ELEXON

Targeted Charging Review (TCR) – Background, Risks, Mitigations and proposed next steps

BSC Panel

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Summary **This paper provides the Panel with an update on the progress made with the TCR implementation, Risks, Mitigations and proposed next steps.**

1. TCR Background

1.1 As a result of the Ofgem Targeted Charging Review (TCR) and the Significant Code Review (SCR), Licenced Distribution System Operators (LDSOs) covers all Distributor Network Operator's (DNO's) and Independent Distribution Network Operators (IDNOs) who need to add ~19,000 new Line Loss Factor Classes (LLFCs) (increasing from the current ~16,000 to ~35,000) and ~262,000 valid set combinations (increasing from the current ~208,000 now to ~470,000) into the Market Domain Database (MDD) by April 2021. These would be used to identify the new network charging categories under the TCR.

1.2 Elexon has been working with LDSOs, Ofgem and the Energy Networks Association (ENA) since December 2019 on the implementation of the TCR. As part of the initial solution design and planning in December 2019 and January 2020, and through the Distribution Connection Use of System Agreement (DCUSA) and Connection and Use of System Code (CUSC) modification processes in February and March, Elexon advised industry that it may be better to consider creating new registration items rather than relying on LLFCs. LDSOs and some Suppliers considered that there wasn't sufficient time to develop dedicated registration details and that using LLFCs would be a pragmatic approach.

1.3 In March 2020 (at the time of the DCUSA and CUSC discussions), an early estimate of the likely impact on LLFCs could not be accurately quantified. However, it wasn't until June 2020 that the LDSOs were in a position to share more detailed requirements with Elexon and Elexon was able to assess and understand the scale of the LLFC MDD challenge.

1.4 Elexon and the LDSOs have been working together and have agreed to stagger MDD/TCR Change Requests (CRs) to spread the manual load of processing such volumes throughout the second half of 2020 to March 2021. The plan to stagger MDD CRs was necessary in order to manage the risks of the manual data entry process, which we are having to use due to the sheer volume of changes per CR. Nevertheless the plan was very high risk and with very little contingency – it relied on LDSOs committing to volumes and timelines agreed and our Service Provider providing the support to deliver.

1.5 Only manual data inputting processes exist to manage these volumes, so it was agreed that Elexon would secure additional FTE resource through the contract with our Service Provider, to initially manage the agreed plan, in parallel with Elexon working with our Service Provider to see what automation options were available and worked through some Proof of Concepts (PoC).

1.6 As part of our planning work during Summer 2020, it became apparent that whilst DCUSA and CUSC had consulted industry on the related TCR Modifications and the proposed changes to their Codes, the

consultations had not described the proposed solution in detail nor sought specific views on increasing the numbers of LLFCs used to support the new DUOS and TNUOS charging arrangements. Consequently risks to Settlement (Central Systems and participants' systems and processes) were not identified. In August 2020, Elexon published a Request for Information (RFI) to collect industry views on the impacts of increasing the numbers of LLFCs and Valid Sets in MDD.

1.7 20 Parties responded, 19 of these responded by the deadline. This was made up of:

- 4 Supplier Agents;
- 5 Suppliers;
- 4 Supplier/Supplier Agents; and
- 6 Distributors.

1.8 From the 19, 17 respondents stated that they would like industry testing to be completed. This was made up of:

- 4 Supplier Agents;
- 4 Suppliers;
- 4 Supplier/Supplier Agents; and
- 5 Distributors.

1.9 In accordance with the plan agreed with LDSOs, Elexon followed the normal MDD CR process and took the first four TCR MDD CRs to the Supplier Volume Allocation Group (SVG) in September 2020. Elexon highlighted the responses from the RFI. The SVG voiced concern about the potential impacts on Settlement and that they may not have the vires to consider non-Settlement related arguments for approving the CRs. The SVG were unable to make unanimous decision[1] which meant that the MDD CRs were referred to the Panel.

1.10 At its September meeting (paper 306/05), the Panel approved two of the four proposed MDD/TCR CR's, deferring the CRs that were only TCR related until industry, and Central System testing could be completed. The Panel were also concerned about the potential impact on Settlement and industry's request for testing. Elexon had advised the Panel that it was working with its Service Providers to test Central Systems and facilitate industry-wide testing, and that two of the MDD CRs included more urgent, non-TCR changes, which if approved, would be unlikely to cause MDD and LLFC datasets to reach a critical size.

1.11 On 2 September 2020, Elexon raised a formal CR with its Service Provider to test Central Systems and to produce test files to support industry testing. On 29 September 2020, Elexon received a proposed testing approach from its Service Provider. This process took longer than normal due to the complexity of the request and a number of clarification meetings that took place. Elexon have since received a formal Impact Assessment (IA) response from both impacted Service Providers.

1.12 The TCR Steering Committee, held on 29 September 2020, which was hosted by the ENA and attended by most LDSOs, NGESO and Ofgem, raised concerns that Elexon's plans for testing Central Systems and facilitating participant testing remained uncertain, following the Panel's decision on 11 September 2020 to defer decisions on MDD CR necessary to implement Ofgem's TCR SCR.

2. Progress to date

2.1 A paper was taken to the Elexon Executive Team on the 12 October 2020 to provide an update on the progress, risks, and mitigations, to obtain agreement on the proposed approach and a communication plan. It was agreed that the Executive would be engaged in meetings with ENA and Ofgem to highlight senior level commitment.

2.2 On 13 October 2020, the first meeting with ENA and Ofgem took place to provide an update on progress, approach and agreement on how parties could work effectively together to deliver the TCR; participants had a discussion about aligning the plans between all parties to share with DNO's and IDNO's. All meeting participants believed that the meeting was useful and that it would be beneficial to hold them frequently, therefore the meetings are now being held fortnightly. In addition Elexon and ENA are meeting on a weekly basis to review progress, improve transparency and share updates and any issues.

2.3 The Participant Management Team are now joining the Design Authority Team at the weekly TCR Implementation Steering Group. This group is made up of LDSO's, Ofgem and ENA. Elexon have also provided an update at the I&C Only Shipper and Suppliers Forum (ICoSS), with positive feedback received from these

[1] All SVG Members except the one Member voted to reject the MDD CRs.

groups about the progress we have made recently. We are providing regular updates via Newscast and on the Elexon website and are sharing these with the groups as a reference point. In addition we are seeking a meeting with Energy UK's members to provide them with a similar update.

2.4 The October MDD publish included ~26,500 TCR LLFCs, which were approved by the Panel in their September 2020 meeting, in addition to BAU CR's, that were approved by SVG. The October MDD was published on 14 October 2020 with a go-live date of 21 October 2020. Elexon communicated with industry via Newscast on 19 October 2020 and have a dedicated area (MDD Webpage) on the Elexon website to provide updates regarding the increase publish and requested that Parties contact us if any issues arose; as yet we have not been made aware of any.

2.5 At its 6 October 2020 meeting (SVG236), the SVG approved one of the three proposed MDD/TCR CRs, which contained ~39,000 LLFCs, which is due to go-live on 18 November 2020. This and October's volumes equate to approximately 25% of the total expected LLFC volumes. We are currently "working at risk" by adding the current volumes into the live MDD system, without completing capacity testing first, but at this stage we believe the risk is small as it is limited to the MDD system and file generations, which are monthly, and Elexon's Internal Applications for the generation LLF (D0265) files; Elexon are ensuring that we monitor progress/performance of these files/systems.

2.6 Elexon has now received a formal IA from its Service Providers with regards to industry testing. This is being reviewed internally and comments/observations are being raised/addressed.

2.7 No TCR CRs were taken to the 3 November 2020 SVG meeting. This was due to Elexon already communicating the Committee's previous decision to Parties and to provide Elexon with more time to progress industry testing and to monitor the impact on the increase MDD publishes from October and November.

2.8 At the 3 November 2020 SVG meeting (SVG237) Elexon shared its proposed approach, which is to take the remaining DNO TCR CRs for approval to the 1 December 2020 SVG meeting (for go live in January 2021), in parallel to running industry testing and based on the performance of both the October and November MDD publishes. The CR's to be published in January 2021 would include ~29,000, excluding any BAU MDD CR's. The SVG was concerned that they would be expected to approve the CR's without understanding the capacity of the systems and therefore the associated risks. The SVG challenged the number of LLFC's that the IDNOs are proposing compared to the DNO's (IDNOs have currently indicated ~190,000 combinations compared to DNO's ~95,000, these figures are being updated every time we receive a TCR CR). We have raised the IDNO volume question at the TCR Steering Group and a member has offered his help and support to understand and validate the reasons for the disparity in DNO/IDNO combinations. Separately we are also asking the IDNOs if all of their combinations are actually required.

2.9 If we can obtain approval for the DNO CRs in December based on a risk based approach, it would provide maximum benefit to the progression of the TCR project. Those CRs seeking approval equate to 10.97% of the total combinations needed to be entered into MDD would be live from 1 April 2021, equating to 98.6% of the transfers needed for the TCR. The ENA and LDSO's believe that this is the correct approach and are supportive of it. This would help enable Elexon time to compete the majority of industry testing prior to approving the larger scale IDNO applications.

2.10 Once we are clear on the cost and the duration of industry testing we would then be able to plan when the IDNO LLFCs could be progressed – ENA who represent the DNO's and some of the IDNO's are supportive of this pragmatic approach, as IDNOs account for a small proportions of the MPAS transfers that they would be required to make.

3. Risks and Mitigations

3.1 MDD data entry is a substantially manual process, with short turnaround timescales, and therefore runs the risk of manual errors. The mitigations that Elexon have put in place are to work proactively with the DNO's and IDNO's to agree a staggered submission plan, acquired additional dedicated FTE resource for this work, and extended the timescales for the data entry of the TCR submissions. In parallel, we are progressing a PoC proposal from its Service Provider to automate a number of the forms to reduce both manual entry (and possible error) and help reduce timescales. We also have raised a Change Proposal (CP) to allow the automation of the MDD Entity forms in parallel, but this is dependent on the IA and understanding the costs and timescales, as this information is required in order to consult with industry.

3.2 It is important to highlight that we are working effectively with DNO's to manage the TCR CR's separately from BAU CR's, but if it was decided that not enough progress was being made, there is nothing within the BSC or BSCPs to prevent Parties from submitting all LLFC's as BAU in one CR which we would need to progress.

3.3 The volume of LLFC's are doubling by ~ 262,000 valid combinations, in a relatively short period of time. This excludes any BAU CR's that will impact either MDD or LLFC volumes (Elexon are unable to easily predict these BAU volumes). Elexon's Service Providers have highlighted that they have not previously completed performance/capacity testing for these significantly increased volumes on the systems, so this is an area of concern/high risk (although the flows that will be impacted immediately would be the D0269/D0270 (MDD) and the D0265 (LLF's)). Some testing has been completed on the D0265's and although it takes slightly longer to run, so far there has been no others issues found and the majority of the data will not be utilised or start impacting Central Systems until April 2021.

3.4 Elexon raised the RFI in August 2020 to ensure that industry were also aware of the volumes and that their systems had the capacity to manage and to try to highlight any associated risks. Industry systems, Central Systems and Internal Applications testing is needed to properly understand if there are impacts to Settlement processes for our customers, for example in handling the larger Settlement (including MDD file) reports. The mitigations that have been put in place were to raise a CR for testing, with both Service Providers. Elexon has received both IA's and are working through to validate them. It is also important to mention that both Service Providers will be working collaboratively to support this testing.

3.5 The MDD (D0269) file is only an incremental update file so after the TCR deadline is met, we will revert to just BAU volumes, whereas the D0270 will continue to increase, as it provides the aggregated view. We will look to complete an Annual clear down but until we assess the potential opportunity, this may not make much of an impact on file/volumes sizes, so could have an ongoing impact to industry and Central Systems if they utilise/produce the D0270.

3.6 The vast majority of the TCR related data will be effective from 1 April 2021, therefore we won't know until that point if the utilisation of the new LLFCs will create issues in the creation, sending, loading and processing of other Settlement data and data flows that will utilise the new LLFCs. The purpose of central and participant system testing being planned is to determine if there will be issues before they occur in live systems.

3.7 The proposed PoC proposal from Elexon's Service Provider is currently in progress and Elexon are validating the Business Requirements provided, and will look to raise a CR in line with industry testing, to understand the cost and timescales to deliver this option. Elexon have a draft CP to be progressed to allow the automation of MDD, but it requires cost and timescales to be determined in order to consult with industry on the proposal. This would help mitigate the manual entry of some of the entity forms, hence reduce the risk of manual error and timescales to process. MDD is an ageing method of storing industry reference data, and continues to be used beyond its original purpose. It is likely to be significantly impacted by Market wide Half Hourly Settlement (MHHS). Elexon will need to consider the cost benefit of investing in this legacy system.

3.8 With industry testing and the PoC progressing, there will be an impact on current resource allocations both on Service Providers and Elexon perspectives. There will also be an impact on how we prioritise current projects and utilise test environments.

3.9 The current deadline remains with an Effective Date of 1 April 2021. DNO's and the ENA have suggested that this date may be able to be moved for IDNOs which contain the vast majority of the MDD data. The DNOs and ENA have been asking for Elexon to re-plan. The issue we face is that until we understand the duration of industry testing, the results and impacts on our systems and our customers (and what times we could commit to), it is unclear how Elexon could agree to deliver any revised plans. Elexon continues to work productively with the ENA, DNOs and SVG to progress and plan these changes.

3.10 Elexon intends to seek approval for the remaining DNO CRs at the December SVG and Panel Meetings (1 and 10 December 2020 respectively) for January MDD publish. This is based on a low risk-based approach for implementation based on the volumes that will have been published in previous versions of MDD. The November publish Version 304 will include 39,020 LLFC & combinations, in addition to any BAU CR's that were approved. Elexon believe this provides assurance to the Committees to progress with the DNO CR's which will be ~29,000 LLFC combinations in the January 2021 MDD publish. This would also provide maximum benefit to the progression of the TCR project.

4. Next steps

4.1 Our proposed next steps are as follows:

- Progress the PoC CR and Change Proposal;
- Progress the IA's for Industry Testing; and
- Seek approval for DNO CRs at SVG/BSC Panel at December meetings.

5. Recommendations.

a) **NOTE** the update provided;

b) **NOTE** that Ofgem, ENA and DNO's may escalate due to the slow progress of industry testing or if we do not progress the outstanding LDSO TCR CR's; and

c) **COMMENT** on the proposed approach for the remaining LDSO submissions.

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