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| Public |
| Aligning BSC reporting with EMR Regulations |
| ELEXON consultation on reporting of Gross Demand Data to EMR |
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| ELEXON  Version 1.0  15 October 2018 |

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| Aligning BSC reporting with EMR Regulations |

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1. Executive Summary

ELEXON (as ‘BSCCo’) is the Code Administrator for the electricity Balancing and Settlement Code (BSC), with responsibility for managing and delivering the end-to-end services set out in the BSC. This also includes the provision of ‘gross demand data’ for purposes of Capacity Market (CM) and Contract for Difference (CFD) charging. These schemes were introduced by the Government in 2014 as part of their programme of Electricity Market Reform (EMR), and are funded using payments from licensed electricity Suppliers.

The Supplier payments that fund the CM and CFD schemes are calculated by the EMR Settlement Services Provider (SSP), appointed by the Low Carbon Contract Company (LCCC) and Electricity Settlement Company (ESC). These calculations rely on gross demand data, which is reported to the EMR SSP by the Settlement Administration Agent (SAA), a BSC Agent appointed by ELEXON. The role of EMR SSP is performed by EMR Settlement Limited (EMRS), a subsidiary of ELEXON.

# Imports to Licensed Generation

In July 2017, the Department for Business, Energy and Industrial Strategy (BEIS) and Ofgem published their joint [Smart Systems and Flexibility Plan](https://www.gov.uk/government/publications/upgrading-our-energy-system-smart-systems-and-flexibility-plan) (SSFP), which sets out their view that electricity provided to Licensed Generation (including Licensed Storage) should not be subject to final consumption levies (FCLs), including CFD and CM charges. This suggests that changes are required to the process used by SAA to determine and report gross demand data, because currently the reported figures may include some imports to Licensed Generation (which should not be subject to EMR charges, according to the SSFP).

Although the SSFP is clear on the overall principle, we believe the detail of the changes that may be required to BSC processes is unclear, particularly with regards to Licensed Generation[[1]](#footnote-1) that shares a network connection with end‑use demand. Such generation is sometimes referred to as ‘behind the meter’ or ‘behind the Settlement Meter’, because it does not have its own Metering System (for purposes of BSC Settlement), but sits ‘behind’ a Metering System that it shares with other demand or generation. One of the purposes of this consultation is to obtain views from Licensed Generators, BSC Parties and other stakeholders on how electricity provided by a licensed Supplier to Licensed Generation ‘behind the Settlement Meter’ should be treated for purposes of CFD and CM charging. This will help us in preparing proposals to bring the BSC processes for reporting gross demand data in line with EMR Legal Requirements (and specifically the interpretation of EMR Legal Requirements set out in the SSFP).

We do however understand that there may be Licensed Generators (particularly those not ‘behind the Settlement Meter’) who will continue to believe they are being charged for imports to their Generation or Storage in a manner that is inconsistent with the new regulatory requirements until this enduring solution can be put in place. We therefore propose – subject to the views expressed in responses to this consultation - to work with LCCC and ESC to put in place interim solutions for these more straightforward cases. We envisage that such interim solutions could be in place from January 2019. The interim solution would use settlement data provided to EMRS by Half Hourly Data Aggregators, and would not include ‘behind the meter’ generation within scope.

# Exempt Supply across the Distribution Network

This consultation also seeks views on how the BSC process for calculating gross demand values should treat exempt supply across the Distribution Network. For example, this situation may arise when a community generation asset uses the [Class A exemption for small Suppliers](http://www.legislation.gov.uk/uksi/2001/3270/schedule/4/made) to supply electricity that it has generated to local customers across the distribution network. Such a situation typically requires one or more Licensed Suppliers to provide the exempt supplier with metering and other services. Currently the SAA will include the exempt supply in the gross demand values reported to EMRS for the licensed Supplier(s) providing metering services for the customers receiving the supply. We believe this is not consistent with EMR Regulations, which require CFD and CM charges to be levied on electricity supplied by licensed suppliers (not exempt suppliers).

A full solution to this issue 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. However, this would require a Modification to the BSC, as well as some system changes, and is therefore unlikely to be delivered before 2020. This consultation therefore also seeks views on whether we could put in place an interim solution for the more straightforward cases.

# Next Steps

The BSC Panel will consider responses to this consultation at their meeting on 8 November 2018, and agree how to progress interim and enduring solutions to these issues.

1. Introduction and Background

The CFD and CM schemes were introduced by the Government as part of the Electricity Market Reform (EMR) programme. CFDs are designed as an incentive for investment in new low-carbon electricity generation. The CM is designed to ensure sufficient and reliable generation capacity and/or demand side response (DSR) when there is a high chance of insufficient electricity available on the Transmission System.

# How are CM and CFD Supplier Obligation charges levied on Suppliers?

The CFD and CM schemes are funded by licensed Suppliers, as laid out in secondary legislation:

* The [Contracts for Difference (Electricity Supplier Obligations) Regulations 2014](http://www.legislation.gov.uk/uksi/2014/2014/contents/made), 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).
* [The Electricity Capacity (Supplier Payment etc.) Regulations 2014](http://www.legislation.gov.uk/uksi/2014/3354/contents/made), 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).

The costs of both schemes are shared between Suppliers in proportion to their gross demand i.e. the volume of electricity that they supply to customers in GB.[[2]](#footnote-2) The actual process of calculating payments and issuing invoices is currently performed by EMRS, acting as EMR SSP for LCCC and ESC.

# What are the BSC provisions relating to EMR Settlement Data?

On 1 August 2014, the Secretary of State designated changes to the BSC in order to support the implementation and operation of EMR. This included requirements on ELEXON to provide EMR Settlement Service Providers with any Settlement data required for purposes of EMR settlement. These requirements are in [Sections V5](https://www.elexon.co.uk/the-bsc/bsc-section-v-reporting/) and [C11.2](https://www.elexon.co.uk/the-bsc/bsc-section-c-bscco-subsidiaries/) of the BSC, and can be summarised as follows:

* ELEXON (or its appointed BSC Agents) must provide LCCC and ESC (or their appointed EMR SSP) with any data required for purposes of EMR Settlement (“EMR Settlement Data”);
* ELEXON must provide the BSC Panel with (and publish on its website) a [Schedule of EMR Settlement Data](https://www.elexon.co.uk/wp-content/uploads/2015/10/EMR-Data-Provision-Schedule-v1-0.pdf) identifying the EMR Settlement Data that is being provided; and
* The EMR SSP must enter into an agreement with ELEXON, preventing them from using the data for purposes other than EMR Settlement.

# Why is ELEXON consulting on this now?

The Schedule of EMR Settlement Data (which was agreed by ELEXON, LCCC, ESC and EMRS in 2015) specifies that EMRS will be provided with a BM Unit Gross Demand Report, containing the gross demand data that EMRS requires in order to calculate the payments due from each licensed Supplier. The technical detail of this report is documented in:

* Section 4.3.1.3 of the Supplier Volume Allocation Agent (SVAA) [User Requirements Specification](https://www.elexon.co.uk/csd/supplier-volume-allocation-agency-user-requirements-specification-svaa-urs/); and
* Section 5.27 of the Settlement Administration Agent (SAA) [User Requirements Specification](https://www.elexon.co.uk/csd/settlement-administration-agent-user-requirements-specification-saa-urs-v13-0/).

In summary, the demand values reported in the BM Unit Gross Demand Report are as follows:

|  |  |
| --- | --- |
| Type of BM Unit | Gross Demand Value |
| **Supplier BM Units** (i.e. those containing Plant and Apparatus whose Metering Systems are registered in the Supplier Volume Allocation arrangements) | Gross demand (as recorded on Import channel of Meters and allocated to Import Metering Systems), adjusted for network losses and GSP Group Correction |
| **CVA BM Units** (i.e. those containing Plant and Apparatus whose Metering Systems are registered in the Central Volume Allocation arrangements) | BM Unit Metered Volume (adjusted for transmission losses) where the BM Unit is a net Importer in the Settlement Period; or  Zero where the BM Unit is a net Exporter in the Settlement Period |

This data allows EMRS to calculate CFD and CM charges in accordance with their [published guidance](https://www.emrsettlement.co.uk/documents/2016/03/g2-calculation-supplier-demand-emr-charging.pdf), which states that:

* Supplier BM Units will be charged based on their gross demand; and
* CVA BM Units registered by licensed Suppliers will be charged based on their gross demand, unless “the BM Unit is at premises occupied for the purposes of operating a Licensable Generating Plant”

This approach to reporting gross demand to EMRS was consistent with regulatory requirements when it was agreed in 2015. But, since then, ELEXON has become aware of two evolutions:

* In July 2017, the Department for Business, Energy and Industrial Strategy (BEIS) and Ofgem published their joint [Smart Systems and Flexibility Plan](https://www.gov.uk/government/publications/upgrading-our-energy-system-smart-systems-and-flexibility-plan). This plan makes clear that BEIS and Ofgem now interpret the definition of ‘supply’ in the Electricity Act as meaning that the Supplier Obligation is not payable in relation to supply to premises occupied by a generator licence holder for the purpose of carrying out activities authorised under the generation licence, even if the generation is not ‘Licensable’. Section 3 below explains this issue in more detail.
* More recently, ELEXON has been approached by parties seeking to facilitate exempt supply (by the operators of community generation assets to local customers) under the class A supply licence exemption. Because this supply is not being made by a licensed Supplier it should not be subject to EMR charges, but currently the BM Unit Gross Demand Report sent to EMRS includes these volumes in the gross demand for the licensed Supplier who has registered metering on behalf of the exempt supplier. Section 4 below explains this issue in more detail.

Both these issues imply that the gross demand values in the BM Unit Gross Demand Report (sent to EMRS) include electricity volumes which are not “**supplied**” by the Lead Party of the BM Unit (and for which, therefore, the Lead Party should not be charged CFD or CM levies). This potentially means that the BM Unit Gross Demand Report (as designed and implemented in 2015) is not entirely consistent with its intended purpose of reporting to EMRS how much each Supplier has “supplied”.

In July 2018 ELEXON presented a [paper (280/11)](https://www.elexon.co.uk/documents/groups/panel/2018-meetings/280/280-11-proposed-approach-to-providing-metered-data-for-calculation-of-final-consumption-levies-fcls/) to the BSC Panel, explaining these issues and proposing that ELEXON should work with ESC and LCCC to develop an interim solution that can be delivered by ESC and LCCC in a more timely way, whilst still sitting within the overall BSC governance. This would allow more time to develop a fully comprehensive solution that is built to handle future market developments. The BSC Panel agreed that we should consult with parties to understand whether they support this approach, and seek views on key aspects of the solution.

# Who will be affected by the issues raised in this consultation?

We anticipate that the issues raised in this consultation will primarily be of interest to:

* Licensed electricity Generators who rely on a licensed Supplier to register the Import Metering Systems that record any electricity imported from the grid by their Generating Units;
* Licensed electricity Generators who register their own Import Metering systems, but who also hold a Supply Licence (and are therefore liable to pay CFD and CM charges);
* Licensed electricity Suppliers who register Import Metering Systems on behalf of Licensed Generators;
* Exempt electricity Suppliers who supply electricity to customers across the Distribution Network (facilitated by a licenced electricity Supplier);
* Licensed electricity Suppliers who provide Settlement Metering services to exempt suppliers (in order to facilitate exempt supply across the Distribution Network); and
* Half Hourly Data Aggregators (HHDAs), who under the proposed interim solution may receive more requests from Suppliers to submit metered data to the EMR SSP.

# How do I respond to this consultation?

The text of this document contains fourteen specific questions on which we are seeking views, and these questions are repeated on the attached pro forma. Please complete this and return it to [Design.Authority@elexon.co.uk](mailto:Design.Authority@elexon.co.uk) by **17:00 on Tuesday 30 October 2018**.

If you have any questions on this consultation document please contact John Lucas ([john.lucas@elexon.co.uk](mailto:john.lucas@elexon.co.uk), 020 7380 4345).

# Next Steps

The BSC Panel will consider responses to this consultation at their meeting on 8 November 2018, and agree how to progress interim and enduring solutions to the issues described in this document.

1. What is the Potential Issue with Imports to Licensed Generation?

As explained in section 2 above, EMRS currently includes in each licensed Supplier’s chargeable demand any electricity supplied to licensed generators, with the exception of electricity provided to “Licensable” Generating Plant. The term “Licensable” is defined in [BSC Section K1.2.2](https://www.elexon.co.uk/the-bsc/bsc-section-k-classification-and-registration-of-metering-systems-and-bm-units/), and means Generating Plant that would require a Generation Licence to operate. As illustrated in the following Venn diagram, it is possible for Generating Plant to be “**Licensed**” but not “**Licensable**” (e.g. if the plant is below 50MW, and could therefore be operated by an unlicensed party under the ‘Class A’ exemption for small generators, but is in fact being operated by a Licensed Generator):

According to the SSFP, Imports to generation that is Exemptable (e.g. below 50 MW) but operated by a licensed generator should **not** be subject to FCLs. But the BM Unit Gross Demand Report sent to EMRS does not distinguish these Imports from other demand, and therefore EMRS does charge for them.

***Figure 1 – Illustrating that Generating Plant may be Exemptable and Licensed***

Imports to generation that is **Licensable** (i.e. Licensed and not Exemptable) are already not subject to FCLs.

Generation that is Exemptable (e.g. below 50 MW) and does not have a licence is “**Exempt**”. Imports to such generation constitute supply, and are therefore subject to FCLs.

**Licensed Generating Plant**

This is generating plant (including storage) operated by the holder of a Generation Licence, irrespective of whether they could otherwise operate without a licence, i.e. be exempt.

**Exemptable Generating Plant**

This is generating plant (including storage) that could be operated under an Exemption (even if it is not Exempt, because the person operating it holds a Generation Licence). It therefore includes generating stations providing less than 50MW (and hence falling under the ‘Class A’ exemption for small generators).

However, this approach (of charging Suppliers for Imports to all Exemptable[[3]](#footnote-3) generation, even if it is Licensed) is not consistent with the interpretation of the legislation set out by BEIS and Ofgem in their joint [Smart Systems and Flexibility Plan](https://www.gov.uk/government/publications/upgrading-our-energy-system-smart-systems-and-flexibility-plan) (SSFP), which states on page 22 that:

“***Electricity supplied to generation licence holders is excluded from the supply volumes used to calculate the costs of the Renewables Obligation (RO), Contracts for Difference (CFD), Feed in Tariffs (FITs) and Capacity Market auctions. Holders of either a generation licence or the new storage licence to be consulted on by Ofgem (see 1.2) will, as a result, not be liable for such levies.***”

We understand the rationale for this interpretation is that CFD and CM charges are payable on electricity “supplied” by licensed Suppliers to customers in GB; and the Electricity Act 1989 (as subsequently amended) states that:

*“supply”, in relation to electricity, means its supply to premises in cases where—*

*(a) it is conveyed to the premises wholly or partly by means of a distribution system, or*

*(b) (without being so conveyed) it is supplied to the premises from a substation to which it has been conveyed by means of a transmission system,*

***but does not include its supply to premises occupied by a licence holder for the purpose of carrying on activities which he is authorised by his licence to carry on****; (our emphasis added)*

The SSFP therefore implies that the gross demand values used to calculate licensed Suppliers’ CFD and CM charges should **not** include any electricity provided to Licensed Generators for the purpose of licensed generation. However, the BM Unit Gross Demand Report provided to EMRS by BSC Systems does not currently provide the information that would be needed to do this (as it does not separately report the volume of electricity provided to Exemptable Licensed Generators). This means that licensed Suppliers are charged CFD and CM levies on electricity they provide to Exemptable Licensed Generators (contrary to the expectations set out in the SSFP). This potentially increases costs for the Licensed Supplier and/or the Licensed Generator (to the extent that the Licensed Supplier passes on the charges).

In theory, Exemptable Licensed Generators may be able to avoid this issue by ensuring that their Import Metering System is registered by a BSC Party who does not hold a Supply Licence, as such parties are not required to pay CFD or CM charges. This could be themselves (if they choose to accede to the BSC), or another BSC Party. However, this approach is likely to impose additional costs on the Generator, in that:

* The majority of smaller generation is registered in the Supplier Meter Registration Service (SMRS), but this is only open to Licensed Suppliers. Parties who are not Licensed Suppliers can only register Metering Systems in the Central Meter Registration Service (CMRS), which was designed for larger sites, and imposes additional costs (e.g. the site must register its own BM Unit).
* If the Generator does not wish to accede to the BSC themselves, they would need to find a non-Supplier to provide them with the required registration services. But many companies who are in the market to provide such services do hold Supply Licences, and therefore the pool of non-Suppliers who could provide these services may be small.

In order to solve this issue – and allow Exemptable Licensed Generators to procure metering services from a Licensed Supplier without incurring CFD and CM charges – ELEXON believes that BSC systems and processes should be amended to provide the EMR SSP with a BM Unit Gross Demand Report containing demand values that do not include any electricity provided to Licensed Generators for the purpose of licensed generation.

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| **Q1.** | Do you agree with the principle that ELEXON should provide the EMR SSP with gross demand values that exclude any electricity provided to Licensed Generators for the purpose of licensed generation (in order to facilitate the approach to EMR charging specified in the BEIS/Ofgem SSFP)?  Please provide rationale. |

In order to achieve this aim we will need to address a number of issues, as described in the remainder of this section.

# Which activities should be treated as non-chargeable?

The approach described above raises the question of exactly which electricity imported by premises with licensed generation should be excluded from the gross demand values we report to the EMR SSP (and hence treated as non‑chargeable):

* At one extreme, if the premises contain only licensed generating units (and directly associated equipment, such as that required to connect the generating units to the distribution network) it seems clear that any electricity imported by the site will be used for activities authorised by the generation licence (and should not be subject to FCL charges).
* At the other extreme, if the premises also contain electrical loads that are much larger than the generation (and used for a purpose wholly unconnected to the generation of electricity) we believe that electricity provided to these loads would constitute “supply” for the purposes of the Act (and should be subject to CFD and CM charges). Any other interpretation would create a perverse incentive for demand of all sorts to acquire a generation licence (and install a *de minimis* level of generation) in order to avoid CFD and CM charges (and other FCLs).

We therefore believe that, in order to align BSC reporting with the intent of the SSFP and Electricity Act, we will need a clear definition of which activities can be regarded as “**generation-related**” for the purposes of CFD and CM charging. We would then aim to amend the BM Unit Gross Demand Report, so that the gross demand values for each licensed Supplier:

* **Exclude** electricity provided by them to a Licensed Generator for generator-related purposes (on the basis that this falls outside the definition of ‘supply’ in the Act); but
* **Include** electricity provided by them to a Licensed Generator for purposes that are not generation-related (on the basis that this falls inside the definition of ‘supply’ in the Act).

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| **Q2.** | Do you agree that continuing to levy CFD and CM charges on any electricity supplied to a company holding a Generation Licence for purposes that are not generation-related is appropriate (and remains consistent with the requirements of the Act)? Please provide any supporting evidence. |

# Why is ELEXON proposing an interim solution followed by an enduring solution?

We believe that developing a robust solution for calculating chargeable supply volumes in line with the above principles may require some complex issues to solved, including:

1. Developing and agreeing an appropriate definition of “generation-related” activities, so that Suppliers and Generators are clear on which volumes are subject to CFD and CM charges, and which are not. Careful consideration will need to be given as to where to draw the line, as some activities may be considered more directly “generation-related” than others (e.g. operating a conveyor belt used to deliver fuel to a generating unit might be considered more directly related to electricity generation than operating a sports and social club used by the staff operating the generating unit); and
2. Developing industry processes for distinguishing supply to generation-related activities from other supply.

The second of these issues arises at sites that contain both Licensed Generating Plant and other non‑generation related loads that are either:

* Operated by the licensed Generator, but fall outside the agreed definition of generation-related activities (as discussed above); or
* Operated by an end customer who is not the licensed Generator. Often this end customer will have an agreement to buy electricity from the licensed Generator when the Generating Plant is running (under the terms of the [Class C exemption for on-site supply](http://www.legislation.gov.uk/uksi/2001/3270/schedule/4/made)). However, they will have to buy electricity from a licensed Supplier when the Generating Plant is not running.

For example, consider a site occupied by a company that holds a Generation Licence, and operates both a 40 MW Power Station and a factory of some sort. When the Power Station is running the company uses electricity from the Power Station to supply the factory, and sells the surplus to a Licensed Supplier. When the Power Station is not running the company buys electricity from a Licensed Supplier (to meet demand from both the Power Station and the factory). In this situation the Import recorded on the Supplier’s meter will be a mix of Power Station Imports (that are not subject to EMR charges), and Imports to the factory (that are subject to EMR charges):

Factory

**3 MWh**

Settlement Meter

In figure 2 above, the Settlement Meter (installed at the boundary between the Customer Network and the Distribution System) shows an overall Import of 3 MWh to the site. But it does not reveal how this Import was being used:

***Figure 2 – A Mixture of Chargeable and Non-Chargeable Imports***

Power Station

Customer Network

Distribution Network

* It could be that the Power Station and the factory are each using some of the 3 MWh imported from the Distribution System, in which case only a portion of the 3 MWh is chargeable;
* It could be that the Power Station is generating some electricity (but not enough to meet all the demand from the factory), in which case all of the 3 MWh imported from the Distribution System is chargeable.

We believe that resolving this issue is likely to require processes for **sub-metering** i.e. requiring the operator of the site to install metering for the factory and/or the Power Station, allowing the true volume of chargeable Imports in each half hour to be calculated. Such metering is sometimes referred to as ‘sub-metering’ or ‘behind the Settlement Meter’ metering.

We understand that, in some cases, Suppliers may already be making use of sub-metering to ensure that imports to Licensed Generation are not included in the submissions they make to Ofgem (for schemes such as the Renewables Obligation). But taking the same approach to CFD and CM charges is less straightforward, because chargeable volumes for these schemes are calculated under the BSC, which:

* Does not currently include processes for collecting and validating data from sub‑metering. We anticipate that such processes may be developed following recent discussion of BSC Issue 70 (‘[Settlement of Secondary BM Units using metering at the asset](https://www.elexon.co.uk/smg-issue/issue-70/)’); and
* Does not currently include processes for using data from sub-metering to calculate how much of the Import to a site was used by Licensed Generation for generation-related purposes.

We propose that the most appropriate way to develop solutions to these issues (and agree an appropriate definition of “generation-related” activities) is for a BSC Party[[4]](#footnote-4) to raise a BSC Modification Proposal. This Proposal would then be assessed by a Workgroup (in accordance with [Section F of the BSC](https://www.elexon.co.uk/the-bsc/bsc-section-f-modification-procedures/)), who would develop the detail of the required solution, and assess whether it facilitated the Applicable BSC Objectives (set out in Condition C3 of the [Transmission Licence](https://epr.ofgem.gov.uk/Content/Documents/Electricity%20transmission%20full%20set%20of%20consolidated%20standard%20licence%20conditions%20-%20Current%20Version.pdf)). We believe that such a Modification Proposal could potentially help to facilitate Objectives (c) and (f):

*(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;*

*(f) implementing and administering the arrangements for the operation of contracts for difference and arrangements that facilitate the operation of a capacity market pursuant to EMR legislation.*

However, raising and assessing a Modification Proposal (and implementing the solution it develops) will not be a quick process. We believe an enduring solution developed through this route is unlikely to be implemented prior to Q3 2020. In the meantime we believe it may we appropriate to develop an interim solution. Key features of this interim solution would be as follows:

* In the absence of an agreed BSC definition of which activities are generation-related, Suppliers will be required to perform their own assessment, and provide a declaration (when they apply for metered data from a given Metering System not to be charged) that the Imports that Metering System records fall outside the definition of ‘supply’ in the Act (and are therefore not liable to CFD and CM charges); and
* In the absence of BSC processes for collecting and processing data from sub-metering, the interim solution will only accept data from SVA Metering Systems (registered in the Metering Point Administration Service operated by the relevant Distribution Business). Such Metering Systems are identified by an SVA Metering System Number, also referred to as a Metering Point Administration Numbers (MPAN). The interim solution will therefore only apply to Licensed Generation that has its own MPAN (as opposed to Licensed Generation that sits ‘behind the Settlement Meter’, sharing an MPAN with unrelated demand on a private network).

We have been working closely with LCCC, ESC and EMRS to understand how the interim solution described above can best be implemented. Our target date for implementation (subject to ongoing assessment of the process changes needed, and the responses we receive to this consultation) is January 2019. We do not envisage a BSC Modification or Change Proposal being needed to deliver this interim solution.

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| **Q3.** | Do you agree with our proposed approach of developing a solution in two stages:   * An enduring solution, developed through the BSC Modification process, that includes an agreed BSC definition of which activities should be treated as generation-related, and BSC processes (potentially similar to those proposed for Issue 70) for collecting and processing data from sub-metering; and * An interim solution that is deliverable much earlier than the enduring solution, but relies on Suppliers to form their own view of which activities should be treated as generation-related, and cannot use data from sub-metering.   Please provide reasons for your views. |

# How does this relate to the Ofgem consultation on the storage licence?

In October 2017, Ofgem published a consultation on ‘[Clarifying the regulatory framework for electricity storage](https://www.ofgem.gov.uk/publications-and-updates/clarifying-regulatory-framework-electricity-storage-licensing)‘, which sought views on changes to the electricity generation licence to make it fit for storage. So far no decision on this consultation has been published, and we understand that (in the meantime) storage operators have been able to apply for conventional generation licences.

We do not see any strong dependencies between that consultation, and the need to bring BSC reporting processes in line with the SSFP (by excluding Imports to Licensed Generation from suppliers’ gross demand values). However, we recognise that the Ofgem consultation does raise questions which may need to be taken into account by the Workgroup considering the detail of the enduring solution. For example, the consultation proposed a specific licence condition for licensed storage that would require it to Export: “The licensee shall not have self-consumption as the primary function when operating its storage facility”. It further implied that – providing this condition was met – all imports to the storage facility would be treated as not subject to FCLs. However, it is important to note that – until Ofgem publishes its decision – we do not know what responses Ofgem received to the consultation, and whether their thinking has evolved as a result.

In summary, we anticipate that Ofgem’s decision on the October 2017 consultation (once it is published) may be helpful to the BSC Workgroup that develops the enduring solution; but we do not believe that the interim solution needs to wait for the decision to be published.

# A more detailed comparison of the interim and enduring solutions

The following table provides a more detailed comparison of how the interim and enduring solutions might work:

| No. | Component | Possible Enduring Solution | Proposed Interim Solution |
| --- | --- | --- | --- |
| 1. | Process for registering which SVA Metering Systems are recording Imports to Licensed Generation. | In February 2019, as part of the delivery of [BSC Modification P344](https://www.elexon.co.uk/mod-proposal/p344/) (‘Project TERRE’), ELEXON will be delivering a self-service portal that allows independent aggregators to register details of which SVA Metering Systems are participating in the Balancing Mechanism.  We believe these processes could be further delivered to allow Licensed Generators (or Licensed Suppliers acting on their behalf) to register details of SVA Metering Systems that are recording Imports to Licensed Generation. | For the interim solution, we envisage a paper-based process in which an appropriately qualified person (e.g. Company Director) submits a declaration that a particular SVA Metering System is recording Imports to Licensed Generation. |
| 2. | Process for providing BSC Systems with metered data (for those SVA Metering Systems registered in 1). | As part of the delivery of [BSC Modification P344](https://www.elexon.co.uk/mod-proposal/p344/) (‘Project TERRE’), ELEXON will be delivering changes to BSCP503 (‘[Half Hourly Data Aggregation for SVA Metering Systems Registered in SMRS](https://www.elexon.co.uk/csd/bscp503-half-hourly-data-aggregation-for-sva-metering-systems-registered-in-smrs/)’) that allow the Supplier Volume Allocation Agent (one of the BSC Agents appointed by ELEXON) to request half hourly metered data (for relevant Metering System) from Half Hourly Data Aggregators (HHDAs).  We believe that minor changes to these processes would allow them to be used for retrieving metered data from licensed generation as well. | In the absence of DTC or BSC System changes, the interim solution would need to rely on existing processes that allow a licensed Supplier to send their HHDA a D0354 (‘[EMR Reporting Notification](https://dtc.mrasco.com/DataFlow.aspx?FlowCounter=0354)’) data flow, requesting them to send half hourly metered data to EMRS. |
| 3. | Process for tracking the licensed Supplier of each SVA Metering System (in order that the correct Supplier’s chargeable volume can be adjusted). | As part of the delivery of [BSC Modification P344](https://www.elexon.co.uk/mod-proposal/p344/) (‘Project TERRE’), ELEXON will be delivering processes that access registration data to track the licensed Supplier (for those SVA Metering Systems for which HHDAs have been requested to provide data).  We believe that minor changes to these processes would allow them to be used for Licensed Generation also (and hence ensure that energy continued to be allocated correctly when a Licensed Generator changed their electricity supplier). | In the absence of systems for doing this, licensed Suppliers registering a Metering System (under point 1) will need to agree to notify us of any Change of Supplier (by email). |
| 4. | Processes for sub-metering i.e. gathering Settlement-quality metered data from metering installed on-site by the Licensed Generator. | Processes for collecting Settlement-quality metered data from metering installed by generators within their network are already being considered under BSC Issue 70 (‘[Settlement of Secondary BM Units using metering at the asset](https://www.elexon.co.uk/smg-issue/issue-70/)’). We are expecting a BSC Modification Proposal to be raised to progress the findings of the Issue Group, and we believe that minor changes to the processes introduced by this Modification would allow them to be used for Licensed Generation also. | Given the potentially complex nature of the assurance issues this would raise, we do not propose to support this in the interim solution. |
| 5. | Calculation process (to produce a BM Unit Gross Demand Report that excludes any electricity provided to Licensed Generators for the purpose of licensed generation) | Changes required to the Supplier Volume Allocation Agent (SVAA) reporting functionality that calculates gross demand for each Licensed Supplier. | We will agree with LCCC, ESC and EMRS an appropriate mechanism for ensuring that metered data (submitted as per point 2 for SVA Metering Systems registered as per point 1) is treated as non-chargeable for CFD and CM purposes. |

The solutions described above focus on SVA Metering Systems, because EMRS already has a process for considering which BM Units registered in Central Volume Allocation (CVA) should be regarded as chargeable. However, the Workgroup considering the enduring solution could also consider whether improvements to reporting of CVA data are appropriate.

The following diagram illustrates key data flows in the proposed **interim** solution:

**Licensed Electricity Suppliers**

Self-Declaration that MPAN not chargeable

**Settlement Administration Agent**

**Half Hourly Data Aggregators**

BM Unit Gross Data

HH Metered Data for EMR (D0357)

**EMRS Settlement System**

(Subtracts metered data for non-chargeable MPANs from Supplier totals)

Although the primary purpose of these solutions would be to bring the BM Unit Gross Demand Report in line with the SSFP, it could potentially have other uses. For example, the CUSC Workgroup assessing CUSC Modification Proposal CMP281 (‘[Removal of BSUoS Charges From Energy Taken From the National Grid System by Storage Facilities](https://www.nationalgrideso.com/codes/connection-and-use-system-code-cusc/modifications/removal-bsuos-charges-energy-taken-national)') is considering solutions in which Balancing Services Use of System (BSUoS) would not be charged on imports to BM Units comprising licensed generation or storage. They are also considering a related CUSC Modification Proposal CMP280 (‘[Creation of a New Generator TNUoS Demand Tariff which Removes Liability for TNUoS Demand Residual Charges from Generation and Storage Users](https://www.nationalgrideso.com/codes/connection-and-use-system-code-cusc/modifications/creation-new-generator-tnuos-demand-tariff)’) relating to Transmission Network Use of System Charging (TNUoS). The interim and enduring processes described above could also support these proposals by reporting to National Grid how much energy Suppliers have provided to Licensed Generation (if required for charging purposes).

EMR Reporting Notification (D0354)

CM and CFD invoices

**Licensed Electricity Generators**

***Figure 3 – Key Data Flows in the Interim Solution***

While the enduring solution would be developed fully under BSC governance, the interim solution will be a hybrid solution, established under BSC governance but implemented in collaboration with LCCC/ESC/EMRS. This approach allows for quicker implementation, but may limit the scope for updating the solution through BSC governance, as LCCC/ESC processes and systems are governed separately.

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| **Q4.** | Do you have any suggestions on controls that should be included in the interim or enduring solutions, to provide parties with assurance that the correct energy is being treated as non-chargeable?  Please provide rationale. |
| **Q5.** | Do you agree with the principle of the interim solution being delivered using a ‘hybrid’ approach i.e. established under BSC governance but implemented in collaboration with LCCC/ESC/EMRS? |

# Request for information on likely volumes

In order to design the interim solution it would be helpful for us to understand the likely volume of applications we might receive.

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| **Q6.** | For Licensed Suppliers: Please provide an estimate of how many sites you supply electricity to at which a Licensed Generator is currently being charged CFD/CM charges?  For Licensed Generators: Please provide an estimate of how many sites you generate electricity at where you are currently being charged CFD/CM charges? |
| **Q7.** | Of the sites included in your response to Q6, please estimate how many would be eligible for the interim solution (i.e. Licensed Generation that has its own MPAN, rather than being ‘behind the meter’ with other on-site demand)? |
| **Q8.** | Of the sites included in your response to Q7, please estimate the average size (kW or MW) of each site? |
| **Q9.** | Of the sites included in your response to Q7, please provide a breakdown of the generation technologies involved (e.g. wind, diesel, PV, battery storage)? |

The remainder of this consultation document turns to the topic of supply over the distribution network by class A exempt suppliers. This is a different issue to supply to Licensed Generation, but is related in that these volumes may be incorrectly included in CFD and CM charges levied on Licensed Suppliers.

1. What is the Potential Issue with Exempt Supply over a Distribution Network?

Exempt supply over a distribution network is another scenario in which the BM Unit Gross Demand Report (provided by the SAA to the EMR SSP) may allocate energy to Licensed Suppliers that they have not themselves “supplied” (and for which they should therefore not be charged CFD or CM levies). To illustrate the scenario, consider a community energy scheme that owns one or more generation assets, and wishes to sell their Export to local customers:

* The [Class A exemption for small suppliers](http://www.legislation.gov.uk/uksi/2001/3270/schedule/4/made) provides a framework for doing this, as it permits supply of up to 5 MW (2.5 MW to domestic consumers) without a licence;
* The Class A exemption would not allow the community energy scheme to supply their customers with electricity they had not generated themselves. There would therefore need to be arrangements in place to allow the customers to purchase electricity from a licensed supplier (e.g. in the event of outages affecting the community generation assets);
* Although the exempt supplier would not be subject to the conditions of the supply licence, they would still have duties to protect their customers as set out in both energy-specific legislation and general consumer protection law. Ofgem’s Innovation Link has published guidance on this, in their November 2017 document on [options for supplying electricity to consumers](https://www.ofgem.gov.uk/publications-and-updates/regulatory-options-supplying-electricity-consumers).

In April 2018 ELEXON 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 changes to BSC Systems could facilitate exempt supply. The white paper proposals would help facilitate an environment in which exempt suppliers can sell power to customers with different electricity suppliers, and without needing to negotiate a bilateral agreement with each such supplier. However, these arrangements would require a Modification to the BSC, as well as system changes, and are therefore unlikely to be delivered before 2020.

In the meantime, we are aware of exempt suppliers who are trying out new business models for supplying power to customers. In the absence of agreed industry solutions (such as those described in our white paper) we believe that many of them are focusing on trialling a simplified model. This is where they partner with a single licensed electricity supplier, and make an exempt supply only to that supplier’s customers. The exact relationship between customer, exempt supplier and licensed supplier may vary from scheme to scheme. However we would generally expect the services provided by the licensed supplier to include the registration of Metering Systems for both generating assets and customers. Customers in such a trial will therefore have a Metering System that is registered by the licensed Supplier, but is measuring and recording both:

* Electricity supplied to them by the licensed supplier; and
* Electricity supplied to them by the exempt supplier (with the licensed supplier merely facilitating the supply, by providing metering and other services).

Only the first of these should be subject to final consumption levies (such as RO, CFD and CM charges). In the case of RO charges the licensed Supplier can ensure that only electricity they supply themselves is included in their submissions to Ofgem. But CFD and CM charges are calculated using aggregated metered data from the SAA, leaving the licensed Supplier with no way of ensuring that they are charged correctly. In order to resolve this issue, we have been discussing with other relevant stakeholders (such as LCCC, ESC, EMRS and Ofgem) what interim solutions could be put in place to ensure correct charging for more straightforward examples of exempt supply (for example, those in which all of the exempt supplier’s customers appoint the same licensed supplier).

We believe that putting in place an accurate interim solution (even for schemes involving a single licensed Supplier) is likely to be difficult, and therefore it may not be possible for BSC Systems to handle large volumes of exempt supply until such time as an enduring solution can be put in place. But we know there are small-scale trials currently taking place (some of them through the regulatory sandbox introduced by Ofgem’s [Innovation Link](https://www.ofgem.gov.uk/about-us/how-we-engage/innovation-link)). An interim solution to support trials such as this has the potential to maximise learning, and provide input to the development of an enduring solution.

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| **Q10.** | Do you agree that ELEXON should seek to put in place interim solutions to ensure that – where possible - licensed suppliers are not charged CFD and CM levies on exempt supply that they facilitate? |

# How might an interim solution work?

An interim solution (aimed at the straightforward case where all the exempt supplier’s customers have the same Licensed Supplier) would need to work out how much of the electricity the exempt supplier generated was actually supplied to customers. For example:

* If the exempt supplier generated 20 kW, and their customers used 140 kW, all of the generation can be treated as exempt supply. Collectively the customers bought 20 kW from the exempt supplier (which is not subject to CFD and CM charges), and 120 kW from the Licensed Supplier (which is subject to CFD and CM charges); and
* If the exempt supplier generated 80 kW, and their customers used 50 kW, then the exempt supplier was only able to supply 50 kW to customers. The remaining 30 kW would have to be disposed of elsewhere (probably by selling it to the Licensed Supplier).

If the interim solution was going to perform this calculation it would need to be able to:

1. Collect half hourly metered data from the exempt supplier’s generation assets;
2. Collect half hourly metered data from all the exempt supplier’s customers; and
3. Compare the two.

However, we are not sure it is appropriate or feasible to deliver this as part of the interim solution (particularly as it would limit the solution to customers with half hourly metering, which many will not have until the smart meter rollout has progressed further). An alternative approach would be to aim the interim solution at schemes where the exempt supplier can demonstrate (based on historical information) that the customers involved use enough electricity to always (or almost always) use all of the electricity generated by one or more generation assets. Having been satisfied of this, the BSC Panel would agree that all Export from those assets should be treated as non-chargeable exempt supply.

Of course, this approach could potentially lead to errors. For example, if in a particular Settlement Period the customers did not consume as much electricity as the generating assets Exported. The BSC Panel would need to be satisfied that the risk of such error – in the context of a small-scale trial – was justified.

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| **Q11.** | Do you agree that – as an interim solution (until enduring processes for exempt supply can be put in place) – it is reasonable to treat Exports from a generation asset as non-chargeable (for CFD and CM purposes) if there is evidence that all (or almost all) of those Exports will be supplied to customers by an exempt supplier?  Please give rationale for your views. |

# What would be the process for applying?

We believe there are two potential routes that could be used to apply to the BSC Panel to have Exports from a generating asset treated as exempt supply (for purposes of calculating the gross demand data used for CFD and CM charging):

* BSC Modification P362 (‘[Introducing BSC arrangements to facilitate an electricity market sandbox](https://www.elexon.co.uk/mod-proposal/p362/)’) has introduced a process that allows the BSC Panel to issue derogations against BSC obligations to participants in the Ofgem sandbox process, in order to enable pre-competitive or proof of concept testing for innovative products/business models in the live BSC Settlement environment; or
* A less formal route for participants in trials of exempt supply arrangements to apply to the BSC Panel (or a Panel Committee) for agreement that (for purposes of calculating gross demand and providing it to the EMR SSP) consumption recorded on a given SVA Metering System should be treated as non-chargeable.

A potential issue with the sandbox route, is that the process is geared towards derogating parties from fulfilling their own obligations, rather than changing what BSC Agent systems do. Nonetheless, we believe either route could potentially be used.

Once the BSC Panel had agreed (through either route) that Exports from a particular generating asset should be treated as non-chargeable, the mechanics for implementing the decision would be the same as for the interim solution for Licensed Generation (discussed in section 3 above):

* The Licensed Supplier would send their appointed HHDA a D0354 data flow, instructing them to send metered data (for the relevant Export Metering System) to EMRS;
* The half hourly Export data sent to EMRS would be netted off the licensed Supplier’s chargeable demand.

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| **Q12.** | Do you have any comments on this process for applying to the BSC Panel, so as to implement an interim solution?  Please provide supporting rationale. |

# Request for information on likely volumes

In order to design any interim solution it would be helpful for us to understand the likely volume of applications we might receive.

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| **Q13.** | For exempt suppliers: Please provide an estimate of how many generating assets you might wish to be treated as non-chargeable (over the potential two-year lifespan of an interims solution)?  For Licensed Suppliers: Please provide any estimate of how many customers and/or generating assets you have registered Metering Systems for that might want to make use of an interim solution for exempt supply? |
| **Q14.** | Of the generating assets included in your response to Q13, please estimate the average size (kW) of each site? |
| **Q15.** | Of the generating assets included in your response to Q13, please provide a breakdown of the generation technologies involved (e.g. wind, diesel, PV, battery storage)? |

1. By ‘Licenced Generation’ we mean Generating Plant operated by someone holding a Generation Licence. [↑](#footnote-ref-1)
2. The original Regulations required CM costs to be shared between Suppliers on the of their net demand (i.e. excluding electricity supplied from embedded generation). The [Electricity Capacity (Amendment) Regulations 2017](http://www.legislation.gov.uk/uksi/2017/1053/contents/made) amended this, so both schemes now allocate costs to Suppliers on the basis of their gross demand. [↑](#footnote-ref-2)
3. The BSC uses the term “Exemptable”, while the Connection and Use of System Code (CUSC) uses the term “Exemptible”, but the two are equivalent. [↑](#footnote-ref-3)
4. It is also potentially possible for non-BSC Parties to raise Modification Proposals. BSC Section F2.1.1(c) allows Ofgem to designate “other bodies representative of interested third parties” to raise Modifications. BSC Modification Proposal P370 (‘[Allow the Panel to designate non-BSC Parties to raise Modifications](https://www.elexon.co.uk/mod-proposal/p370/)’) is currently being assessed, and would if approved transfer this power to the BSC Panel. [↑](#footnote-ref-4)