

ESC Desktop Meter Sampling

A: Introduction

The Capacity Market (“CM”) Rules 2014 as amended (the “Rules”) have been changed to enable the Settlement Body, Electricity Settlements Company (“ESC”), to conduct a Metering Test on certain Capacity Market Units (“CMUs”) which are comprised of multiple components on the basis of a sample of those components (the “Sampling Approach”). The Sampling Approach has been introduced by the addition of Rule 11.3.5D (Metering Test) of The Capacity Market (Amendment) Rules 2016, effective from 21 July 2016.

The Sampling Approach only applies to the testing of CMUs arising from a transitional capacity T-1 auction in respect of delivery years commencing on 1 October 2016 and 1 October 2017, although the intention is to extend this to all CM metering assurance. The Sampling Approach will increase the number of CMUs that ESC is able to evaluate given the short timescales involved with respect to the delivery years mentioned above.

ESC will assess CMUs for risk in order to decide the percentage of components that should be tested. This guidance sets out the criteria that ESC will take into account when determining the size of the sample (expressed as a percentage of components in a CMU) that will be tested.

B: Metering Test Certificates

A capacity provider for a CMU that is subject to a Metering Test is required under Rule 13.3.2 to notify ESC that it requires a Metering Test to be carried out, and provide a Metering Statement setting out the Metering Configuration Solution for each component that forms part of a CMU.

ESC will conduct the Metering Test on the basis of either the standard approach set out in Rule 13.3.6 or the Sampling Approach, if applicable. If the Metering Test has been successful, ESC will issue a Metering Test Certificate confirming (inter alia) that the metering arrangements constitute an Approved Metering Solution.

Under Rule 8.3.3(e), a capacity provider is required to provide the Metering Test Certificate for their CMU to the Delivery Body (National Grid) for inclusion into the relevant CM delivery year. It is the Capacity Provider’s responsibility to ensure that the Meter Test Certificate is submitted to National Grid prior to the required deadline (i.e. 1 September 2016 for the 2016/17 Transitional Arrangements delivery year).

Sampling can only be undertaken when all of the required information (i.e. the Metering Statement) for every individual component within a CMU (not just a

sample) has been provided by the Capacity Provider. ESC will then decide on the sample size. Any Capacity Provider that fails to submit the required information for any one individual component within a CMU will not be issued a Metering Certificate. ESC will only issue a Metering Certificate once it has completed testing on the sample of components selected and is satisfied that the metering arrangements for each component in the sample constitutes an Approved Metering Solution.

We wish to remind you that if you require a Metering Certificate by 1 September 2016, you should submit your request for a Metering Test and provide the Metering Statement containing all of the required information to ESC as soon as possible to allow ESC sufficient time to conduct the Metering Test. Please note that, even where the Sampling Approach is used, there is no guarantee that ESC will be able to carry out all Metering Tests requested in advance of your 1 September deadline. Capacity Providers who are required to provide a Metering Test Certificate in respect of a CMU by 1 September should be aware that failure to do so will trigger the termination of the Capacity Agreement for that CMU.

In the event that a Metering Test is carried out on the sample of components selected by ESC and one or more of the components in the sample has failed, ESC will notify the Capacity Provider. If the Capacity Provider accepts ESC's decision, it must submit a rectification plan with respect to the relevant Metering Test failure ("Rectification Plan"). Applicants should note that ESC shall not prioritise any Rectification Plan submitted over first time Metering Test requests, nor will any requests to carry out a further Metering Test after a Rectification Plan has been implemented be prioritised over first time Metering requests. Each such request shall be treated individually and on a "first come first served" basis.

Once the 1 September deadline for the provision of Metering Test Certificates to National Grid is reached, ESC will stop all work relating to Metering Tests and will not issue any Metering Tests Certificates after that date regardless of what stage of the process an applicant is at (including, for example, where an applicant has completed rectification work but ESC has been unable to carry out a Further Metering Test).

C: Sampling Approach - criteria for determining sample size

Where the Sampling Approach is used the criteria outlined below will be used to determine the sample size of components within a CMU for any CMU that requires a Metering Test.

Any sample size calculation is to be rounded up to the next whole number, for example, if there are 13 components within a CMU and the sample rate is 40%

although 40% of 13 is 5.2, rounding up to the next whole number means that Metering Tests will be carried out on 6 components.

There is no limit to the sample size that may be selected by ESC and it may be the case that 100% of components in a CMU will be tested i.e. full testing of the entire CMU.

The criteria for determining sample size are:

1. General principles and components that require testing in addition to the sample

Component size

All CMUs will have their largest component tested. CMUs that consist of just one component will therefore be subject to 100% testing. These components will be tested in addition to the sample that is selected in accordance with the criteria below.

Any component within a CMU that represents more than 0.5% of the total capacity/revenue for the delivery year (i.e. across all CMUs, not just the CMU it is a component of) will be subjected to a metering test. For the 2016/17 Transitional Arrangements delivery years, this means that a Metering Test will be carried out for any component with a capacity greater than 4MW (which equates to £110,400 in revenue payable per year).

Any component with a capacity lower than 0.2MW (which equates to £5,500 in revenue payable per year for the 2016/17 Transitional Arrangements) will not be eligible for inclusion in the sample that is selected on the basis of the criteria set out below. However, in addition to carrying out Metering Tests on the selected sample, ESC will also sample 10% of all components with a capacity lower than 0.2MW.

Non-UK Capacity Providers

ESC will not conduct Metering Tests based on the Sampling Approach for CMUs where the Capacity Provider is a non-UK registered entity. These CMUs will be subject to 100% component Metering Tests in accordance with Rule 13.3.6.

The information relating to the place of incorporation of a Capacity Provider will be sourced from Companies House or from credit agency reports that ESC may carry out on Capacity Providers.

2. Capacity Provider trading duration

In addition to the components selected in accordance with the principles at section 1 above, remaining components will be selected for inclusion in the sample on the basis of the length of time the Applicant has been trading. The sample size that will be selected based on the trading duration of the Capacity Provider is set out below:

Trading Length	Sample size
<5 years	50%
5 to 10 years	25%
>10 years	10%

This information will be sourced from Companies House or from credit agency reports that ESC may carry out on Capacity Providers. In the event that commencement of trading dates are not available, trading duration will be based on the duration of time since the date of incorporation of the Capacity Provider.

3. Applicant net worth

Further to the sample size selected by trading duration, if an applicant has negative net worth (for example, where the equity value of the application is less than zero), an additional 50% of components in the CMU will be tested* .

The information relating to the applicant's net worth will be sourced from Companies House accounts or from the credit agency reports that ESC may carry out on Capacity Providers.

**The increase in sample size is an addition to the determined sample size e.g. 25% + 50% = a sample size of 75%. See appendix 1 for illustrative examples.*

4. Applicant credit rating

Further to the sample size selected by trading duration and applicant net worth, applicants will have their sample size increased in respect of credit rating as per the following table:

Credit rating out of 100	Increase in sample size*
50 or less	50%
51 to 79	25%
80 or more	0%

This information will be sourced from credit agency reports that ESC may carry out on Capacity Providers.

**The increase in sample size is an addition to the determined sample size e.g. 25% + 50% = a sample size of 75%. See appendix 1 for illustrative examples.*

D: Rectification Plan and increase in sample size in the event of test failure

If a Capacity Provider is notified that one or more component(s) from the CMU has not passed the Metering Test, the CMU is required to either:

1. Inform ESC and National Grid, the EMR delivery body, that it no longer wishes for the CMU to participate in the CM regime. It should be noted that failure to provide a Metering Test Certificate to the Delivery Body (National Grid) by the 1 September deadline will lead to termination of the CMU.
2. Inform ESC that it wishes to continue in the CM process and provide a Rectification Plan, in accordance with the Rules, to correct any issues with the metering configuration for the relevant component(s) within the CMU. It should be noted that any required rectification works set out in the Rectification Plan must be completed in time to allow a further Meter Test to be conducted by ESC to enable the Capacity Provider to provide a Metering Test Certificate to the Delivery Body (National Grid) by the 1 September deadline.

If a Capacity Provider is notified that one or more component(s) from the CMU has not passed the Metering Test and it wishes to continue in the CM process, the CMU will in accordance with Rule 11.3.5(c)(ii) be subject to an increase in sample size. The sample size will be increased in accordance with the table below:

Number of components within a CMU	Increase in sample size*
< 5	Increased to 100%
5 to 10	50%
11 to 30	25%
31 to 50	15%
>50	10%

**The increase in sample size is an addition to the determined sample size e.g. 25% + 50% = a sample size of 75%. See appendix 1 for illustrative examples.*

If the increase in sample size identifies additional components that do not pass the Metering Test and require rectification issues, ESC may either test additional components at their discretion or move towards full (non-sample) testing. This will be assessed on a case by case basis.

Appendix 1 - Illustrative examples

	CMU 1	CMU 2	CMU 3	CMU 4	CMU 5	Total
<u>Company Information</u>						
No. of components	1 ¹	5	25	50	70	151
UK registered		No ²	Yes	Yes	Yes	
Applicant trading length			9 years	30 years	30 years	
Applicant net worth			Negative	Positive	Positive	
Applicant credit rating (of 100)			40	90	75	
<u>Component size</u>						
>0.5% of total delivery year			5	2	3	10
<0.2MW			5	2	10	17
Remaining components (A)			15	46	57	118
<u>% of remaining to be sampled</u>						
Applicant trading length			25%	10%	10%	
Applicant net worth			50%	0%	0%	
Applicant credit rating			50%	0%	25%	
Total Sample of remaining (B)			100% ³	10%	35%	
<u>Number of tests to perform</u>						
Components >0.5% of capacity			5	2	3	
Sample of remaining (A x B)			15	5	20	
Minimum Number of tests			20	7	23	
<u>Increase due to failure</u>						
Increase due to failure			No	Yes	No	
Increase in sample size (C)			None	15%	None	

	CMU 1	CMU 2	CMU 3	CMU 4	CMU 5	Total
<u>Adjusted No. of tests to perform</u>						
Components >0.5% of capacity			5	2	3	10
Sample of remaining ($A \times (B+C)$)			15	12	20	47
Minimum Number of tests			20	14	23	57
Allocation - 10% <0.2MW testing ⁴			1	0	1	2
Total meter test to complete	1	5	21	14	24	65

Footnotes:

1. CMU 1 only consists of 1 component therefore 100% sample testing.
2. CMU 2 Applicant isn't UK registered therefore 100% sample testing.
3. Capped to 100% maximum.
4. 17 <0.2MW components at 10% = 2 components to be tested across 5 CMUs.