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| Modification proposal: | **Balancing and Settlement Code (BSC) P320: Reporting on Profile Classes 5-8 Metering Systems after the implementation of P272** | | |
| Decision: | The Authority[1] directs that this modification be made[2] | | |
| Target audience: | National Grid Transmission Plc (NGET), Parties to the BSC, the BSC Panel and other interested parties | | |
| Date of publication: | 9 September 2015 | Implementation date: | 1 April 2017 |

## Background

On 29 October 2014, we approved BSC Modification P272 'Mandatory Half Hourly Settlement for Profile Classes 5-8'.[3] This mandates that sites in Profile Classes (PCs) 5-8 with advanced meters are settled half-hourly (HH) from 1 April 2016. The P272 changes include amending the Performance Assurance Reporting and Monitoring System (PARMS), to measure compliance with P272 from its implementation date.[4]

PARMS is a database that contains information about how suppliers and their agents are performing. PARMS data is divided into Serials. Each Serial is a defined area for measuring suppliers' or supplier agents' performance against a key industry process. P272 proposed to create a new PARMS Serial to report on the number of PC5-8 Metering Systems that do not have an Advanced Meter installed. It would also change an existing PARMS serial – SP04 'Installation of HH Metering' – to include those PC5-8 Metering Systems with Advanced Meters that are not HH settled. For the latter there would be a charge per site, per day for each PC 5-8 site with an advanced meter which were not settled HH.

At the end of last year ELEXON convened the Issue 59 workgroup which looked into whether PARMS would be the most effective method of monitoring compliance with P272. The workgroup concluded that PARMS was costly and not the best fit for the compliance monitoring required for P272 and recommended that alternatives be explored.

## The modification proposal

As a result of the Issue 59 workgroup conclusions, British Gas raised P320. This modification seeks to remove the changes to PARMS which would otherwise be introduced as a result of P272. The proposer considers that this will better facilitate BSC objectives (c) and (d) for the following reasons:

- **objective (c)[5]:** the proposer contends that this will be facilitated as suppliers should not be financially penalised for being unable to HH settle their PC5-8 sites despite having made reasonable efforts to do so
- **objective (d)[6]**: the proposer contends that this will be facilitated as not creating the new PARMS Serials will save money and reduce complexity.

[1] References to the "Authority", "Ofgem", "we" and "our" are used interchangeably in this document. The Authority refers to GEMA, the Gas and Electricity Markets Authority. The Office of Gas and Electricity Markets (Ofgem) supports GEMA in its day to day work. This decision is made by or on behalf of GEMA.
[2] This document is notice of the reasons for this decision as required by section 49A of the Electricity Act 1989.
[3] Our P272 decision can be found on our website: https://www.ofgem.gov.uk/publications-and-updates/balancing-and-settlement-code-bsc-p272-mandatory-half-hourly-settlement-profile-classes-5-8
[4] 1 April 2017
[5] 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
[6] promoting efficiency in the implementation and administration of the balancing and settlement arrangements)"

As well as proposing to remove certain PARMS Serials, P320 also outlines an alternative to PARMS for monitoring compliance with P272. It proposes that a bespoke Performance Assurance Board (PAB) committee report, compiled from Electricity Central Online Enquiry Service (ECOES) data, be created. This report would show, by suppliers, the sites in PC5-8 with advanced meters still being settled NHH. If the PAB felt it necessary it could then take performance management action on suppliers they felt were not making sufficient improvement. For clarity the proposed alternative in the Final Modification Report (FMR) is not part of the P320 solution but rather a recommendation. Although the PAB solution does not form part of the P320 solution, by removing the changes to PARMS, the P320 solution allows for alternatives (eg the PAB report), which may better facilitate the BSC objectives.

**BSC Panel[7] recommendation**

At the BSC Panel meeting on 11 August 2015, BSC Panel unanimously agreed that P320 would better facilitate BSC objective (d) and the Panel therefore recommended its approval.

**Our decision**

We have considered the issues raised by the modification proposal and the FMR dated 14 August 2015. We have considered and taken into account the responses to the industry consultation which are attached to the FMR.[8] We have concluded that:

- implementation of the modification proposal will better facilitate the achievement of the applicable objective of the BSC;[9] and
- directing that the modification be made is consistent with our principal objective and statutory duties.[10]

**Reasons for our decision**

We consider that P320 will better facilitate BSC objective (d) and is neutral against the other applicable objectives.

***(d) promoting efficiency in the implementation and administration of the balancing and settlement arrangements***

*Costs of PARMS report versus committee report*

We agree with the majority of the workgroup that P320 will better facilitate efficiency as removing these PARMS Serials and monitoring compliance through alternative means will avoid unnecessary costs.

Analysis from ELEXON shows that introducing a new PARMS serial would cost £250,000. This figure is derived from the £20,000 of central costs which would be incurred from updating BSC systems and from the estimated £5,000 of costs which each supplier would incur, on average, to change their own systems. In addition to these costs, it is

[7] The BSC Panel is established and constituted pursuant to and in accordance with Section B of the BSC and Standard Special Licence Condition C3 of the Electricity Transmission Licence available at: www.epr.ofgem.gov.uk
[8] BSC modification proposals, modification reports and representations can be viewed on the Elexon website at www.elexon.co.uk
[9] As set out in Standard Condition C3(3) of NGET's Transmission Licence: https://epr.ofgem.gov.uk
[10] The Authority's statutory duties are wider than matters which the Panel must take into consideration and are detailed mainly in the Electricity Act 1989.

envisioned that once the migration of PC5-8 sites to HH settlement is complete there would no longer be a need to measure compliance with P272. If this transpired there would also be costs to remove the P272 Serials.

In comparison the costs of implementing the recommended alternative – setting up a bespoke PAB committee report using ECOES data – would be significantly less. ELEXON estimate that there would be a one off cost of £17,100 and an annual cost of around £11,400 to produce this report. ELEXON state in the FMR that these costs could be absorbed within business-as-usual costs.

*Effectiveness of monitoring via PARMS versus committee report*

In addition to the costs, the FMR presented compelling analysis showing that PARMS does not provide as strong an incentive as it could on suppliers to comply with the BSC and specifically P272. This is because:

1. **Total Supplier Charges are capped –** the charges which a supplier is exposed to as a result of non-compliance with PARMS are capped each month, dampening the incentive to comply with the Serials.[11]
2. **Each supplier's total Supplier Charge is spread across each Grid Supply Point (GSP) Group –** each supplier has a total Supplier Charge cap but this is broken down across each GSP group. Therefore in a single GSP group a supplier needs to have only a small number of non-compliant supply points before they hit their cap. After this point they would not have any incentive to address non-compliant supply points.
3. **Non-compliance with P272 makes up a small part of their charges** – each supplier's total Supplier Charge is spread across all the PARMS Serials but currently only 15% of their total liability is made up of SP04 charges. This reduces the financial penalty a supplier can face in relation to SP04 charges.

To illuminate the above we can consider the largest six suppliers. In a typical month their average total capped Supplier Charge is £68,577.01. Using current charges, this means an average larger supplier would only pay a Supplier Charge for their first 554 non-compliant PC5-8 supply points in all GSP Groups.[12] However larger suppliers will have on average 2315 non-compliant PC5-8 sites,[13] which means an average larger supplier would not pay any charge for – and therefore would not receive any incentive to address – 1761 non-compliant sites.[14] This analysis assumes that no other PARMS charges were applied to the average larger supplier; if they were then they would pay even less for non-compliance with P272.

Further to the quantitative evidence, members of the workgroup informed that in many instances suppliers choose to be non-compliant and pay the Supplier Charge because it can be cheaper than investing to resolve the cause of the non-compliance. This qualitative evidence further calls into question the strength of PARMS to incentivise

[11] In a typical month, January 2015, the total charges on suppliers is £1,547,813.83 but these are capped at £631,727.85, 41% of the total and in fact suppliers paid 433,574.49 (28% of the total uncapped charge).
[12] This figure is derived from taking the £68,557.01 average total Supplier Charge for a month. Divide this by 30.5 to get the average total Supplier Charge per day (£2248.43) and then divide this by £4.06 which is the current charge per meter point for not being compliant with SP04.
[13] The largest six Suppliers have on average 23,150 PC5-8 sites and ELEXON's analysis, informed through consultation with suppliers and scrutiny of migration plans, indicates that each supplier may have 10% of PC5-8 sites be non-compliant sites by the P272 implementation date.
[14] This analysis does not consider how the a supplier's total Supplier Charge cap is spread across all GSP groups nor how a supplier's total Supplier Charge cap is spread. The analysis above shows that an average larger supplier will only face a charge for their first 554 sites in total, this means if all GSP groups were the same a supplier would only face a charge for their first 40 non-compliant sites.

compliance. P320 raises questions about the effectiveness of monitoring compliance via PARMS and particularly the effectiveness of the Supplier Charge. We note that the FMR states that the Performance Assurance Board (PAB) intends to review these charges and we urge the PAB to take this matter forward as a priority.

The alternative solution proposed by P320 (a committee report) would provide full visibility of suppliers' compliance of P272 and allow the PAB to track progress. As such we consider that the approach proposed by P320 is in line with P322[15] which called for PAB monitoring of suppliers' migration plans. Having a committee report would be a useful cross check of the data PAB receives from suppliers.

Although PAB cannot impose financial penalties it has other performance assurance techniques within the Performance Assurance Framework which it can employ to incentivise suppliers to comply.[16] Chief amongst these is instigating the Error and Failure Resolution (EFR) process which, if the party does not address the issue, can ultimately lead to the BSC Panel expelling the party from the BSC. Members of the workgroup remarked that the threat of this and the associated reputational damage can be a more powerful incentive than the financial penalties imposed by PARMS.

*Short-term nature of compliance monitoring for P272*

PARMS is designed to monitor ongoing compliance issues. However monitoring P272 compliance could become redundant relatively soon after the implementation date. After 1 April 2017 there should only be a small number of non-compliant sites.[17] New connections that would have been in PC5-8 will be automatically settled HH and so should not need to be monitored. Therefore the pool of sites for which compliance needs to be monitored should decrease over time.

***(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***

Half the members of the workgroup, including the proposer, considered that P320 would also further facilitate competition. Their argument was that suppliers should not incur a financial penalty for not being able to settle their PC5-8 sites HH despite having taken all reasonable steps to install an appropriate meter.

However we do not consider that suppliers will be penalised in such instances. This is because for a meter to be classified as an advanced meter it must be able to provide measured energy data for multiple time periods, including half hourly periods, and be able to be read remotely. If it cannot do so then it should not be classified as an advanced meter and if so it should not be captured by P272. Therefore the supplier would not be penalised in the way described by the proposer.

Furthermore as set out above many suppliers are already reaching their Supplier Charge limit each month and so it is unlikely they would have been penalised in a material way by P320, further weakening the argument that P320 would impact on competition. We note that the Panel also did not consider that P320 better facilitates this objective.

[15] Our decision letter on P322 can be found here https://www.ofgem.gov.uk/sites/default/files/docs/2015/06/p322_d.pdf
[16] ELEXON's Performance Assurance Framework can be found here https://www.elexon.co.uk/reference/market-compliance/performance-assurance/
[17] ELEXON have used 10% of the current total number of PC5-8 sites as their working assumption

**Decision notice**

In accordance with Standard Condition C3 of NGET's Transmission Licence, the Authority hereby directs that modification proposal BSC P320: Reporting on Profile Classes 5-8 Metering Systems after the implementation of P272 be made.

**Angelita Bradney**
**Head of Smarter Markets**
Signed on behalf of the Authority and authorised for that purpose