

Modification proposal:	<b>Balancing and Settlement Code (BSC) P366: Change to Supplier Charge SP08a calculations to account for small scale non-domestic non half hourly hard-to-read meters (P366)</b>		
Decision:	The Authority <sup>1</sup> has decided to reject this modification proposal <sup>2</sup>		
Target audience:	National Grid Electricity System Operator (NGESO), Parties to the BSC, the BSC Panel and other interested parties		
Date of publication:	19 July 2019	Implementation date:	n/a

## Background

Supplier charges are liquidated damages that suppliers incur if they fail to meet certain performance levels. Supplier charges for Performance Assurance Reporting and Monitoring Service (PARMS) Serial SP08a are applied to suppliers where they have not met their target for non half-hourly energy settled on Annual Advances at R3 (80%) and RF (97%).<sup>3</sup> Where they have not met the target they will incur a charge. Amongst other things, supplier charges can be seen as an incentive to obtain meter reads, and obtaining meter reads within the required time frame maintains the integrity of settlement and ensures billing is accurate.

The proposer believes that small suppliers are more susceptible to SP08a supplier charges because they are unable to absorb hard-to-read (HTR) meters into their settlement performance, which is calculated based on the percentage of suppliers' total settlement volume. As a result, the proposer considers that small suppliers must either add the SP08a costs to their tariffs, absorb it themselves or withdraw from the market. The proposer considers this in turn could lead to a reduction in competition.

## The modification proposal

The P366 proposed solution requires that the SP08a supplier charge for PARMS Serial SP08a for Settlement Runs R3 and RF are set to £0.00 for all Suppliers.

The proposer, Orsted, believes the modification will better facilitate BSC objectives (c)<sup>4</sup> and (d).<sup>5</sup> The proposer believes that the P366 solution would better facilitate BSC objective (c) as they argued that removing the cost of supplier charges will level the

<sup>1</sup> 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.

<sup>2</sup> This document is notice of the reasons for this decision as required by section 49A of the Electricity Act 1989.

<sup>3</sup> Non-half-hourly (NHH) performance is measured by the total energy settled on annualised advances (ie actual meter reads), as a percentage of a suppliers NHH total energy. Performance levels are measured in each Grid Supply Point Group. The third reconciliation run has a target of 80% and the final reconciliation run has a target of 97%.

<sup>4</sup> See standard condition C3 (3), objective (c), of the transmission Licence: "*Promoting effective competition in the generation and supply of all electricity and (so far as consistent therewith) promoting such competition in the sale and purchase of electricity*".

<sup>5</sup> See standard condition C3 (3), objective (d), of the transmission Licence: "*promoting efficiency in the implementation and administration of the balancing and settlement arrangements*".

playing field as no suppliers will need to make the decision as to whether they pass on costs to their customers. The proposer believes that the modification would better facilitate BSC objective (d) as they argued that removing the cost of supplier charges will allow suppliers to work towards achieving meter reads and not working towards avoiding supplier charges. Additionally, they believe that gains could be achieved from reducing the effort involved in validating supplier charge invoices.

### **BSC Panel<sup>6</sup> recommendation**

At the BSC Panel meeting on 13 June 2019, a majority of the BSC Panel considered that P366 would not better facilitate the BSC objectives and the Panel therefore did not recommend its approval. The majority of the Panel thought that P366 did not better facilitate applicable BSC Objective (c) as they were of the view that SP08a supplier charges derived from hard-to-read metering systems were not causing a competition issue. It was noted in their discussion that the impact of such low numbers of HTR meters was not material, although others noted that the number of HTR meters as a proportion of Non Half-Hourly (NHH) meters would increase due to transition to half hourly settlement. The majority of the panel considered that the modification would have neither a positive or negative impact on competition. The majority of the Panel thought that P366 did not better facilitate applicable BSC Objective (d) as they thought it would be removing a control measure within the Performance Assurance Framework (PAF) and would not cause settlement arrangements to be more efficient.

### **Our decision**

We have considered the issues raised by the modification proposal and the Final Modification Report (FMR)<sup>7</sup> dated 18 June 2019. We have considered and taken into account the responses to the industry consultations on the modification proposal which are attached to the FMR. We have concluded that:

- implementation of the modification proposal will not better facilitate the achievement of the applicable objectives of the BSC.<sup>8</sup>

### **Reasons for our decision**

We consider this modification proposal will not better facilitate BSC objectives (c) and (d), 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*

For both the Assessment Phase consultation and the Report Phase consultation suppliers' views were consistent, with the opinion relatively evenly split between small suppliers (believing there is a competition issue) and large suppliers (believing there is no competition issue).

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<sup>6</sup> The BSC Panel is established and constituted pursuant 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](http://www.epr.ofgem.gov.uk)

<sup>7</sup> BSC modification proposals, modification reports and representations can be viewed on the Elexon website at [www.elexon.co.uk](http://www.elexon.co.uk)

<sup>8</sup> As set out in Standard Condition C3(3) of the Transmission Licence, available at: <http://epr.ofgem.gov.uk>

The proposer was of the opinion that removing the cost of supplier charges would level the playing field as suppliers would not need to make a decision as to whether to pass on the costs of the HTR meters to their customers, and therefore would better facilitate BSC Objective (c).

The panel were also split in opinion, with the majority believing there was no competition issue, the minority agreeing with the proposer in that it would better facilitate competition, and two members abstained, as they could see both sides of the argument. A Panel member noted that there were an estimated 5000 non-half-hourly HTR metering systems, which accounted for just ~0.02% of metering systems across the industry, and so they believed that removing supplier charges would not have a material impact on competition. There was also a view put forward as to whether P366 was the right way to deal with the issue, with some, but not all, Panel Members feeling that other reviews (such as the Performance Assurance Framework (PAF) review<sup>9</sup> and Issue 78<sup>10</sup>) was a more appropriate place to resolve it.

We can see that there are arguments for both sides, however on balance we do not believe that the modification better facilitates BSC Objective (c). We agree with the majority of the Panel that the removal of supplier charge SP08a would not have a material impact on competition. We agree with this view, due to the small number of HTR meters in relation to all the metering systems. In addition, if HTR meters are affecting a supplier's performance so much so that they do not meet the settlement targets, the supplier will still need to work towards increasing their settlement performance whether or not they are charged supplier charges. Therefore we agree with the majority of the Panel that the modification will have neither a positive or negative effect on competition.

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

Once again, in the responses to the Assessment Phase consultation and the Report Phase consultation the views of the respondents were split. Some respondents stated the removal of the SP08a charges would remove a financial incentive to achieving the settlement targets, and as noted in the workgroup, this could be detrimental to BSC Objective (d) as it would be removing a control measure. Other respondents noted that whilst the financial incentive would be removed, the Error and Failure Resolution and other PAF techniques will remain and, in their opinion, are more effective at ensuring compliance with the target.

The proposer believes that by removing the cost of supplier charges, this will allow suppliers to work towards achieving meter reads and not working towards avoiding supplier charges. The proposer also believes that gains could be achieved from reducing the effort involved in validating supplier charge invoices.

The majority of the Panel considered that P366 did not better facilitate the objective as it would be removing a control measure within the PAF and would not lead to more efficient settlement arrangements.

We agree with the Panels' majority view that the modification would not better facilitate BSC Objective (d). We consider that by removing supplier charge SP08a, this would remove a control measure within the Performance Assurance Framework and would

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<sup>9</sup> <https://www.elxon.co.uk/reference/performance-assurance/performance-assurance-framework-review/>

<sup>10</sup> <https://www.elxon.co.uk/smq-issue/issue78/>

remove a financial incentive on suppliers to achieve the settlement targets. We do not agree with the proposer's view that by removing the cost of supplier charges this would mean suppliers work towards achieving meter reads rather than avoiding supplier charges. Working towards achieving meter reads will in turn reduce the cost of supplier charges and therefore the supplier charge should be adding an additional incentive to obtain these reads.

In summary, we do not believe that the modification better facilitates the BSC Objectives. By removing supplier charge SP08a for all meters (not just the HTR meters), we believe this would have a greater detrimental effect on settlement arrangements, than any effect on competition there may be. In addition, we acknowledge that there are currently other reviews<sup>11</sup> that are being undertaken, and note the views of some Panel members that these should be better placed to provide a longer-term solution. We therefore agree with the Panel's recommendation that P366 should not be implemented.

### **Decision Notice**

In accordance with Standard Condition C3 of the Transmission Licence, the Authority has decided that modification proposal BSC P366: 'Change to Supplier Charge SP08a calculations to account for small scale non-domestic non half hourly hard-to-read meters' should not be made.

**Anna Stacey**

**Head of Settlement Reform, Retail Systems Transformation**

Signed on behalf of the Authority and authorised for that purpose

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<sup>11</sup> Such as the PAF review and Issue 78.