

Modification proposal	Balancing and Settlement Code (BSC) P442: 'Reporting to EMRS of chargeable volumes for SVA Metering Systems that record both exempt and licensed supply'(P442)		
Decision	The Authority ¹ directs that this modification be made ²		
Target audience	National Grid Electricity System Operator (NGESO), Parties to the BSC, the BSC Panel and other interested parties		
Decision date	8 May 2024		
Date of publication	13 May 2024	Implementation date	27 February 2025

Background

The Electricity Market Reform (EMR) programme levies licensed suppliers to fund the Contracts for Difference (CfD) and Capacity Market (CM) mechanisms. The levy calculation is based on each licensed supplier's share of metered volumes of electricity supplied to consumers. EMR Settlement Ltd (EMRS) (a wholly owned subsidiary of Elexon, the Balancing and Settlement Code (BSC) Company) is the settlement service provider for the CfD and CM, which involves calculating and managing the settlement of payments by licensed suppliers.

The Electricity Act 1989³ establishes that supply is a licensable activity and suppliers must be licensed by Ofgem, or in certain circumstances may supply electricity without holding a licence, known as licence-exempt supply. Licence-exempt suppliers can be defined by type (see the Electricity (Class Exemptions for the Requirements for a Licence) Order 2001) or granted an individual exemption by the Secretary of State.⁴ As with other government programmes (such as the Feed in Tariff and Renewables Obligation) the levies are assigned to licensed supply, not licence-exempt supply. The data used by EMRS to calculate each supplier's contribution is derived from metered consumption data

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 Section 5 of the Act provides an exemption from the prohibition to unlicensed supply: [Electricity Act 1989 \(legislation.gov.uk\)](https://www.legislation.gov.uk/ukpga/1989/29/section/5)

⁴ Schedule 4 of the Order sets-out the Classes of Exempt Supply: [The Electricity \(Class Exemptions from the Requirement for a Licence\) Order 2001 \(legislation.gov.uk\)](https://www.legislation.gov.uk/ukpga/2001/12/schedule/4). The Secretary of State's powers to grant an exemption to a person or persons of a class are provided for at section 5 of the Electricity Act 1989.

collected for BSC processes. However, in circumstances where a licensed supplier has contracted to facilitate an exempt supply arrangement, this data currently includes metered supply from licensed and licence-exempt suppliers, leading to a misalignment between the BSC and EMR regulations. This situation arises because licence-exempt suppliers are not recognised as market participants in the BSC (and other industry codes) and cannot, therefore, independently register metering systems nor trade.

While exempt suppliers are not, therefore, subject to the EMR levies, the misalignment of the BSC with EMR regulations means licence-exempt supply is being levied incorrectly. As a workaround, since November 2018 the BSC Panel (the Panel) delegated authority to the Supplier Volume Allocation (SVA) Group to agree that SVA metering systems may be excluded from levy calculations where it can be demonstrated that the entire consumption at a specific premises is from licence-exempt supply. Given the majority of Class A licence-exempt supply⁵ is likely from small-scale renewable facilities, it's probable that in many cases the customers of exempt suppliers will need to procure back-up and top-up power from the facilitating licensed supplier when the renewable generator is not exporting (ie, the wind isn't blowing, the sun isn't shining or the generation facility is being maintained). However, the workaround solution cannot accommodate this scenario.

P442 introduces a data notification process which ensures that licence-exempt supply is not subject to levy calculations. This will be achieved by netting-off metered licence-exempt supply volumes before the licensed supplier's levy liabilities are calculated, thereby bringing the BSC into alignment with EMR regulations.

The modification proposal

The Proposer, UC Energy Ltd, raised P442 on 7 July 2022. The modification emerged from a BSC Issue workgroup (Issue 96⁶ was raised by UC Energy Ltd on 6 August 2021) which identified five potential solutions. The BSC Issue workgroup concluded that a BSC modification should be raised to allow for the ex-post splitting of metered volumes into licence-exempt and licensed supply, which became the basis of the P442 modification.

⁵ There are four pre-defined Classes of exempt supply. Class A allows for the supply of up to 5MW (2.5MW to domestic consumers) of self-generated power; Class A licence-exempt suppliers may not buy and resell electricity. Of the four Classes, Class A is most suited to small-scale renewables supply and can be undertaken across the public (distribution and transmission) network.

⁶ The issue proposal form and work group papers are available from Elexon: [Issue 96 'Reporting to EMRS of chargeable volumes for SVA Metering Systems' - Elexon BSC](#).

The solution involves the creation of a new Party Agent role, the Exempt Supply Notification Agent (ESNA). Based on metered SVA data (provided by the relevant licensed supplier or Half-Hourly Data Collector), the ESNA will calculate the volumes of licensed and exempt supply and submit these to BSC central systems. With licensed and licence-exempt supply volumes separately identified, only the licensed-supply volumes will be used in EMRS's levy calculations.

The Proposer's solution would also allow different licensed suppliers to register the import metering system of the consumer(s) and the Class A licence-exempt supplier's export meter, thereby allowing consumers to switch their licensed supply while still receiving their exempt supply.

If all meters are registered by the same licensed supplier, the potential for energy imbalance is removed as both parts of the exempt supply transaction (the import and export) appear in the licensed supplier's energy account. However, with multiple licensed suppliers involved in the arrangement, each risks exposure to imbalance charges as a result of facilitating the exempt supply. The Proposed modification recommended a solution for resolving this imbalance risk. However, the P442 Workgroup recommended an Alternative solution which limits the exempt supply facilitation to a single licensed supplier, thereby removing the need for energy imbalance corrections.

The Proposer believes the Proposed solution will have a positive impact compared to current arrangements, better facilitating a number of the applicable BSC objectives:⁷

- Objective (b) – providing for more efficient operation of the transmission system;
- Objective (c) – promoting competition in the generation and supply of electricity;
- Objective (d) – promoting more efficient balancing and settlement arrangements;
- Objective (f) – better administration of EMR arrangements.

⁷ The Applicable BSC objectives are: (a) The efficient discharge by the Transmission Company of the obligations imposed upon it by the Transmission Licence; (b) The efficient, economic and coordinated 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]; (f) Implementing and administering the arrangements for the operation of contracts for difference and arrangements that facilitate the operation of a capacity market pursuant to EMR legislation; and, (g) Compliance with the Transmission Losses Principle.

BSC Panel⁸ recommendation

At its meeting on 8 February 2024, the Panel unanimously agreed that the P442 Alternative modification would better facilitate the BSC objectives and recommended its approval. This reflected the Panel's earlier view of 14 December 2023 when it considered the Assessment Report prior to consultation with industry. The Panel also recommended the rejection of the Proposed modification.

The Panel unanimously agreed that the P442 Alternative modification would better facilitate applicable BSC objective (d) compared to both the existing baseline and the Proposed modification. The Panel also agreed that both the Proposed and Alternative modifications better facilitate objectives (c) and (f).

Our decision

We have considered the issues raised by the modification proposal (both the Proposed and Alternative solutions) and the Final Modification Report (FMR) dated 12 February 2024, and taken into account the responses to the industry consultation(s) attached to the FMR.⁹

We have concluded that:

- Implementation of the Alternative modification will better facilitate the achievement of the applicable objectives of the BSC;¹⁰ and
- Directing that the Alternative modification be made is consistent with our principal objective and statutory duties.¹¹

Proposed and Alternative modifications - reasons for our decision

We note the deliberations of the P442 Workgroup about the scope, benefits, and risks of the Proposed and Alternative solutions. Both solutions involve the creation of the ESNA and disaggregation of licence-exempt supply from licensed supply volumes, with the Proposed solution also including a mechanism for resolving potential imbalance exposure

⁸ 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

⁹ BSC modification proposals, modification reports and representations can be viewed on the Elexon website at www.elexon.co.uk.

¹⁰ As set out in Standard Condition C3(3) of the Electricity Transmission Licence: <https://epr.ofgem.gov.uk>.

¹¹ 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.

where different licensed suppliers are involved in the arrangement. The Proposer's view is that consumers and competition would be better served by including the imbalance adjustment mechanism, allowing consumers to have different licensed suppliers registering import and export meters. Other members of the Workgroup didn't agree it was necessary for imbalance adjustment to be included to bring the BSC into compliance with EMR, and that existing BSC tools (Energy Contract Volume Notification – ECVN – or Metered Volume Reallocation Notification – MRVN) already allow licensed suppliers to make changes to their contracted and metered volumes, and the adjustment of energy imbalances between licensed suppliers.

Additionally, Workgroup members raised concerns that incorporating the imbalance adjustment could add to system complexity, in particular possible detriment to domestic consumers arising from potential problems with unclear divisions of responsibility between the various parties involved in the supply: the licence-exempt supplier, licensed supplier 1 (registrant of the exempt supplier's export meter), licensed supplier 2 (registrant of the consumer's import meter), and the ESNA.

It should be noted that the Proposed modification was raised both to bring the BSC into alignment with EMR regulations and to allow consumers of licence-exempt suppliers to switch their licensed supplier without affecting their exempt supply contract. However, while we can see the potential competition benefits of allowing multiple licensed suppliers to be involved in an exempt supply transaction, we are not persuaded that the potential benefits outweigh the risks to domestic consumers arising from potential confusion about different suppliers' (licensed and exempt) roles. Consequently, we believe the Alternative modification is better suited to facilitating the relevant BSC objectives and meeting consumer needs.

An uptake in Class A exempt supply activity will increase the proportion of total supply not subject to consumption levies; as the EMR programme represents a fixed cost, the effect is that other customers of licensed suppliers will pay a marginally higher proportion of costs. This is an issue DESNZ sought views about via its 2020 "Exemptions from the requirement for an electricity licence: call for evidence".¹² While the costs of the energy transition should be fairly distributed, the supply exemptions framework allows for

¹² The 2020 call for evidence and the 2023 summary of responses are available here: [Exemptions from the requirement for an electricity licence: call for evidence - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/consultations/exemptions-from-the-requirement-for-an-electricity-licence-call-for-evidence). DESNZ will take account of all representations on this issue when considering possible options for the future.

specific smaller-scale undertakings to happen without the levies being applied. On balance, we believe both the Proposed and Alternative solutions resolve the misalignment of the BSC with EMR regulations better than the current baseline.

We believe both the Proposed and Alternative modifications better facilitate the BSC objectives than the current baseline. However, on balance, we think the Alternative is better suited to resolving the problem considered by the Issue 96 Workgroup and progressed by the P442 Workgroup and poses less risks to domestic consumers than the Proposed. We consider the Alternative modification will better facilitate BSC objectives (c), (d) and (f) and has a neutral impact on the other applicable objectives.

(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 majority of the Workgroup and the Panel believe the Alternative solution will promote effective competition, whereas the Proposer's view is the impact will be neutral. The consultation received four responses all of which agreed with the Panel's initial recommendation to approve the Alternate modification.

We believe this modification will better facilitate the achievement of BSC objective (c) by helping to remove barriers for micro and small-scale renewable generators to supply electricity to consumers, allowing them to secure higher returns for their output than from selling into the wholesale market, thereby promoting effective competition in the sale and purchase of electricity.

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

The majority of the Workgroup and the Panel believe the Alternative solution will promote greater efficiency in the implementation and administration of balancing and settlement arrangements. The Proposer's view is the Alternative's impact on objective (d) will be neutral because the energy imbalance positions of licensed suppliers will need to be adjusted using mechanisms such as ECVNs and MVRNs. On balance, we believe the Alternative solution will better promote BSC objective (d), ensuring that only licensed supply volumes are reported for settlement purposes. In addition, utilising the ECVN and

MVRN for the more complex multiple licensed supplier models envisaged by the Proposer is a more proportionate solution given these are likely to be less common.

At present the BSC's SVA Group operates an administrative workaround for Class A exempt supply schemes where it can be demonstrated that the entire consumption at a specific premises is from licence-exempt supply. This arrangement is time-consuming for all parties including the Panel which has been called upon to make decisions where the SVA Group has not determined an application's eligibility. We believe the Alternative solution will better promote BSC objective (d) than the current baseline, being more efficient, and providing greater certainty to licensed and licence-exempt suppliers. Unlike the current workaround, it also provides a solution for those scenarios where consumers may take top-up and back-up supply from their licensed supplier.

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

The Proposer, the Workgroup and the Panel unanimously agree that the Alternative modification will improve the implementation of the CfD and CM mechanisms pursuant to EMR legislation. We agree and believe the Alternative modification will better facilitate BSC objective (f) by resolving the misalignment of BSC procedures with EMR regulations; the introduction of the ESNA will ensure that only licensed supply volumes are used in the calculation of CM and CfD charges in instances where SVA metering systems are used to record both licensed and licence-exempt supply.

Decision notice

In accordance with Standard Condition C3 of the Transmission Licence, the Authority hereby directs that modification proposal BSC P442 'Reporting to EMRS of chargeable volumes for SVA Metering Systems that record both exempt and licensed supply' be made.



Marzia Zafar
Deputy Director
Digitalisation, Innovation and Decentralisation

Signed on behalf of the Authority and authorised for that purpose