

# Consultation

## Energy Company Obligation (ECO3) methodologies for calculating electricity and gas supply volumes

<b>Publication date:</b>	11 October 2019	<b>Contact:</b>	Chris Mack, Senior Policy Manager
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<b>Response deadline:</b>	8 November 2019	<b>Email:</b>	<a href="mailto:eco.consultation@ofgem.gov.uk">eco.consultation@ofgem.gov.uk</a>

This consultation outlines our proposed administration to changes to our supply volume methodologies for calculating electricity and gas supply volumes. It is the first of two consultations that we are publishing. We are consulting on changes to the supply volume methodologies separately to give stakeholders early indications on our proposed administrative approach. We are aware of the need to provide final guidance as soon as possible so that stakeholders can update their processes ahead of phase 3 obligation setting.

The second consultation will seek views on our proposed administration for the changes to the current Energy Company Obligation (ECO3) scheme as a result of the Government's ECO3 Improving consumer protection consultation. Additionally, the second consultation will further outline Ofgem's position on certain areas of the scheme that require clarification and are separate to the legislative changes outlined in BEIS' ECO3 Improving consumer protection consultation. **The second consultation, ECO3 improving consumer protection, will be published after the Government response is published.**

This document outlines the scope, purpose and questions of the consultation and how you can get involved. Once the consultation is closed, we will consider all responses. We want to be transparent in our consultations. We will publish the non-confidential responses we receive alongside a decision on next steps on our website at

[Ofgem.gov.uk/consultations](https://www.ofgem.gov.uk/consultations). If you want your response – in whole or in part – to be considered confidential, please tell us in your response and explain why. Please clearly mark the parts of your response that you consider to be confidential, and if possible, put the confidential material in separate appendices to your response.

**This consultation will be open for four weeks from 11 October 2019 to 8 November 2019.**

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## 1. Introduction

### What are we consulting on?

- 1.1. The ECO3 Order 2018 sets out the requirements for the ECO3 obligation period, which will run until March 2022.<sup>1</sup> The Department for Business, Energy and Industrial Strategy (BEIS) has consulted on making changes to the current ECO3 scheme.<sup>2</sup> We will seek views on our proposed administration of these changes in our second consultation.
- 1.2. This consultation is seeking views on Ofgem's ('we', 'us' and 'our' in this document) proposed administration on changes to our supply volume methodologies for calculating electricity and gas supply volumes. Since the methodologies were introduced in ECO1 various changes in metering technologies and settlement practices have occurred. We have taken the opportunity to review the methodologies as part of the broader administrative changes to the scheme.
- 1.3. We are consulting on changes to the supply volume methodologies separately to give stakeholders early indications on our proposed administrative approach as we are aware of the need to provide final guidance as soon as possible so that stakeholders can update their processes ahead of phase 3 obligation setting. Suppliers must notify us of the number of its domestic customers on 31 December 2019 by 1 February 2020.

### Section 1: Notifying Supply

- 1.4. We are consulting on proposed changes to our ECO supply volume methodology for calculating electricity and gas supply volumes. We have reviewed these methodologies following feedback from stakeholders to ensure suppliers' ECO obligations accurately represent supply to domestic consumers.

**Do you know of any other considerations relating to the calculation of electricity or gas supply volumes that we should be aware of that would help**

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<sup>1</sup> The Electricity and Gas (Energy Company Obligation) Order 2018.

<sup>2</sup> <https://www.gov.uk/government/consultations/energy-company-obligation-eco3-improving-consumer-protection>

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**us to clarify the guidance? If so, set out any examples, and provide supporting evidence as required.**

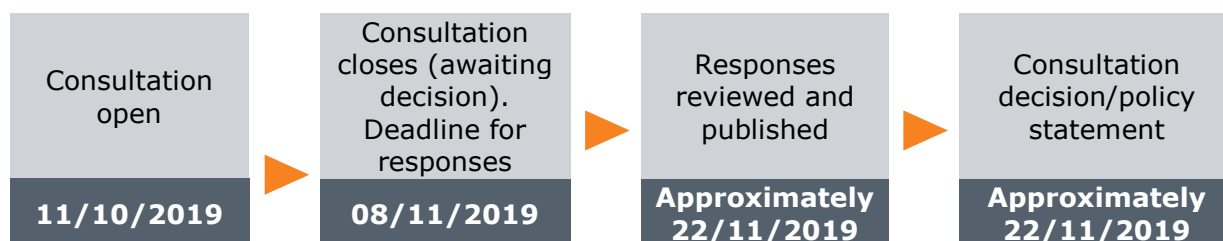
## Related publications

- [The Electricity and Gas \(Energy Company Obligation\) Order 2018](#)
- [Ofgem ECO3 Guidance: Supplier Administration \(V1.1\)](#)
- [Ofgem ECO3 Guidance: Delivery \(V1.2\)](#)

## Consultation stages

- 1.5. Our consultation will be open for four weeks from 11 October 2019. This will facilitate early finalisation of our administrative approach and providing draft guidance which will be made available to stakeholders.
- 1.6. We will consult separately on our proposed administration for the changes to the current ECO3 scheme as a result of the Government’s ECO3 Improving consumer protection consultation. The second consultation will further outline Ofgem’s position on certain areas of the scheme that require clarification and are separate to the legislative changes outlined in BEIS’ ECO3 Improving consumer protection consultation.

**Figure 1: Consultation stages**



## How to respond

- 1.7. We want to hear from anyone interested in this consultation. Please send your response to [eco.consultation@ofgem.gov.uk](mailto:eco.consultation@ofgem.gov.uk).
- 1.8. We’ve asked for your feedback in each of the questions throughout. Please respond to each one as fully as you can.

- 1.9. We will publish non-confidential responses on our website at [www.ofgem.gov.uk/consultations](http://www.ofgem.gov.uk/consultations).

## **Your response, data and confidentiality**

- 1.10. You can ask us to keep your response, or parts of your response, confidential. We'll respect this, subject to obligations to disclose information, for example, under the Freedom of Information Act 2000, the Environmental Information Regulations 2004, statutory directions, court orders, government regulations or where you give us explicit permission to disclose. If you do want us to keep your response confidential, please clearly mark this on your response and explain why.
- 1.11. If you wish us to keep part of your response confidential, please clearly mark those parts of your response that you do wish to be kept confidential and those that you do not wish to be kept confidential. Please put the confidential material in a separate appendix to your response. If necessary, we'll get in touch with you to discuss which parts of the information in your response should be kept confidential, and which can be published. We might ask for reasons why.
- 1.12. If the information you give in your response contains personal data under the General Data Protection Regulation 2016/379 (GDPR) and domestic legislation on data protection, the Gas and Electricity Markets Authority will be the data controller for the purposes of GDPR. Ofgem uses the information in responses in performing its statutory functions and in accordance with section 105 of the Utilities Act 2000. Please refer to our Privacy Notice on consultations, see Appendix 4.
- 1.13. If you wish to respond confidentially, we'll keep your response itself confidential, but we will publish the number (but not the names) of confidential responses we receive. We won't link responses to respondents if we publish a summary of responses, and we will evaluate each response on its own merits without undermining your right to confidentiality.

## General feedback

1.14. We believe that consultation is at the heart of good policy development. We welcome any comments about how we've run this consultation. We'd also like to get your answers to these questions:

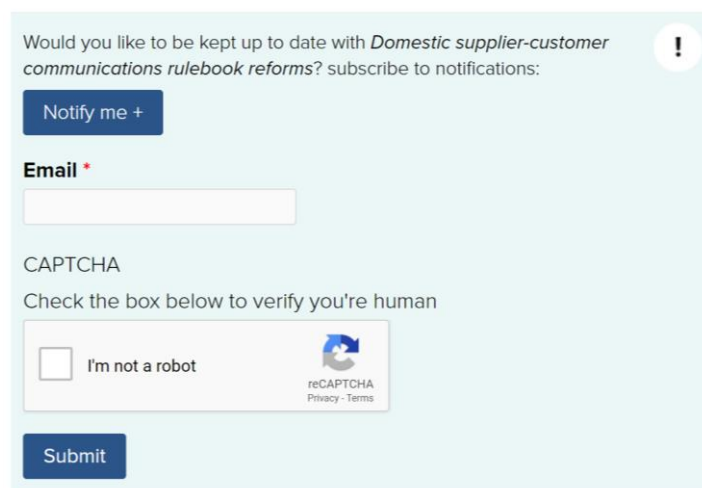
1. Do you have any comments about the overall process of this consultation?
2. Do you have any comments about its tone and content?
3. Was it easy to read and understand? Or could it have been better written?
4. Were its conclusions balanced?
5. Did it make reasoned recommendations for improvement?
6. Any further comments?


Please send any general feedback comments to [stakeholders@ofgem.gov.uk](mailto:stakeholders@ofgem.gov.uk)

## How to track the progress of the consultation

1.15. You can track the progress of a consultation from upcoming to decision status using the 'notify me' function on a consultation page when published on our website. [Ofgem.gov.uk/consultations](https://www.ofgem.gov.uk/consultations).

### Notifications




Would you like to be kept up to date with *Domestic supplier-customer communications rulebook reforms*? subscribe to notifications: 

**Email \***

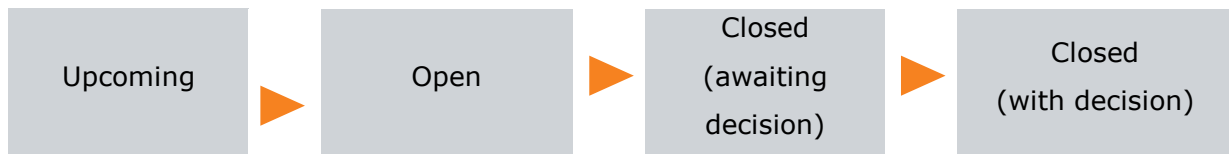
CAPTCHA

Check the box below to verify you're human

I'm not a robot   
reCAPTCHA  
Privacy - Terms



1.16. Once subscribed to the notifications for a particular consultation, you will receive an email to notify you when it has changed status. Our consultation stages are:



## 2. Notifying Supply

### Section summary

We are consulting on proposed changes to our ECO supply volume methodology for calculating electricity and gas supply volumes. We have reviewed these methodologies following feedback from stakeholders to ensure suppliers' ECO obligations accurately represent supply to domestic consumers.

### Question

**Question 1: Do you know of any other considerations relating to the calculation of electricity or gas supply volumes that we should be aware of that would help us to clarify the guidance? If so, set out any examples, and provide supporting evidence as required.**

## Changes to the supply volume methodology

### Current situation

- 2.1. Once a licence-holder or group company has met the definition of a participant for ECO3, ie is an obligated ECO3 supplier, it must notify us of its domestic customer numbers and supply.<sup>3</sup> We will use the information notified by a supplier to determine its obligations, including the proportion of the overall ECO targets that it must achieve.
- 2.2. Before each phase of ECO3 a supplier must notify us of:
  - i) the number of its domestic customers on 31 December of the relevant qualification year and,

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<sup>3</sup> Previous ECO phases contained the definition of "supplier", for ease of reference this consultation carries forward that terminology but acknowledges the new definition of "participant" is in force.

- ii) the amount of gas or electricity (as applicable) supplied to its domestic customers during the relevant qualification year.

2.3. Our ECO3 Guidance: Supplier Administration details a methodology that suppliers use to calculate the amount of gas and electricity supply. The current methodologies were introduced to enable consistency of the supply data used across all obligated suppliers. They have been in place since the start of ECO1 in October 2012 and were subject to a consultation process.<sup>4</sup> At that time, the methodologies were considered to provide a satisfactory view of supply to domestic customers. Since then, various changes in metering technologies and settlement practices have occurred. We have taken the opportunity to review the methodologies as part of the broader administrative changes.

#### Calculating electricity supply

- 2.4. Smart meters record the amount of energy consumed or exported within every half-hour period and this data can be provided to energy suppliers remotely. The post-2020 smart meter rollout framework would see suppliers required to roll out smart meters to 85% of their customer base by 2024.<sup>5</sup>
- 2.5. Ofgem are also currently implementing market-wide half-hourly settlement (MHHS) and consulting with industry stakeholders on Settlement Reform.<sup>6</sup>
- 2.6. The current obligation setting methodology calculates the supply to domestic consumers using Profile Classes 1 and 2 (Domestic Unrestricted and Domestic off-peak). It therefore potentially excludes a proportion of domestic consumers supplied through Profile Class 00. This covers those consumers who are electively half-hourly settled. The majority of consumers are settled 'non-half hourly' using estimates of when electricity is used based on a profile of the average consumer (within a given profile class).<sup>7</sup> This is because most sites have not had meters that can record consumption in each half-hour period and

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<sup>4</sup> <https://www.ofgem.gov.uk/publications-and-updates/energy-companies-obligation-consultation-methodologies-calculating-number-domestic-customers-and-electricity-and-gas-supply>

<sup>5</sup> [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/831734/smart-meter-policy-framework-post-2020-consultation.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/831734/smart-meter-policy-framework-post-2020-consultation.pdf)

<sup>6</sup> More information, including a timetable for reform is available here: <https://www.ofgem.gov.uk/electricity/retail-market/market-review-and-reform/smarter-markets-programme/electricity-settlement>

<sup>7</sup> <https://www.ofgem.gov.uk/publications-and-updates/half-hourly-settlement-way-forward>

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meter readings are only taken periodically. However, as more customers move off Profile Classes 1 and 2 this majority will reduce.

- 2.7. This presents a risk that supply volumes are being under-calculated when using the current methodology as suppliers have different customer bases (and approaches to meeting their obligations to install smart meters), and as a result the scheme obligations calculated annually by Ofgem may not be representative. As suppliers, especially those with a large number of customers using elective half-hourly settlement, are having to dissociate supply to these customers from the current methodology, there is a risk this is being done on an inconsistent basis across obligated suppliers.

#### Calculating gas supply

- 2.8. There are concerns that there may be confusion on which Annual Quantities (AQ) data source should be used for ECO gas supply calculations.
- 2.9. Since Project Nexus was implemented on 1 June 2017, our understanding is that there are two AQs: Formula Year AQ and Rolling AQ (updated on a monthly basis with meter reads).<sup>8</sup>
- 2.10. During phase 2 obligation setting we advised suppliers to use Rolling AQ because it is calculated on a rolling month by month basis which enabled suppliers to report an updated AQ at the prescribed five points in time for the relevant qualification year. However, some suppliers still use Formula Year AQ and this may result in a less accurate value being submitted.

#### **Changes to the industry landscape**

- 2.11. Following feedback from suppliers, we have worked with a consultant (GHD) to review the ECO supply volume methodology to consider whether our current electricity and gas methodologies for calculating supply figures remain an accurate representation of supply volumes to domestic consumers.

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<sup>8</sup> <https://www.ofgem.gov.uk/gas/retail-market/market-review-and-reform/project-nexus>

2.12. We have considered GHD's recommendations and proposed a revised administrative approach for suppliers to use to calculate the amount of electricity and gas supplied to domestic consumers for their phase 3 and 4 obligations. A copy of GHD's report has been published alongside this consultation.

#### Calculating electricity supply

2.13. Historically, suppliers have been required to notify electricity supply volumes for profile classes 1 and 2 only. However, some domestic customers fall outside these profile classes because their consumption exceeds the 100kW threshold that triggers a mandatory requirement for a half-hourly meter. In addition, Balancing and Settlement Code change proposal CP1474 implemented changes that facilitated the elective half-hourly settlement of SMETS smart meters.<sup>9</sup> This led to an update in June 2017 to the Change of Measurement Class process to facilitate these transitions and as part of these processes the customer is re-assigned to profile class 00.

2.14. The existing data flow D0030 'Non Half hourly Distribution Use of System Charges (DUoS) report' used for the calculation of supply volumes for Profile Classes 1 and 2 can also be used for the calculation of Profile Class 00 supply volumes by extending the set of allowed profiles classes to include Profile Class 00.

2.15. However it is not possible to unambiguously distinguish between domestic and non-domestic customers in Profile Class 00 within the D0030 data flow. As such, the D0296 'Supplier BM Unit Report' data flow should be used alongside D0030 to capture the precise Profile Class 00 elective half-hourly supply volumes for domestic consumers.

#### Calculating gas supply

2.16. Rolling AQ includes more recent data than Formula Year AQ and therefore is considered to be more accurate.

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<sup>9</sup> <https://www.elexon.co.uk/meeting/walkthrough-elective-hh-settlement-process/>

## **Proposed administrative approach**

### Calculating electricity supply

- 2.17. ELEXON settlement data should be used for all notifications, given its acceptance for settlement data across the industry.
- 2.18. Suppliers should provide the total kilowatt hours (kWh) delivered to:
- i) customers on Profile Classes 1 and 2; and
  - ii) customers on Profile Class 00 with Consumption Component Class 36.
- 2.19. Suppliers should remove any unmetered supply from this data. This total kWh should be based on the settlement data available from 22 January of the year after the relevant qualification year, split by licence, flow and provided to suppliers by ELEXON.
- 2.20. For customers in Profile Classes 1 and 2, to identify the total kWh for each profile class, suppliers must use the D0030 'Aggregated Distribution Use of System Charges (DUoS) Report' data flow provided to both suppliers and Licensed Distribution System Operators (LDSO). This D0030 data flow contains both consumption and losses data, but only consumption data is required, as ECO only requires the volumes which have been delivered to customers. Therefore no adjustments to line losses need to be made for reporting supply amounts for ECO.
- 2.21. For customers in Profile Class 00, to identify the total kWh, suppliers must use the D0296 'Supplier BM Unit Report' data flow provided to both suppliers and Licensed Distribution System Operators (LDSO). Consumption Component Class 36 should be used to select the appropriate sub-category of customers.
- 2.22. We recognise that Profile Class 00 may contain a mixture of domestic and non-domestic customers and suppliers cannot all use the same approach to calculate their domestic customer supply volumes without significant system changes. However, suppliers must use a reasonable methodology to accurately calculate domestic customer supply volumes. We may audit suppliers to ensure the methodology used is reasonable after notification but before the start of each phase, as applicable. Any adjustments which are made should be transparent and substantiated in the reporting, with a clear reconciliation between supply volumes thus calculated and supply volumes reported.

### Calculating gas supply

2.23. The parameter required to be notified is the aggregate of values of (rolling) Annual Quantity (AQ) consistent with the definition in the Uniform Network Code Transportation Principal Document Section G Clause 1.6.1.<sup>10</sup> Values of Formula Year AQ are not to be used in the calculation of the aggregated AQ.

### **Question**

- 1. Do you know of any other considerations relating to calculation of electricity or gas supply volumes that we should be aware of that would help us to clarify the guidance? If so, set out any examples, and provide supporting evidence as required.**

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<sup>10</sup> <http://www.gasgovernance.co.uk/TPD>