “to ensure that all market participants, including those who are exempt, pay their fair share of administrative, policy and network costs”. This suggests that any proposals for reform following the Call for Evidence could potentially impact the recovery of policy costs (such as EMR charges).
- For now exempt supply volumes are not subject to EMR charges, and the EMR Settlement Service Provider is dependent on BSC processes to exclude them from the volumes used in EMR charging.
- Elexon submitted a response to the CfE on 1<sup>st</sup> March, the response was marked as confidential as it included some points relating to specific applications, which may be confidential. The key points raised were Elexon:
  1. Supported intention to review the licence exemption regime and suggested that greater transparency was needed in order for BEIS and Ofgem to have a greater understanding of how the regime is being used.
  2. Recommended that a central register be established to track and monitor those choosing to operate under an exemption. Including, offering Elexon's support and expertise in establishing and maintaining such a register.
  3. Highlighted the need for more detailed guidance on the practical and consequential impacts of operating under an exemption. Suggesting that more guidance was needed to allow organisations to understand the code requirements and impacts of an exemption.

### 5. Potential improvements to the Interim Process

- 5.1 The key limitation of the current interim process is that it can only be used for SVA Metering Systems which (under all normal circumstances) record only exempt supply. Section 6 below discusses ways to address this, in order to create a more enduring solution that can be used by customers whose Import is a mixture of exempt supply and licensed supply. But there are also changes that could be made to the Interim Process to make it more accessible and allow applicants to understand what process needs to be followed and the evidence required.
- 5.2 The existing procedure is only set out within the papers and records of past SVG and Panel papers. If an applicant wanted to understand the process for making an application, they would have to search for the information in published papers, or contact Elexon, they are not able to 'self-serve' at present. Furthermore, there is no guidance or procedure, meaning the process largely relies on bi-lateral discussions between Elexon and the interested party, in order to explain what is expected and how to submit an application.
- 5.3 In December 2020, we proposed (in paper SVG238/04) that we would learn from the two applications we were then expecting, before beginning to formalise the application process. The applications we expected were then delayed, but two applications have now been received, and will be considered by the SVG this month. We therefore now propose to develop a more formal and structured process, including:
- Developing a procedure document
  - Standard application form and pro forma for director's declaration
  - Guidance note for applicants
  - Dedicated area of Elexon website
  - Published in Elexon news round-up for awareness

## 6. Enduring Solutions

- 6.1 In November 2020 (when discussing paper 308/06) the BSC Panel requested that Elexon investigate potential Modification Proposals that a BSC Party (or the Panel itself) could raise to allow correct reporting to EMRS of chargeable volumes for SVA Metering Systems that record both exempt supply and licensed supply. We have identified a number of possible options, and are inviting the SVG to discuss and comment on them before we report back to the BSC Panel.
- 6.2 **Option 1** is for Suppliers to use the existing rules for Shared SVA Meter Arrangements under BSC Procedure BSCP550 ([Shared SVA Meter Arrangement of Half Hourly Import and Export Active Energy](#)), which allow the splitting of metered data between multiple suppliers or supplier ID's. This option could therefore be used to split metered data between exempt and licenced supply, potentially using the Capped Block method (Section 4.2.2 of BSCP550).
- 6.3 This option has the advantage that it can be used now, under current rules, without requiring a Modification or Change Proposal. However it has some limitations:
- 6.3.1 The current BSCP550 process requires that the Allocation Schedule (notified by the Supplier to the HHDC ahead of Gate Closure) includes specific kWh values. This still allows for some flexibility e.g. a Capped Block method could be used to allocate up to 5 MWh of a generator's Export to exempt supply (leaving open the possibility that they actually generated less). But it would not permit any ex post matching of Import and Export volumes.
- 6.3.2 One risk of this option is around the need for multiple IDs. Currently only those Suppliers that have multiple IDs would be able to use it. Therefore, we could see an increase in the number applications made for new IDs, with the sole purpose of enabling meter splitting under BSCP550. Depending on the numbers of applications, this may add extra costs to industry parties and as well as the additional admin and resource implications of processing applications.
- 6.4 **Option 2** would address the limitations of option 1, but still within the context of a Shared SVA Meter Arrangement in which the Supplier provides their HHDC with an Allocation Schedule (ahead of Gate Closure) instructing them how to allocate the metered volumes between Primary and Secondary Metering Systems. Specifically this could include:
- 6.4.1 **Option 2A:** Modification to amend the definition of Shared SVA Meter Arrangement, removing the need for an arrangement to involve two or more Suppliers.
- 6.4.2 **Option 2B:** Amend BSC Procedure BSCP550 to recognise a new type of Allocation Schedule, in which the Supplier tells the HHDC which Export Metering Systems are providing power to which Import Metering Systems, but does not actually specify kWh values (which will not be known until the HHDC collects the metered data *ex post*). This would be similar to Change Proposal CP1369 ([Increased Flexibility in BSCP550 Data Splitting Algorithms](#)), which introduced a new type of Allocation Schedule for splitting Boundary Point meter readings based on metered data collected ex post from non-Settlement sub-meters.
- 6.5 Following consultation with Elexon's legal team we believe that a Modification to deliver Option 2A could be raised by Panel as it would better facilitate the achievement of relevant BSC Objective (d) promoting efficiency in the implementation and administration of the balancing and settlement arrangements. Option 2B could potentially be implemented as a Change Proposal, not requiring a Modification (or could be delivered as part of the same Modification as Option 2A).
- 6.6 Option 2 could provide significant flexibility in the processes used by HHDCs to match Import and Export (depending on exactly what types of Allocation Schedule BSCP550 was amended to recognise), allowing unscheduled outages of generators and/or customers to be taken into account, But it would still require the matching process to be carried out by the HHDC, based on an Allocation Schedule provided by the Supplier in advance. It would not (for example) allow the matching process to be carried out by a third party (other than the HHDC).
- 6.7 **Option 3** would be a Modification Proposal to allow the Supplier (or a third party acting on their behalf, other than the HHDC) to be involved *ex post* in splitting metered volumes (recorded on an SVA Metering System) into exempt and licensed supply. For example, such an option might allow a peer-to-peer trading platform to match customers and exempt suppliers *ex post* (based on data retrieved from meters), without needing to become a Qualified HHDC. Some Suppliers might welcome this flexibility, but a number of issues would need to be considered, including:

- Appropriate assurance requirements (to protect both Settlement, and the quality of the data reported to EMRS under Section V of the BSC);
  - Potential risks to Settlement if the third party was using different metered data (actual or estimated) to that submitted into Settlement by the HHDC; and
  - The appropriate route for the third party to submit data into Settlement (e.g. through the HHDC, or directly to SVAA);
- 6.8 We believe that Option 2 is significantly more straightforward than Option 3, and we therefore propose (subject to comments and views from the SVG) to recommend to the BSC Panel that they raise a Modification Proposal to amend the rules for Shared SVA Meter Arrangements to:
- Remove the restriction on using a Shared SVA Meter Arrangements for Metering Systems registered to the same Supplier Id; and
  - Recognise new types of Allocation Schedule that permit the HHDC to match Import and Export meter readings ex post, in order to split metered volumes into licensed and exempt supply.

## 7. Other Issues to consider

- 7.1 Change of Ownership – Under the interim process there is no guidance on how a Change of Supplier (CoS) should be managed. Where the original request to the SVG is made on behalf of the customer (via the Supplier) and the customer changes Supplier there is no instruction for EMRS whether the agreement should be ended.
- 7.2 Elexon has consulted with EMRS who has confirmed that it is possible to transfer the agreement, but are currently applying the agreements only to the applicant supplier. There is no obligation for any of the parties to re-engage with Elexon if the circumstances change.
- 7.3 Elexon recommends that where the supply changes, the new Supplier should be able to continue the existing agreement. Therefore EMRS would be permitted to role forward any existing agreement to the new Supplier.
- 7.4 There are other circumstances which may give rise to a need to alter the agreement, these may include a change in the arrangements at the site (such as a Change of Tenancy (CoT), or CoS). Additionally, unless specified any approvals given under the Interim Process do not carry an end date.
- 7.5 Elexon recommends that in developing a more formal and structured process, consideration should be given to the development of appropriate guidance to manage and maintain agreements once approved, including the circumstances when re-approval would be required.

## 8. Recommendations

- 8.1 We invite the SVG to:
- a) **AGREE** that Elexon should develop a more formal and structured process for applications to the interim process (section 5.3);
  - b) **AGREE** that the guidance on the process should explain the possible use of Shared SVA Meter Arrangements (Option 1);
  - c) **AGREE** that Elexon should recommend to the BSC Panel that they raise a Modification Proposal to implement Options 2A and 2B;
  - d) **NOTE** that Option 3 would provide Suppliers with more choice on who performs ex post matching of Import and Export, and could be raised by any BSC Party as a Modification Proposal;
  - e) **AGREE** that if an application is made by an organisation and the customer changes Supplier, the application should continue to be 'active' (section 7.3); and
  - f) **AGREE** that the development of the Interim Process should include the establishment of rules to underpin the maintenance and duration of any application that is approved (section 7.5).

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