

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

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**Contact:** Chris Mack, Senior Policy Manager

**Team:** Policy Hub

**Email:** [eco@ofgem.gov.uk](mailto:eco@ofgem.gov.uk)

This decision outlines our final administrative position on changes to our supply volume methodologies for calculating electricity and gas supply volumes. It is the first of two decision documents that we are publishing. 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. We have, therefore, consulted and published this decision on changes to the supply volume methodologies separately to give stakeholders early confirmation of our administrative approach.

The second consultation sought 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 further outlines 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, was published on the 5 November 2019.

This document summarises the responses to the consultation on supply volumes and details our final administrative position.

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## 1. Introduction

### Context and related publications

- 1.1. The ECO3 Order 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) consulted on making changes to the current ECO3 scheme.<sup>2</sup> We have sought views on our proposed administration of these changes in our second consultation.
- 1.2. The consultation on supply volume methodologies ran separately to give stakeholders early indications on our proposed administrative approach. This decision is intended to ensure stakeholders have final guidance as soon as possible so they can update their processes ahead of phase 3 obligation setting.
- 1.3. This decision details Ofgem’s (‘we’, ‘us’ and ‘our’ in this document) final administration of our 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.

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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>.

## Your feedback

1.4. We believe that consultation is at the heart of good policy development. We are keen to receive your comments about this document. We'd also like to get your answers to these questions:

1. Do you have any comments about the overall quality of this document?
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. Are its conclusions balanced?
5. Did it make reasoned recommendations?
6. Any further comments?

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

## Our decision making process

1.5. Our consultation was published on the 11 October 2019. The consultation process ran for four weeks.

1.6. During the consultation there were some questions and clarification which were dealt with separately. These were related to an inaccuracy in the initial consultation document which was amended in a republished version.

1.7. We received five responses to our consultation of which four were from energy suppliers, and one was from a Code Administrator. Once the consultation closed, all responses were collated and reviewed by Ofgem. All responses and views were considered and the decisions were collectively made. A full list of respondents can be found in Appendix 1 and all responses can be viewed on our website.

1.8. This decision document outlines our final position on the policy areas detailed in the consultation. The following chapter considers the consultation area. It summarises stakeholder responses. This is followed by Ofgem's decision on our administration.

## 2. Changes to supply volume methodology

### Section summary

This section outlines the changes to our ECO supply volume methodology for calculating electricity and gas supply volumes. We asked stakeholders if there were any considerations that might help us clarify the guidance.

### Questions

**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.

### Summary of responses

- 2.1. In total, there were five respondents to this consultation. Two of the responses had no comments to make on the proposed changes. One of these responses did highlight that if there is a change to the methodology they would need clarity as early as possible in advance of phase 3 obligation setting.
- 2.2. Two of the responses agreed with the proposal to change the methodology on the basis that it would increase accuracy in reporting annual supply volumes and thus the setting of obligations.
- 2.3. All three respondents that commented on the proposed changes stated that they did not agree with the use of Consumption Component Class (CCC) 36 for calculating the kilowatt-hours (kWh) supplied to domestic customers through Profile Class 00. Instead they suggested that CCCs 42 and 45, associated with Measurement Class F, should be used to determine domestic supply.
- 2.4. One respondent also noted that the information required for Profile Class 00 can also be determined from the D0030 'Aggregated Distribution Use of System (DUoS)' Report as it contains meter data sorted by Line Loss Factor Class Identifier (LLFCid) for each Grid Supply Point Group (GSPG).

- 2.5. One respondent advised that there is ongoing work on the Market Wide Half Hourly Settlement (MHHS) which may necessitate further changes to the ECO3 supply volume calculation methodology.

## Ofgem response

### Electricity supply

- 2.6. We agree with the suggestion that CCCs 42 and 45 should be used instead of 36 when selecting the Aggregated Balancing Mechanism Unit Energy (per GSP Group) data within the D0296 'Supplier BM Unit Report'. GHD highlighted in section 13.1 of report that there appeared to be an inconsistency between the CCC numbers used in some of the published documentation, but ultimately chose a value that was from the original consultation process. The CCCs are now confirmed as per Table X-8 'List of Valid Consumption Component Classes' in Elexon's 'BSC Section X, Annex X-2 – Technical Glossary' document.<sup>3</sup>
- 2.7. CCC 42 is the active import consumption data based on actuals and CCC 45 is active import consumption data based on estimates. Whereas, CCC 36 relates to active export data based on actual consumption for customers in Measurement Class E. Measurement Class E captures non-domestic supply and whilst it may include some domestic supply it would not be possible to split these out. Therefore, both CCCs 42 and 45 should be used, rather than CCC 36, to accurately calculate supply volumes.
- 2.8. We additionally recognise the potential to utilise the D0030 'Aggregated DUoS' Report to determine the correct supply volumes. All half hourly metering systems within that report have an associated Line Loss Factor Class (LLFC) which are mapped out in the P300-P399 LLFC IDs document, with the 'LV Domestic tariff' being relevant for each GSP Group.<sup>4</sup>
- 2.9. We also acknowledge that suppliers will need clarity of what approach will be used ahead of phase 3 obligation setting. For this reason, we have chosen to publish this

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<sup>3</sup> <https://www.elexon.co.uk/the-bsc/bsc-section-x-annex-x-2-technical-glossary/>

<sup>4</sup> <https://www.elexon.co.uk/wp-content/uploads/2015/01/P300-P339-LLFCs-and-dummy-SSC-TPRs.xlsx>

decision separately to Ofgem’s ECO3 improving consumer protection consultation decision. The ‘Final Administrative Approach’ below should be used as guidance for calculating electricity and gas supply volumes for phases 3 and 4. We are also aiming to publish our final ECO3 Guidance: Supplier Administration early in January to reflect these changes.<sup>5</sup>

- 2.10. Finally, whilst there may be changes to the MHHS leading to the requirement of a new approach to calculating supply volumes we remain content that there is value to providing this updated methodology whilst keeping the situation under review. Should any further changes to the ECO3 supply volume methodology be required we would provide further guidance.

### **Gas supply**

- 2.11. Stakeholders were supportive of the changes outlined in the consultation, including the use of Rolling AQ as the source for calculation.

## **Final Administrative Approach**

- 2.12. The approach to calculating gas and electricity supply volumes will be changed for phases 3 and 4 of ECO3 to include half hourly settlement data. To calculate the amount of electricity supply, suppliers should use the methodology below.
- 2.13. We have been alerted to two separate valid approaches to determining domestic supply for customers who have half hourly settlement data. Whilst the data can be found within the D0296 ‘Supplier BM Unit Report’ for ease of simplicity we will use only the D0030 ‘Aggregated DUoS Report’ for our methodology.
- 2.14. The reason for this is purely because it is already being utilised by energy suppliers for their supply volume methodology for ECO up until now, but also because they must continue to use it for Profile Classes 1 and 2. As such it should make it easier for both suppliers and auditors.

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<sup>5</sup> <https://www.ofgem.gov.uk/publications-and-updates/energy-company-obligation-2018-22-eco3-guidance-supplier-administration>.



### **Methodology for calculating the amount of electricity supply**

- 2.15. ELEXON settlement data should be used for all notifications, given its acceptance for settlements data across the industry.
- 2.16. Suppliers should provide the total kilowatt hours (kWh) delivered to:
- a) customers on Profile Classes 1 and 2; and
  - b) domestic customers on Profile Class 00.
- 2.17. 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.
- 2.18. 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 provided to both suppliers and Licensed Distribution System Operators (LDSO). This D0030 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.
- 2.19. For domestic customers in Profile Class 00, to identify the total kWh, suppliers must use the D0030 'Aggregated DUoS Report' data. Metering systems should be selected corresponding to the 'LV Domestic tariff' Line Loss Factor Class (LLFC) within each GSP Group mapped out in the P300-P399 LLFC IDs document.<sup>6</sup>
- 2.20. When notifying electricity supply on 1 February for the relevant qualification year, suppliers should use the table below to determine the associated settlement runs for each month of reporting.

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<sup>6</sup> <https://www.elexon.co.uk/wp-content/uploads/2015/01/P300-P339-LLFCs-and-dummy-SSC-TPRs.xlsx>.

**Table 1: For final reporting on 1 February, suppliers should use extracts from the Elexon/EMRS for complete months containing the following settlement runs:**

Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
R3	R3	R3	R3	R3	R3	R2	R2	R2	R1	R1	SF

### Calculating gas supply

To calculate the amount of gas supply, suppliers should use the methodology below.

#### *Methodology for calculating the amount of gas supply*

2.21. The aggregated Annual Quantity (AQ) is the estimated annual gas consumption of a customer over a year under seasonal normal conditions. AQ's are calculated each AQ calculation month by Xoserve in consultation with Gas Shippers and should be used as an approximation of gas delivered to domestic customers during the qualification year.

2.22. A supplier should complete the template, sent by us, to report the aggregated AQ of its domestic customers at the following five points in time, for the relevant qualification year (ie 2017, 2018, 2019 or 2020):

- 1 January
- 1 April
- 1 July
- 1 October
- 31 December

2.23. The parameter required to be reported 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>7</sup> Values of Formula Year AQ are not to be used in the calculation of the aggregated AQ.

- 2.24. Suppliers should then calculate the mean of the five aggregated AQ values for a relevant qualification year and include this in the template provided. The mean of the five AQ values is the amount of gas supply for that supplier.

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<sup>7</sup> <http://www.gasgovernance.co.uk/TPD>

### 3. Appendix 1

#### List of respondents

1. Elexon
2. Scottish Power
3. EDF Energy
4. Npower
5. SSE