

Balancing and Settlement Code (BSC) P498: Ensuring Correct Data Flows for Licence Exempt Supplies

Decision	The Authority ¹ directs that this modification be made ²
Target audience	National Energy System Operator (NESO), Parties to the BSC, the BSC Panel and other interested parties
Date of publication:	21 November 2025
Implementation date:	10 Working Days from Balancing and Settlement Code Company's notice to industry as part of a special BSC Release

Background

Legislation³ states that the supply of electricity requires a licence. However, it also specifies situations⁴ where a party can be exempt from requiring a licence. Licence-exempt suppliers, and their customers do not pay levies to fund government programmes (eg, the Electricity Market Reform (EMR) Capacity Mechanism (CM) and Contracts for Difference (CfD) programmes). These costs are only assigned to licensed suppliers. The cost paid by each licensed supplier is determined by metered consumption data.

Licensed suppliers are sometimes contracted to facilitate licence-exempt supplies. Licence-exempt suppliers are not recognised as market participants by many industry code bodies; this means they cannot independently register metering systems or trade energy. Instead, a licence-exempt supplier contracts with a licensed supplier to undertake these activities on its behalf.

This can lead to circumstances where licensed suppliers' metered consumption data includes data from both licensed and licence-exempt supplies. Since this consumption data is used to calculate licensed suppliers' contributions to EMR levies, it can lead to incorrect charges.

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 [Electricity Act 1989](#)

⁴ [Electricity licence exemptions - GOV.UK](#)

In May 2024, we approved BSC Modification P442: *'Reporting to EMRS of chargeable volumes for Supplier Volume Allocation (SVA) Metering Systems that record both exempt and licensed supply'*.⁵ This introduced an enduring solution for the treatment of licence-exempt supply volumes where a licensed supplier has contracted to facilitate a licence-exempt supply.

The approved solution included the creation of a new BSC Party Agent role (the Exempt Supply Notification Agent (ESNA)) which would calculate the correct volumes of licensed and licence-exempt supply and submit these to BSC central systems. P442 was developed to replace an interim (and non-codified) process. Under the interim arrangements, the BSC Panel (since November 2018) delegated authority to the Supplier Volume Allocation Group (SVG) to approve those SVA metering systems to be excluded from levy calculations where it could be demonstrated that the entire consumption at a specific premises is from a licence-exempt supply arrangement. During the development of P442, the modification Workgroup agreed that there should be an overlap between the outgoing interim process and the incoming P442 mechanism and that the interim process would remain open until there was a choice of ESNA service providers for licensed suppliers.

On 1 July 2025, Elexon stated that from 1 January 2026 the interim reporting process would be discontinued and the interim process for approving new licence-exempt supply arrangements would cease immediately. The Proposer is concerned that a competitive market for ESNA services has yet to emerge and that the proposed timelines would leave little time for parties using the interim process to negotiate and agree new arrangements with an ESNA.

The modification proposal

The Proposer, Energis Electricity Limited, raised P498 on 21 August 2025. The Proposer requested that the code modification be treated as urgent. On 22 August 2025, the BSC Panel recommended that the modification be treated as urgent based on our Urgency Criteria.⁶ We granted P498 'urgent status' on 27 August 2025.⁷ In accordance with our Urgency Criteria, we were satisfied that the modification related to a current issue of parties experiencing harm and without mitigative changes this harm will likely increase from 1 January 2026.

The Proposed Solution seeks to:

⁵ [Approval of BSC Modification P442 | Ofgem](#)

⁶ [Ofgem Guidance on Code Modification Urgency Criteria | Ofgem](#)

⁷ [Balancing and Settlement Code \(BSC\) modification P498: decision on urgency | Ofgem](#)

- Allow a Qualified ESNA⁸ to submit data for settlement dates prior to its Qualification becoming effective. This would give more choice of ESNAs to licensed suppliers that provide services to licence-exempt suppliers.
- Remove a deadline for licensed suppliers using the interim process for licence-exempt supply notifications to migrate to the ESNA arrangements introduced by P442. This would allow the interim arrangements to continue indefinitely or until the relevant contracts naturally expire.

An Alternative Solution was also proposed by the P498 Workgroup, which would retain the interim process for a time-limited period, rather than indefinitely. This would give the Panel the opportunity to review competition in the ESNA market and decide whether the interim arrangements should continue or not.

The Proposer considers that the modification will better facilitate a number of Applicable BSC Objectives:⁹

- Objective (a) – efficient discharge by the Transmission Company of the obligations imposed upon it by the Transmission Licence;
- 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.

BSC Panel¹⁰ recommendation

The BSC Panel discussed P498 at an ad-hoc BSC Panel on 30 September 2025. The Panel considered that both the Proposed Solution and the Alternative Solution better facilitate BSC

⁸ Being qualified means a prospective ESNA has submitted an application and demonstrated to Elexon's Performance Assurance Board that it has the necessary systems, processes and capabilities to meet the BSC requirements. [BSC Procedure 537](#) details the qualification process.

⁹ 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.

¹⁰ The BSC Panel is established and constituted pursuant to and in accordance with Section B of the BSC and Condition E1 of the Electricity System Operator Licence.

Objective (f). The BSC Panel considered that the Proposed Solution and the Alternative Solution had a neutral impact on the other BSC Objectives. The BSC Panel also agreed that the Alternative Solution better facilitates the BSC Objectives than the Proposed Solution. The BSC Panel therefore recommended that the Alternative Solution should be approved, and the Proposed Solution should be rejected.

The BSC Panel proposed implementation:

- 10 Working Days from the BSC Company's notice to industry as a part of a special BSC Release, if we approve the modification by 1 December 2025; or,
- 27 February 2026, as part of the standard February 2026 BSC Release, if we approve the modification after 1 December 2025.

Our decision

We have considered the issues raised by the modification proposal and the Final Modification Report (FMR)¹¹ dated 1 October 2025. We have considered and taken account of industry consultation responses to the modification proposal which were attached to the FMR. We have also considered the deliberations of the P498 Workgroup about the benefits and risks of the Proposed and Alternative Solutions.

We believe both the Proposed and Alternative Solutions better facilitate the BSC Objectives than the current baseline. We consider that both the Proposed and Alternative Solutions would better facilitate BSC Objectives (c), (d) and (f). We also consider that both the Proposed and Alternative Solutions have a neutral impact on the other Applicable Objectives.

We have concluded that the Alternative Solution will better facilitate the Applicable BSC Objectives compared to the Proposed Solution:

- Implementation of the modification proposal will better facilitate the achievement of the Applicable Objectives of the BSC;¹²

¹¹ BSC modification proposals, modification reports and representations can be viewed on the Elexon website at www.elexon.co.uk.

¹² As set out in Condition E1 of the Electricity System Operator Licence.

- Directing that the modification be made is consistent with our principal objective and statutory duties.¹³

Reasons for our decision

We consider that both the Proposed and Alternative Solutions are consistent with our principal objective to protect the interests of existing and future consumers and our broader statutory duties. On balance, we think implementation of the Alternative Solution will better facilitate the achievement of the BSC Applicable Objectives compared to the Proposed Solution.

We agree with the Proposer, the Workgroup and the BSC Panel that allowing Qualified ESNAs to submit data for settlement dates prior to their Qualification will provide more choice in ESNAs for those licensed suppliers providing services to licence-exempt suppliers.

In addition (and for the reasons outlined in our P442 decision)¹⁴, we consider that transitioning to the enduring solution will better facilitate the BSC Objectives. We are concerned that allowing the interim process to continue indefinitely and maintaining dual arrangements could delay the enduring solution's benefits. We consider the Alternative Solution's approach of limiting the interim process' longevity until such time as the Panel assesses sufficient competition exists in the ESNA market, better facilitates the BSC Objectives.

While both the Proposed and Alternative Solutions better facilitate Objective (c), we consider that the Alternative Solution better facilitates Objectives (d) and (f) by enabling more efficient Balancing and Settlement Arrangements and more efficient administration of EMR schemes.

It should be noted that both BSC P442 and P498 are in essence compliance modifications, concerned with the alignment of the BSC with EMR regulations: ensuring that policy levies on final consumption are applied to licensed and not licence-exempt supply. However, as the EMR programme represents a fixed cost, the effect is that consumers of licensed suppliers will pay a higher proportion of costs. In light of recent stakeholder queries about different Class A undertakings, we welcome DESNZ producing general guidance on Class A which is due to be published shortly.

¹³ 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.

¹⁴ [Approval of BSC Modification P442 | Ofgem](#).

Objective (a): the efficient discharge by the licensee of obligations imposed upon it by the licence

The Proposer and the majority of the P498 Workgroup consider that both the Proposed and the Alternative Solutions would positively impact BSC Objective (a) as, in their view, NESO has a licence obligation to promote competition in generation and supply.

A minority of the P498 Workgroup and the majority of the BSC Panel, consider that NESO does not have a licence condition related to competition. They consider that any NESO obligation to promote competition is done via delegation to the BSC Panel under BSC Objective (c). They therefore considered that both the P498 Proposed and Alternative Solutions would have a neutral impact against BSC Objective (a).

NESO is subject to a statutory duty to have regard to particular matters when carrying out its functions; one of the matters it must give regard to is the need to facilitate competition between persons who carry out a relevant activity (activities include the generation and supply of electricity).¹⁵ In addition, NESO often uses competition as a tool to achieve its obligations (eg, obligations to promote efficient, coordinated and economical whole energy systems).

Notwithstanding its statutory duty, we agree with the BSC Panel that NESO does not have an explicit licence obligation¹⁶ to promote competition in generation and supply. Instead, we agree with BSC Panel that promoting effective competition in the generation and supply of electricity is more explicitly achieved via the BSC Applicable Objective (c). We therefore consider that both the Proposed Solution and the Alternative Solution would have a neutral impact on BSC Objective (a).

Objective (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 Proposer and the majority of the P498 Workgroup consider that both the Proposed and Alternative Solutions would positively impact BSC Objective (c). They consider that enabling licence-exempt generators to secure higher rates for renewable generation would promote effective competition in the sale and purchase of electricity. A minority of the P498 Workgroup

¹⁵ Sections 163 and 164 of the Energy Act 2023 set out NESO's duty to promote particular objectives, defines "relevant activity" and sets-out its duty to have regard to particular matters: [Energy Act 2023](#)

¹⁶ NESO's licence obligations are set out in the Electricity System Operator Licence [Home Page - Ofgem Public Register](#)

and the majority of the BSC Panel did not consider that the Proposed or Alternative Solutions would significantly impact competition and not, therefore, impact BSC Objective (c).

We consider that this modification (compared to the P442 baseline) will help address a barrier to licensed and licence-exempt suppliers accessing competitive services from ESNAs, thereby helping to promote competition in the generation and supply of electricity.

We therefore consider that compared to the baseline, both the Proposed Solution and the Alternative Solution would have a positive impact on BSC Objective (c) by allowing smaller generators and licence-exempt suppliers to compete in the sale of electricity.

Objective (d): promoting efficiency in the implementation and administration of the Balancing and Settlement Arrangements

The Proposer and the majority of the P498 Workgroup consider that both the Proposed Solution and Alternative Solutions would positively promote efficiency in the implementation and administration of Balancing and Settlement Arrangements by ensuring they are performed accurately. A minority of the Workgroup and the majority of the BSC Panel consider that the Proposed and Alternative Solutions would have neutral impacts on BSC Objective (d). They consider that Balancing and Settlement Arrangements are narrowly defined in the Transmission Licence, and that any benefits would be captured under BSC Objective (f).

We note that the definition of Balancing and Settlement Arrangements¹⁷ includes arrangements “for the determination and allocation to BSC Parties of the quantities of electricity delivered to and taken off the Total Electricity System”. We consider that determining and allocating volumes of electricity to BSC Parties includes the administration of licence-exempt supply volumes. For example, allowing a Qualified ESNA to submit data for settlement dates prior to its Qualification becoming effective will help improve the accuracy of settlement for these periods and the affected BSC Parties. We therefore consider that the Proposed and Alternative Solutions would both have a positive impact on BSC Objective (d) compared to the P442 baseline.

In addition, a small minority of the P498 Workgroup consider that maintaining dual arrangements under the Proposed Solution (indefinitely) and the Alternative Solution (for a

¹⁷ As set out in Condition E1 of the Electricity System Operator Licence: [Electricity licensing \(from October 2025\) - All Content - Unfiltered - Ofgem Public Register](#)

transitional period until there is sufficient ENSA competition) would create an administrative burden (compared to the P442 baseline). They consider that this will result in less efficient administration of the BSC and, therefore, a negative impact on BSC Objective (d).

Comparing the Proposed and Alternative Solutions, we consider that maintaining dual arrangements indefinitely may lead to more inefficient administration of Balancing and Settlement Arrangements than ultimately transitioning to a single approach to licence-exempt supply. We therefore consider that the Alternative Solution better meets BSC Objective (d) than the Proposed Solution.

Objective (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

There was unanimous agreement among the Proposer, P498 Workgroup and BSC Panel that the Proposed and Alternative Solutions better facilitate BSC Objective (f) by improving arrangements to remove the overcharge to licensed suppliers for CfD and CM charges relating to licence-exempt supplies not made by them. We agree that both the Proposed and Alternative Solutions better facilitate BSC Objective (f) compared to the P442 baseline.

In comparison with each other, we consider that the Alternative Solution best facilitates BSC Objective (f) by supporting the most efficient operation of accurate CM and CfD arrangements. We consider that it would be less efficient to maintain dual arrangements indefinitely (as included in the Proposed Solution).

Decision Notice

In accordance with Condition E1 of the Electricity System Operator Licence, the Authority hereby directs that the Alternative Solution of BSC P498: Ensuring Correct Data Flows for Licence Exempt Supplies be made.



Marzia Zafar

Deputy Director – Energy Systems Design and Development

Signed on behalf of the Authority and authorised for that purpose