ELEXON

Issue Report

Issue 104 ‘Extending RTS Cost Recovery Arrangements Under the BSC’

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- *You can find the definitions of the terms and acronyms used in this document in the BSC Glossary*

This document is the Issue 104 Group’s Report to the Balancing and Settlement Code (BSC) Panel. Elexon will table this report at the Panel’s meeting on 12 January 2023.

There are two parts to this document:

- This is the main document. It provides details of the Issue Group’s discussions and proposed solutions to the highlighted issue and contains details of the Workgroup’s membership.
- Attachment A contains Issue 104 Proposal Form.

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1. Summary

Elexon raised Issue 104 on 26 October 2022 to re-confirm that continuing to pass the operational costs for the Radio Teleswitch Service (RTS) service through the BSC is the right thing to do.

During the Workgroup discussion, Elexon presented two solution options:

1. Continue to recover operational RTS costs through the BSC as a BSC Cost (as per the current arrangement, roughly 50% on Suppliers, 50% on Generators).

2. Modifying how RTS costs are recovered under the BSC. This could be for example:

- proportionately across all Suppliers; or,
- by Suppliers on an RTS market share basis (with a clear definition of what this entails).

Background

The current arrangements to recover the RTS operational costs through the BSC were agreed during Issue 84 'Enable the cost recovery of the Radio Teleswitch Service (RTS) arrangements extension'1 in September 2019. Elexon subsequently modified an existing contract with the Electricity Networks Association (ENA) to pass through RTS costs as 'BSC Costs'. The contract expires on March 2023, so there are no provisions to continue to pass the operational RTS costs through the BSC past this date.

However, replacing RTS Meters with new Smart Meters that can fulfil the RTS functionality has been slower than anticipated, and Suppliers now need the RTS signal until March 2024. However, since the BSC pass-through operational costs are rising from c.£1.5m to c.£5m, Elexon wished to re-establish industry support to keep passing RTS costs through the BSC from April 2023 until March 2024, and confirm how the costs should be apportioned.

Conclusions

During Issue 104, the Workgroup (WG) considered potential solutions for recovering RTS costs and agreed on the following:

- Extending the current arrangements for an extra year to be the most efficient solution.

- Elexon circulated an Industry Survey to gain a broader perspective on the Issue as it was noted that the WG composition was weighted towards Suppliers and input from the wider industry was sought, including Generators. The results were aligned to the discussions within the WG.

- The WG acknowledged that the customers were the main beneficiaries of the RTS network and noted the importance of ensuring there was continuity until a

[1] https://www.elexon.co.uk/smg-issue/issue-84/

replacement is in place. The Workgroup noted that industry has the right motivations to ensure a switch away from RTS by March 2024.

- Further detail and justification for these conclusions can be found in sections 3 and 4 of this paper.

2. Background

The RTS uses the BBC's long wave Radio 4 service infrastructure to send radio signals to consumer's premises that facilitate remote load management on Radio Teleswitch devices (primary load heaters and hot water boilers).

The system relies on a chain of messages, rules and contractual agreements among Suppliers (acting as group code sponsors), Licensed Distribution System Operator ((LDSO) acting as access providers), ENA and the BBC. Suppliers use the signal to switch many metering systems between peak and off-peak rates and LDSOs manage the RTS system on their behalf.

Prior to Issue 84, in Open Letters[2] on 15 May 2018 and 16 June 2019[3], Ofgem reminded Suppliers and Network Companies of the need to '…identify and develop solutions for customers whose metering currently uses the Radio TeleSwitching system, ahead of the service ending post-2020.'[4]

However, the Industry identified that the full range of relevant Smart Meter variants was not yet available to meet the 2020 deadline, and SSE raised Issue 84 to consider options to enable the recovery of RTS costs from 1 April 2020 onwards. As a result, ENA agreed to extend the contract with the BBC and modify an existing contract with Elexon, from 1 April 2020 to 31 March 2022. Due to Covid, and the continued challenges around replacing RTS Meters, Elexon, the ENA and BBC agreed to extend the contractual terms until 31 March 2023. The Elexon-ENA contract allows passing through the RTS operational costs as 'BSC Costs'.

We note that as the Elexon-ENA contract is pass-through, Elexon has no control over the total costs, which are agreed between the ENA and BBC. However, it is important to note that due to the BBC's governance arrangements, it is unable to make a profit or loss on the contact it has with the ENA.

On 29 March 2022, Ofgem published a new Open Letter[5] restating that the BBC's '…technology which operates the Radio Tele Switch meters (RTS) is scheduled to be switched off in March 2023.'[6] Industry noted that due to the Covid-19 Pandemic, the immaturity of relevant Smart Meter variant availability, the rollout has been slower than intended and the RTS solution is still needed until 31 March 2024. Therefore, industry needs the ENA-BBC contract and the cost recovery arrangements to continue for an extra year (until 31 March 2024).

Without the RTS service operating and without an alternative solution, it is highly likely that the way in which the existing Radio Teleswitch equipment operates will become very unpredictable, and in some cases, consumers could lose hot water and heating functionality, as the teleswitch devices rely on the long-wave signal to turn on and off.

[2] https://www.ofgem.gov.uk/sites/default/files/docs/2018/05/2018.05_open_letter_-_observations_from_rollout_plans.pdf
[3] https://www.ofgem.gov.uk/sites/default/files/docs/2019/06/2019.05_open_letter_2019_smart_rollout_plans.pdf
[4] Ofgem. (15 May 2018). Open Letter, P. 3. From: https://www.ofgem.gov.uk/sites/default/files/docs/2018/05/2018.05_open_letter_-_observations_from_rollout_plans.pdf
[5] https://www.ofgem.gov.uk/sites/default/files/2022-03/Smart%20Meter%20Open%20Letter%202022%20Final%20Draft.pdf
[6] Ofgem. (29 March 2022). Open Letter, P5. From: https://www.ofgem.gov.uk/sites/default/files/2022-03/Smart%20Meter%20Open%20Letter%202022%20Final%20Draft.pdf

What is the Issue?

During September 2022, BBC expressed that it could extend the contract with ENA, despite its longer-term strategy indicating an intention to move away from the use of long wave radio transmission. However, due to the rise in energy prices, it warned that the costs for continuing to facilitate RTS would increase from circa £1.5 to c.£5m per annum for the period April 2023 – March 2024. As noted previously, the BBC cannot profit or incur a loss from the RTS contract it holds with the ENA.

Since there is a considerable cost increase, Elexon wished to re-establish industry support for passing the RTS costs through the BSC from April 2023 until 31 March 2024 and confirm how the costs should be apportioned across Suppliers and Generators.

By raising Issue 104, Elexon presented two Solution Options:

1. Continue to recover operational RTS costs through the BSC as a BSC Cost (as per the current arrangement, roughly 50% on Suppliers, 50% on Generators).

2. Modifying how RTS costs are recovered under the BSC. This could be for example:

- proportionately across all Suppliers; or,
- by Suppliers on an RTS market share basis (with a clear definition of what this entails).

It is important to note that Elexon does not intend to recover the operational pass-through RTS costs on beyond 31 March 2024. Suppliers will need to take appropriate action to phase out the use of the RTS by 31 March 2024. Suppliers involved in this Issue 104 have confirmed the correct motivators are in place to ensure this is possible, as described in the Issue Group's discussion section of this report. Elexon intends to engage with Ofgem, Energy UK and ENA to ensure the Industry transitions away from the existing RTS infrastructure.

3. Issue Group's Discussions

Issue Group Meetings

There were two meetings for Issue 104 over the period 16 November 2022 to 14 December 2022:

Meeting 1[7] was held on 16 November 2022. The Issue WG discussions focused on RTS costs, the cost recovery mechanism and the incentives that Industry has to replace legacy RTS metering systems and move away from the RTS solution.

The WG discussed whether it is still appropriate for RTS operational costs to be passed through the BSC, and unanimously agreed that continuing to pass the operational costs through the BSC for a further year (until 31 March 2024) was appropriate. Since the majority of the WG participants represented Supplier organisations, Elexon noted that it would be prudent to circulate an Industry-wide survey to collect more responses from other impacted BSC Parties such as Generators, and any other interested stakeholders.

The survey was open from 25 November 2022 to 2 December 2022. Elexon contacted various Generators and sought engagement through the Operational Support Managers team to collect results as robust as possible.

The WG discussed the option 2.b) first and noted that it requires to develop a new funding mechanism that would be overly complicated, time consuming and costly to implement. It would also need an exit plan for the last Supplier to transition. Otherwise, the burden will be too costly. A WG member noted that customers could switch suppliers in 24 hours, which could add extra difficulties in calculating the monthly costs.

Furthermore, due to the ongoing debate about the accuracy of a fully utilised RTS being installed, it was noted that there is not enough independent, robust data to accurately administer solution 2. b). Thus, it was not reasonable for a further one year to take forward solution 2.b) as an option.

Finally, the WG voted on the remaining two solution options:

WG Voting Result			
Question	**Yes**	**No**	**Neutral**
Continue to recover operational RTS costs through the BSC as a BSC Cost (as per the current arrangement, roughly 50% on Suppliers, and 50% on Generators).	8	1	0
Modifying how RTS costs are recovered under the BSC proportionately across all Suppliers.	1	8	0

[7] https://www.elexon.co.uk/meeting/issue-104-workgroup-1/

Meeting 2[8] was held on 14 December 2022 where Elexon presented the results of the industry survey's and sought the Workgroups final views on the conclusions to come from Issue 104.

The survey included the following two questions:

1. Is it still appropriate for RTS operational costs to be passed through the BSC?
2. Should the RTS operational costs be allocated:
    a. According to current arrangements (approximately 50% Generators, 50% Suppliers); or
    b. 100% on Suppliers.

The table below outlines the results of the industry survey and its composition.

Industry Survey Result			
Question	**Yes**	**No**	**Neutral**
Is it still appropriate for RTS operational costs to be passed through the BSC?	9	0	1
Should the RTS operational costs be allocated according to current arrangements (approximately 50% Generators, 50% Suppliers)	7	2	1
Should the RTS operational costs be allocated 100% on Suppliers?	2	7	1

Industry Role	#
Supplier	5
DNO	2
Supplier and Generator	3
Total	**10**

Discussion: Issue 104 and incentives to move Industry from RTS

Elexon questioned whether the high costs of continuing with RTS costs are enough of an incentive for Suppliers to hasten the move away from the utilisation of the RTS.

The ENA explained how the BBC is under pressure to move away from long wave radio transmission in reasonable time, and an Ofgem representative reminded that it is the Suppliers' obligation to offer customers an alternative solution before the technology is switched off, or before there are no longer provisions for the continued use of the RTS.

Ofgem explained that there are existing licence obligations and Smart Meter roll out obligations to enforce the transition to Smart Meters. Despite the uncertainty around costs, all the WG members agreed that there were sufficient incentives on Suppliers to move away from the use of the RTS by 31 March 2024.

[8] https://www.elexon.co.uk/meeting/issue-104-workgroup-meeting-2/

Elexon highlighted that it does not intend to sign a further contract for the pass-through of RTS costs past 31 March 2024, which was acknowledged by the Issue Group members.

Active RTS meters

Since one of the Issue Solution Options required identifying the number of active RTS per Supplier, Elexon presented the following two methodologies behind its calculations and noted that they are unlikely to be 100% accurate and are to be treated as indicative:

- Supplier Volume Allocation Agent Extract – the RTS count is calculated from summing the 'Estimation of Annual Consumption (EAXC)' count and ' Annualised Advance' (AA) count for each Supplier, where the data is filtered by a Time Pattern Regime (TPR) to have a value greater than 00999 (RTS requirement)
    - Total number: 1,061,678
- Supplier Metering Registration System Extract – The RTS count is calculated from the count of MPANS filtered by SSC ids that have a value present for the Teleswitch User (TSU) or Teleswitch Group (TSG) id
    - Total number: 1,063,319

The WG explained that using Standard Settlement Class/Configuration (SSC) level information and Time Patterns Regimes (TPRs) are the most common methodologies among suppliers. Analysing the meter types (smart or traditional) is also used to identify the RTS meters.

It was discussed that there might be an element of double counting regardless of the methodology used. Therefore, Suppliers will need to review on a single-customer basis if an RTS is in place and is still used.

Solution Options and Costs

Elexon presented the two potential solutions to Issue 104 and their pros and cos.

Solution Options pros and cos		
	Pros	**Cons**
Solution 1: Extending the existing RTS contract between Elexon and ENA	There is no cost for making this change, and it can be implemented immediately. It does not require a system change.	It impacts all parties, not just suppliers. Hence, it does not incentivise a transition away from RTS as much as the other solutions.
Solution 2: Modifying how RTS costs are recovered under the BSC proportionately across all Suppliers.	Since it is targeted at Suppliers only, it is a strong incentive to transition away from RTS.	Adds new parameters to the existing processes by removing Generators. It requires a Modification, which may take longer to

		implement than 1 April 2023. There will be some costs for implementing this option.

Therefore, the WG voted for Solution 1 as the preferred one.

4. Conclusions

Following discussions as part of Issue 104 and the Industry Survey, the WG concluded that it is still appropriate for RTS operational costs to be passed through the BSC for a final year.

Discussions regarding who would be best placed to incur the costs of supporting the RTS network were held and the majority of the WG agreed that the existing apportionment between Suppliers and Generators should remain.

The WG also acknowledged that the consumers were the main beneficiaries of the RTS network and noted that, given the current pressures on consumers, it is most efficient to leave the arrangements as is, and focus the attention on assuring a smoothly transition away from RTS.

Thus, the contract between the ENA and BBC, and the agreement between ENA and BSC should be extended for a final year as they currently are.

Therefore, the Issue 104 group does not recommend any change to the BSC.

However, if a BSC Party did wish to raise a Modification to amend the cost recovery mechanism for RTS costs, it is within their gift to raise such a Modification.

Appendix 1: issue Group Membership

Issue Group membership and attendance

Issue 104 Group Attendance			
Name	**Organisation**	**16 Nov 22**	**14 Dec 22**
Elliott Harper	Elexon *(Chair)*	✓	✓
Cecilia Portabales	Elexon *(Lead Analyst)*	✓	×
Derek Weaving	Elexon *(Design Authority)*	✓	✓
Darren Draper	Elexon *(Finance Systems & Operations)*	✓	✓
Beth Procter	Elexon *(Assurance Technique)*	✓	×
Amy Stackhouse	Elexon *(Change Analyst)*	×	✓
Jessica Davis	Elexon *(Assurance Technique)*	×	✓
Andrew Colley	SSE	×	☎
Andrew Sargent	EON	☎	☎
Claire Gwyer	Energy UK	☎	☎
Daniel Simpson	ENA	☎	☎
Denise Willis	Edf Energy	☎	×
Emma Johnson	British Gas	☎	☎
Mark Jones	Scottish and Southern Electricity Networks	×	☎
James Nixon	Scottish Power	☎	×
Jason Stevens	Energy UK	☎	☎
Karl Maryon	Drax	×	×
Michael Walls	Ofgem	☎	×
Natalie McMillan	Octopus Energy	☎	☎
Paul Farmer	Shell Energy Retail	×	☎
Paul Fitzgerald	Scottish and Southern Electricity Networks	☎	☎
Rustam Majainah	OVO	☎	×