

## Registration of New Suppliers

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<b>Meeting Name</b>	Supplier Volume Allocation Group
<b>Meeting Date</b>	5 February 2013
<b>Purpose of paper</b>	For Information
<b>Summary</b>	On 4 December 2012 the SVG considered paper <a href="#">SVG142/01</a> ( <i>'Registering new participants in MDD'</i> ), and asked ELEXON to investigate further a number of points. This paper discharges Actions 142/01, 142/02 and 142/03 arising from that discussion.

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### 1. Introduction

1.1 The purpose of paper [SVG142/01](#) was to address a number of questions raised by SVG Members on the process for registering new market participants (particularly Suppliers) in Market Domain Data (MDD).

1.2 In that paper ELEXON gave its view that:

- [BSC Section A](#) and [BSC Procedure \(BSCP\) 509](#) ('Changes to Market Domain Data') require us to continue to allow Suppliers to register in MDD before the Performance Assurance Board (PAB) has approved their Qualification;
- Any change to the MDD registration criteria for Suppliers would require a Modification Proposal to BSC Section A;
- BSCP509 requires us to bring 'fast track' new participant MDD changes to SVG for information rather than for approval; and
- Amending the process for the approval of 'fast track' changes would require a Change Proposal (CP) to BSCP509.

1.3 The SVG noted this view, but placed actions on ELEXON to:

- Confirm whether a Party needs to hold a Supply Licence before registering as a Supplier under the BSC (Action 142/01);
- Reconfirm, in light of the SVG's discussion, that there is no conflict between BSC Section A, BSCP509 and/or [BSCP65](#) 'Registration of Parties and Exit Procedures' (Action 142/02); and
- Clarify the steps that ELEXON would take to mitigate any Settlement Risk of a Supplier trading before its full Qualification, the governance under which these steps would be taken and whether they require formalisation (Action 142/03).

1.4 The purpose of this paper is to discharge these three actions, giving ELEXON's view on each of the questions posed.

## 2. Registering as a Supplier before obtaining a Supply Licence

2.1 The BSC defines a Supplier as *“a Party which holds a Supply Licence and is responsible for Exports and/or Imports for which such Party is required, by virtue of Section K, to register one or more SVA Metering Systems”*.

2.2 Points to note about this definition include:

- It only includes Parties that hold a Supply Licence (i.e. Licence Exempt Suppliers are excluded from the definition); and
- It only includes Parties that are already responsible for Supplier Volume Allocation (SVA) Imports and/or Exports. On first sight there appears to be a risk of circularity here, in that a Party has to register as a Supplier in MDD before it can become responsible for SVA Imports and/or Exports, but it cannot become a Supplier (as defined in the BSC) until it has this responsibility. As discussed below, the resolution to this apparent paradox is that Parties register in MDD their intention or expectation of becoming a Supplier. This then allows them to submit registrations, become responsible for SVA Imports and/or Exports, and hence fulfil the BSC’s definition of Supplier.

2.3 We have discussed with our legal team whether the BSC envisages Parties registering as Suppliers under the BSC before being granted a Supply Licence by Ofgem. ELEXON’s legal view is as follows:

- The lack of a Supply Licence does not prevent the potential Supplier from acceding to the BSC. Becoming a BSC Party is open not just to persons holding Licences (under BSC A1.2.2(c)), but to other persons who choose to do so (see BSC A1.2.2(d)). A new Supplier may well make a conscious decision to accede to the BSC prior to obtaining their Licence, in order to avoid any risk of inadvertent non-compliance with Condition 11.2 of their Supply Licence.<sup>1</sup>
- Having acceded to the BSC, the lack of a Supply Licence does not prevent the potential Supplier from registering its intended/expected participation capacity with the Central Registration Agent (CRA) and thereby in MDD.<sup>2</sup> BSC Section A4.2 states that the Party Registration Data which a Party must provide to the CRA includes *“the participation capacities (if any) which (at the time of its registration in CRS or a revision thereof) it has or intends or expects to have, and the date with effect from which it has or intends or expects to have each such participation capacity”*.

<sup>1</sup> Condition 11.2 of the standard conditions of the electricity supply licence requires a Supplier to be a party to and comply with the BSC “from the earlier of the date on which it offers to supply electricity or the date on which it begins to supply electricity to premises in Great Britain”.

<sup>2</sup> Paper 142/01 explained that the Supplier details held in MDD are effectively copies (for SVA purposes) of the CRA data, and that the CRA and MDD systems were designed to require these details to become effective in both systems at the same time. This is reflected in the requirements of BSCP65 (see paragraph 3.1 below for more information).

- 2.4 We believe the intent of these provisions is clear that a potential Supplier will register its participation capacity as a Supplier, with an effective date by which it intends/expects to have its Supply Licence. But what happens if this date is reached, and the Supply Licence has still not been granted? Neither the BSC nor the BSCPs appear to cover this scenario, and in practice ELEXON would not take any steps to disable the Supplier's registration. The onus would be on the Party to ensure that it does not register SVA Metering Systems before being granted the Supply Licence. If it was to do so it would potentially be breaking the law (unless its supply was covered by a Licence Exemption), as well as being in breach of industry codes.
- 2.5 We are not aware that the lack of a BSC process for ensuring that Suppliers have a Supply Licence has caused any problems in practice since the BSC went live in 2001. However, if the SVG (or any Party) was concerned about it, potential solutions would include:
- Raising a Modification Proposal to BSC Section A, to prevent Parties from registering as Suppliers within CRA/MDD until their Supply Licence has been granted. This is the option that was suggested in the previous paper ([SVG142/01](#)). This option could increase the overall lead time for a Supplier to enter the market, in that the CRA and MDD registration processes could not start until the Licence had been granted;
  - Decoupling the CRA registration from the MDD registration, so that Parties still register their intended/expected participation capacity in CRA, but cannot register in MDD until their Supply Licence has been granted. This could probably be progressed as a CP to BSCPs 65 and 509 (i.e. without requiring a Modification Proposal), but would require process and system changes to allow a Supplier (and associated Base BM Units) to be registered in CRA before MDD. It would have a similar impact on the overall lead time for a Supplier to enter the market as the previous option, in that the MDD registration process could not start until the Licence had been granted (and the MDD timescales are longer than the CRA timescales); or
  - Introducing a requirement on the new Supplier to put back the effective date of its registration (in CRA and MDD) if the granting of its Supply Licence is delayed, so that its registration does not become effective until the Licence is granted. This could also be progressed as a CP, but it could create some additional risks for other Parties:
    - Market participants (i.e. Suppliers, Licensed Distribution System Operators, Supplier Agents and BSC Agents) would need to assess the impact on their systems of updates to the *Effective From Date (MPR)* data item registered in MDD. Because we have in the past not made changes of this type, there is a risk that market participant systems may not be able to support them; and
    - Delaying the effective date (of a Supplier registration and associated Base BM Units) until the Supply Licence is granted is something of a double-edged sword. If managed carefully it should prevent a Supplier from registering any Metering Systems before being granted its Licence; but it also prevents the Supplier from being allocated any energy in Settlement if it

does somehow manage to register one. It therefore exposes all Suppliers to the risk that (through GSP Group Correction) they may become responsible for any energy non-compliantly supplied by a new entrant before being granted its Supply Licence.

- 2.6 A potential disadvantage of any of these options is that they would further complicate the market entry process, which could be seen as a barrier to entry by new Suppliers.

### 3. Consistency of BSC Section A, BSCP509 and BSCP65

- 3.1 We have reviewed the relevant provisions of BSC Section A, [BSC Section J](#), [BSCP15](#) 'BM Unit Registration', BSCP65, BSCP509 and [BSCP537](#) 'Qualification Process for SVA Parties, SVA Party Agents and CVA MOAs'. We believe that they paint a largely consistent picture as follows:

- Registration data must be coordinated between the CRA and MDD systems. The registration of the Supplier participation capacity in CRA automatically leads to the registration of Base BM Units (see BSC K3.3), and should also be coordinated with the registration of the Supplier role and Base BM Units in MDD. See, in particular, the requirements of BSC65 step 4.1.3 and the footnote to BSCP65 step 4.1.1:
 

*"Applicants should note that registration of a Supplier role in BSC Central Systems must be coordinated with registration in MDD. The effective from date of the Supplier participation capacity and BM Unit Go-Live Dates in CRA must match the dates registered in MDD for SVAA and CRA systems to interface effectively."*
- A Party can register its intention/expectation to become a Supplier in advance (without having yet been granted a Supply Licence or been through full Qualification). This is spelled out explicitly in BSC A4.2.
- The Party Registration Data will not be registered in CRA (and therefore in MDD) until the Party has demonstrated that its systems are capable of communicating with central BSC Agent Systems as required by BSC Sections O3.1 and O3.2 and BSCP509 Appendix 4.3. BSCP65 step 4.1.3 refers to this as 'CVA Qualification'. There is no requirement for the Party to have been granted a Supply Licence or achieved full Qualification at this point (but see the discussion in 3.2 below).
- Neither the BSC nor any of the BSCPs include any process for amending the registration data in CRA and MDD if the effective date of the registration is reached, but the Party has not yet been granted a Supply Licence and/or achieved full Qualification. Sections 4 and 5 below discuss the implications of this further.

- 3.2 One possible source of confusion is that step 4.1.5 of BSCP65 requires BSCCo to confirm a Party's "Qualification status" before the CRA registers the Party's intended/expected participation capacity. However, this is a response step to 4.1.3, which states explicitly that "CVA Qualification status" is being asked for. We therefore believe it is clear from the context that this means CVA Qualification status, and is not suggesting that the Party should have completed Section J Qualification before registering.
- 3.3 Although the BSCPs are generally consistent with each other and with the BSC, our review has identified two specific issues (one of which was previously described in paper [SVG142/01](#), and one of which is new). We intend to raise a CP to BSCP509 and BSCP537 to clarify these points:
- As described in [SVG142/01](#), [CP1190](#) amended the wording of BSCP537. It inserted two steps in Section 2.1 'Qualification Process', which still appear in the current version of BSCP537 as steps 2.1.19 and 2.1.20. Read in isolation, these could imply that all new market participants (and not just Party Agents and Supplier Meter Registration Agents) require PAB approval of their Qualification before registering in MDD. However, the steps do cross-reference BSCP509 which states that this is not the case for new Suppliers and new Licensed Distribution System Operators; and
  - There is also an issue with the BSCP509 change form for entity 61 ('BM Unit for Supplier in GSP Group'). The notes for the Effective From Date {MPR} data item state that it is "the date on which the Market Participant was Qualified as a Supplier". Given that the Supplier is required to complete this form at the point of initial registration with the CRA (before its completion of Qualification) this is misleading.

#### 4. Managing the risk of trading before Qualification

- 4.1 Any Supplier who has registered SVA Metering Systems before its full Qualification would be in breach of BSC Section J2.1.3. This would be a serious issue, and would be managed in accordance with the Section H provisions for breaches of the BSC (as discussed in section 5 below).
- 4.2 Currently, the onus is on the Party to avoid registering Metering Systems before its Qualification. Neither the BSC nor the BSCPs include any process for preventing a Supplier from doing so. If the SVG (or any Party) was concerned about this they could raise a Modification Proposal or CP to address it. Any of the potential mechanisms listed in paragraph 2.5 (to prevent Suppliers trading before being granted a Supply Licence) could also be applied to prevent Suppliers trading before Qualification.
- 4.3 Paper [SVG142/01](#) did raise the possibility that (even in the absence of any process in the BSC or BSCPs) ELEXON could take steps to prevent a Supplier from trading before its Qualification. Particular options mentioned in this paper were as follows:
- Instructing the CRA to end-date the Supplier's Base BM Units until we confirmed that they could be reactivated following the PAB's acceptance of the Supplier's Qualification application;

- Requesting ElectraLink to restrict all flows to and from the Supplier's gateway, such that it could only send test flows (those with a test flag) over the Data Transfer Network and all other flows would be rejected; or
- In the event of a substantial risk to Settlement, implementing an ad-hoc MDD publish to remove (end-date) the Supplier's Market Participant ID and Base BM Units from MDD before the next scheduled monthly release.

4.4 We have discussed with our legal team whether we would have the authority to take these steps under the existing BSC/BSCP rules. ELEXON's legal view is that there are no specific provisions supporting these steps, although it may be possible to justify them on the basis of a wider interpretation of our responsibility to administer the BSC arrangements. However, having considered the matter further, we believe that taking any of these steps could create additional risks for Suppliers:

- End-dating the BM Unit registrations or preventing the Supplier from sending flows would prevent it from registering new Metering Systems, but would also interfere with the correct Settlement of any Metering Systems it has already (non-compliantly) registered.<sup>3</sup> These steps could therefore make the situation worse, by preventing a Supplier who is trading non-compliantly from being allocated energy in Settlement (causing other Suppliers to be allocated that energy through the mechanism of GSP Group Correction); and
- There is also a risk that closing and then re-opening Base BM Unit registrations could cause difficulty for market participants (e.g. if their systems are not designed to handle end-dated items of MDD re-opening before Final Reconciliation).

4.5 For these reasons, we no longer believe that it would be appropriate to take pre-emptive measures to prevent a Supplier trading before its Qualification (in the absence of any CP or Modification Proposal that a Party may wish to raise to explicitly allow us to take such measures). We believe that it is more appropriate to rely upon the Supplier to comply with the Section J2.1.3 requirement, and to manage any non-compliance using the Section H Default provisions as described in section 5 below.

## 5. What happens if a Supplier does trade before Qualification?

5.1 Like any breach of a material provision of the BSC, a Supplier trading before its Qualification would need to be managed in accordance with BSC Section H3 'Default'. ELEXON would need to notify the Supplier of the breach in accordance with H3.1.1(d), and the Supplier would have 14 days to remedy the breach, or to provide ELEXON with *"a programme (setting out the steps to be taken by the Defaulting Party and the timetable for taking such steps) for the remedy as soon as reasonably practicable of the breach"*.

<sup>3</sup> This is essentially the same issue as that discussed in the final bullet point of paragraph 2.5 (in the context of delaying the registration start date).

- 5.2 The onus would be on the Supplier (rather than ELEXON) to determine how it remedies the breach, but obvious steps might include:
- Pressing on with the Qualification process to ensure that it completes as quickly as possible;
  - Negotiating with the erroneously-registered customers for them to switch to alternative Suppliers who are entitled to supply them; and/or
  - Strengthening controls to ensure that no further erroneous registrations take place.
- 5.3 In the meantime, the Supplier would have to continue paying any Trading Charges that arose as a result of it having registered customers.
- 5.4 If the Supplier failed to provide a programme of work within 14 days (or if ELEXON felt that its proposed plan was not addressing the breach *"in all material respects with all reasonable diligence"*) then ELEXON would ask the BSC Panel to rule that a Section H Default had taken place. This would then allow the Panel to take further steps. In particular the Panel could (with Ofgem's approval) prevent the Supplier from registering any further Metering Systems in accordance with H3.2.2(e).
- 5.5 In summary, BSC Section H3 contains existing mechanisms to ensure that a non-Qualified Supplier cannot continue to grow its portfolio. Either voluntarily or through a Panel Resolution, it would be prevented from continuing to register Metering Systems.
- 5.6 This does still leave the question of what to do about any existing Registrations, particularly if it becomes clear that the Supplier is never going to Qualify. The ultimate sanction here is that (with Ofgem's approval) the Panel can require the relevant Distribution System Operator(s) to de-energise the customers involved, in accordance with BSC H3.2.1(d). In practice, we envisage that Ofgem and the Panel would want to give the customers every opportunity to change Supplier before doing this.

## 6. Recommendations

- 6.1 ELEXON invites the SVG to:
- a) **NOTE** that ELEXON has reviewed the BSC and BSCPs for registration of new Suppliers, and believes them to be consistent with the exception of two minor issues (see section 3 of this paper);
  - b) **NOTE** that ELEXON intends to raise a CP to clarify these minor issues (see paragraph 3.3);
  - c) **NOTE** that there is currently no process within the BSC or BSCPs to prevent a Supplier registration becoming effective in CRA and MDD before the Supplier has been granted its Supply Licence (see section 2 of this paper) or before the PAB has approved the Supplier's full Qualification (see section 4 of this paper);

- d) **NOTE** that (while the lack of these processes does not appear to have caused any issues in the past) there are a number of potential options for introducing such processes, and it is open to any BSC Party to progress these options through a Modification Proposal or Change Proposal (see paragraphs 2.5 and 4.2 of this paper); and
- e) **NOTE** that any Supplier who registered Metering Systems before its Qualification would be in breach of BSC Section J2.1.3, and that ELEXON and the Panel would manage this in accordance with the provisions of BSC Section H3 (see section 5 of this paper).

**Appendices:**

None

**Attachments:**

None

**For more information, please contact:**

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