Draft Modification Report

P368 'Amendments to Section Z to better facilitate the production of the Risk Evaluation Methodology, Risk Evaluation Register and Risk Operating Plan'

The Risk Evaluation Methodology (REM), Risk Evaluation Register (RER) and Risk Operating Plan (ROP) are produced annually in accordance with the Annual Performance Assurance Timetable (APAT).This proposal seeks to amend provisions in the timing and revision of the three documents in order to support the objectives of the Performance Assurance Framework (PAF) Review in delivering a more efficient and effective PAF.

The BSC Panel initially recommends **approval** of P368

This Modification is expected to impact:

- Suppliers
- Distributors
- Data Aggregators
- Meter Administrators
- Data Collectors
- Meter Operator Agents
- Meter Registration Agents

ELEXON

Phase

- Initial Written Assessment
- Definition Procedure
- Assessment Procedure
- Report Phase
- Implementation

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About This Document

This is the P368 Draft Modification Report, which ELEXON will present to the Panel at its meeting on 12 July 2018. It includes the responses received to the Report Phase Consultation on the Panel's initial recommendations. The Panel will consider all responses, and will make its final determination on the change.

There are four parts to this document:

- This is the main document. It provides details of the solution, impacts, costs, benefits/drawbacks and proposed implementation approach.
- Attachment A contains the Modification Proposal Form
- Attachment B contains the draft redlined changes to the BSC for P368.
- Attachment C contains the full responses received to the Panel's Report Phase Consultation.

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1 Summary

Background

The BSC Panel included a review of the PAF in its strategic forward work plan 2016/17. The Issue 69 'Performance Assurance Framework Review' Working Group and Performance Assurance Board (PAB) have been reviewing the PAF Procedures and have identified a number of related changes to BSC Section Z 'Performance Assurance'.

ELEXON, on behalf of the Performance Assurance Board, made a recommendation to the Panel to raise a Modification Proposal (Attachment A) in accordance with Section F2.1.1(d)(vi) at its meeting on 14 June 2018. The Panel agreed to raise P368 and for it to be progressed it as a Self-Governance Modification directly to the Report Phase.

Why Change?

BSC Section Z 'Performance Assurance' sets out how the PAF Procedures (specifically the REM, the RER and the ROP) are reviewed and updated. A new version of each is produced annually for each Performance Assurance Operating Period (PAOP), equivalent to the BSC Year (April – March).

Section Z details provisions for within-period changes to the RER and the ROP but not for the REM. If for instance there was industry change which would impact the risk to Settlement, changes would be required to the RER. In this circumstance, it may not be appropriate to continue to use the same risk rating system and may be inefficient to wait until the PAOP for a revised REM.

Within-period revisions are allowed for the RER under the PABs discretion, but only for the ROP following a within-period revision of the RER. If the mitigation efforts originally planned proved ineffective, the prerequisite of a within-period revision of the RER in order to allow such a revision of the ROP is overly restrictive.

Section Z also requires the REM, the RER and the ROP to be submitted or made available to interested persons for comment and approved by the Panel (delegated to the PAB) before the next document can be submitted for review. The result is a minimum end to end review time of nine months between ELEXON preparing the REM and the start of the PAOP – only three months after the current PAOP started. The current linear timeline required is unnecessary and inefficient.

Solution

The proposed solution for this Modification is to amend the wording of Section Z in order to remove the sequence constraint of the annual review of the REM, the RER and the ROP so they can be done in parallel. Additionally, wording shall be added to allow within period revisions of the REM and the ROP through a process equal to that of the RER. Finally, wording shall be amended to allow the REM, the RER and the ROP to be produced annually in varying months of the year as opposed to a reoccurring set date.

These amendments will enable the increased flexibility and effectiveness of the PAF to manage risk. They will allow a better understanding of the combined set of PAF Procedures which will encourage increased involvement from Performance Assurance Parties (PAPs).

Who are Performance Assurance Operating Parties?

"is a Supplier, Meter Operator Agent, Data Collector, Data Aggregator, Meter Administrator, Licensed Distribution System Operator and/or a Registrant"

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Impacts & Costs

This Modification Proposal will impact ELEXON and PAPs due to the changes required to current working practices. It is a document only change.

The central implementation cost to deliver the solution to this Modification is £360. This is derived from 1.5 Working Days of implementation effort to deliver the document only changes.

Implementation

P368 is proposed for implementation on **1 November 2018**, as part of the November 2018 BSC Release.

Recommendation

The BSC Panel initially held a unanimous view that P368 better facilitates BSC Applicable Objective (d). The Panel's initial unanimous recommendation is that this Modification should be **approved**.

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2 Why Change?

Background

The PAF identifies risks to Settlement and how they should be managed. In 2007 P207 'Introduction of a new governance regime to allow a risk based Performance Assurance Framework (PAF) to be utilised and reinforce the effectiveness of the current PAF' was implemented, which introduced a more risk based PAF. In 2016 ELEXON and the PAB identified further opportunities to enhance this approach originally envisaged by P207.

The BSC Panel included a review of the PAF in its strategic forward work plan 2016/17. The PAF Review included a number of objectives which are particularly relevant to this Modification, regarding participant engagement and reactiveness to changes which the risk to Settlement:

- Redesigning the REM to better reflect current risk and make it more meaningful to participants;
- Redesigning the engagement with PAB and participants to make the revised view of risk as flexible, accurate, clear and compelling as possible;
- To improve Party engagement in order to encourage increased Party responses to PAF consultations, to enable Parties to report that they better understand the process, how/why it affects them and that at least some of their top risks are reflected in the focus of the PAF;
- There are mechanisms for the Panel strategy, Modifications and PAB strategy to be reviewed for impact on Settlement Risk; and
- For all such impacts, the PAB is able to use the REM to identify and describe new/ changed risks.

In delivering the PAF Review, which commenced in February 2017, ELEXON is working with the Issue 69 'Performance Assurance Framework Review' Working Group and the PAB to undertake a review of the PAF Procedures. This ongoing review has identified changes to BSC Section Z 'Performance Assurance' that would facilitate a faster and more effective approach to delivering the PAF.

BSC Section Z sets out how the PAF Procedures (the REM, the RER and the ROP) are reviewed and updated. A new version of each is produced annually for each PAOP, equivalent to the BSC Year.

The Issue 69 Working Group, which is supporting the PAF Review through a number of work streams, has reviewed the P368 proposal and endorsed the proposed legal text and associated rationale.

What is the issue?

ELEXON has identified that the linear ordering of the PAF Procedures required by the Code is a barrier to achieving a more flexible PAF, and to promoting meaningful engagement with Parties and interested persons. The inability for within period changes to the REM and restrictions on changes to the ROP has the potential to cause inefficient and ineffective delivery of the PAF Procedures.

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The current wording of Section Z requires the REM, the RER and the ROP to be submitted or made available to interested persons for comment and approval from PAB separately. Each document must complete this process before the next can be submitted. This has the effect that the annual review of the REM, the RER and the ROP starts just a few months after the current PAF Procedures come into force (see example timetable below), and before many of the agreed risk mitigating actions have been carried out and their impacts observed.

An example below is for the 2019/2020 PAOP, which will be prepared from mid-2018 and come into effect on 1 April 2019 (note that the 2018/19 PAOP runs from 1 April 2018 to 31 March 2019).

Risk Evaluation Methodology	**PAB meeting dates**
Present draft revisions to REM 2019/20 to PAB for endorsement	June 2018
Issue draft revisions to REM 2019/20 for Industry consultation	June 2018
Present revised REM 2019/20 to PAB for approval	August 2018
Publish approved REM 2019/20 on the BSC Website	August 2018
Risk Evaluation Register	
Present draft revisions to RER 2019/20 to PAB for endorsement	September 2018
Issue draft revisions to RER for 2019/20 for Industry consultation	September 2018
Present revised RER 2019/20 to PAB for approval	November 2018
Publish approved RER 2019/20 on the BSC Website	November 2018
Risk Operating Plan	
Present draft revisions to ROP 2019/20 to PAB for endorsement	December 2018
Issue draft revisions to ROP 2019/20 Industry consultation	December 2018
Present revised ROP 2019/20 to PAB for approval	February 2019
Publish approved ROP 2019/20 on the BSC Website	February 2019

In practice this means that Parties and the PAB are asked to comment on or approve the methodology for evaluating risks without seeing the resultant RER, which would not be produced until several months later. Although the methodology has rarely changed to date, if it did, the current process could hinder a Party's ability to accurately and effectively evaluate the proposed change.

Parties are then asked to comment on the plan for mitigating risks three months after the RER has been presented. Few comments are received on any of the documents in most years. This has been interpreted from stakeholder feedback on the PAF procedures, to be partly due to the drawn out and fragmented review process. The lack of flexibility in the way risk is appraised hampers effectiveness of PAF.

Additionally, Section Z 'Performance Assurance Procedures' details provisions for within-period revisions to the RER and the ROP but not for the REM. If for instance there was industry change which would impact the risk to Settlement, significant changes would be required to the RER. In this circumstance, it may not be appropriate to continue to use the same risk rating system and inefficient to wait until the next PAOP for a revised REM.

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Such within-period revisions are allowed for the RER under the PAB's discretion. However for the ROP, a within period revision is only allowed if there is a within period revision of the RER first. If the risk mitigation efforts originally planned proved ineffective, the prerequisite of a within-period revision of the RER to allow such a revision of the ROP is overly restrictive.

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3 Solution

Proposed solution

Remove the linear ordering

The proposed solution for this Modification is to amend the wording of Section Z in order to remove the sequence constraint of the annual review of the REM, the RER and the ROP so they can be done in parallel. Currently it is required that the consultation and approval of the REM happens before the RER; and the RER before the ROP.

The proposed changes would allow for a better understanding of the combined set of PAF Procedures, thereby giving interested parties better opportunity to comment on the PAB's proposed RER, including risk ratings, and deployment of mitigating techniques. This would encourage increased involvement from PAPs, which is critical to the success of the PAF and is a defined PAF review objective.

By reducing the time taken to prepare the PAF Procedures for the next PAOP, the PAB will be able to review the RER and ROP closer to the start of the PAOP, and therefore more likely to be using more recent data and risk indicators.

Remove the sequence constraint

Wording shall be added (see Attachment B for redlining) to amend within-period revision provisions of the REM and the ROP. This shall allow revisions of the REM equal in process to that of the RER and also remove the prerequisite of within-period revision of the RER before allowing such a revision of the ROP. If the PAB considers such revisions significant it shall submit them to PAPs and other interested persons for comment as is currently the process for the RER.

This will improve the increased flexibility and effectiveness of the PAF to manage risk.

Remove the set reoccurring dates

Section Z will be amended to allow the REM, the RER and the ROP to be produced annually in varying months of the year as opposed to a reoccurring set date. Note that the documents shall still be available for the start of the PAOP. This will further support the increased flexibility of the PAF.

For clarity, the requirement of a timetable detailing when the documents shall be issued for consultation and presented to the PAB for approval (as delegated by the Panel) shall remain.

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4 Impacts & Costs

Estimated central implementation costs of P368

The central implementation cost to deliver the P368 is £360. This is derived from one Working Day to implement the change to Section Z, and half a Working Day to update relevant internal ELEXON documentation.

Indicative industry costs of P368

There are no industry participant costs or impacts for the implementation of this Modification which has been confirmed through Report Phase Consultation. Please see Attachment C for the consolidated responses.

The requirement to deliver the PAF Procedures in line with the approved APAT (produced each year) remains.

P368 impacts

Impact on BSC Parties and Party Agents	
Party/Party Agent	Impact
PAPs	This Modification Proposal will allow PAPs' to consider the PAF Procedure documents in relation to one another. The proposal changes when parties will be expected to provide comments on the documents. Therefore, minor procedural changes may be required.

Impact on Transmission Company
None identified.

Impact on BSCCo	
Area of ELEXON	Impact
Disputes and Compliance and BSC Admin	ELEXON will need to update the relevant PAF Procedure Local Working Instructions (LWIs).

Impact on BSC Systems and process	
BSC System/Process	Impact
None identified.	

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Impact on Code	
Code Section	Impact
Section Z	Redlining amendments as proposed by the solution to this Modification Proposal.
Code Subsidiary Documents	None identified.

Impact on a Significant Code Review (SCR) or other significant industry change projects
ELEXON does not believe that P368 will impact any open SCRs. ELEXON requested that this Modification be exempt from the Significant Code Review process. Ofgem granted the SCR exemption request on 15 May 2018.

Impact on Consumers
ELEXON does not believe this Modification has any direct impacts on consumers.

Impact on the Environment
ELEXON does not believe this Modification has any direct impacts on the environment.

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5 Implementation

Recommended Implementation Date

The Proposer recommends an Implementation Date for P368 of:

- **1 November 2018,** as part of the November 2018 BSC Release.

This will enable the improved flexibility to be available for use from April 2019.

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6 Proposer's Conclusions

Applicable BSC Objectives

The Proposer's views against the Applicable BSC Objectives are summarised in the table below:

Impact of the Modification on the Relevant Objectives:	
Relevant Objective	Identified impact
a) The efficient discharge by the Transmission Company of the obligations imposed upon it by the Transmission Licence	Neutral
(b) The efficient, economic and co-ordinated operation of the National Electricity Transmission System	Neutral
(c) Promoting effective competition in the generation and supply of electricity and (so far as consistent therewith) promoting such competition in the sale and purchase of electricity	Neutral
(d) Promoting efficiency in the implementation of the balancing and settlement arrangements	**Positive**
(e) Compliance with the Electricity Regulation and any relevant legally binding decision of the European Commission and/or the Agency [for the Co-operation of Energy Regulators]	Neutral
(f) Implementing and administrating the arrangements for the operation of contracts for difference and arrangements that facilitate the operation of a capacity market pursuant to EMR legislation	Neutral
(g) Compliance with the Transmission Losses Principle	Neutral

Proposer views against Objective (d)

The Proposer believes that P368 will better facilitate Applicable BSC Objective (d) by:

- Reducing the time taken to prepare the PAF Procedures for the next PAOP. The PAB will review the RER and ROP closer to the start of the PAOP, therefore using more recent data and risk indicators.
- Allowing within-period revisions to the REM, the RER can be updated to better reflect risk at the time it is required rather than waiting for up to a year.

Self-Governance

The Proposer recommends that this Modification be progressed as a Self-Governance Modification (no Ofgem approval sought) as it does not have a material effect on the Self-Governance criteria.

ELEXON considered whether this proposal would have a material impact on the Code's governance procedures (criteria v). However, legal guidance advised that removing the right to approve the REM, the RER and the ROP in sequence does not reduce the rights of parties to be engaged in the process. Arguably Parties gain more visibility and opportunity to understand how they would be affected by an approval, where the REM, RER and ROP are consulted on in parallel.

An argument could be said that; adding the ability for the PAB to make in-period revisions to the REM may reduce the rights of Parties to be engaged in the process of changing the

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REM (which currently must be done only in accordance with the Annual Performance Assurance Timetable (APAT), including consultation etc). However, the ELEXON legal team does not view this effect as material, as it does not rise to the same level of materiality as the relevant examples in the Self-Governance Guidance, .Legal guidance notes 'an effect is likely to be material if it reduces the rights of industry parties to be engaged in proposed changes to the BSC, or if it changes the decision-making capacity of the BSC Panel in relation to BSC Modifications and Change Proposals, of which neither are the case in this circumstance.'

ELEXON does not consider that within-period revisions of the ROP, made without corresponding revisions to the RER, are inherently likely to be of a significantly higher or lower materiality than those made with corresponding revisions to the RER. Therefore, requiring the PAB to submit such revisions to the Panel, as is the case for the annual review but not for a within-period ROP revision with corresponding RER revision is unnecessary. The proposed provision includes the caveat that if the PAB considers a revision to be significant, then draft copies shall be submitted to PAPs and other interested persons to provide opportunity to comment.

What are the Self-Governance criteria?

A proposal that, if implemented:

a) is unlikely to have a material effect on:
   i. existing or future electricity consumers; and
   ii. competition in the generation, distribution, or supply of electricity or any commercial activities connected with the generation, distribution, or supply of electricity; and
   iii. the operation of the national electricity transmission system; and
   iv. matters relating to sustainable development, safety or security of supply, or the management of market or network emergencies; and
   v. the Code's governance procedures or modification procedures, and
b) is unlikely to discriminate between different classes of Parties

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7 Panel's Initial Discussions

The P368 Initial Written Assessment (IWA) was presented to the BSC Panel at its meeting on 14 June 2018 (Panel 279/04). The Panel did not directly comment on P368 but did **unanimously:**

- **RAISED** the Modification Proposal in Attachment A (in accordance with F2.1.1(d)(vi));
- **AGREED** that this Modification progresses directly to the Report Phase;
- **AGREED** that this Modification:
    - **DOES** better facilitate Applicable BSC Objective (d);
- **AGREED** an initial recommendation that this Modification should be **approved**;
- **AGREED** an initial Implementation Date of 1 November 2018 as part of the November 2018 BSC Release:
- **AGREED** the draft legal text;
- **AGREED** an initial view that Modification should be treated as a Self-Governance Modification; and
- **NOTED** that if raised, ELEXON will issue the draft Modification Report (including the draft BSC legal text) for a 10 Working Day consultation and will present the results to the Panel at its meeting on 12 July 2018.

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8 Report Phase Consultation Responses

This section summarises the responses to the Panel's Report Phase Consultation on its initial recommendations. You can find the full responses in Attachment C.

Summary of P368 Report Phase Consultation Responses				
Question	Yes	No	Neutral/ No Comment	Other
Do you agree with the Panel's initial unanimous recommendation that P368 should be approved?	8	0	0	0
Do you agree with the Panel that the redlined changes to the BSC deliver the intent of P368?	8	0	0	0
Do you agree with the Panel's recommended Implementation Date?	8	0	0	0
Do you have any further comments on P368?	0	8	0	0
Do you agree with the Panel's initial view that P368 should be treated as a Self-Governance Modification?	8	0	0	0

Consultation respondents views on Proposed Modification

All eight respondents agreed with the Panel's initial unanimous recommendation that P368 should be approved. The reasons provided were due to the Modification enabling risks to be more effectively and efficiently managed through the PAF and therefore better facilitating objective (d).

All respondents agreed that the proposed redlining delivers the intent of P368.

All respondents agreed with the Panels recommended Implementation Date and that it should be treated as a Self-Governance Modification. This was due to the Implementation Date allowing the revisions to be in place for the next PAOP and the implementation of P368 not having a material effect on the BSC Governance procedures.

What are the Applicable BSC Objectives?

(a) The efficient discharge by the Transmission Company of the obligations imposed upon it by the Transmission Licence

(b) The efficient, economic and co-ordinated operation of the National Electricity Transmission System

(c) Promoting effective competition in the generation and supply of electricity and (so far as consistent therewith) promoting such competition in the sale and purchase of electricity

(d) Promoting efficiency in the implementation of the balancing and settlement arrangements

(e) Compliance with the Electricity Regulation and any relevant legally binding decision of the European Commission and/or the Agency [for the Co-operation of Energy Regulators]

(f) Implementing and administrating the arrangements for the operation of contracts for difference and arrangements that facilitate the operation of a capacity market pursuant to EMR legislation

(g) Compliance with the Transmission Losses Principle

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9 Recommendations

We invite the Panel to:

- **AGREE** that P368:
    - **DOES** better facilitate Applicable BSC Objective (d);
- **DETERMINE** (in the absence of any Authority direction) that P368 is a Self-Governance Modification Proposal;
- **APPROVE** P368;
- **APPROVE** an Implementation Date of **1 November 2018** as part of the November 2018 BSC Release:
- **APPROVE** the draft legal text; and
- **APPROVE** the P368 Modification Report.

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Appendix 3: Glossary & References

Acronyms

Acronyms used in this document are listed in the table below.

Acronym	
Acronym	Definition
APAT	Annual Performance Assurance Timetable
BSC	Balancing and Settlement Code
IWA	Initial Written Assessment
PAB	Performance Assurance Board
LWI	Local Working Instruction
PAF	Performance Assurance Framework
PAOP	Performance Assurance Operating Period
PAP	Performance Assurance Party
REM	Risk Evaluation Methodology
RER	Risk Evaluation Register
ROP	Risk Operating Plan

External links

A summary of all hyperlinks used in this document are listed in the table below.

All external documents and URL links listed are correct as of the date of this document.

External Links		
Page(s)	Description	URL
3	BSC Section Z webpage of ELEXON website	https://www.elexon.co.uk/bsc-and-codes/balancing-settlement-code/bsc-sections/
3	PAF Processes webpage of ELEXON website	https://www.elexon.co.uk/reference/performance-assurance/performance-assurance-processes/
5	Modification P207 webpage of ELEXON website	https://www.elexon.co.uk/mod-proposal/p207-introduction-of-a-new-governance-regime-to-allow-a-risk-based-performance-assurance-framework-paf-to-be-utilised-and-reinforce-the-effectiveness-of-the-current-paf/
5	Panel webpage of the ELEXON website	https://www.elexon.co.uk/group/the-panel/
5	Issue 69 webpage of the ELEXON website	https://www.elexon.co.uk/smg-issue/issue-69/

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External Links		
Page(s)	Description	URL
7	Performance Assurance Techniques, Timetable and Methodology webpage of ELEXON website	https://www.elexon.co.uk/reference/performance-assurance/performance-assurance-techniques/
13	BSC Modifications Self-Governance guidance page of ELEXON website	https://www.elexon.co.uk/guidance-note/bsc-self-governance-guidance/
14	Panel Meeting 279 webpage of the ELEXON website	https://www.elexon.co.uk/meeting/bsc-panel-meeting-279/

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