









BSC Modification Proposal Form		At what stage is this document in the process?
<p>PXXX</p> <p><b>Mod Title:</b> Disapplication of Supplier Charge SP01</p>		<div>01 Modification</div> <div>02 Workgroup Report</div> <div>03 Draft Modification Report</div> <div>04 Final Modification Report</div>
<p><b>Purpose of Modification:</b></p> <p>Currently over 90% of total Supplier Charges are levied against SP01 'Delivery of Routine Performance Monitoring Reports'. Supplier Charges are intended to charge Parties where they fail to meet certain performance levels, and redistribute such funds to disadvantaged Parties. However, the non-submission of Performance Assurance Reporting and Monitoring System (PARMS) reports does not directly disadvantage other Parties. Therefore, the application of Supplier Charge SP01 does not clearly align to the objective of Supplier Charges.</p>		
	<p>The Proposer recommends that this Modification should:</p> <ul style="list-style-type: none"> <li>not be a Self-Governance Modification Proposal; and</li> <li>be sent directly into the Report Phase</li> </ul> <p>This Modification will be presented by the Proposer's representative to the BSC Panel on 10 October 2019. The Panel will consider whether to raise the Modification in accordance with BSC Section F 2.1.1(d)(vi) and determine how best to progress the Modification.</p>	
	<p>Medium Impact:</p> <ul style="list-style-type: none"> <li>Suppliers</li> </ul>	
	<p>Low Impact:</p> <ul style="list-style-type: none"> <li>All other Trading Parties (except Non-Physical Traders)</li> </ul>	

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Timetable		
<b>The Proposer recommends the following timetable:</b>		
Report Phase Consultation	14 October 2019 – 30 October 2019	
Draft Modification Report presented to Panel	14 November 2019	
Final Modification Report submitted to Authority	18 November 2019	

## 1 Summary

### What is the issue?

Supplier Charges are liquidated damages that Suppliers incur if they fail to meet certain performance levels. Supplier Charges are intended to charge Parties where they fail to meet certain performance levels, and redistribute such funds to disadvantaged Parties. However, Supplier Charge SP01 doesn't disadvantage other Parties. Therefore its application doesn't clearly align to the objective of Supplier Charges.

Supplier Charge SP01 doesn't impact the integrity of Settlement and therefore, its application doesn't clearly align to the objective of Supplier Charges.

### What is the proposed solution?

This Modification proposes to set the SP01 charge to zero within [BSC Section S Annex S-1 'Performance Levels and Supplier Charges'](#), with the SP01 charge no longer being levied or re-distributed from the Implementation Date of this Modification.

## 2 Governance

### Justification for proposed progression

This Modification Proposal should not be progressed under the Self-Governance arrangements as it could materially impact Self-Governance criterion:

*(a)(ii) competition in the generation, distribution, or supply of electricity or any commercial activities connected with the generation, distribution, or supply of electricity*

Whilst the SP01 charge is not a payment, rather a redistribution, we understand some Parties significantly benefit from SP01 payments. Therefore, there is a possibility that the disapplication of the SP01 charge could materially impact a Supplier's commercial activity.

An update on the PAF review, with particular focus on addressing the SP01 Supplier Charge was presented to the PAB at its meeting on 25 July 2019 [PAB/222/15](#). The PAB agreed that the SP01 charge should be set to zero.

### Requested Next Steps

This Modification should be:

- sent directly into the Report Phase for Report Phase Consultation.

## 3 Why Change?

### Background

The Performance Assurance Framework (PAF) is a set of incentive, preventive, detective and remedial techniques the PAB uses to assess whether there are any active issues or risks in the market that may impact the integrity of Settlement. It provides the PAB with the ability to monitor and manage BSC Party and Party Agent performance against the requirements and obligations outlined in the BSC.

ELEXON is currently undertaking a review of the PAF 'The PAF Review', which is seeking to ensure the PAF meets the current and future assurance needs of the GB Balancing and Settlement market. Overall, the PAF Review is seeking to make recommendations of how the PAF can be improved, which can be implemented through BSC Changes (Modifications and Change Proposals), or other means that don't require BSC Changes as appropriate.

As part of this PAF review, the PAB has conducted a preliminary review of Supplier Charges, a detective Performance Assurance Technique (PAT). The conclusion of the review, as described in paper presented to the Performance Assurance Board (PAB), which is a Panel sub-Committee tasked with oversight of the PAF [PAB/220/12](#), was that Supplier Charges is a useful assurance technique that warrants a full review of all its elements as agreed by the [Panel in March 2017](#).

ELEXON is engaging with market participants throughout the PAF Review, and has been developing solutions in collaboration with the [Issue 69 'Performance Assurance Framework Review'](#) Working Group.

### What is the issue?

Supplier Charges are liquidated damages that Suppliers incur if they fail to meet certain performance levels. Supplier Charges are intended to charge Parties where they fail to meet certain performance levels, and redistribute such funds to disadvantaged Parties. This is regarded as a remedial Performance Assurance Technique. There are charges against six PARMS Serials.

Supplier Charges levied against Serial SP01 are applied to encourage submission of PARMS reports. However, the non-submission of PARMS reports does not directly disadvantage other Parties. Therefore, the application of Supplier Charge SP01 doesn't clearly align to the objective of Supplier Charges.

Currently, over 90% of total Supplier Charges are levied against serial SP01. This strongly suggests that this charge is not effective in acting as an incentive and masks the actual performance measures (e.g. Serials SP08) that comprise the compensation, which is the focus of this technique. SP01 related charges are cumulative and we have therefore seen them grow exponentially. The associated uncapped charges have risen from £2.5m per month in August 2017 to £6.8m in April 2019.

The full review of Supplier Charges began on 15 August 2019 and ELEXON aims to present recommendations to the PAB in December 2019. If approved, BSC Changes necessary to enact the recommendations will subsequently be raised. Modifications will typically take six to eight months to progress to final decision, with implementation timescales following. By this time, uncapped SP01 charges could be in excess of £14m per month and represent 97% of total Supplier Charges, further misaligning from the intent of Supplier Charges.

Resolving this issue would refocus Supplier Charges on the performance-related measures which directly impact Settlement.

## 4 Code Specific Matters

### Reference Documents

The solution proposed under this Modification will impact BSC Section S – Annex S-1 3.6

## 5 Solution

### Proposed Solution

This Modification proposes to set the SP01 charge to zero, which will involve an amendment to paragraph 3.6 of BSC Section S Annex S-1. Further, an operational business as usual amendment to the parameters within the PARMS system will be required.

The value of £0 would be applied to the next Supplier Charge period, after the Modification (if approved) is implemented. This means that any missing data for which an SP01 Charge is applicable, the charge would be zero for any missing data after the first date the report is run after the implementation date.

This Modification rectifies the issue prior outlined, as it will ensure Supplier Charges are refocussed on charging Parties where they fail to meet certain performance levels, and redistribute such funds to disadvantaged Parties.

Due to the minimal changes required to implement this Modification, it can be implemented in February 2020, ensuring the benefits can be realised at the earliest opportunity. The PAF Review data provision workstream will continue to consider PARMS Serials more generally, and the ongoing Supplier Charge review will consider methodology to apply appropriate Supplier Charges. Note any recommendations will need progressing and implementing through the BSC Change process, meaning this Modification will deliver benefits on an interim basis.

Should ELEXON and the PAB believe the submission of PARMS Serials is not at the level required, other PATs could be deployed, for example Error Failure Resolution (EFR).

Some Parties may not receive the same levels of payment from the redistribution of Supplier Charges following the implementation of this Modification. However, as identified under the Issue section of this Modification Proposal, Supplier Charge SP01 does not align to the purpose of Supplier Charges.

## 6 Impacts & Other Considerations

All Suppliers will be impacted from the solution in this Modification Proposal as they may pay Supplier Charge SP01. Further, all Trading Parties will be impacted through the redistribution of Supplier Charges. Under the Code, 90% of Supplier Charges collected are redistributed to Non Half Hourly Suppliers, with the remaining 10% distributed across all Trading Parties, with the exception of Non-Physical Traders.

Suppliers with incomplete PARMS submissions in any month will have zero SP01 Charges levied against them. Trading Parties will receive zero SP01 Charges within the distribution they receive.

Parameters in the PARMS system will need to be changed to implement this solution, however, this will be achieved as a business as usual process, with no cost. The wider Supplier Charge calculation process will not be affected.

BSC Section S Annex S-1 3.6 will require amendment to reflect a price of £0.00 for charges related to Serial SP01, at one Working Day (WD) effort of £240.

### **Does this Modification impact a Significant Code Review (SCR) or other significant industry change projects, if so, how?**

This Modification does not impact any Significant Code Review or other major industry change projects. We will seek Authority confirmation in advance of Modification progression.

### **Consumer Impacts**

No direct impacts on the consumer anticipated.

### **Environmental Impacts**

No direct impacts on the environment anticipated.

## 7 Relevant Objectives

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	<b>Positive</b>
(d) Promoting efficiency in the implementation of the balancing and settlement arrangements	<b>Positive</b>
(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

### **(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 intention of Supplier Charges as a PAT is to redistribute charges due to those who suffer loss due to others failure to meet performance levels, and such loss has not been directly incurred for the SP01 Serial with its current calculation methodology. This Modification will refocus the technique on this original intention. Therefore, this Modification is positive against BSC Objective (c) by mitigating the competition dis-benefit from the existing SP01 Supplier Charge not delivering benefits that align to the principle of Supplier Charges.

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

Removing 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 will ensure the Supplier Charges technique efficient in managing Settlement Risk.

## 8 Implementation Approach

This Modification should be implemented on 27 February 2020 as part of the February 2020 BSC Release.

## 9 Legal Text

### Text Commentary

The legal text in BSC Section S Annex S-1 3.6.1 will be amended so the Supplier Charge SP01 will be set to zero. The SP02 charge shall be separated to ensure it continues to be applied to the same level as current.

3.6.1 A Supplier who fails to comply with:

- (a) ~~Serial SP01 or (as the case may be) Serial SP02 shall be liable to a charge of £0.0025.50 per Business Day in respect of each Routine Performance Monitoring Report which is not provided or, as the case may be, each Routine Performance Monitoring Log which is not maintained in accordance with the time limits and in the manner specified in Serial SP01 and Serial SP02 respectively., and/or~~
- (b) Serial SP02 shall be liable to a charge of £25.50 per business day in respect of each Routine Performance Monitoring Log which is not maintained in accordance with the time limits and in the manner specified in Serial SP02.

## 10 Recommendations

### Proposer's Recommendation to the BSC Panel

The BSC Panel is invited to:

- Raise the Modification in accordance with BSC Section F 2.1.1(d)(vi);
- Agree the Modification **not** be progressed as a Self-Governance Modification Proposal; and
- Agree the Modification be sent directly into the Report Phase.