

# 280/11 - PROPOSED APPROACH TO PROVIDING METERED DATA FOR CALCULATION OF FINAL CONSUMPTION LEVIES

**MEETING NAME** BSC Panel

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**Purpose of paper** For decision

**Classification** Public

**Summary** This paper proposes that ELEXON (as BSCCo) should consult interested parties on implementing new processes (under BSC governance) to ensure that Final Consumption Levies (FCLs) are not charged on imports to licensed (but Exemptable) generation. This would bring FCL charging processes in line with the BEIS/Ofgem Smart Systems and Flexibility Plan (published in July 2017). The paper also highlights related issues around network charging and exempt supply.

## 1. Background and summary of issue

- 1.1 One of the key purposes of the Balancing and Settlement Code (BSC), according to Condition C3 of the [Transmission Licence](#), is the “*determination and allocation to BSC Parties of the quantities of electricity delivered to and taken off the total system*”. The aggregated metered data provided by these allocation processes are used for purposes of imbalance Settlement in accordance with Section T of the BSC; but they are also provided to external parties for use in calculating various other charges:
- The Transmission Company and Licensed Distribution System Operators (LDSOs) receive aggregated metered data which they use for calculating network charges; and
  - Suppliers and Electricity Market Reform (EMR) Settlement Services Providers<sup>1</sup> receive aggregated metered data which they use for calculating final consumption levies (FCLs). For example, the CFD Settlement Services Provider uses aggregated metered data received from BSC processes to calculate Contract for Difference (CFD) levies<sup>2</sup>, while Suppliers use it to determine the supply volumes they report to Ofgem E-Serve for purposes of the Renewables Obligation (RO)<sup>3</sup>.
- 1.2 The ability of Suppliers and EMR Settlement Services Providers to rely on BSC data for purposes of FCL charging has been affected by the publication last year of the Department for Business, Energy and Industrial

<sup>1</sup> “EMR Settlement Services Provider” is a BSC term covering both the CFD Settlement Services Provider, who operates CFD settlement processes on behalf of the Low Carbon Contracts Company (LCCC); and the CM Settlement Services Provider, who operates Capacity Mechanism (CM) settlement processes on behalf of the Electricity Settlements Company (ESC). Both roles are currently performed by EMR Settlement Limited (EMRS), a wholly-owned subsidiary of ELEXON.

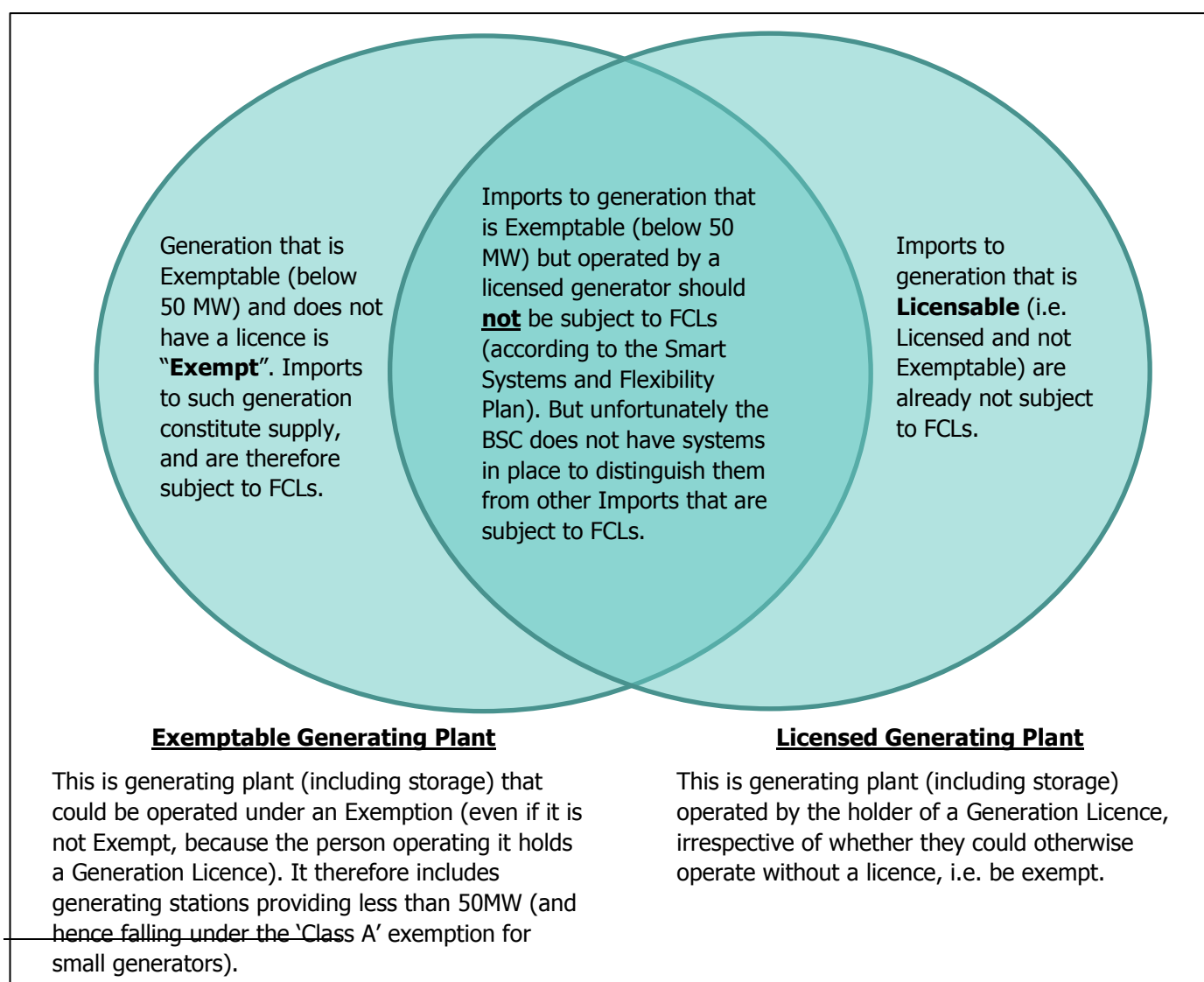
<sup>2</sup> Using BSC data is a requirement of [The Contracts for Difference \(Electricity Supplier Obligations\) Regulations 2014](#), which requires each Supplier’s Daily Contributions and Quarterly Contributions to be calculated from “*the amount of electricity which the BSCCo determines was supplied by that supplier*”.

<sup>3</sup> Using BSC data is a recommendation of the [Renewables Obligation: Guidance for Suppliers](#), which states that “*In order to maintain a consistent basis of measurement amongst suppliers, Elexon settlement data is considered the standard for settlements data across the industry, which provides a consistent basis on which all suppliers can report*”, and recommends that all submissions should be based on ELEXON data.

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Strategy (BEIS)/Ofgem [Smart Systems and Flexibility Plan](#). This document made clear that BEIS and Ofgem interpret the definition of 'supply' in the Electricity Act as meaning that electricity Suppliers are not required to pay FCLs on electricity supplied to operators of licensed generating units (including licensed electricity storage).

- 1.3 This interpretation is not an issue for generating stations that are "**Licensable**" (typically 50 MW or above). However, the BSC does not currently include processes to identify electricity supplied to generation that is below this threshold ("**Exemptable<sup>4</sup> Generating Plant**"), but operated by a generation licensee. Imports to such generation would not be separately identified in the data flows sent by BSC Agents to EMR Settlement Services Providers, and these imports would therefore be charged CFD and CM levies (contrary to the policy position stated in the Smart Systems and Flexibility Plan). This is likely to be a particular barrier to licensed (but Exemptable) storage, and was identified as such in Panel paper [279/14](#) ('Potential BSC Impacts of New Technologies and Business Models') presented to the Panel on 14 June 2018. The Venn diagram below summarises this:



<sup>4</sup> The BSC uses the term "Exemptable", while the Connection and Use of System Code (CUSC) uses the term "Exemptible", but the two are equivalent.

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## 2. How can this issue be solved?

- 2.1 We believe there are three potential approaches to developing and implementing a solution to this issue:
- A **BSC-led approach**, in which BSC Agents are required to develop and implement (under BSC governance) processes for calculating how much of the total electricity taken off the system by each Supplier was used by licensed generation. This additional information would then be included on data flows sent to Suppliers and EMR Settlement Services Providers in order to allow correct charging of FCLs;
  - An **LCCC-led approach**, in which LCCC would instruct their service provider (the EMR Settlement Services Provider) to develop and implement the required processes; or
  - A **Supplier-led approach**, in which individual Suppliers devise their own processes for calculating how much electricity they had supplied to licensed generation, and then provide this data to EMR Settlement Services Providers for purposes of EMR charging.
- 2.2 Section 3 below summarises the key processes which would need to be included in any solution (regardless of which of the three implementation approaches was chosen), while section 4 below compares the pros and cons of the three implementation approaches.
- 2.3 As described in section 4 below, a pure LCCC-led or Supplier-led approach is unlikely to be consistent with the legal requirements on LCCC to use BSC data to calculate charges. We understand from LCCC that they would at most consider developing and implementing interim processes to support the timely implementation of the policy intent whilst a BSC-led solution was implemented.

## 3. Key features of the required solution

- 3.1 We believe that a process for determining how much electricity each Supplier had supplied to licensed generation would need to include the following features (regardless of whether it was developed by BSC Agents, the EMR Settlement Services Provider or individual Suppliers):
- 3.1.1 A process for **identifying the relevant meters** i.e. those recording imports to licensed generation (which are not subject to FCLs). We believe the detailed requirements for doing this will depend on the type of licensed generation being operated at the site:
- For licensed generation that is not storage, it depends on what other demand (if any) is located on-site. If the site has no end-use demand (other than auxiliary equipment necessary to operate the licensed generation) all of the Imports identified on the Supplier's Boundary Point Metering System can be treated as not subject to FCLs. But if the site does include other demand (e.g. factories or commercial properties), sub-metering (located 'behind the Settlement Meter') will be required to identify those Imports that were supplied to the licensed generation (and hence not subject to FCLs);
  - For licensed storage we believe similar principles may apply, but the details will not be clear until Ofgem has published a decision on its October 2017 consultation, '[Clarifying the regulatory framework for electricity storage](#)'; and
  - Sites that have both licensed storage and other licensed generation may pose particularly complex issues, but again the details may depend on the outcome of the Ofgem consultation.
- 3.1.2 A process for **providing metered data** (from the relevant Meters) to the relevant party (i.e. BSC Agent, EMR Settlement Services Provider or Supplier); and
- 3.1.3 A process for **aggregating metered data** to determine how much electricity each Supplier has provided to licensed generation. This process will need to be capable of handling Change of Supplier events.

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## 4. Pros and cons of different implementation approaches

- 4.1 From a governance and assurance viewpoint, we believe a BSC-led approach has significant advantages over an LCCC-led approach, which itself has significant advantages over a Supplier-led approach:
- A BSC-led approach would be most consistent with the requirement (in the CFD Regulations) for Suppliers to be charged based on “*the amount of electricity which the BSCCo determines was supplied by that supplier*”. It is therefore possible that the BSC-led approach is the only one that could be delivered without changes to secondary legislation;
  - A BSC-led approach could be developed through the BSC Modification process, providing a process for Suppliers and other interested parties to discuss and agree the detail of the solution;
  - A BSC-led approach would ensure transparency of process, with all Suppliers knowing the processes used to calculate EMR charges. An LCCC-led process could also be transparent, but a Supplier-led process would not be. Suppliers would not be clear on the mechanisms their competitors were using to exclude certain imports from FCL charges (and would be potentially disadvantaged if particular competitors took a more lax approach to verifying which imports they treated as not subject to FCLs); and
  - A BSC-led process would provide a contractual mechanism for appropriate assurance techniques to be put in place. For example, a BSC Modification could (if Parties and Ofgem believe it to be appropriate) require that sub-metering used for FCL charging purposes was subject to Technical Assurance, or that Suppliers who wrongly identified Meters as recording imports to licensed generation should be required to pay liquidated damages (Supplier Charges). The LCCC-led or Supplier-led approaches would not provide a contractual framework for implementation of such assurance techniques. In the LCCC-led solution some form of assurance requirements would need to be defined, however it is not currently clear how and if this can be done robustly.
- 4.2 The main disadvantage of the BSC-led approach is that it would take longer to deliver. For example, the solution would require a mechanism for BSC Agents to obtain metered data from sub-Meters located ‘behind the Settlement Meter’. Such a mechanism does not yet exist, although the Workgroup looking at [Issue 70](#) (‘Settlement of Secondary BM Units using metering at the asset’) will meet on 11 July 2018 to consider how one could be introduced. For this reason it may not be appropriate even to raise a BSC Modification Proposal until the Issue 70 Workgroup has identified an approach to bringing sub-metering within the scope of the BSC.
- 4.3 In contrast, LCCC may be better placed to deliver a solution in shorter timescales. They already have a mechanism in place for data collectors to send data from sub-meters to the EMR Settlement Services Provider, and systems to aggregate such data. However, a pure LCCC-led model would potentially require changes to the Supplier Obligations, which seems very unlikely.
- 4.4 For this reason, we propose that the best solution is a hybrid model, delivered under BSC governance, but with ELEXON and LCCC (and their service providers) cooperating to deliver an interim solution (using a mix of BSC and EMR systems and processes) until a more enduring BSC process can be put in place. We believe (subject to more detailed impact assessment) that a hybrid model could be delivered significantly earlier than an enduring BSC solution (building upon the solution to Issue 70, and other system changes currently being developed), which is unlikely to be deliverable until 2020.
- 4.5 While we believe a Modification Proposal would be appropriate to deliver the enduring BSC solution, we do not believe one would necessarily be required for the interim solution. There are existing requirements in [BSC Section V 'Reporting'](#) 5.2.1 and 5.3.1 that ELEXON “must provide, or procure that a BSC Agent provides, such data, information and reports” as are required to meet legal EMR obligations. These potentially already

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require ELEXON to provide the data needed by EMR Settlement Services Providers to correctly charge the CFD and CM levies.

## 5. Next steps

5.1 In order to progress this hybrid solution, we propose that:

- ELEXON, LCCC and EMRS continue to discuss the options for solving this issue using a 'hybrid approach' (delivered under BSC governance but making use of some EMR systems and processes until an enduring BSC solution can be put in place); and
- In parallel ELEXON (as BSCCo) consults with BSC Parties and other interested parties (e.g. licensed generators) on whether they support this hybrid approach, and on the longer term BSC-led approach.

5.2 Because the detail of the required interim solution depends upon the conditions included in Ofgem's new storage licence, we propose not to consult until Ofgem has published its conclusions on '[Clarifying the regulatory framework for electricity storage](#)'. We understand this is expected within the next month or so. Having completed the consultation we would bring the responses back to the BSC Panel for a decision on whether to proceed with the hybrid solution. The responses will naturally be shared with LCCC and Ofgem to ensure clarity around the solution approach.

5.3 We propose that the consultation would also seek views on:

- The number of sites which are likely to make use of an interim solution, and their complexity. The higher the volume and complexity of sites using the solution the more automation is likely to be appropriate;
- The generation technology of the sites (e.g. storage, wind, diesel); and
- What assurance techniques could appropriately be included in the interim and/or enduring solution (e.g. technical assurance to verify that the correct assets are being metered).

## 6. Related issues – network charging and exempt supply

6.1 Although the primary focus of this paper is charging of FCLs for licensed generation, this section of the paper briefly touches upon two related issues: transmission charges for licensed generation, and FCLs for exempt supply.

6.2 A CUSC Workgroup is currently consulting on a solution to [CUSC Modification Proposal CMP280 'Creation of a New Generator TNUoS Demand Tariff which Removes Liability for TNUoS Demand Residual Charges from Generation and Storage Users'](#). The proposed solution applies only to generation registered in Central Volume Allocation (CVA), and not to generation registered in Supplier Volume Allocation (SVA), on the basis that developing an SVA solution would take longer.

6.3 ELEXON is concerned that this approach could lead to similar power stations facing very different network charges, based purely on which BSC arrangement (CVA or SVA) they have chosen to register their Meters in, which appears arbitrary and unfair (as well as creating artificial incentives to register in CVA rather than SVA). We think it may be possible to deliver a solution including at least some SVA sites without causing undue delay, possibly by building on the interim solution discussed in this paper (which will provide a mechanism for identifying imports to licensed generation). We therefore intend to respond to the CMP280 Workgroup Consultation explaining the above points and requesting the Workgroup to consider a Workgroup Alternative CUSC Modification (WACM) that does not discriminate between generators based on whether they are registered in CVA or SVA. It would then be up to the Workgroup to decide whether to take forward our suggestion.

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- 6.4 As explained in Panel paper [279/14](#) ('Potential BSC Impacts of New Technologies and Business Models'), electricity supplied by community energy schemes (under the Class A exemption for small Suppliers) is not liable for FCLs, even if the supply is facilitated by a licensed Supplier. Currently, BSC processes cannot distinguish these supplies from those supplied by the licensed Supplier, which causes them to be included in the CFD and CM charges invoiced to the licensed Supplier. We propose that our consultation will also seek views on whether a BSC solution is required to address this issue.

### 7. Recommendations

7.1 We invite you to:

- a) **NOTE** that BSC processes cannot currently identify electricity supplied to Licensed Exemptable generation, and as a result these imports are charged CFD and CM levies (contrary to the position stated in the BEIS/Ofgem Smart Systems and Flexibility Plan);
- b) **NOTE** that ELEXON, LCCC and EMRS are discussing how this issue could be solved using a hybrid approach, delivered under BSC governance but making use initially of EMR systems and data flows;
- c) **AGREE** that ELEXON should consult BSC Parties (and other interested parties e.g. licensed generators) on whether they support this hybrid approach (and the other points described in paragraphs 5.3 and 6.4 above), and bring the responses back to the BSC Panel for a decision; and
- d) **AGREE** that the consultation should be issued as soon as possible after Ofgem has published its decision on 'Clarifying the regulatory framework for electricity storage'.

#### For more information, please contact:

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