

Modification proposal:	Balancing and Settlement Code (BSC) P347: Reduction in R1 Read Requirement for Half Hourly Sites		
Decision:	The Authority ¹ directs that this modification be made ²		
Target audience:	National Grid Transmission Plc (NGET), Parties to the BSC and other interested parties		
Date of publication:	30 January 2017	Implementation date:	1 April 2017

Background

We have agreed with government to take forward a project to reform the electricity settlement arrangements in Great Britain. As part of this, we are looking to remove barriers to cost-effective Half-Hourly Settlement (HHS) of domestic and smaller non-domestic customers (those currently in Profile Classes 1-4³) on an elective basis. We sought stakeholder views on barriers to elective HHS in December 2015,⁴ and held a stakeholder workshop in April 2016, before publishing a conclusions paper in May 2016.⁵ One barrier to elective HHS identified in our conclusions paper was the read performance levels for Half-Hourly (HH) sites. Stakeholders told us that making it easier to comply with the read performance requirements by relaxing them could potentially reduce the costs of HHS.

Under current arrangements, the performance standards for suppliers under the BSC are more stringent for HH than for Non Half-Hourly (NHH) meters. HH read performance requirements at the first reconciliation run (R1, two months after delivery) for meters below the 100kW threshold⁶ require suppliers to settle 99% of volumes based on actual meter reads as opposed to estimates. For NHH sites, a supplier only needs to settle 30% of NHH volumes based on actual reads at R1.

The modification proposal

Npower (the 'proposer') raised P347 in June 2016. As a supplier, Npower identified the HH read performance requirement at R1 as a barrier to elective HHS. The proposer argued that it would facilitate BSC objective (c)⁷ because the implementation of a more achievable performance target would encourage take-up of elective HHS, thereby promoting competition.⁸ It said that the current rules could lead to increased supplier agent costs for suppliers moving to elective HHS. The proposer also referred to the potential benefits mentioned in our conclusions paper, for example making it less urgent for supplier agents to visit sites.

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 Consumers that are not settled using actual meter readings for each settlement period are grouped into one of eight Profile Classes. For each Profile Class, a load profile is created that estimates the consumption shape of the average consumer. This load profile (or variations of it) is used to determine the consumption in each half hour for all consumers assigned to the Profile Class.

⁴ https://www.ofgem.gov.uk/sites/default/files/docs/final_open_letter_on_hhs.pdf

⁵ https://www.ofgem.gov.uk/system/files/docs/2016/05/elective_hhs_conclusions_paper.pdf

⁶ Ie meters in Measurement Classes E, F and G.

⁷ (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

⁸ At the time of raising the proposal, the proposer also said that it would better facilitate objective (d), but amended its view during the workgroup assessment phase.

Under the proposed modification, the read performance standard would decrease from 99% to 90% at R1 for HH customers in Measurement Classes F and G.⁹ After discussion with the P347 workgroup a sunset clause was added to the proposal, meaning that from 1 January 2020 the performance standard would become 99% again.

The workgroup discussed that this modification is dependent on the central systems changes required to implement BSC modification P339,¹⁰ which allows separate identification of consumption data for individual sub-100kW measurement classes. BSC modification P339 was approved on 8 December 2016, and is due to be implemented on 1 April 2017, so no further systems changes will be required to implement P347.

The workgroup made a recommendation to the BSC Panel that P347 should be approved.

BSC Panel¹¹ recommendation

At the BSC Panel meeting on 8 December 2016, the BSC Panel unanimously considered that P347 would not better facilitate the BSC objectives and the Panel therefore did not recommend its approval. In particular, it did not consider that P347 would better facilitate applicable objectives (c) and (d).

On 10 January 2017 we sent P347 back to the BSC Panel for further work, after identification of a problem with the proposed legal text.¹² Accordingly, the proposed modification was amended and reconsidered by the Panel on 19 January 2017. The Panel approved the amended legal text and returned it to the Authority on 19 January 2017 with a recommendation to reject the proposal.

Our decision

We have considered the issues raised by the modification proposal and the revised Final Modification Report (FMR) received on 19 January 2017. We have considered and taken into account the responses to the industry consultations which are attached to the FMR.¹³ We have concluded that:

- implementation of the modification proposal will better facilitate the achievement of the applicable objectives of the BSC;¹⁴ and
- directing that the modification be made is consistent with our principal objective and statutory duties.¹⁵

Reasons for our decision

We consider this modification proposal will better facilitate BSC objective (c) and will have a neutral impact on the other applicable objectives. The workgroup and BSC Panel had views in relation to both objectives (c) and (d), so we discuss these two objectives below.

⁹ Domestic HH consumers, and non-domestic HH consumers with whole current meters. The latter category will include customers with whole current meters formerly in Profile Classes 5-8, migrating to HHS under BSC Modification P272.

¹⁰ <https://www.elexon.co.uk/mod-proposal/p339/>

¹¹ The BSC Panel is established and constituted pursuant to and in accordance with Section B of the BSC.

¹² <https://www.ofgem.gov.uk/publications-and-updates/authority-decision-send-back-balancing-and-settlement-code-modification-proposal-p347-reduction-r1-read-requirement-half-hourly-sites>

¹³ BSC modification proposals, modification reports and representations can be viewed on the Elexon website at www.elexon.co.uk

¹⁴ As set out in Standard Condition C3(3) of NGET's Transmission Licence: <https://epr.ofgem.gov.uk>

¹⁵ 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.

(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

The workgroup concluded by majority that P347 would better facilitate applicable objective (c), through encouraging take-up of elective HHS. However, the Panel unanimously concluded that it would not better facilitate applicable objective (c).

The key question is whether P347 removes a barrier to suppliers electing to settle consumers HH. As noted by respondents, there are no supplier charges at R1 in relation to sub-100kW consumers, so failing to meet the standard does not have direct financial consequences. However, it is a breach of the BSC, which could for example lead to action by the Performance Assurance Board (PAB).¹⁶ Some stakeholders said that P347 would encourage take-up of elective HHS, and several put forward examples of how P347 could allow problems to be dealt with more efficiently – for example by reducing the urgency of site visits, or even avoiding the need for site visits where an intermittent communications issue may resolve without a visit. A workgroup member also said the risk of being placed in Error and Failure Resolution (EFR)¹⁷ may be seen as an unnecessary distraction by suppliers, leading to them not taking up HHS until it is mandatory.

As noted by other stakeholders, this is a perceived barrier to HHS, rather than one that has yet materialised in practice. They also noted that there was no analysis behind the choice of a 90% standard. However, we think there can be merit in addressing potential barriers to elective HHS before they arise, and in this circumstance, the amount of available evidence will necessarily be limited. As consumers move to HHS, more data will become available about the performance of HH-settled smart meters, which will allow standards to be revised in light of evidence. Several stakeholders mentioned this as a benefit of P347.

Some stakeholders noted that under elective HHS, suppliers can check meters and then choose which to settle HH. We accept that suppliers have more flexibility under elective HHS (compared to a mandatory approach). However, if suppliers only settle HH those meters which they are confident can meet the current 99% standard, then this could limit the uptake of elective HHS. We also note that P347 would only affect the minimum standard – suppliers would remain free to do more rigorous testing in order to achieve a higher level of performance.

Several stakeholders said that the baseline already provides safeguards for suppliers. The PAB has discretion about whether to apply the EFR technique, in light of the materiality of the risks.¹⁸ In addition, the PAB and ELEXON use Business Unit Settlement Risk Ratings (BUSRRs) to indicate how parties contribute to the largest risks in the market (although these do not replace the PAB's discretion). As part of the current BUSRR review, ELEXON has proposed that a new BUSRR could be introduced for HH meters below the 100kW threshold, but that this would be "for information", and would not at this stage lead to EFR.¹⁹ (As noted in the FMR, EFR may be considered in future for sub-100kW measurement classes as volumes increase).

The chance of the PAB applying EFR appears to be limited, especially if there are only a small number of elective HH consumers at first, which would mean that the materiality of any non-compliant estimated data would be small. However, even if the PAB implements a "for information" sub-100kW BUSRR, a supplier considering elective HHS

¹⁶ The PAB is a BSC committee which performs certain functions delegated to it by the BSC Panel.

¹⁷ EFR is one technique used by the Performance Assurance Board to remedy identified performance issues.

¹⁸ BSC Section Z5.7.1 and Z5.7.8.

¹⁹ https://www.elexon.co.uk/wp-content/uploads/2015/11/18_PAB189_12_BUSRR-Review.pdf

would not have certainty about how the PAB would use its discretion, including any future decisions to apply EFR. We therefore consider that there is a small but real benefit for suppliers from the certainty provided by modifying the BSC, to avoid relying on a discretionary process.

We therefore consider that P347 will remove a small barrier to elective HHS, which will better facilitate BSC objective (c) because it would help suppliers to offer new products linked to elective HHS. Several consultation respondents said that elective HHS would support new and innovative products such as smart tariffs – we agree with this.

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

The workgroup and the Panel concluded that P347 would not better facilitate applicable objective (d). The majority of the workgroup considered that reducing the performance standard would not increase efficiency, although one workgroup member said that it would benefit efficiency by increasing the number of consumers settled HH.

For consumers who would already be settled HH in measurement classes F and G, P347 would reduce the R1 read performance standard by nine percentage points.²⁰ It would therefore not promote efficiency for these consumers (though suppliers would remain free to aim for a higher level of performance). We expect around 90,000 consumers with whole current meters to migrate to measurement class G under BSC Modification P272²¹ – these consumers would already be settled HH. P347 would also not promote efficiency for any consumers that suppliers would elect to settle HH regardless of the decision on this modification, as these consumers would face a lower read performance standard than under P347 compared to under the baseline.

However, as suggested above, P347 may lead some consumers to be settled HH who would not have been otherwise. For any such consumers, P347 would increase the applicable R1 read performance standard by sixty percentage points.²² Taking up elective HHS is a commercial choice for suppliers, so we do not know how many consumers might be in this category.

The magnitude of the increase in performance standards is much larger than the decrease. On this basis, we consider that if P347 leads to a relatively small addition to the number of elective HH customers, this would be sufficient to offset the potential impact on efficiency for those consumers who would have been settled HH otherwise. On balance, we therefore consider that this modification would have a neutral impact on BSC objective (d).

Other points

Some stakeholders were concerned that approving P347 could be a precedent for other reductions in settlement performance. Any future modifications would need to be examined on a case-by-case basis, and we recognise the importance of protecting the accuracy of settlement.

Respondents also suggested that, by allowing suppliers longer to fix problems, P347 could lead to a greater number of estimated bills, reducing one of the benefits of the

²⁰ From the current 99% requirement, to the P347 proposal of 90%.

²¹ July 2014 data provided under Distribution Connection and Use of System Agreement (DCUSA) Change Proposal 179 suggested that there were 91,869 customers with WC meters in profile classes 5-8, who will move HH under P272. (Data available in attachment 9 of: <https://www.dcuca.co.uk/Documents/DCP%20179%20Change%20Report%20v1%200.zip>).

²² From the 30% NHH requirement, to the P347 proposal of 90%.

smart meter roll-out. We agree that consumers should receive regular, accurate bills.²³ However, the majority of consumers with smart meters will be settled NHH, and as noted above, the NHH standard is much lower than the HH standard proposed by P347. We therefore do not consider that the read performance standards are currently a significant driver for suppliers to provide accurate bills (compared to, for example, licence conditions and commercial incentives).

Decision notice

In accordance with Standard Condition C3 of NGET's Transmission Licence, the Authority hereby directs that modification proposal BSC P347 *Reduction in R1 Read Requirement for Half Hourly Sites* be made.

Cathryn Scott

Partner, Energy Systems

Signed on behalf of the Authority and authorised for that purpose

²³ <https://www.ofgem.gov.uk/ofgem-publications/99748>