



Stage 04: Draft Modification Report

What stage is this document in the process?

01 Initial Written Assessment

02 Definition Procedure

03 Assessment Procedure

▶ 04 Report Phase

P272 'Mandatory Half Hourly Settlement for Profile Classes 5-8'

The BSC does not currently obligate the use of Half Hourly Settlement for Meters in Non Half Hourly Profile Classes 5-8. However, some Metering Equipment in Profile Classes 5-8 is already capable of capturing Half Hourly data. By 2014 the vast majority of such Meters will be capable of capturing Half Hourly data due to the roll out of 'advanced' Meters.

P272 proposes to make Half Hourly Settlement mandatory for Profile Classes 5-8 from 1 April 2014, as the Proposer believes that the use of Non Half Hourly data is not as accurate and masks individual customer behaviour.



The BSC Panel:

- Initially recommends **Rejection** of both the Proposed Modification and the Alternative Modification

High Impact:



- Suppliers
- Meter Operator Agents (MOAs)
- Half Hourly Data Collectors (HHDCs)
- Non Half Hourly Data Collectors (NHHDCs)

Medium Impact:



- Distributors
- Meter Operators

Low Impact:



- ELEXON

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About this Document

This is the P272 Draft Modification Report, which ELEXON will present to the Panel at its meeting on 13 December 2012. 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 Ofgem on whether the change should be made.

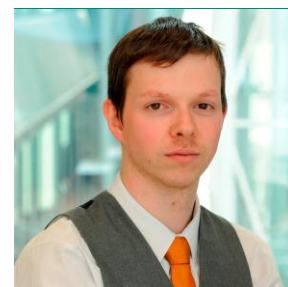
There are five parts to this document:

- This is the main document. It provides details of the solution, impacts, costs, benefits/drawbacks and proposed implementation approach. It also includes the initial recommendations which the Panel has made after considering the Assessment Report and a summary of the responses received from the Report Phase Consultation.
- Attachment A contains more information on the Workgroup's analysis and assessment. It includes the detailed cost-benefit analysis carried out by the Workgroup for P272. It also contains details of the Workgroup's membership and full Terms of Reference.
- Attachments B & C contain the draft redlined changes to the BSC for the P272 Proposed Modification and P272 Alternative Modification respectively.
- Attachment D contains the full responses received to the Panel's Report Phase Consultation.



Any questions?

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Why Change?

By 6 April 2014, all Meters within Profile Classes 5-8 must be an 'advanced' Meter capable of being read remotely and recording Half Hourly (HH) consumption. However, there is no mandate to settle these HH capable Meters on a HH basis. Instead the current profiles would continue to be used, resulting in continued use of less accurate Non Half Hourly (NHH) data in Settlement as profiled data may allocate energy to the incorrect Settlement Period. P272 contends that settling these Meters HH would be more accurate than using profiled data.

Proposed Solution

As of 1 April 2014, all Metering Systems within Profile Classes 5-8 shall be settled HH (where capable metering has been installed). Suppliers would be required to submit a high level plan to the Performance Assurance Board summarising how they intend to transfer these Metering Systems to HH Settlement.

Alternative Solution

As of 1 April 2015, all Metering Systems within Profile Classes 5-8 shall be settled HH (where capable metering has been installed). All other requirements of the alternative solution are unchanged from the proposed solution.

Impacts, Costs and Benefits

P272 impacts Suppliers, Distributors, HH and NHH Data Collectors, Meter Operators, Meter Operator Agents and ELEXON. The estimated central implementation cost is £19k.

A cost-benefit analysis has been undertaken to determine the cost and impacts on Parties and benefits to the market. The estimated cost for implementing the Proposed Modification would be approximately £112m, but could range from £46m to £199m, by the end of 2020. The Industry (and potentially the consumer) could realise benefits of around £144m, but this could range between £71m and £198m, in the same period. This suggests that there could be a £32m net benefit by the end of 2020. However, a majority of Workgroup members disagree with this conclusion, and believe that the costs would outweigh the benefits.

Implementation

The proposed Implementation Date for P272 is:

- 1 April 2014 if the Proposed Modification is approved; or
- 1 April 2015 if the Alternative Modification is approved.

The lead time is approximately 13½ months.

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The Case for Change

The majority of the Panel agrees with the Workgroup's majority view that neither the Proposed Modification nor the Alternative Modification would better facilitate Applicable BSC Objectives (c) or (d). It therefore initially recommends that both the P272 Proposed Modification and the P272 Alternative Modification are rejected.



What are the current regulations?

In April 2009, the Secretary of State (through powers granted under the Energy Act 2008) modified the Standard Conditions of an Electricity Supply Licence. This change mandates that, from 6 April 2009, any new Metering Equipment installed at non-domestic premises where the Metering Point falls within Profile Classes (PCs) 5-8 must be an 'advanced' Meter that is capable of recording Half Hourly (HH) consumption and of being accessed remotely. Furthermore, from 6 April 2014, all Meters installed that fall within Profile Classes 5-8 will have to be an 'advanced' Meter, regardless of when installation originally took place. The only exception to this rule is where installation has not been possible despite all reasonable steps having been taken.

Although these changes to Supply Licences mandate the installation of HH capable metering for Profile Classes 5-8, they do not mandate that HH data is actually collected and used in Settlement. As such, it is possible for Suppliers to continue to configure these Meters to record Non Half Hourly (NHH) data for use in Settlement.

What is the current process?

Currently, SVA Metered Data can be settled either HH or NHH, depending on the circumstances. If the Metering System is defined as being 100kW or above, it must be settled as HH. If it is below 100kW then it is usually settled on a NHH basis, although the Supplier can elect to settle it on a HH basis should it wish.

For sites where NHH Meters are installed, a set of generic load profiles are used to estimate what customers would have consumed for any given half hour in a year. To determine which profile to use, all NHH Metering Systems are placed into one of eight Profile Classes. Profile Classes 1 and 2 are for domestic premises while Profile Classes 3 to 8 are for non-domestic premises. These profiles attempt to represent the average customer consumption within the chosen Profile Class.

Profile data in Settlement

The majority of NHH Meters will not be read on a regular basis, and so their volumes are estimated based on their profile, and it is these that are entered into Settlement.

As time passes, actual Meter readings from NHH Meters become available, which will allow more accurate estimated consumption values for a given Settlement Period to be produced when the data is profiled. This takes place over a series of Reconciliation Runs, with the final run taking place 14 months after the original Settlement Day. There are four Reconciliation Runs in all (R1, R2, R3 and RF), each of which provides a continually more accurate picture of Settlement. Suppliers are required to settle 97% of their energy on actual meter reads (as opposed to estimated data) at the RF Settlement Run.

For some GSP Groups, a further Post-Final (DF) Settlement Run may be performed to resolve any disputes that have arisen for Settlement Days that have passed RF; this Settlement Run takes place 28 months after the original Settlement Day.

What is the issue?

All new metering points that fall under Profile Classes 5-8 must be capable of recording HH consumption. Additionally, all meters under PCs 5-8 must be HH-capable by 6 April 2014.

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Measurement Classes

The Measurement Class of a Metering System reflects how it is settled i.e. HH, NHH or HH elective.

Measurement Class A is the predetermined Measurement Class for NHH settled Meters. For Measurement Class A, Suppliers have set performance levels they must adhere to within the Settlement process. These performance levels are determined by the proportion of consumption through NHH Metering Systems that should be settled on actual Meter advances (rather than estimates) at each of the Settlement Runs.

Performance Levels	
Settlement Run	Performance Level
SF	N/A
R1	30%
R2	60%
R3	80%
RF	97%

Measurement Class C is for Metering Systems at or above 100kW (unless they are 'unmetered' under Measurement Class D). Metering Systems below 100kW that have elected for HH Settlement can be classified as either Measurement Class C or E. Measurement Class C Metering Systems must submit 99% actual Meter reading data by SF (and all subsequent Reconciliation Runs). Where an actual Meter reading is unavailable Data Collectors must provide estimated data.

Measurement Class E is a Measurement Class for Metering Systems that would fall under the 100kW limit, and therefore would be settled NHH under Measurement Class A, but their Supplier elects for them to be settled HH. The difference in Settlement terms between Measurement Classes C and E is that, for those Metering Systems that are HH elective in Measurement Class E, the Supplier needs to get 99% actual data by RF. Furthermore, there are no Technical Assurance Agent (TAA) checks on Metering Systems below 100kW.

How/why does the Proposer want to change the existing rules?

HH capable Meters installed for Profile Classes 5-8 since April 2009 are typically not being used to provide HH data for Settlement. Generally, the automatic reading capability is only being used to read periodic Meter advances without the need for a site visit. The result is that NHH profiled data is still being used in Settlement for these sites.

Profile Classes 5-8 generally include Metering Systems with larger volumes below 100kW (compared with domestic customers). P272 contends that to settle such sites on average profiled data (rather than on HH data) is not as accurate as it could be, and masks individual customer behaviour.

Furthermore, it is deemed prudent that, as there is a mandate to install HH capable Meters, the Industry should make better use of the resulting HH data that is made available within Settlement.



Modification Proposal Form

A copy of the Proposer's Modification Proposal Form can be found on the [P272](#) page of the ELEXON website.

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What is the proposed solution?

All SVA Metering Systems under PCs 5-8 shall be required to be settled using HH-metered data from 1 April 2014.

What is the proposed solution?

P272 proposes that, as of **1 April 2014**, all SVA Metering Systems that fall under Profile Classes 5-8 shall be required to be settled using Half Hourly Metered Volumes (where the relevant metering has been installed).

It would be left to individual Suppliers to choose how they implement the new requirement prior to 1 April 2014. However, Suppliers would be required to submit a high level transition plan to the Performance Assurance Board (PAB) by 31 May 2013 (which will be 3 months after the approval cut-off date of the Modification). This would allow PAB to make Suppliers aware of any potential timetable clashes where a bulk Change of Measurement Class (CoMC) might take place.

Profiles would remain for those in Profile Class 5-8 who are unable to install an advanced Meter. However, the regression equations for these Profile Classes would be 'frozen'.

The Proposer had originally proposed an Implementation Date of 6 April 2014 as part of the P272 proposed solution. However, as part of the Workgroup discussion concluded that a date of 1 April 2014 would be more appropriate, as it would align with the start of the BSC Year and with the April contract round. The Workgroup notes that this would be five days prior to the go-live date of the Supply Licence obligations, but considers it unlikely that this would cause an issue as the vast majority of advanced Meters should have been installed by this point.

Solution requirements

Below is a summary of the requirements for the proposed solution to P272. Further details on each requirement can be found in Attachment A.

P272 Solution Requirements	
No.	Requirement
1	All HH capable Metering Systems in Profile Classes 5-8 will be settled HH by 1 April 2014
2	Suppliers will submit their plan for the transition to HH to PAB
3	HH elective Metering Systems will not be able to revert to NHH
4	99% of energy will be settled on actual data at R1
5	The profiles for PCs 5-8 will be 'frozen'
6	PARMS Serial SP04 will be expanded to include advanced Meters being settled NHH after 1 April 2014
7	A new PARMS Serial will be created to monitor sites where an advanced Meter has not been installed

Legal text

The proposed redlined BSC changes to deliver the P272 proposed solution can be found in Attachment B. The Workgroup agrees that these changes deliver the intent of the Proposed Modification.

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The Workgroup notes that the Supply Licence requirement (to which the legal text refers) potentially contains a circular reference. The wording of the Supply Licence requirements refers to customers who are in PCs 5-8. However, mandating HH Settlement for PCs 5-8 would, in effect, remove those Profile Classes. The Workgroup believes that the issue is driven by the wording in the Supply Licence, and considers that the proposed BSC drafting is the most robust way to implement this change.

How will Suppliers implement the new requirements?

The Workgroup feels that it should be left to individual Suppliers to choose how to phase in the new requirements ahead of the P272 Implementation Date. For example, some Suppliers might choose to switch customers to HH Settlement as soon as they install advanced metering, while others might choose to perform a bulk CoMC on or just before the P272 Implementation Date. Consequently, there is no requirement as part of the implementation of P272 as to how Suppliers must switch their NHH customers to HH Settlement.

However, the Workgroup noted a concern that the current CoMC process is not designed to handle a large number of Suppliers switching at once. Should a lot of Suppliers elect to carry out a bulk CoMC at the last minute, the Supplier Metering Registration Systems (SMRSS) may be flooded by the large amount of changes required.

Therefore, in order to ensure an efficient transition from NHH to HH, Suppliers will be required to submit a high-level transitional plan to the PAB. These plans will cover how and when Suppliers intend to switch their customers, and so will enable PAB to obtain a better view of the impacts of the transition and better liaise with or advise Suppliers who wish to avoid any problems with performing a bulk CoMC.

The Workgroup has agreed that these high-level transition plans must be submitted to PAB by:

- 31 May 2013 if the Proposed Modification is approved; or
- 31 May 2014 if the Alternative Modification (see Section 4) is approved.

Will HH elective Metering Systems be able to revert to NHH?

Until the P272 Implementation Date, PC 5-8 customers currently settled HH elective would be able to revert back to being settled NHH. However, once P272 has been implemented, a PC 5-8 Metering System settled HH would only be able to revert to NHH if it was validly reclassified as being within PCs 1-4 (in accordance with BSCP516).

Will P272 impact GSP Group Correction Factors?

GSP Group Correction is the mechanism that allocates the total unrecorded Metered Volumes¹ in each GSP Group between Suppliers, and is calculated in Annex S-2 9 of the BSC. These equations refer to a GSP Group Correction Scaling Weight for each Consumption Component Class (CCC), which defines how much GSP Group Correction should be applied to that CCC relative to the others.

¹ This arises due to the differences between profiling calculations based on average consumption and the actual consumption, and it is the difference between these that is allocated through GSP Group Correction.

Any impact that P272 may have on GSP Group Correction will be based on whether or not the Group Correction Factors (GCFs) will need to be adjusted as more Metering Point Administration Numbers (MPANs) are moved from NHH to HH, as NHH performance standards may become difficult to achieve as companies with larger market shares move to HH. There is the potential for an issue to arise should a number of larger Suppliers move prior to the mandated date, and this is something that should be considered when Suppliers plan their transitions with PAB.

Will any DTC flows be impacted?

The Workgroup originally considered that some DTC data flows would need amending to increase the resolution of certain items from 0.1kWh to 0.001kWh. A resolution of 0.1kWh is sufficient for NHH Settlement where individual meter advances are processed. However, HH Settlement requires a resolution of at least 0.001kWh. If the resolution of these data items remained at 0.1kWh then many existing PC 5-8 customers would have long periods where their loads are rounded down to zero, meaning this energy would not be accounted for in Settlement.

The Workgroup has since decided not to include this element as part of P272, but that it should instead be progressed separately. Therefore, P272 will not impact any DTC flows.

How does P272 interact with other changes?

BSC Modification P280

Currently, Distributors calculate Distributor Use of System (DUoS) charges for HH settled customers on a site-specific basis – i.e. one bill per MPAN. If P272 was implemented, all Metering Systems within PCs 5-8 would need to be settled HH, and so would need to be billed individually by Distributors. This would significantly increase the number of HH settled customers, each of which would need to be billed separately. This has the potential to increase costs by a significant amount, the majority of which would be passed on by Distributors to the Suppliers and, ultimately, their customers.

[P280 'Introduction of new Measurement Classes'](#) proposed to introduce three new Measurement Classes, under which Suppliers of sub-100kW HH settled customers can be invoiced for DUoS charges on an aggregated basis. If P280 had been approved, this would've allowed a Supplier to opt to receive only a single aggregated DUoS invoice for all of their PC 5-8 customers following their transition to HH under P272, rather than one per MPAN, which would significantly reduce costs.² P280 was rejected by Ofgem on 6 November 2012.

DUCSA Change Proposals 103 and 151

Currently, there is often a discrepancy between the DUoS charge for NHH and HH registered Metering Systems, with HH Metering Systems typically incurring higher charges. This is partly due to the interactions between Settlement and charging, where Settlement data is used for charging purposes, and that HH sites are subject to a different methodology to NHH sites. If P272 was implemented, all Metering Systems that fall under PCs 5-8 would be required to be settled HH, and thus would be liable for the HH DUoS charges, increasing the costs for Suppliers accordingly.

² Please see the P280 Final Modification Report for more details on the Proposed Solution to P280.

DCUSA Change Proposal (DCP) 103 'Duos Charges for sub 100kw HH settled sites'

proposed to provide a mechanism where Distributors can charge the same DUoS charges for Metering Systems settled under Measurement Class E (HH elective) as they do for those settled under Measurement Class A (NHH). If approved, this would have effectively reduced DUoS charges for HH registered sites to the same level as those for NHH sites. This would make it more attractive for Suppliers to register applicable Metering Systems for HH Settlement, as they would not be faced with increased DUoS charges as a result of doing so. This DCP has since been withdrawn.

DCP151 'HH Aggregated tariffs' sought to amend the Common Distribution Charging Methodology to cater for the introduction of the three HH aggregated Measurement Classes that would've been introduced by P280 should it have been approved. The resulting tariffs would have had the same structure and rates as those currently on NHH tariffs excluding NHH preserved and NHH export tariffs. This DCP has since been withdrawn.



What is the alternative solution?

All SVA Metering Systems under PCs 5-8 shall be required to be settled using HH-metered data from 1 April 2015.

This solution is identical to the P272 Proposed Modification solution, except for the proposed Implementation Date.

The Workgroup has developed a P272 Alternative Modification. This section details this Alternative Modification and the Workgroup's rationale for putting it forward.

What is the alternative solution?

The Workgroup believed an Alternative Modification should be raised which would delay the mandating of HH Settlement for Profile Classes 5-8 and the related requirements until 12 months following the go-live date of the Supply Licence obligations. The Workgroup has elected to propose a date of **1 April 2015**, in order to align with the start of the BSC Year and the April contractual round and other annual processes such as DUoS charging.

Under this alternative solution, Suppliers would have until 31 May 2014 to submit their transition to the PAB.

All other requirements of the Proposed Modification would be unchanged under the Alternative Modification.

Why change the Implementation Date?

The Implementation Date of 1 April 2014 is an integral part of the Proposed Modification. The Proposer believes that the obligation to settle Profile Classes 5-8 Half Hourly should coincide with the go-live date of the Supply Licence obligation for 'advanced' Meters to be installed at these sites.

The Workgroup considered whether the Proposer's proposed Implementation Date for P272 was the most appropriate date. One Workgroup member believed that there were a number of barriers which Parties would need to overcome prior to implementation, and that a later Implementation Date should be used in order to allow for a transitional period to give Suppliers more time to implement the necessary changes. Other Workgroup members agreed that having a transitional period would be more appropriate. They felt it would allow Suppliers to ensure they have completed the roll-out of the advanced Meters to their PC 5-8 customers, mitigating the risks of needing to undertake a bulk CoMC at the last minute. Some members felt the Industry would struggle to cope with such a 'big bang' approach.

A longer lead time would also allow Suppliers to ensure that they had enough time to deal with any contractual issues that may arise, make necessary changes to data flows and consider issues with Meter maintenance. The Workgroup originally considered two potential alternative Implementation Dates for P272 of:

- October 2014 (six months after the Supply Licence obligations go-live date); or
- April 2015 (12 months after the Supply Licence obligations go-live date).

Workgroup members noted that having an Implementation Date of April 2015 would allow Suppliers to obtain a complete year's worth of HH data prior to the transition, which would enable them to be better placed to understand customers' actual consumption patterns, and would allow more time for handling any contracts that would need to be renegotiated. Such a date would also coincide with the beginning of the financial year, contractual rounds, the setting of Line Loss Factors (LLFs) and other Industry annual processes.

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However, other Workgroup members did not feel that a transitional period would be required. They noted that around three quarters of PC 5-8 customers have already had advanced Meters installed, which would allow Suppliers to be able to collect the required data now in order to help them understand the new profiles ahead of the proposed Implementation Date. In addition, they consider that profiled data from the last 12 months may not be accurate for the next 12 months due to changes in customer circumstances. It was also argued that Suppliers often don't have complete sets of data now when they take on a new customer, so queried why this circumstance was any different. Those Workgroup members felt that having a later Implementation Date would 'delay the inevitable', and that it would be better to implement P272 sooner rather than later.

Consultation respondents' views on alternative Implementation

Many respondents considered that the Implementation Date is not critical, but that the approach is the crucial element, with respondents highlighting a need for a longer lead time in order to address the issues raised by P272. Some respondents also considered that delaying the Implementation Date would have little effect other than potentially delaying the date of any bulk CoMC that may take place, although having more time to complete this would be beneficial, and may alleviate the need for a bulk CoMC. Some respondents noted that the Implementation Date should strike a balance between realising any benefits sooner while mitigating the risks.

Legal text

The proposed redlined changes to the BSC to deliver the P272 alternative solution can be found in Attachment C. The Workgroup agrees that these changes deliver the intent of the P272 Alternative Modification.

Please note that the legal text for the Alternative Modification is identical to that for the Proposed Modification with the exception of the relevant Implementation Date, which is referenced several times within the draft changes.



Market Participant Responses

The full responses made by Parties to the P272 Industry Impact Assessment, Assessment Consultation and Second Assessment Consultation in relation to these dates can be found on the [P272](#) page of the ELEXON website.



Impacts and Costs

This section only details the costs associated with implementing P272.

For details on the wider costs associated with P272, please see the results of the cost-benefit analysis in Section 9.

Please note that these costs and impacts will apply equally to both the Proposed Modification and the Alternative Modification.



Industry Impact Assessment

The full non-confidential responses made by Parties to the Industry Impact Assessment can be found on the [P272](#) page of the ELEXON website.

Related responses to subsequent consultations can also be found [here](#).

Estimated central implementation costs of P272

The total central implementation cost for P272 is approximately £19k. This comprises:

- Approximately £8k in Service Provider costs; and
- Approximately £11k (45 man days) in ELEXON effort.

These are one-off implementation costs, and there would be no ongoing central operational costs.

The Service Provider costs are required in making the required system changes to the Performance Assurance Reporting and Monitoring System (PARMS), in order to update the PARMS Serials impacted by P272 and to add in the new Serial that this change would create.

The ELEXON costs include managing the implementation project and updating the relevant BSC Sections, Code Subsidiary Documents and other documentation.

Indicative Industry costs of P272

The discussion of Industry cost has been at the forefront of the assessment of P272. The Workgroup believe that it is hard to estimate an accurate cost for Industry participants in making this change. This was largely due to the fact that the Industry is only now coming to terms with the nature of the changes that need to be introduced.

The Workgroup noted the work conducted by the Profiling Settlement Review Group (PSRG) in March 2011, which identified that the cost to the Industry over the first five years would be around £35m. The Workgroup felt that this was too low (and less detailed than the analysis carried out since by the Workgroup), but agreed that these conclusions had been based upon information provided at the time by the Industry.

The Workgroup then conducted a further Industry Impact Assessment in July 2011. The responses indicated costs ranging up to £10m each, depending on the type of Party and the level of systems development required. The Workgroup issued a further two consultations in order to try and identify the detailed impacts and costs on Parties.

The Workgroup then conducted a detailed cost-benefit analysis which sought to further clarify the costs and benefits of P272. These detailed set of costs are contained in Section 9 of this report and should be referred to as the most detailed set of costs and impacts for impacted Parties. More information on these costs can be found in Section 9.

Note that some Parties provided more detailed, confidential information on their costs and impacts. This information has not been shared with the Workgroup or published on the ELEXON website, but will be provided to Ofgem with the P272 Final Modification Report for decision.

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P272 impacts

Impact on BSC Systems and process

BSC System/Process	Impact
PARMS	Amendment will be required to existing PARMS Serials and a new Serial will need to be created.

Impact on BSC Agent contractual arrangements

BSC Agent contract	Impact
Profile Administrator	The PRA will no longer need to perform annual calculations for Profile Classes 5-8 once they have been frozen.

Impact on BSC Parties and Party Agents

BSC Party/Party Agent	Impact
Suppliers	Suppliers will need to update their customer and Agent contracts as part of the transition from NHH to HH Settlement. This may require them to change Agents and may require them to update their forecasting, pricing and billing systems.
Distributors	Distributors may need to update their systems to handle increased numbers of HH MPANs that would require site-specific billing. DUoS billing may also need to be updated.
Party Agents	Existing NHH-only Agents will need to re-qualify for HH should they wish to continue to act as Party Agents for metering sites that fall within PCs 5-8.

Impact on Transmission Company

None identified.

Impact on ELEXON

Area of ELEXON	Impact
Release Management	ELEXON will manage the implementation project.

Impact on Code

Code Section	Impact
Section L	Changes will be required to implement the solution. See draft legal text in Attachments B (Proposed Modification) and C (Alternative Modification).
Section S	
Section S – Annex S-1	
Section X – Annex X-1	

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Impact on Code Subsidiary Documents	
CSD	Impact
BSCP533	Changes will be required to implement the solution. If P272 is approved, ELEXON will develop and consult on the necessary redlined changes as part of the implementation project.
BSCP533 Appendix A	
Profile Administrator Service Description	

Impact on other Configurable Items	
Configurable Item	Impact
PARMS User Requirement Specification	Changes will be required to implement the solution. If P272 is approved, ELEXON will develop and consult on the necessary redlined changes as part of the implementation project.
SVA Data Catalogue Volume 1	

Recommended Implementation Dates

Proposed Modification

The Workgroup's recommended Implementation Date for the P272 Proposed Modification is:

- 1 April 2014 if ELEXON receives Ofgem's decision on or before 14 February 2013.

The Workgroup notes that this would mandate HH Settlement for PCs 5-8 four business days before the Supply Licence mandates that advanced Meters must be installed at these sites. However, the Workgroup considers that the vast majority of advanced Meters will have been installed by 1 April 2014, and that the benefits of implementing P272 on 1 April, rather than 6 April, outweigh any potential issues that may arise from mandating HH Settlement five days before the mandate to install advanced Meters comes into force.

The year-long lead time for P272 reflects the responses received to the P272 Impact Assessment, with some Parties stating that they would require at least one year's notice. The lead time also allows time for Suppliers to prepare their transition plans for PAB should P272 be approved. The lead time for the central system changes is approximately seven weeks.

The Workgroup considers that should the cut-off date for the Proposed Modification (14 February 2013) be missed, then the fall-back date should be that of the Alternative Modification below, making the two solutions identical as all other aspects of the Alternative Modification are identical to the Proposed Modification. Therefore, if Ofgem does not make its decision by 14 February 2013 then it will only have the option to approve the Alternative Modification if it wishes to approve P272.

Alternative Modification

The Workgroup's recommended Implementation Date for the P272 Alternative Modification is:

- 1 April 2015 if ELEXON receives Ofgem's decision on or before 13 February 2014.

This approach would provide Suppliers with an additional 12 months following the introduction of the Supply Licence amendments, in order to resolve any wider issues they may be experiencing.



Industry Impact Assessment

The full non-confidential responses made by Parties to the Industry Impact Assessment can be found on the [P272](#) page of the ELEXON website.

7 Workgroup's Initial Discussions

This section summarises the Workgroup's initial discussions between P272 being raised in May 2011 and the Workgroup's original Assessment Report being presented to the Panel in January 2012. For details on the Panel's discussions on the Assessment Report at their meeting on 12 January 2012, please see Section 8. For details on the Workgroup's subsequent analysis, discussions and conclusions, please see Sections 9-11.

Please note that this section summarises the views of the Workgroup as they were when P272 was originally presented to the Panel. The view of some Workgroup members may have changed since then as a result of the cost-benefit analysis or for other reasons, in which case their revised views are covered in Sections 9-11. However, a majority of the Workgroup's original views and discussions remain valid.

What is the cost?

The Workgroup considered what the potential cost of P272 would be, as they felt that this was likely to be the key issue in deciding to approve or reject the change.

One Workgroup member thought that while a major change such as P272 may be difficult to implement, it would be no different from previous times when the Industry has undergone large change. They highlighted the example of the creation of the HH market in 1994, which involved substantial costs and numerous issues had to be overcome, causing a major impact on market participants.

The Workgroup believes that the issue of costs can be based upon on whether or not the Industry would find it beneficial to use the HH data that will be available. Members note the Industry is progressing towards rolling out smart Meters for all customers, which would likely lead to a world where NHH data would be replaced by HH data. The costs associated with such a change would need to be incurred at some point, and the question is whether Parties would want to incur these costs now or later, as well as whether it would be beneficial to incur these costs now in light of wider changes (e.g. smart metering).

The Workgroup also note that, whilst they are aware that significant costs would be incurred in mandating HH Settlement for PCs 5-8, they believe that limiting the scope of P272 to only these Profile Classes would be significantly cheaper than expanding the solution to include PCs 1-4. More detail on the Workgroup's discussions on whether P272 should be expanded beyond the current scope can be found later on in this section.

What about Agent costs?

The Workgroup has considered the concerns of consultation respondents that switching from NHH to HH would increase costs which may then have to be recovered from consumers. One main factor behind such rises would be the current discrepancy between Agent costs for NHH and those for HH. However, Workgroup members consider that P272 would significantly increase the size of the HH market, and that this would have the potential to reduce the costs of HH Agents as they compete to take on these additional customers.

One Workgroup member commented that Agent costs have already fallen over what they were a decade ago, and believes that they will continue to do so. However, a number of



Market Participant Responses

The full responses made by Parties to the P272 Industry Impact Assessment, Assessment Consultation and Second Assessment Consultation in relation to these costs can be found on the [P272](#) page of the ELEXON website.

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other members pointed out that some responses were based on the current best price that the respondents could find at that time. They feel that the increase in cost will still be substantial, and believe that although the cost differential is decreasing, it is still a barrier that could prevent Suppliers from moving to HH earlier than the P272 Implementation Date.

Some Agents feel that their charges would not increase as a result of P272, although this view is not shared by all Agents. However, Agents have considered that it is unlikely that HH costs would come down to the same level as NHH.

How could DUoS charges impact costs?

One of the key issues for the Workgroup is the impact of DUoS charges. DUoS charges are calculated for each HH settled customer by Distributors on a site-specific basis, and Workgroup members believe that switching NHH customers to HH Settlement could increase their DUoS charges. This issue is being examined by several groups across the Industry.

Workgroup members believe that one of the main concerns with moving customers from NHH to HH is that Distributors only receive site-specific data for each HH site for use in billing. If the number of HH sites was to increase significantly, both Distributor and Supplier systems would have to undergo costly changes in order to cope with this increased level of data. A potential solution to this would be to allow for aggregated HH data to be sent to Distributors, as this would reduce the impacts of systems. Many Workgroup members believe that it is a fundamental concern that must be overcome before P272 can be approved. Such changes would be outside the scope of P272, but the Workgroup notes that separate Modification Proposal P280 has since been raised which, if approved, would allow for aggregated billing.³ The Workgroup also noted DCP103 and DCUSA Issue 22, which are considering DUoS charges.

Will P272 increase costs for customers?

The Workgroup has discussed concerns that P272 may lead to an increase in customer costs. Whilst the Workgroup notes that this is technically outside the remit of the BSC, Ofgem were keen that the Workgroup examined this aspect in more detail, and stated that they needed more confidence of the likely impacts on customers.

The Workgroup considered the issues with DUoS charging, believing that it could lead to an increase in costs to Suppliers, which in turn could be passed on to consumers. One Workgroup member commented that they did not believe Distributors would treat HH customers any differently to NHH, and so they could not see a reason as to why costs would increase. They consider that Distributor systems would be able to cope with any increases in volume that would arise from moving PC 5-8 customers to HH Settlement. Another Workgroup member felt that if Suppliers continued to be billed as they currently are then there would be an increase in costs due to the process changes, although the first member considered that if there was an increase, it would not be a notable one. One Workgroup member stated that aggregated billing would help reduce costs.

One Workgroup member believes that if the Workgroup wanted customers in PCs 5-8 settled HH then they should progress P272. It was considered that settling HH would be more accurate, which would be beneficial for the Industry. However, some Workgroup

³ P280 was rejected by Ofgem on 6 November 2012.

members argued that additional costs would be incurred, which would come at a time where there is pressure on Suppliers not to pass additional costs on to their customers. While HH data would be beneficial, it should not be achieved at any cost, but should instead be done effectively and efficiently. There was concern that the Workgroup was rushing to implement P272 without taking the time to resolve all the related issues. However, some members note that there will always be issues that need to be resolved, and asked whether it was better to wait until everything has been resolved before such a change goes ahead or whether the change should be implemented and the subsequent issues tackled as and when they arise.

The Workgroup asked Ofgem why a mandate to install HH Meters had been imposed without the requirement that these Meters should be settled HH. Ofgem noted that the decision to mandate advanced Meters was taken by DECC.

Overall, Workgroup members consider that, should P272 be implemented, there was a possibility that costs may increase, at least in the short term. They were less certain about how costs may be impacted in the longer term. However, they considered that DCP103 would've help to alleviate some of these issues.

Are the costs detailed enough?

The Workgroup noted that respondents to the Impact Assessment and the Assessment Consultation did not provide a detailed assessment of the costs that would be incurred by their organisations in implementing P272. Workgroup members considered whether this might be because the Industry was unable to assess the level of impact that P272 will have.

One Workgroup member highlighted that some respondents had provided a detailed assessment of their costs, and questioned whether it would be appropriate to extrapolate these costs for the entire Industry. However, it was felt that while this could be done for the larger Suppliers, such an approach would not work for new entrants or smaller Suppliers.

Another Workgroup member stated that the issue of cost centred on the DUoS charges, and it will only be once those issues have been resolved that people will want to move to HH. An argument was proposed that once that has happened, there may be no need to mandate such a move. However, one Workgroup member felt that a mandate was needed in order to initiate the process and reduce overall costs. Another Workgroup member also thought that without the mandate, Suppliers would control the elective HH Settlement process, and could refuse to let their customers move on the grounds that it would increase their operational costs due to requiring system changes. It was argued that mandating this move would prevent Suppliers from selecting which of their customers could move to HH or preventing a certain section of the market from being unable to realise the benefits of HH Settlement.

What are the potential impacts?

In general, the Workgroup considers that P272 will have wide ranging impacts with regards to system changes and there is likely to be a considerable associated cost. However, Workgroup members believe that the Industry will be forced to make these changes at some point, and that it would be practical to overcome these challenges now, rather than to address these issues at later date when the Industry may have other, more pressing matters to deal with.



Market Participant Responses

The full responses made by Parties to the P272 Industry Impact Assessment, Assessment Consultation and Second Assessment Consultation in relation to these impacts can be found on the [P272](#) page of the ELEXON website.

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How will P272 impact Suppliers' contracts?

The Workgroup noted the potential impact on contracts between Suppliers and Party Agents, as well as those between Suppliers and their customers, but concluded that it is something that Suppliers will need to manage. The Workgroup highlighted that this is not a new problem brought about by P272 as Suppliers will always have to manage their customer relationships, and there will always be occasional contractual discussions. Workgroup members considered the possibility of delaying the Implementation Date to allow Suppliers longer to deal with customers who were on long contracts. However, they agreed that the issue of customer contracts will always be there regardless of what Implementation Date was chosen.

Would P272 disadvantage small or large Suppliers?

The Workgroup discussed concerns that P272 may impact more greatly upon smaller Suppliers, disadvantaging them in comparison to larger Suppliers who would find it easier to make the necessary changes. However, Workgroup members did not believe that the change would disadvantage smaller Parties more than it would larger Parties. Some members instead felt that P272 potentially has a greater impact on larger Suppliers as the costs incurred in updating systems and dealing with contractual issues would likely be higher for them than for a smaller Supplier. It was also highlighted that smaller Suppliers may be more flexible and adaptable to this change than the larger organisations.

Is there an advantage for those who switch sooner?

One Impact Assessment respondent believed that there may be an advantage for Suppliers who are able to switch earlier over those who would be delayed due to the need to update their systems and implement new processes. The Workgroup noted that there are currently Suppliers who have HH elective customers, and that should any Supplier wish to they could go HH now without this Modification. Furthermore, the Workgroup believed that the DUoS charging differential currently provides a disincentive to those who are HH elective, and will continue to do so until this barrier is resolved. Therefore, the Workgroup does not consider this to be an issue.

Does P272 discriminate against the NHH market?

The Workgroup discussed a view that P272 could potentially discriminate against the NHH market. They agreed that P272 would indeed impact on NHHDCs and NHHDA as the number of NHH sites would be reduced by around 154,500. They also highlighted the fact that the Industry as a whole will likely move further towards HH Settlement in the near future, further reducing the size of the NHH market.

However, the Workgroup noted that these businesses can choose to enter the HH market, and that a competitive industry will always see changes which the market must adapt to. Workgroup members agreed that the market should not aim to preserve the present status quo, but should instead be a tool that continually drives forward innovation.

Is there an impact on LLFs?

A question was raised on whether P272 would impact LLFs. The Workgroup noted that Line Loss Factor Classes (LLFCs) would change with the implementation of P272, but that the LLFs currently applied to PC 5-8 Metering Systems would be unchanged by the site moving to HH Settlement. However, it was accepted that, over time, the availability of more accurate individual HH demand data may lead Distributors to change the relevant LLFs in the future in line with the relevant LLF methodologies. The Workgroup noted that some of the measurement error inherent in NHH Settlement is indistinguishable from losses, which affects the calculation of LLFs. However, this component would be reduced with an increased level of HH Settlement.

Is there an impact on NHH allocation?

Several Impact Assessment respondents commented that P272 could potentially have a detrimental effect on NHH allocation, GSP Group Correction and Supplier performance. The calculation of GSP Group Correction (Annex S-2 9 of the BSC) refers to a GSP Group Correction Scaling Weight for each Consumption Component Class (CCC), which defines how much GSP Group Correction should be applied to that CCC (relative to the others). The respondents felt that there could be a detrimental impact on NHH errors as more energy is settled HH.

The Workgroup discussed the fact that any impact will be based on whether or not the Group Correction Factor (GCF) would be adjusted as more MPANs are moved to HH. They noted that NHH performance standards may become difficult to achieve as companies with larger market shares move to HH. However, the Workgroup believes that there may be a potential for an issue to arise should a number of larger Suppliers move to HH prior to the mandated date, and agree that this is something that should be considered when Suppliers plan their transitions with PAB.

What impacts may arise if Suppliers choose to transfer to HH early?

A number of Impact Assessment respondents believe that the option of transferring early is a good thing that should be encouraged, and want the option of being able to do it as soon as possible. Some considered that customers with advanced Meters should be traded HH by their Suppliers from the earliest opportunity so that they can obtain the benefits of HH Settlement, and even proposed an earlier Implementation Date of April 2013.

However, several respondents have stated that they cannot see a significant number of Meters being transferred to HH until issues surrounding DUoS charges have been resolved. Other respondents highlighted the need for IT systems to be upgraded, which would need a considerable amount of time to address. The Workgroup has considered these views, and while they feel that the benefits are there and tangible and that Suppliers should be encouraged to adopt early, they realise that until the relevant barriers have been removed it is unlikely that there will be many early adopters.

What are the impacts of a bulk CoMC?

The Workgroup noted views that the existing CoMC process is notoriously difficult to co-ordinate, even when there is a low volume of changes being made. This suggests that there would be considerable issues relating to system updates should a bulk transfer take

place as part of P272, as well as considerable costs being incurred. Subsequently, there is little appetite for a bulk CoMC process to take place, especially as there is no Assurance system currently in place for CoMC processes like there is for a change of Agent. The Workgroup felt that the best way to avoid this was to resolve any issues that would prevent early adoption.

What is the impact of other Code changes?

A majority of the Workgroup believed that issues with DUoS charges and a lack of aggregated data were fundamental 'show stoppers' for P272. Some Workgroup members felt that until these issues had been addressed, P272 could not be approved, and considered whether P272 should be put 'on hold' until the relevant issues had been resolved under P280 and DCP103/DCP151.

The Proposer believes that P272 should stand on its own merits, and that the DUoS charges issues, whilst a concern to some, was not stopping the progression of P272. P272 is not contingent on any other changes and should progress as such. The Proposer considers that P272 will incentivise the Industry to resolve related issues such as the DUoS pricing differential issue, and believes that without such incentive there is a danger that the DCUSA will wait for BSC issues to be resolved before progressing any change and vice versa, and no overall progress will be made.

However, other Workgroup members believe that the issue with the DUoS charges is a barrier to the approval of P272, noting also that they consider it just one of several such barriers. Whilst they acknowledge that if all Industry changes were to wait for another section of Industry to change first then nothing would ever happen, P272 may have been raised too early, and that the other barriers should be removed first. Whilst P272 may force these changes to be made sooner, it cannot be implemented until these other changes have been made. However, there is a view that removing the issues around DUoS charges would help, but would not resolve all the concerns around P272.

The Workgroup believed that the P272 Assessment Report should be presented to the Panel as planned, but should note the Workgroup's view that a decision on P272 would need to consider the impact that other Industry changes (such as P280 and DCP103) will have. The Ofgem representative agreed with this approach, questioning what benefit there would be in placing P272 on hold. They noted that, as with any Modification, P272 had benefits and drawbacks, and whilst resolving the DUoS charge issue might remove one of the potential drawbacks, it was only part of the overall picture. As such, they agreed that the Workgroup's views on the impact of other industry changes should be captured in the Assessment Report, and that P272 should progress to the Report Phase.

What further analysis could be undertaken?

Workgroup members discussed what further analysis it could undertake in order to clarify costs and impacts. The Workgroup felt that, whilst it would be possible to estimate the cost of implementing P272 and to quantify the potential impacts (such as increased DUoS charges), it would be difficult to quantify the benefits. Whilst there was a desire to assist Ofgem as much as possible by completing any further quantifiable analysis, the Workgroup were unable to devise what analysis they could then undertake. It was suggested that the Workgroup could look at any benefit associated with incremental demand response. However, in order to complete this the Workgroup would need to:

- Agree what assumptions would form part of the analysis (i.e. what Time of Use (ToU) tariffs Suppliers would offer);
- Provide rationale for those assumptions;
- Agree where the data to complete the analysis would come from; and
- Detail what the benefit of completing the analysis would be (i.e. would it help the Workgroup in forming its conclusion).

At the time, the Workgroup were unable to answer how and what analysis it could undertake, but felt that some benefit analysis could be undertaken at a future date once more data was available or assumptions were clearer. The Workgroup agreed that the Assessment Report should highlight to Ofgem what analysis might be undertaken in any future potential Regulatory Impact Assessment should one be required.

The Workgroup has since carried out their cost-benefit analysis on P272, and the results of this are covered in Section 9.

How should Suppliers' performance be measured?

SP08c to seek 99% actual HH data at R1

As part of P272, the performance standard for settling 99% of energy on actual data for Meters under Measurement Class E by the RF Settlement Run will be increased so that it must be achieved by the R1 Settlement Run.

One Workgroup member commented that whilst this would be more onerous than the present standard, the current performance achieved by Parties shows that HH Metering Systems generally achieve the standard of settling 99% of energy on actual data by the SF Settlement Run. Therefore, setting this standard to be achieved by R1 should not be onerous on Parties, and would also allow time for the resolution of any Meter data issues that may occur.

One Workgroup member noted that while this is currently achieved, having an additional 154,500 Meters will likely increase the number instances where a Supplier fails to meet this standard. Failings in communication technology have and will always occur, which the Workgroup member considers will likely cause the majority of the instances where this requirement would not be met.

It was argued that raising the standard will challenge Suppliers to work on such problems, which will, in time, eradicate them. Another member also highlighted the point that, whilst the requirement does seem onerous, the Workgroup should note that it is 99% of the energy and not 99% of Meters that is required.

Workgroup members also considered BSCP601 'Metering Protocol Approval and Compliance Testing' while considering the possibility for communications issues. This BSCP covers the processes that a Data Collector is required to go through when a new Meter or communications software is installed. The Workgroup agreed that the current BSCP601 process is appropriate, and noted that Data Collectors should be aware that BSCP601 would apply to elective HH Meters.

SP04 to be expanded to include the new obligations

P272 will expand PARMS Serial SP04c 'Installation of HH Metering' to include the new obligations introduced by the Supply Licence obligations.

The Workgroup discussed the possibility that a Supplier could theoretically install a HH Meter, but could continue to settle this as NHH after the Implementation Date. They suggested that a new Supplier Charge Serial should be raised to address this concern. However, it was highlighted that the existing Serial SP04 could be expanded, thus negating the need to create another Serial to cover this instance.

The Workgroup concluded that expanding this Serial was more efficient than creating a new one. They noted that this covers customers who should be settled HH but, for one reason or another, are not, in a similar way to the customers already covered in the existing SP04 serial, and that any non-compliance has an impact on other Suppliers, which the Supplier Charge compensates for.

New PARMS Serial to monitor Metering Systems still being settled NHH

A new PARMS Serial will be introduced that covers PC 5-8 Metering Systems that do not have an advanced Meter installed, although this will be for monitoring purposes only.

The Workgroup considered whether there was a need for a new PARMS Serial in this case. One member suggested that it would be beneficial to have the data on the number of Meters that are still being settled NHH available in this way. It was argued that this information could be useful in the future should Profile Classes 1-4 move to be settled HH.

Another member was concerned that this Serial would penalise those who were unable to settle a particular Metering System HH. They highlighted that the obligation under the Supply Licence says that the Supplier should make every reasonable effort, and if they have done so but were unable to install an advanced Meter for whatever reason then they should not be penalised. The Workgroup agreed that there should not be an associated Supplier charge and that it would be prudent to just monitor the number of Meters that remained NHH within PCs 5-8

Should P272 be extended to cover Profile Classes 3-4 and/or micro-generation?

The Workgroup considered whether P272 should be extended to include Profile Classes 3-4 or micro-generation. However, there was almost universal agreement that the Modification should refrain from covering these areas.

A majority of the Workgroup believes that extending the solution in this way would increase the impact of P272 significantly, and there is significant uncertainty about the details of the smart Meter rollout and the Data Collection Company (DCC) services which would be required to support such an extension. One Impact Assessment respondent had considered whether it would be more beneficial to implement any progression towards a HH market in stages. They consider a three staged approach to be the most sensible and efficient, where PCs 5-8 are transferred first, followed by PCs 3-4, and PCs 1-2 last. However, it was felt that including PCs 3-4 under P272 would result in increases costs as well as severe system issues, and would not be feasible until the DCC has been implemented.

One Workgroup member felt that moving just PCs 5-8 now may not be the most suitable solution given the way the market is currently progressing. It was considered whether mandating HH Settlement for all Profile Classes in one go would be a better solution, since it would take into account the wider market. This in turn may drive some costs savings as any solution development would only need to be done once, instead of incurring incremental costs over the next ten years. Conversely, implementing P272 as it is currently proposed could introduce costly system changes that would be redundant within a few years, having been superseded by subsequent market-wide changes.

Another member stated that the major concern is protecting Settlement. Should the issues surrounding PCs 5-8 be resolved by P272, Settlement accuracy is protected for that section of the market, which can then lead the way towards resolving the issues in the remaining Profile Classes.

The Workgroup agreed that micro-generation should also be conducted at a later stage, for similar reasons.

What were the Workgroup's initial views against the Applicable BSC Objectives?

The following table contains the Workgroup's original views against each of the Applicable BSC Objectives. These views are against both the Proposed Modification and the Alternative Modification.

By majority, the Workgroup originally believed that neither solution better facilitated the Applicable BSC Objectives, and therefore recommended that P272 should be rejected.

Does P272 better facilitate the Applicable BSC Objectives?		
Obj	Views in Support (both solutions)	Views Against (both solutions)
(a)	<ul style="list-style-type: none"> Neutral – No impact. 	
(b)	<ul style="list-style-type: none"> Neutral – No impact. 	
(c)	<ul style="list-style-type: none"> Greater cost transparency, and enables Suppliers to offer customers more flexibility to manage energy usage, create new tariffs and give more accurate billing. Improved demand forecasting/ Settlement gives greater opportunities for better informed cashflow planning – reduces financial risk, removes barrier to entry. More competition between Agents, which could potentially drive down prices. 	<ul style="list-style-type: none"> Current arrangements already allow HH Settlement for PCs 5-8 – mandating won't improve competition. Could create additional burden for small Suppliers from increased DC/MOP & DUoS charges if they can't absorb it across a larger portfolio. Detrimental to NHH-focussed businesses. Using existing DUoS regime will increase costs for NHH customers now being settled HH – detrimental to competition, barrier to new entrants. Costs of mandating from April 2014 outweigh short-term benefits – later date will remove some costs.



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]

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Does P272 better facilitate the Applicable BSC Objectives?		
Obj	Views in Support (both solutions)	Views Against (both solutions)
(d)	<ul style="list-style-type: none"> No need to profile PCs 5-8. Reduces inaccuracy in Settlement, reducing resultant work. Increase in performance completeness more efficient, esp. for billing and reconciliation. More accurate Settlement – fewer disputes. 	<ul style="list-style-type: none"> Solution doesn't consider future changes – not efficient. Increased admin and costs means change is less efficient than current arrangements. Still need to profile PCs 1-4.
(e)	<ul style="list-style-type: none"> Neutral – No impact. 	

What were the Workgroup's initial views on which solution is better?

The majority of the Workgroup believed that the Alternative Modification was better than the Proposed Modification for the following reasons:

Which is the better solution to P272?	
Proposed Solution	Alternative Solution
<ul style="list-style-type: none"> The sooner P272 is implemented, the quicker Industry can benefit from more accurate HH data in Settlement. 	<ul style="list-style-type: none"> More time to resolve issues (contractual issues, data flows, issues with Meter maintenance etc.). Alleviate risk with installing Meters close to deadline. Avoids need to do Meter exchange and CoMC at the same time. Gain additional usage history to aid forecasting and hedging. Allows for slippage in timing of removal of DUoS pricing differential.

Assessment Consultation respondents' views on the Applicable BSC Objectives

The majority of respondents to the Assessment Procedure consultation believe that P272 does better facilitate Applicable BSC Objectives (c) and (d). Their views are broadly in line with those expressed by the minority of Workgroup members who are in support of P272.

Respondents particularly highlight the benefits of having more accurate data in Settlement, and the reduction in Settlement error that would arise from using HH data. The increase in performance standard to 99% of energy by R1 would also bring about more efficiency. HH Settlement would also encourage Suppliers to offer more innovative tariffs, which could increase competition between them as customers seek out more suitable tariffs for their consumption, and it may even lead to some customers changing their consumption patterns.

However, one respondent noted that, while they would like to move their customers to HH Settlement now, they consider the higher DUoS charges for doing so to be a significant barrier as it would increase the costs for their customers. They consider that this would



Assessment Procedure Consultation

The full responses made by Parties to the Assessment Procedure Consultation can be found on the [P272](#) page of the ELEXON website.

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also be a significant barrier to P272, and note that their support for P272 is conditional on the timing of the removal of the current DUoS pricing differential.

A minority of respondents to the Assessment Procedure consultation believe that P272 does not better facilitate Applicable BSC Objectives (c) or (d). Their views are broadly in line with those expressed by the majority of Workgroup members who are against P272.

A concern among these respondents is that the costs would outweigh the benefits, with one respondent noting that there is very little quantification of the potential benefits given. In particular, there is concern about the increased costs from DUoS charges which would be forced upon Suppliers and, ultimately, the consumers, should they be required to move to being settled HH. This could be particularly detrimental to smaller Suppliers who may not be able to absorb these costs over a larger portfolio. Furthermore, the substantial costs that would be incurred in P272 may be uneconomical for such a small portion of the market, and may not be required depending on wider changes arising from the rollout of smart metering.

Respondents also note that P272 would force customers within PCs 5-8 to be settled HH, which would remove choice for the customer. This would prevent any Suppliers and/or Agents who are NHH-only from being able to service this portion of the market. While these Parties could re-qualify for the HH market, respondents consider this to be forcing costs onto these Parties for no measurable benefit.

Panel's views on the Workgroup's original Assessment Report

The Panel considered the Workgroup's original Assessment Report at its meeting on 12 January 2012.

The Ofgem representative informed the Panel that they considered more work needed to be done on the quantifiable benefits in adopting P272. They noted that whilst Ofgem expected to carry out a Regulatory Impact Assessment for P272, as there are a number of related matters outside of the BSC (such as smart metering), they believed that the Workgroup should take account of these matters as they crystallise to ensure that the Modification Report is as relevant as possible once it is sent for decision, and noted that more information will become available during the summer of 2012. The Panel agreed with this view.

The Panel considered that the Assessment Report had focussed too heavily on the costs, and felt that more work should be done to examine and quantify the benefits. However, one Panel Member agreed that there wasn't enough information available for P272 to be examined in detail, and was concerned, given the lack of available information, that P272 may have been raised too early. The Proposer noted that P272 would address the need for change, and would prompt Parties to start making those changes.

Panel Members queried the Workgroup's recommendation that P272 should be rejected. One Member noted that the recommendation had been made without a clear cost-benefit analysis, which seemed short-sighted in light of the Government's drive on smart metering. They considered that the Workgroup should seek advice from Ofgem, especially as P272 raises issues around customer costs. Another Panel Member wondered why the Workgroup's recommendation was the opposite of that expressed by Assessment Consultation respondents. It was noted that the Workgroup had considered these views, but had felt that the Modification should still be rejected.

The Panel agreed that P272 should be sent back to the Assessment Procedure to allow the P272 Workgroup to further examine these matters.

**Cost-Benefit Analysis**

This analysis suggests that the Proposed Modification would give rise to a net benefit of £32m by 2020, and that the Alternative Modification would give rise to a net benefit of £25m.

A majority of Workgroup members disagree with this conclusion, and believe that the costs would outweigh the benefits.

You can find the Workgroup's full cost-benefit analysis in Attachment A.

This section summarises the cost-benefit analysis (CBA) undertaken by the Workgroup following the Panel's request. It summarises the methodology and results of this analysis, and the Workgroup's discussions and conclusions. You can find the full analysis in Attachment A. The Workgroup's subsequent discussions can be found in Section 10, and its final conclusions and recommendations on P272 can be found in Section 11.

Why was this analysis undertaken?

The P272 Workgroup submitted its original Assessment Report to the BSC Panel at its meeting on 12 January 2012. On the guidance of Ofgem, the Panel agreed to keep P272 within the Assessment Procedure, noting that Ofgem would return to the Panel in March 2012 with a detailed plan of what additional analysis would be needed to be conducted.

The Panel noted concerns from Ofgem that the Assessment Report has not addressed difficulties in assessing the costs and benefits of P272, which in turn would make it difficult to make a determination on the Modification at that point in time. Furthermore, it was considered that developments in the market over the subsequent year or so may make known some of the factors that were unknown at that time, and at that stage the Workgroup would be in a better position to complete further analysis of the P272 solution.

How has this analysis been undertaken?

In April 2012, ELEXON and the Workgroup, with guidance from Ofgem, developed an approach to assessing the costs and benefits associated with P272. The Workgroup agreed that conducting a scenario analysis along with long-term modelling was the correct approach. However, the Workgroup raised some concerns around identifying specific costs and benefits. ELEXON undertook further work to identify specific cost categories and an approach for calculating the P272 benefits.

The Workgroup agreed the specific cost categories that would ensure accurate costs would be provided when the Industry responded to the consultation. The Workgroup also agreed the specific benefits and agreed a projected timescale and specific scenarios for the analysis of modelling.

However, there were still concerns surrounding the benefits element of P272 cost-benefit analysis, and the Workgroup noted the difficulty that respondents would have in providing associated 'pound signs' next to each benefit identified. Further work was carried out to drill down on each of the benefits, and the Workgroup agreed the calculations to be used for each benefit.

For this analysis, two consultations (separating costs and benefits) were undertaken. The first consultation focussed upon the cost impacts associated with P272, and this information helped facilitate the cost analysis and assessment carried out by the Workgroup. The Workgroup and ELEXON (with support from Ofgem) also developed a methodology for each benefit, and the second consultation sought views on these methodologies and calculated benefits as well as specific information from market participants that helped the Workgroup to calculate the potential scale of the benefits. All responses to both consultations were rigorously challenged upon receipt, to ensure that the data was as accurate as possible.

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What are the results of the cost-benefit analysis?

The CBA has estimated that the cost for implementing the P272 Proposed Modification (with an Implementation Date of 1 April 2014) would range from £46m to £199m by the end of 2020. In the same period, the Industry could realise benefits of between £71m and £198m. Median estimates for the costs and central estimates for the benefits show that the total costs would be around £112m while the benefits would be around £144m, suggesting that there could be a £32m benefit by the end of 2020.

The P272 Alternative Modification (implemented on 1 April 2015) would have costs ranging from £41m to £182m with potential benefits ranging from £63m to £176m. The median estimates of the costs would be around £103m while the central estimates of the benefits would be around £128m, giving a potential net benefit of £25m.

Summary of Costs and Benefits from P272					
Total Costs			Total Benefits		
Range	Proposed Modification	Alternative Modification	Range	Proposed Modification	Alternative Modification
Wgt. Av.	£199m	£182m	High	£198m	£176m
Median	£112m	£103m	Central	£144m	£128m
Low	£46m	£41m	Low	£71m	£63m

Summary of Potential Net Cost/Benefit from P272 ⁴		
Cost/Benefit Range	Proposed Modification	Alternative Modification
Wgt. Av. Costs & Low Benefits	-£129m	-£120m
Median Costs & Central Benefits	+£32m	+£25m
Low Costs & High Benefits	+£152m	+£134m

The wide spread of costs are due to the range of costs that were submitted by Suppliers and Distributors. The broad range of benefits is due to the uncertainty surrounding the hypotheses and the sensitivity to their assumptions in the CBA model (e.g. will HH Settlement lead to more innovative tariffs and therefore a 1% reduction in peak demand for customers in PCs 5-8, or would it be 0.5%, or 2%?). The weighted average costs calculated from all of the submitted Supplier and Distributor costs were the highest of the three cost sets considered by the Workgroup, and so formed the upper range for the costs. The lower end of the costs range was calculated using the lowest costs provided by LDSOs and Suppliers, which should be available to all Parties in an efficient market. Likewise, the benefits are sensitive to the assumptions in the model, and high and low estimates of these have been used to show the effect of these and to give a range for the potential benefits.

The range of costs and benefits for the three counterfactual scenarios (no change, 100% settled HH elective by 2020 and 50% settled HH elective by 2020 if P272 was rejected) are lower than those for the P272 scenarios. Additionally, the significant costs for the scenarios with high uptakes of elective HH Settlement suggest that these scenarios are

⁴ A negative number indicates a net cost and a positive number indicates a net benefit.

unlikely to occur if the market were to be left to its own commercial pressures. Changes to the DUoS Charging Mechanism, to provide more equal charges for HH and NHH settled customers, could facilitate a greater uptake of elective HH Settlement and make these counterfactual scenarios more likely.

If P272 is not implemented then the scenario most likely to occur would be that there would be no real change in the number of customers in PCs 5-8 that would be elected to be settled HH. This reflects the current status quo and has a range of costs from £1.2m to £4.4m by the end of 2020, with benefits of £1m to £3m over the same period.

Further to the quantified benefits in the CBA, a number of qualitative and unquantifiable benefits were also considered. These include a benefit associated with peak demand reduction which could reduce the need for peak demand generation plant (typically expensive-to-run plant).

Workgroup's discussions on the cost-benefit analysis

Workgroup's discussions on the costs

The Workgroup discussed the best way of estimating the costs for Parties who had not responded to the Costs Consultation for use in the weighted average costs. It was suggested that the best approach was to use the median of the costs per MPAN that had been provided by respondents, as this would provide a reasonable estimate of the relevant costs, and this is the value that was used in the CBA.

One Workgroup member had proposed that the Workgroup should use the lowest costs provided for this step. Their rationale was that if one Party was able to achieve these lower costs then theoretically any Party should be able to realise these lower costs. Under a competitive market, any Party that can perform a service at lower costs to their competitors should be able to win more customers, and so the overall cost would come down as either customers move to realise lower costs or other Parties seek to lower their costs to compete. However, other Workgroup members felt that using the median value was more appropriate for this step, noting that some of the costs relate to internal processes, which would vary between different organisations depending on their individual methods. It was also highlighted that customers will not always opt for the lowest available cost, and that there are often other factors behind customers' choices such as what level of service they may receive.

The Workgroup considered the range of costs that had been submitted by respondents in some areas, noting that there was often a significant range between the highest and the lowest cost. Workgroup members wondered if the presence of outliers would distort the costs and make them too high. Removing these may be the right thing to do statistically, but it was noted that these are actual costs submitted by the market, and some Workgroup members felt that all the data should be included and that data should not just be ignored simply because it seems wrong. These members also found it frustrating that the Workgroup had questioned the validity of some of the numbers and had considered rejecting data that didn't seem correct. It was noted by the Workgroup that all the information submitted in the two consultations had been rigorously challenged by ELEXON and any relevant revisions subsequently resubmitted. Overall, the Workgroup concluded that all of the data submitted on costs should be used in the analysis.

One member felt that it was likely that some of the data could be questionable, but considered this to be due to a lack of understanding about what the respondent was being asked to provide, rather than a deliberate attempt to manipulate the data. However, they

consider that, given the range of views provided, it was likely that they would give a suitable average figure. Consideration was also given to the fact that many of the bigger companies have older, more 'clunky' systems, which will require more costs to update than smaller companies, and that the lower costs of the smaller companies are likely to be lost when the costs are weighted. One Workgroup member also noted that it was difficult for the Workgroup to understand the reasons behind some of the costs provided, as a majority of these had been submitted in confidence and thus could not be shared with the Workgroup. However, there were views expressed that some of the lowest costs provided seemed too low, such as those given in relation to DTN costs, and so the Workgroup considers that there may be some inaccuracy around the lowest costs.

The Workgroup also considered which set of costs would be the most appropriate to use to derive an overall figure. It was originally proposed that the weighted average costs would be the most appropriate. Some Workgroup members wondered if a value should be calculated where the smallest costs are taken for elements where competition could apply (under the theory that competition would ultimately drive costs down) and the median costs for the remaining elements. However, it was concluded that this would not be an appropriate approach, as it would be difficult to judge where competition may or may not apply, and the results of such a pass would simply lie in between the total median costs and the total lowest costs. In addition, there was concern from some Workgroup members that such an approach could be seen as manipulating the results to give a more agreeable outcome to the analysis. The Workgroup considered that it would be better to just look at the total median costs and the total smallest costs alongside the total weighted average costs, and agreed to use the median costs when deriving a headline net result.

A concern was raised that many of the respondents to the Workgroup's consultations seeking information on the costs and benefits were from members of the Workgroup. This could have the danger of the same people assessing the costs as providing them. However, many Workgroup members disagreed with this view, with several members highlighting that the information they had provided in their consultation responses had been sourced and compiled by other members of their organisations.

Workgroup's discussions on the benefits

It was highlighted that the premise behind P272 is that, as things currently stand, Suppliers wouldn't settle customers in PCs 5-8 HH unless it was mandatory to do so, and members considered whether the outcome of this analysis may change that situation if it was shown that the benefits outweighed the costs. The Workgroup notes that the benefits from P272 arise from customers moving to HH Settlement, but that it would only be a positive change if customer bills were lowered, and if the reverse happened then P272 would be a bad thing. In any event, Workgroup members still believe that the DUoS pricing differential would continue to act as a barrier to Suppliers moving their customers to HH elective, and consider that, while this remains, it is unlikely that anything would change if P272 was not implemented (see below).

The Workgroup noted that some of the benefits had a level of sensitivity to them, and had considered the upper and lower bounds of these sensitivities. Using the ranges on these sensitivities provided the high and low estimates for the total benefits.

What are the Workgroup's conclusions?

The Workgroup noted that using the median estimates for the costs and the central estimates for the benefits gave an overall benefit of around £32m for the P272 Proposed Modification and around £25m for the Alternative Modification. However, the Workgroup also noted the range given for both the costs and the benefits, and considered that, depending on where an individual considered the costs and the benefits to lie in the respective ranges, P272 could range from a net benefit of £152m to a net cost of £129m.

One Workgroup member felt that it was unlikely that all of the benefits identified under P272 would be realised, or realised to their maximum extent. It would also depend on which benefits were realised, and where within a Supplier's organisation these accrue to, as to whether the benefits would be enough to prevent costs for consumers from rising as a result of the costs from P272. Therefore, this Workgroup member considers that it is likely that the total benefits will not be as high as the analysis suggests. In contrast, costs are often exceeded, which would suggest that the total costs from P272 could be higher than the analysis suggests.

The Workgroup concluded that, while using the median cost and central benefit estimates suggested P272 would give rise to a net benefit, it would be up to individuals to consider where they believed the total costs and the total benefits would likely lie within each range when considering whether they believed there would be a net cost or a net benefit arising from P272. Overall, a majority of the Workgroup disagreed with the outcome of the CBA, and believed that the costs would outweigh the benefits.

What are the Workgroup's views on the analysis?

The Workgroup considered whether they had found the CBA to be a useful activity in helping them come to a decision on whether P272 better facilitated the Applicable BSC Objectives. Undertaking this analysis has allowed for a much greater understanding of the drivers behind the costs and benefits involved with this change, which makes it clearer as to what impacts P272 may have.

One Workgroup member commented that the Industry is in a more commercially-sensitive time than it was a decade ago, and that unlike in previous times, changes raised now do need to be presented with clear benefits for Parties. They consider that the principle behind the work undertaken was a good one, and that this approach should be taken more frequently for future changes whenever such analysis would be relevant. Other Workgroup members agreed with this view. However, one member disagreed, feeling that decisions on changes should be made based on the principles rather than the costs.

Overall, the Workgroup felt that being able to assess the issue in this way did allow for a greater understanding of the issue. One Workgroup member cited the example that they had only recently found out that a majority of the advanced Meters had already been installed as a result of carrying out the P272 CBA, and wondered how many of them were actually able to submit HH data. They felt that there were still logistical issues that need to be resolved, and also considered that P272 may have been raised too soon given all the wider questions that still need to be resolved. Another Workgroup member commented that the analysis had been carried out up until 2020, which is one year after the planned completion date for the roll-out of smart Meters, and highlighted that the analysis indicated there would be a lot of benefits arising from P272 over that time.

What is Ofgem's view of the analysis?

The Ofgem representatives believe that the Workgroup has made significant progress in compiling evidence that can be used when making a decision on P272, and were content that the CBA work has satisfied their request. They recognised the substantial amount of work undertaken and the significant progress made in understanding the potential costs and benefits of P272. They also noted that this information will be useful not just for P272 but for other related areas of work, such as the longer-term reform of Settlement arrangements that is being progressed as part of the Ofgem Smarter Markets programme.

This section summarises the Workgroup's discussions since the Panel's discussions on the Workgroup's original Assessment Report in January 2012. Their discussions relating to the CBA can be found in Section 9. The Workgroup's final conclusions on P272 can be found in Section 11.

Please note that a majority of the Workgroup's original views and discussions remain unchanged from before (see Section 7), and so have not been re-covered here.

How significantly could the DUoS pricing differential impact P272?

The Workgroup again considered the DUoS pricing differential between NHH and HH customers, and reiterated their belief that it is a major barrier to HH Settlement, regardless of whether or not P272 is implemented. The Workgroup considered the results of a study carried out by the PSRG, which highlighted that there would be winners and losers should customers be moved to HH Settlement, but that the average DUoS bill would change by around $\pm 2.5\%$. Some Workgroup members noted internal studies carried out by their organisations which had concluded that, while there would be some winners, there would be far more losers, up to 90% of customers in some cases, and that some of those who lose out would do so significantly.

The Workgroup continues to strongly believe that this will present a significant barrier to HH Settlement due to the increase in costs that that would be incurred by such a move. Members highlight that the current climate is such whereby any increase in customers' bills is something that should be vehemently avoided. Therefore, under the current arrangements, Suppliers would not voluntarily move their customers to HH elective Settlement as that would increase the costs for Suppliers, who would either have to absorb the extra costs or pass them on to their customers. Should P272 be approved, then this barrier would dis-incentivise Suppliers from migrating their customers to HH Settlement early, which would increase problems nearer to the Implementation Date as Suppliers all attempt to transfer their customers simultaneously.

It should be noted that, for these reasons, the Workgroup considers that CBA Scenarios 3 and 4, representing voluntary transitions to HH elective Settlement without P272, are unlikely to happen unless the DUoS pricing differential issues are resolved.

Is P272 the right solution?

One Workgroup member raised a concern that P272 focuses on only a small proportion of the market but has a significant impact on Parties. They consider that it would be more cost-efficient to implement these changes further down the line as part of a bigger market-wide solution, for example HH Settlement for PCs 1-4. Although there may be a view that P272 should be implemented so that lessons can be learnt for the remainder of the market, there are concerns that this would be a very expensive pilot and would likely have an impact on the affected consumers.

A majority of Workgroup members believe that the costs of P272 would outweigh the benefits, and consider that P272 may be the wrong solution at the wrong time in light of possible future changes. They consider the possibility that wider market changes resulting from areas such as smart metering may result in the effects of P272 being superseded by a wider solution. As such, it may be better to wait and to make these changes as part of a

more holistic solution, rather than to incur costs now for changes that would be redundant within a few years. Although the Workgroup unanimously agrees that HH Settlement is good in principle, and that getting more HH data into Settlement would be a positive thing, they continue to stress that this is not an aim that should be achieved at any cost.

How else may P272 affect end consumers?

As part of their initial discussions (see Section 7), the Workgroup had identified a number of practical implications for consumers as a result of P272. These are further considered below. Ofgem has helped the Workgroup facilitate discussions with the relevant consumer groups, but the Ofgem representatives consider that the Workgroup could have explored these further without Ofgem's help.

The Workgroup also noted a request from the Ofgem representatives that when the P272 report is issued for consultation it should also be sent to non-domestic consumers (other representative bodies) for their comment.

New price structures

The Workgroup considered how customers who move to HH Settlement under P272 may be exposed to new price structures. There is a concern that the additional complexity that this will give rise to may make it harder for customers to find the right tariff for them.

However, P272 could lead to the introduction of more innovative tariffs, which might lead to more cost-reflective charges being made available. These could change some consumers' behaviours, encouraging them to shift their load away from peak hours, which could have system-wide benefits (such as reduced peak demand and the need for expensive peak generation), ultimately benefiting all consumers. However, many businesses are constrained by several factors that would prevent such benefits from being realised, such as the working hours of the workforce making it difficult to shift schedules. It was noted though that some customers who already operate overnight, such as bakeries, may benefit from the more accurate billing that P272 will enable.

The Workgroup recognises that these would be issues that Ofgem should consider, but that it lies outside of the scope of the BSC.

Metering arrangements

The Workgroup noted a potential issue with regards to the appointment of appropriate Agents. Members note that customers can elect to appoint their own Agents, but there is generally no onus on them to do so, and if they do not appoint their own Agents then the Supplier will do so on their behalf. One exception is with the appointment of the Meter Operator Agent (MOA), where a HH customer may be required to appoint their own Agent. In this instance, the customer can get their Supplier to appoint an MOA for them, but they would accept liability for the costs incurred by their Supplier in doing so. It is possible that some consumers may need to appoint their own Agent for the first time if P272 is approved.

Another issue may be with termination costs, whereby Suppliers (or customers) may need to terminate a contract held with an Agent who is only qualified for NHH Meters, and thus would not be able to serve the site once P272 has been implemented. In this case, the Supplier/customer would need to terminate their contract with their existing NHH Agent(s)

and enter into a new contract with the relevant HH Agent(s). One Workgroup member queried whether the requirement to install an advance Meter and settle HH could force appropriate contracts to be broken.

The Workgroup investigated the potential scale of termination costs, but concluded that there is likely to be little or no costs arising from this, although a price review may be triggered by some Suppliers. However, the Workgroup noted that there were over 25,000 PC 5-8 customers (approximately one in six) who had elected to appoint their own Agents, and who therefore may need to reappoint their Agents under P272 if their current Agents are NHH-only.

The Workgroup also recognised that for a NHH PC 5-8 customer the Supplier may currently offer a bundle service, which includes the Meter Operator (MO), Data Collector (DC) and Data Aggregator (DA) services. However, HH settled customers would typically appoint their own MO. They noted that the Supplier does have the obligation under the BSC to appoint MO, DC and DA Agents and it may be that customers would want to continue with their bundled service even when they are settled HH. However, Suppliers are not required to provide such a bundled service.

Carbon Reduction Commitment

P272 may have an interaction with the Carbon Reduction Commitment (CRC), since P272 would cause an additional 154,500 sites to be settled HH. This may result in these customers qualifying for the CRC scheme (subject to other criteria), and they would subsequently be required to adhere to its obligations. This would result in them having to fulfil an obligation to report on consumption data provision, and they would be subject to a tax at a certain level. However, it is possible that some these customers may already come under the CRC obligation should they have maximum-demand Meters.

P272 will not impact on Phase 2 of the CRC scheme as the Implementation Date for P272 will come after the qualification year for this second phase. Therefore, customers impacted by P272 who may then become subject to the CRC scheme would not be impacted until Phase 3 comes into effect, which is scheduled to begin in 2019.

Data access

The Workgroup discussed the potential impact on customers due to their access of the HH Meter data as required by P272. The Workgroup did not believe this to be an issue as they felt this was covered through the standard contractual terms. However, they did note that there would need to be customer education around this area.



What are the Workgroup's final views against the Applicable BSC Objectives?

By majority, the Workgroup believes that neither solution would better facilitate the Applicable BSC Objectives, and therefore recommends that both the Proposed Modification and the Alternative Modification should be rejected.

A significant minority of the Workgroup strongly believe that the benefits would outweigh the costs, and feel that HH Settlement in principle would be better. However, a majority of members consider that P272 should be rejected as they believe the costs would outweigh the benefits. These members note that they do agree with HH Settlement in principle, but consider P272 to be the wrong solution at this time. It is their view that it would be more cost-effective and efficient, and thus more beneficial, to implement such a change across the whole market at once as part of a more holistic solution.

The following table contains the Workgroup's final views against each of the Applicable BSC Objectives. These views are against both the Proposed Modification and the Alternative Modification.

Does P272 better facilitate the Applicable BSC Objectives?		
Obj	Views in Support (both solutions)	Views Against (both solutions)
(a)	<ul style="list-style-type: none"> Neutral – No impact. 	
(b)	<ul style="list-style-type: none"> Neutral – No impact. 	
(c)	<ul style="list-style-type: none"> Benefits outweigh costs. Increases competition as smaller Suppliers have made little impact in the NHH market but work much better in the HH market. Would allow for much better use of the available data. CoS process more efficient. In principle HH settlement is better 	<ul style="list-style-type: none"> Costs outweigh the benefits, and costs incurred would be significant for only a small segment of the market – this change cannot come at any cost. The Industry is unlikely to realise all of the benefits identified with P272, whereas the costs are often higher than estimated. Potentially increases customer costs, which is bad for a competitive market. If settling HH was good for competition, more customers would be settled HH now. The issue with differential in DUoS charges will increase costs for customers moved to HH Settlement – P272 should not be implemented until this has been resolved. Not convinced of the case to treat PCs 5-8 differently to PCs 1-4.
(d)	<ul style="list-style-type: none"> Impossible to argue that HH doesn't work well, see current NHH market issues. HH Settlement is more efficient than 	<ul style="list-style-type: none"> Would be more efficient to wait and implement as part of a market-wide solution, which would be more palatable for customers – this is the

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]

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Does P272 better facilitate the Applicable BSC Objectives?		
Obj	Views in Support (both solutions)	Views Against (both solutions)
	<p>NHH Settlement due to more accurate data.</p> <ul style="list-style-type: none"> • Would no longer need to profile PCs 5-8. 	<p>wrong solution at the wrong time.</p> <ul style="list-style-type: none"> • Although HH Settlement is better in principle, it is not conclusive that the benefits outweigh the costs.
(e)	<ul style="list-style-type: none"> • Neutral – No impact. 	

What are the Workgroup's final views on which solution is better?

By majority, the Workgroup believes that the Alternative Modification would be better than the Proposed Modification.

The Workgroup's views are summarised in the following table:

Which is the better solution to P272?	
Proposed Solution	Alternative Solution
<ul style="list-style-type: none"> • Proposed solution offers the maximum benefits for the market. 	<ul style="list-style-type: none"> • Alternative solution is more realistic. • Allows for more time to resolve any issues, such as contractual issues and the need to undertake a CoMC for all the affected sites. • Allows the market to settle down following the introduction of the mandate into the Supply Licence. • Allows time for the issues with DUoS price differentials to be resolved.



Panel's views on the cost-benefit analysis

The Panel considered the results of the CBA and the Workgroup's subsequent views. Some Panel Members were confused as to why the Workgroup's majority view that the costs would outweigh the benefits was different to the outcome of the analysis, which had indicated a net benefit. It was highlighted that it was by comparing the median costs and central benefits which showed a net benefit. Furthermore, the analysis is based on certain assumptions around the costs and benefits, and, as with any CBA, the assumptions on which the analysis is based can be questioned. An individual's own views on those assumptions would therefore inform their own conclusions on whether there was a net cost or benefit. A Panel Member also noted that Workgroup members would have been closer to the data and the analysis, and would therefore have been able to drill down further into the costs and benefits when considering their conclusions.

The Panel discussed the data used in the analysis. It was noted that whilst some of the costs data received had been confidential, and so individual responses could not be considered by the Workgroup or the Panel, all costs received were included in the analysis and will be submitted to Ofgem along with the Final Modification Report. It was also noted that the analysis contained extrapolated costs for those Parties who did not respond to the cost consultation. For example, only five of the 'Big 6' Parties had submitted responses to the Costs Consultation, and these had been used to estimate values for the remaining sector of the market. The Panel commented on the wide range of costs, and questioned whether there were any outliers in the analysis. The Workgroup Chair responded that there were indeed outliers in the CBA, so when considering the outcome of the CBA the Workgroup had agreed to use the central (median) values for the costs and benefits as these seemed the most appropriate. It was noted that there was a level of uncertainty around some of the benefits, which is why sensitivity analysis had been done on these. However, it was considered that a probability estimate for these, to ascertain the most likely outcomes, would have been difficult to carry out.

The Panel also queried why the Workgroup had not undertaken a further consultation to obtain Parties' views on the results of the CBA and whether this would impact on their views on whether P272 better facilitated the Applicable BSC Objectives. It was also thought that this would help Ofgem to understand where different parts of the Industry sit with regards to P272 when it makes its decision. It was noted that the Workgroup did not have enough time to complete such a consultation. Any further extensions to the Assessment Procedure timetable would have meant that the Final Modification Report could not be submitted to Ofgem before the cut-off date for the Proposed Modification, which would've effectively ruled out the Proposed Modification. It was also queried whether undertaking such a consultation would have offered anything that could not be obtained as part of the Panel's Report Phase Consultation. It was agreed to seek views on the CBA as part of the Report Phase Consultation.

The Ofgem representative recommended that a question be included to seek respondents' views on the potential consumer impacts of P272 (see Section 10), which the Panel agreed to add. It was also noted that Ofgem intends to forward the Panel's Report Phase Consultation on to consumer groups, and to invite them to respond.

Recommendation

By majority, the Panel initially recommends that both the P272 Proposed Modification and the P272 Alternative Modification should be rejected.

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Panel's views on the Applicable BSC Objectives

The majority of Panel Members believe that neither the P272 Proposed Modification nor the P272 Alternative Modification would better facilitate Applicable BSC Objectives (c) and (d). The views of these Members are in line with those expressed by Workgroup members in Sections 7 and 11 who felt P272 did not better facilitate the Applicable BSC Objectives.

A minority of Panel Members did agree with the Workgroup's minority view that P272 would better facilitate Applicable BSC Objectives (c) and (d) for the reasons set out in Sections 7 and 11.

One Panel Member believed it was strange to mandate the installation of advanced Meters but not to make use of the functionality of those meters to submit more accurate data into Settlement. They consider that P272 would be a major step forward in Settlement accuracy, and that this would be a missed opportunity should P272 be rejected. They note that there are costs associated with this change, but highlighted that the CBA indicates an overall benefit would be realised. Another Panel Member agreed with this, but considered that customers are more price-sensitive, and that P272 could expose them to increased costs. While rejecting P272 could be bad for Settlement accuracy, approving it could be bad for consumer costs; the question is which would be more detrimental to the Industry.

One Panel Member felt that the Workgroup had spent too much time considering areas beyond the actual proposal (that HH Settlement should be mandatory for sites in PCs 5-8), such as whether smart/advanced Meters are desirable or whether now is the right time for this change, which they feel is not relevant to P272. They consider that the Workgroup's recommendation should be based on whether the proposal itself better facilitates the Applicable BSC Objectives, and that it is up to Ofgem to consider the wider picture. It was noted that the Workgroup had considered other areas, for example whether P272 would give rise to more innovative tariffs, as part of its examination of the benefits, and had considered this to be relevant to the analysis to determine whether HH Settlement was necessary to realise such benefits, as it would help determine if a mandate was required, as per the proposal. It was noted that, in this example, more flexible innovative tariffs could be achieved through HH Settlement over the existing NHH Settlement approach.

One Panel Member commented on the Workgroup's consideration of the impact of DUoS charges, and that it had only considered that costs would increase. They noted that the DUoS charge for each year is a single pot distributed across all Parties accordingly. If Parties moved customers to HH Settlement, and thus paid more DUoS charges, this would increase the amount of money levied in that year, and the excess would be redistributed back to Parties. Parties who moved their customers over to elective HH would potentially face increased DUoS charges and under P272 the issue would be the over-recovery of these charges in one year.

By majority, the Panel initially believes that neither solution would better facilitate the Applicable BSC Objectives, and therefore initially recommends that both the Proposed Modification and the Alternative Modification should be rejected.

Panel's views on legal text

The Panel unanimously agrees with the Workgroup's view that the proposed changes to the BSC in Attachments B and C deliver the intention of the Proposed and Alternative Modification respectively.

Panel's views on Implementation Date

The Panel unanimously agrees with the implementation approach proposed by the Workgroup, as detailed in Section 6.

13 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 D.

14 responses were received to this consultation, two of which were from consumer groups.

Summary of P272 Report Phase Consultation Responses

Question	Yes	No	Neutral/No Comment
Do you agree with the Panel's initial recommendation that the P272 Proposed Modification should not be approved?	10	3	1
Do you agree with the Panel's initial recommendation that the P272 Alternative Modification should not be approved?	11	2	1
Do you agree with the Panel's recommended implementation approach?	13	0	1
Do you agree with the Panel that the redlined changes to the BSC deliver the intention of P272?	11	0	3
Do you have any comments on the underlying costs and benefits (including the assumptions) used in the cost-benefit analysis?	9	5	0
Have the results of the cost-benefit analysis changed your views on whether P272 would better facilitate the Applicable BSC Objectives?	0	13	1
Do you believe P272 would impact on end consumers?	13	1	0
Do you have any further comments on P272?	9	5	0

Views on Applicable BSC Objectives

Rejection of P272

The majority of respondents to the Report Phase Consultation agree with the Panel's majority view that both the Proposed Modification and the Alternative Modification should be rejected. These respondents believe that P272 would not better facilitate Applicable BSC Objectives (c) and (d).

Several respondents note that they were formerly in favour of P272, but that the rejection of P280 and the withdrawal of DCPs 103 and 151 (which related to DUoS charges) now mean that P272 is no longer viable, and so they now believe that P272 should be rejected. One respondent did note that if P280 was reactivated then the two Modifications could be successfully progressed and implemented in parallel, which would also help with the DUoS issues. Respondents highlight the DUoS issues that have been discussed by the Workgroup, and consider that these issues would need to be revisited and resolved before P272 could be implemented. One respondent disagrees with the arguments that approving P272 would provide an impetus to resolve these issues quickly, believing that approving P272 would make the issues around DUoS charging more critical to resolve, which they



What are Report Phase respondents' views?

The majority of respondents support rejecting both the P272 Proposed Modification and the P272 Alternative Modification.

The full responses made by Parties to the Report Phase Consultation can be found in Attachment D.

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believe would not be good practice; they consider that resolving issues by making them more urgent is not a good way for an orderly market to be governed.

Some respondents feel that, should these DUoS issues be resolved, the benefits would likely outweigh the costs, and so a natural transition to HH Settlement would likely take place at that point. This transition should be left to market forces though, and not enforced by a mandate, which one respondent feels would be detrimental to competition as it would remove choice from suppliers and their customers. Another respondent believes that, if there is a clear benefit of moving to HH Settlement, a mandate would not be required at all. They note that Suppliers and customers can already elect to be settled HH, but do not generally take up this option due to the increased costs in relation to distribution charges or Agent costs; they highlight that P272 would not resolve either of these issues. Another respondent feels that mandating HH Settlement would also remove choice from customers.

Several respondents agreed with the Workgroup's majority view that the costs associated with P272 would, in reality, outweigh the benefits, and believe that P272 should not be implemented for this reason. They note that they support the principle of HH Settlement, but not in the way proposed by P272. They feel that this is not the right solution at this time and in the current economic climate, and are concerned that the costs highlighted by the CBA would outweigh the uncertain benefits for this sector of the market. One respondent considers that the weighted average costs would be a more accurate reflection of the costs of P272, believing that the actual costs submitted by Parties should be used and not a "false middle ground". This respondent also considers the benefits to have been overstated, noting that several benefits are not specific to P272.

Approval of P272

A minority of respondents to the Report Phase Consultation disagree with the Panel's majority view that both the Proposed Modification and the Alternative Modification should be rejected. These respondents believe that P272 would better facilitate Applicable BSC Objectives (c) and (d).

One respondent notes that some of the arguments used in support of rejection of P272 relate to issues that the Industry needs to address regardless of whether P272 is approved or not. They highlight that the DUoS issues are known issues, but believe that approving P272 would support the ongoing impetus to adjust the DUoS charging issues. Another respondent believes that the Alternative Modification should be approved, as they consider that the majority of the issues highlighted by P272 should have been resolved by April 2015.

It was also highlighted that, following the mandate to install advanced Meters at PC 5-8 sites, P272 simply seeks to move forward with this technology. Making use of the more accurate data would benefit customers with more predictable billing and pricing, and would allow better cost-reflective DUoS tariffs to be introduced. One respondent also queries why there is a mandate to install advanced Meters if there is no equivalent mandate to use the HH data that these meters would provide. Another respondent considers that the licence obligation to install advanced Meters was inserted on the assumption that customers could realise the benefits of load shifting, but that this is not possible as long as they continue to be settled NHH.

One respondent agrees with the outcome of the Workgroup's CBA that the benefits associated with P272 would outweigh the costs. They feel that the net benefit would be even bigger, as competition would drive down costs, while there are several benefits that the Workgroup were unable to quantify.

Which solution would be better

Respondents are mixed in their views as to which of the two solutions would be preferable, although there is a slight majority in support of the Alternative Modification over the Proposed Modification. However, respondents note that the only difference between the two solutions is the Implementation Date, and many do not believe that this would make a difference to the fundamental issues with P272, which would be the same for both solutions. One respondent also notes that many customers have already signed up to NHH contracts that extend past both proposed dates, and so either solution would detrimentally impact these.

One respondent believes that the Implementation Date for the Alternative Modification would be preferable as the DUoS issues surrounding P272 should be resolved by April 2015. However, a couple of respondents believe that the Proposed Solution is preferable, as the benefits would be realised earlier, and disagree with arguments that an extra year is required beyond the date that advanced Meters are mandated for PC 5-8 sites.

Consideration of Objective (e)

One respondent considers that there may be an argument that Objective (e) is relevant to the assessment of P272, as the introduction of the EU Third Package could be considered a relevant legally binding decision. They highlight a provision in Annex 1 1(i) of EU Regulation 2009/72⁵:

"[Consumers] are properly informed of actual electricity consumption and costs frequently enough to enable them to regulate their own electricity consumption. That information shall be given by using a sufficient time frame, which takes account of the capability of customer's metering equipment and the electricity product in question. Due account shall be taken of the cost-efficiency of such measures. No additional costs shall be charged to the consumer for that service."

They consider that this may have relevance in two regards:

- Firstly, if the "product in question" is a dynamic ToU tariff and the "capability of customer's metering equipment" is HH then it may be necessary to settle as such in order "to enable [the consumer] to regulate their own electricity consumption".
- Secondly, if this provision is relevant, then the requirement that "no additional costs shall be charged to the consumer for that service" may preclude the implementation of HH Settlement if the costs of this (to the customer) would be higher than NHH Settlement.

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⁵ <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2009:211:0055:0093:EN:PDF>

Views on Implementation Date

Respondents unanimously agree with the proposed implementation approach for P272, should it be approved, as detailed in Section 6.

Views on legal text

No respondents disagree with the proposed legal text for P272. You can find the proposed changes for the Proposed Modification and the Alternative Modification in Attachments B and C respectively.

Views on the cost-benefit analysis

Several respondents noted the significant amount of work that had been undertaken by the workgroup in its CBA. They noted the wide ranges given for both the potential costs and the potential benefits, which was a concern for some. However, respondents were unanimous in their response that the results of the CBA had not changed their views on whether P272 would better facilitate the Applicable BSC Objectives.

Some respondents considered that the costs associated with P272, while important, are not the only driver, and that the principles behind the change are just as important. One respondent believes the high levels and range of costs show inefficiencies with some market participants, which shouldn't act as a brake for implementing changes for everyone. Instead, this should be used to encourage the Industry to improve their processes and systems to reduce inefficiencies, and thus costs.

One respondent highlighted a view that was given during the development of the solution that not implementing this change as soon as possible would limit this sector of the market from realising benefits from HH Settlement early. They note that implementing P272 would see significant costs incurred by the Parties involved, but that the potential benefits are not guaranteed to be achieved. The counterfactual scenarios highlight that leaving the market to evolve naturally results in fairly neutral costs and benefits without exposing Parties to a huge cost, whereas P272 has the potential to incur a net cost of £128m across the Industry. They also believe that some of the benefits that had been highlighted are unachievable, commenting that there is no evidence available that gives them confidence that some of the figures used are realistic. They comment also that the costs of major IT projects rarely come in on budget, and so consider that the costs have been understated while the benefits have been overstated. However, another respondent cannot understand why the Panel has not recommended P272 be approved as the CBA has indicated there to be a net benefit in implementing P272.

It was also considered that the Workgroup had used the current arrangements as a baseline for judging the costs and benefits. One respondent wondered whether it may not have been more accurate to consider the benefits over and above settling on smart meter data. However, they concede that the Workgroup could not have considered this as the smart meter arrangements have not yet been finalised, but do consider that the benefits would be diminished when compared with a smart meter baseline.

No respondents' views were changed by the outcome of the cost-benefit analysis. Some respondents in support of P272 consider the outcome of the CBA to reinforce their view that P272 should be approved, as it would realise a net benefit to Parties. Others who are against P272 have, after examining the data in Attachment A, concluded that the costs would outweigh the benefits, believing the costs would be towards the higher end and the

benefits towards the lower end of the respective ranges. However, some respondents, both for and against, consider that their view on whether P272 would better facilitate the Applicable BSC Objectives is driven by other reasons. For example, one respondent considers that the issue of DUoS charging has not been satisfactorily resolved to allow P272 to be implemented.

Some respondents refer to Ofgem's request to the BSC Panel to undertake a review of Settlement. They consider that the approach to HH Settlement should be considered as part of this work, in the wider context of smart meters, and that it is too early to consider this until the rollout of smart meters commences. It should be noted that HH Settlement will be considered as part of this review work.

Views on impacts on end consumers

A majority of respondents consider that P272 would impact on end consumers, although views are split on whether this would be a positive or negative impact.

Many respondents highlight the benefits of being settled HH. By being settled HH, a customer's bill will be based on more accurate data, and so would be subject to less back-billing and reconciliation. In addition, HH data is more transparent than NHH data, and having this information would aid competition as customers would be able to shop around for better deals. Many customers on ToU tariffs are paying more than they need to, as they don't necessarily fit or understand their consumption profile, and this change could help to reduce this number.

Respondents also consider that HH Settlement would also aid some customers in changing their consumption patterns, which could allow them to consume less during the more expensive peak times, shifting this usage to cheaper off-peak periods. However, it is highlighted that not all customers would be able to take advantage of this, as some types of business would be unable to change their consumption patterns.

Many respondents highlight the costs associated with P272, and have concerns that these would feed through to consumers. The increased DUoS charges associated with HH Settlement would likely result in increased costs, and, without P280, these customers would be classed as being in Profile Class 00, and so would be charged authorised capacity. Both of these could be passed to consumers by the relevant Suppliers, something respondents note would be unpopular with customers and could further damage the Industry's relationship with the wider economy. It would be better to leave any transition to HH Settlement to be determined by market forces. In addition, a substantial number of customers would have to renegotiate metering contracts, which may result in additional costs for them going forward. However, one respondent feels that the PSRG's analysis of the potential impacts of DUoS charges is more appropriate to consider than the internal assessments carried out by individual Suppliers, as the PSRG's analysis would be more independent. They note that this analysis suggests that there wouldn't be a large impact on a customer's DUoS bill as a result of P272.

One respondent considered that P272 could have wider unintended consequences. They note that advanced meters, while more limited than domestic smart meters will be, will share many characteristics, and could be perceived as 'smart metering'. This roll-out could therefore be seen as a 'dry-run' for domestic smart metering. If this were to provoke a backlash as customers see their bills increase, this could result in leaving a negative impression on smart metering as a whole, making domestic smart metering harder to deliver. They also note that, while P272 would only impact non-domestic Metering Points,

it has started to highlight arguments for and against HH Settlement that may emerge for domestic Metering Points over the next few years.

One respondent does not believe that P272 will impact end consumers. They consider that P272 would not offer customers any benefits over the data that would already be available to them through smart metering, which would also be available to them through their Supplier.

One respondent welcomed the approach of considering the consumer impacts as part of the Modification process, instead of through a subsequent Regulatory Impact Assessment, believing it to be a more transparent and timely process. They consider there to be a deficiency in the code governance regime in that the impacts on consumers tend to lie outside the scopes of the relevant code assessment processes, and so tend not to be considered until the relevant change has been submitted to Ofgem for its decision. This could result in Ofgem's assessment of the consumer impacts causing a 'surprise' decision for reasons that were never considered during assessment, which does not help Industry or consumers.

14 Recommendations

ELEXON invites the Panel to:

- **NOTE** the P272 Draft Modification Report and the Report Phase Consultation responses;
- **CONFIRM** the recommendation to the Authority contained in the P272 draft Modification Report that P272 Proposed Modification **should not** be made as it would not better facilitate Applicable BSC Objectives (c) and (d);
- **CONFIRM** the recommendation to the Authority contained in the P272 draft Modification Report that P272 Alternative Modification **should not** be made as it would not better facilitate Applicable BSC Objectives (c) and (d);
- **APPROVE** an Implementation Date for the P272 Proposed Modification (if approved) of:
 - 1 April 2014 if an Authority decision is received on or before 14 February 2013;
- **APPROVE** an Implementation Date for the P272 Alternative Modification (if approved) of:
 - 1 April 2015 if an Authority decision is received on or before 13 February 2014;
- **APPROVE** the BSC legal text for the P272 Proposed Modification;
- **APPROVE** the BSC legal text for the P272 Alternative Modification; and
- **APPROVE** the P272 Modification Report or **INSTRUCT** the Modification Secretary to make such changes to the report as the Panel may specify.

15 Further Information

More information is available in:

Attachment **A**: Detailed Assessment

Attachment **B**: Draft Legal Text for Proposed Solution

Attachment **C**: Draft Legal Text for Alternative Solution

Attachment **D**: Report Phase Consultation Responses

For further information and previous P272 documentation, including a complete version of the (non-confidential) responses received to the P272 Impact Assessment and Assessment Consultations, please see the [P272](#) page of the ELEXON website.



Initial estimate of industry progression costs from the IWA

Estimate of Total Industry Assessment Costs – Initial Written Assessment					
Workgroup support	Est #mtgs	Est #att	Est effort	Est rate	Sub-total
	4	8	1.5	£605	£29,040
Consultation response support	Est #cons	Est #resp	Est effort	Est rate	Sub-total
	2	10	2.5	£605	£30,250
Total Costs					£59,290

Industry Assessment Costs

Industry Workgroup support and consultation response costs represent an approximation of industry time and effort in attending Workgroup meetings and responding to consultations.

The initial calculation is based upon an estimate of how many attendees we expect to attend each meeting and how many responses we expect to receive to each consultation.

Updated estimate of industry progression costs

Estimate of Total Industry Assessment Costs – Modification Report					
Workgroup support	Meeting	Act #att	Est effort	Est rate	Sub-total
	1	16	1.5	£605	£14,520
	2	14			£12,705
	3	17			£15,428
	4	16			£14,520
	5	15			£13,613
	6	15			£13,613
	7	14			£12,705
	8	14			£12,705
	9	14			£12,705
Consultation response support	Consultation	Act #resp	Est effort	Est rate	Sub-total
	IA	23	2.5	£605	£34,788
	Assessment	18			£27,225
	Assessment 2	16			£24,200
	Costs Cons.	8			£12,100
	Benefits Cons.	14			£21,175
	Report	14			£21,175
Total Costs					£263,177

The updated calculation is based on the actual number of attendees at each meeting and the actual number of responses received to each consultation.

The calculations assume that each attendee will require 1.5 man days of effort per meeting and each response will take 2.5 man days of effort, multiplied by a standard rate of £605 per man day.