

Modification proposal:	Balancing and Settlement Code (BSC) P393: Disapplication of Supplier Charge SP01		
Decision:	The Authority ¹ directs that this modification be made ²		
Target audience:	National Grid Electricity System Operator (NGESO), Parties to the BSC, the BSC Panel and other interested parties		
Date of publication:	2 January 2020	Implementation date:	27 February 2020

Background

The Performance Assurance Framework (PAF) is a set of techniques the Performance Assurance Board (PAB) uses to assess whether there are any active issues or risks in the market that may impact the integrity of Settlement. ELEXON is currently undertaking a review of the Performance Assurance Framework (PAF), which is seeking to ensure the current framework meets the assurance needs of the GB Balancing and Settlement market.

Supplier Charges are one such technique used by the PAB. These are liquidated damages that Suppliers incur if they fail to meet certain performance levels against six Serials³. These funds are then redistributed to disadvantaged Parties. The first of these Serials, SP01, sets charges for if a Supplier does not submit a performance report. However, the proposer argues that the non-submission of this report does not directly disadvantage other parties and therefore the application of SP01 does not clearly align to the purpose of Supplier Charges, to compensate disadvantaged suppliers where appropriate.

The Final Modification Report explains that resolving this issue would refocus Supplier Charges on the performance-related measures, which directly impact Settlement.

The modification proposal

P393 was raised by the BSC Panel on 10 October 2019. The modification seeks to set Supplier Charge SP01 to a value of zero in BSC Section S Annex S-1 'Performance Levels and Supplier Charges'. In addition to this, historic missing data for which an SP01 Charge is applicable would also revert to zero if this modification once implemented, subject to Authority approval.

BSC Panel⁴ recommendation

At the BSC Panel meeting on 14 November 2019, the BSC Panel considered that P393 would better facilitate the BSC Objectives (c)⁵ and (d)⁶ and therefore recommended its approval.

¹ References to the "Authority", "Ofgem", "we" and "our" are used interchangeably in this document. The Authority refers to GEMA, the Gas and Electricity Markets Authority. The Office of Gas and Electricity Markets (Ofgem) supports GEMA in its day to day work. This decision is made by or on behalf of GEMA.

² This document is notice of the reasons for this decision as required by section 49A of the Electricity Act 1989.

³ defined area for measuring a Supplier or Supplier Agents' performance against key industry processes

⁴ The BSC Panel is established and constituted pursuant to and in accordance with Section B of the BSC and Standard Special Licence Condition C3 of the Electricity Transmission Licence available at: www.epr.ofgem.gov.uk

⁵ 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

Our decision

We have considered the issues raised by the modification proposal and the Final Modification Report (FMR) dated 22 November 2019. We have considered and taken into account the responses to the industry consultation(s) which are attached to the FMR⁷. We have concluded that:

- implementation of the modification proposal will better facilitate the achievement of objectives (c) and (d) of the BSC;⁸ and
- directing that the modification be made is consistent with our principal objective and statutory duties.⁹

Reasons for our decision

We consider this modification proposal will better facilitate BSC objectives (c) and (d) and has a neutral impact on the other applicable objectives.

(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

The Panel explained that the intention of Supplier Charges is to redistribute these charges to those who suffer loss due to others failure to meet performance levels. However, these types of losses have not been directly incurred for the SP01 Serial with its current calculation methodology. The Panel agreed that BSC393 positively impacts BSC objective (c) by mitigating the competition dis-benefit from the existing SP01 Supplier Charge, which does not deliver incentives that align to the principle of Supplier Charges.

We agree with the conclusions of the Panel that objective (c) is better facilitated for these reasons.

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

The Panel explained that the removal of the SP01 portion of Supplier Charges will focus the technique to be on the Settlement performance Serials, whereby Suppliers are charged for failing to meet the standards of percentage of energy settled on actual metered data for the Half Hourly and Non-Half Hourly markets. This ensures that the Supplier Charges technique is more efficient in managing Settlement Risk.

We agree with the conclusions of the Panel that BSC393 better facilitates objective (d) by promoting a more efficient process in the implementation of the code arrangements.

⁶ promoting efficiency in the implementation and administration of the balancing and settlement arrangements
⁷ BSC modification proposals, modification reports and representations can be viewed on the Elexon website at www.elexon.co.uk

⁸ As set out in Standard Condition C3(3) of the Electricity Transmission Licence: <https://epr.ofgem.gov.uk>

⁹ The Authority's statutory duties are wider than matters which the Panel must take into consideration and are detailed mainly in the Electricity Act 1989.

Decision notice

In accordance with Standard Condition C3 of the Transmission Licence, the Authority hereby directs that modification proposal BSC393: 'Disapplication of Supplier Charge SP01' be made.

Jacqui Russell**Head of Metering and Market Operations**

Signed on behalf of the Authority and authorised for that purpos