P411 'Including new LDSOs in Qualification to mitigate potential risks to Settlement'

This Modification aims to improve the effectiveness of the Qualification Performance Assurance Technique (PAT) by requiring new Licensed Distribution System Operators (LDSOs) to undergo Qualification in this role. This will provide assurance to industry participants that new LDSOs are able to fully execute their BSC Role and obligations when active in the market.

ELEXON recommends this Modification is progressed directly to the Report Phase with an initial recommendation to approve.

ELEXON does not consider that this Modification impacts the European Electricity Balancing Guideline (EBGL) Article 18 terms and conditions held within the BSC.

This Modification is expected to impact:

- New entrant LDSOs
- Qualification Service Provider
- ELEXON as Balancing and Settlement Code Company (BSCCo)

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Phase

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

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About This Document

This document is a recommendation to the BSC Panel to raise a Modification Proposal (Attachment A) on the recommendation of the Performance Assurance Board (in accordance with BSC Section F 2.1.1(d)(vi)).

ELEXON will present this paper to the Panel at its meeting on 9 July 2020. If the Panel agree to raise the Modification Proposal, this document will form the Initial Written Assessment (IWA), and the Proposal Form will be updated and published on the ELEXON website accordingly. The Panel will consider the recommendations, and agree how to progress this Modification.

There are four parts to this document:

- This is the main document. It provides details of the Modification Proposal, an assessment of the potential impacts and a recommendation of how the Modification should progress, including the Workgroup's proposed membership and Terms of Reference.
- Attachment A contains the Modification Proposal Form.
- Attachment B contains the draft changes to the BSC to deliver this Modification.
- Attachment C contains the draft changes to BSCP537 to deliver this Modification.

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1 Summary

What is the issue?

Licensed Distribution System Operators (LDSOs) have numerous responsibilities under the BSC. Many of these responsibilities have a material effect on factors linked to Settlement Risks.

Once operational, LDSOs are subject to Performance Assurance Techniques, such as the BSC Audit and Error and Failure Resolution, which provide ongoing assurance that LDSOs are able to fulfil their BSC role and obligations. However, LDSOs are not subject to any preventative assurance for these activities before they enter the market and go live.

The Performance Assurance Board agree that the lack of preventative assurance for LDSOs poses a risk to Settlement, and therefore consider that new LDSOs should be required to Qualify in this role before they commence operations.

What is the proposed solution?

This Modification proposes to include new entrant LDSOs in the scope of the Qualification technique in the role of LDSO.

The inclusion of LDSOs in the Qualification technique will require a new role-specific section to be added to the Self Assessment Document (SAD). The new section will contain questions and guidance for new LDSO entrants to respond to that relate specifically to the role of an LDSO. New entrant LDSOs will be required to respond to this section in addition to the Supplier Meter Registration Agent (SMRA) and Unmetered Supplies Operator (UMSO) roles that they are currently required to Qualify as.

Impacts

This Modification will impact all **new entrant LDSOs**, as they will be required to Qualify in the role of LDSO.

This Modification will also impact the **Qualification Service Provider** and **ELEXON as BSCCo** to facilitate the Qualification of new LDSOs.

Implementation

We recommend an Implementation Date of:

- **5 November 2020** as part of the November 2020 BSC Release.

Recommendation

We recommend that this Modification is progressed directly to the Report Phase with an initial recommendation to **approve** as a **Self-Governance Modification Proposal**.

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2 Why Change?

What is the issue?

Licensed Distribution System Operators (LDSOs) (including Independent Distribution Network Operators (IDNOs), which the BSC does not distinguish between for Market Entry purposes) have numerous responsibilities and obligations under the BSC. In particular there are many processes and requirements contained in BSCP515 'Licensed Distribution' and BSCP128 'Production, Submission, Audit and Approval of Line Loss Factors' which are linked to factors in Settlement Risks.

While LDSOs are required to complete Qualification in the roles of Supplier Meter Registration Agent (SMRA) and Unmetered Supplies Operator (UMSO), there is currently no preventative assurance related to the activities they undertake in the role of LDSO. As such any new LDSO that enters the market has the potential to pose a risk to the effectiveness of the processes specific to this role, and thus pose a risk to the integrity of Settlement.

The PAB and ELEXON consider that LDSOs should complete Qualification before they commence operations in the market.

What are Settlement Risks?

Settlement Risks are risk of any failure or error in processes required by the BSC that may impact Settlement. Settlement Risks are recorded on the Risk Evaluation Register.

What is Qualification?

Qualification is a technique that provides assurance that new market participants have sufficient knowledge, systems and processes so that they won't pose a significant risk to Settlement when they go live. Qualification has generic parts and role specific parts which assess an applicants ability to carry out and responsibilities associated

Background

Following its Performance Assurance Framework (PAF) Review, ELEXON presented a paper to the Performance Assurance Board (PAB) (PAB224/11) containing recommended changes to the PATs. Among these recommendations was that new LDSOs be made subject to the Qualification technique.

LDSOs are already required to Qualify in their capacity as SMRA and UMSO, and are identified as a Performance Assurance Parties. As such, LDSOs are subject to the BSC Audit and Error and Failure Resolution techniques. This provides ongoing assurance that LDSOs are able to fulfil their role once operational, but there is not currently any preventative assurance provided to market participants.

This Modification aims to carry forward this recommendation as endorsed by the PAB, and subsequently recommended to be raised by the PAB under Section F2.1.1(d)(vi) at its meeting on 25 June 2020 (PAB233/07). This will provide assurance to market participants that new LDSOs will be able to fulfil their BSC role and obligations before they go live.

Performance Assurance Framework Review

The PAF is a suite of techniques that can be applied to Performance Assurance Parties to help mitigate any risks that market participants may pose to the integrity of Settlement. The current risk-based PAF was introduced by 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' in 2007. The techniques fall into four categories:

- Detective;
- Preventative;
- Remedial; and

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- Incentive.

Qualification is a preventative technique designed to ensure that new entrants have satisfactorily developed their systems and processes so that any potential risks to Settlement when live have been sufficiently mitigated.

The third workstream of ELEXON's PAF Review, assessed the continued suitability and effectiveness of PATs. It recommended changes to PAB at its meeting on 26 September 2019 as outlined above, The PAB endorsed these recommendations, and subsequently recommended that this Modification be raised.

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3 Solution

Proposed Solution

This Modification proposes to include new entrant LDSOs in the scope of the Qualification technique in the role of LDSO. This Modification will draft the changes to Section J 'Party Agents and Qualification Under the Code' and BSCP537 'Qualification Process for SVA Parties, SVA Party Agents and CVA Meter Operators' in order to require new LDSOs to Qualify in this role.

The inclusion of LDSOs in the Qualification technique will also require a new role-specific section to be added to the SAD. The new section will contain questions and guidance for new entrants to respond to that relate specifically to the role of an LDSO. New entrant LDSOs will be required to respond to this section in addition to the SMRA and UMSO roles that they are currently required to Qualify as.

The Qualification Service Provider's scope will be extended to review and assess the responses that new LDSOs provide to ensure that they do not pose a significant risk to Settlement.

Changes to the Self Assessment Document

As a Category 3 BSC Configurable Item, changes to the SAD are made through a dedicated change process overseen by the PAB. In reviewing the SAD, the PAB shall assess whether any amendments to the document may help reduce risks. The PAB is not required to consult Parties on any changes to the SAD, though it may do so if it believes it would be appropriate.

Changes to the SAD to facilitate this Modification will be approved by the PAB as part of the implementation phase.

Re-Qualification

This Modification does not propose to also extend re-Qualification. The PAF review also recommended significant changes to the re-Qualification processes, so it is more efficient for the extension of the scope of re-Qualification to any additional parties to be considered under a separate piece of work focussing on re-Qualification. The recommendation to review the re-Qualification technique will be progressed subsequent to this Modification.

Benefits

The aim of this Modification is to provide assurance to market participants that new LDSOs are able to fully carry out their BSC Role and execute their obligations. By including new LDSOs in scope, it will ensure that the Qualification technique is fully effective at mitigating any risks to Settlement that new entrants may pose.

The Modification will also bring LDSOs in line with other Performance Assurance Parties by subjecting them to the Qualification PAT.

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Applicable BSC Objectives

Applicable BSC Objective (d)

ELEXON and the PAB believe this Modification will better facilitate Applicable BSC Objective (d) as it will provide preventative assurance that new LDSOs are able to fulfil the BSC obligations and responsibilities associated with this role. This will mitigate the need for detective and corrective action to be taken against new LDSOs once they have gone live, which will ensure that the BSC arrangements can be delivered effectively and efficiently.

Implementation approach

We propose that this Modification should be implemented on:

- **5 November 2020** as part of the November 2020 BSC Release.

This is the next available Release that the change can be included in.

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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4 Proposed Progression

Next steps

Pursuant to BSC Section Z8.2.1(b), the PAB unanimously recommended to the Panel that this Modification should be raised. Therefore, we invite the Panel to raise this Modification under Section F2.1.1(d)(vi).

If the Panel agrees to raise this Modification, we recommend it is progressed straight to the Report Phase and issued for a 10 Working Day (WD) consultation. The Draft Modification Report will be presented on to Panel on 13 August 2020.

The solution is self-evident and was devised by the PAF review, which included engagement with market participants. Therefore the benefits of submitting the Modification for assessment by a Workgroup are unclear.

Self-Governance

This Modification will not place additional requirements on new entrant LDSOs in comparison to LDSOs that are already operational. Rather, it seeks to provide assurance that new entrant LDSOs can fulfil the BSC obligations that are already applicable. As such, we do not believe that including new LDSOs in the Qualification technique will materially impact the Self-Governance criteria. This Modification **should** therefore be treated as a **Self-Governance Modification**.

Timetable

Proposed Progression Timetable	
Event	Date
Present Initial Written Assessment to Panel	9 July 2020
Report Phase Consultation (12WD)	14 July 2020 – 29 July 2020
Present Draft Modification Report to Panel	13 August 2020
Publish Self-Governance Modification Report	17 August 2020
Self-Governance Appeal Window closes	3 September 2020
Implementation Date	5 November 2020

What is the Self-Governance Criteria?

A Modification that, if implemented:

(a) does not involve any amendments whether in whole or in part to the EBGL Article 18 terms and conditions, except to the extent required to correct an error in the EBGL Article 18 terms and conditions or as a result of a factual change, including but not limited to:
(i) correcting minor typographical errors;
(ii) correcting formatting and consistency errors, such as paragraph numbering; or
(iii) updating out of date references to other documents or paragraphs;

(b) is unlikely to have a material effect on:
(i) existing or future electricity consumers;
(ii) competition in the generation, distribution, or supply of electricity or any commercial activities connected with the generation, distribution, or supply of electricity; or
(iii) the operation of the national electricity transmission system;
(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

(c) is unlikely to discriminate between different classes of Parties.

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5 Likely Impacts and Costs

Estimated central implementation costs

The cost to implement this Modification will be approximately £2600: £2100 to amend the Qualification Service Provider contract and ensure training of staff, and £500 to make the necessary changes to BSC documents.

There will be an ongoing cost of approximately £6600 per LDSO Qualification for the Qualification Service Provider to review the submissions made by applicants. This is in line with the cost of Qualifying other roles. There will be no increase to ELEXON's ongoing costs as the Qualification will be provided under the existing service.

Indicative industry costs

We do not envisage any industry costs resulting from this Modification.

Impacts

Impact on BSC Parties and Party Agents	
Party/Party Agent	Potential Impact
New entrant LDSOs	New Entrant LDSOs will be required to complete Qualification in the role of LDSO before they start operating in the market. However, we do not believe that this will introduce any additional requirements on new entrant LDSOs in comparison to LDSOs already operational. We therefore do not believe this will be a significant impact.

Impact on National Electricity Transmission System Operator
We do not envisage any impacts on the National Electricity Transmission System Operator as a result of this Modification.

Impact on BSCCo	
Area of ELEXON	Potential Impact
Market Entry	The Market Entry team will be required to update its guidance and processes to reflect the new location of the Qualification Document.

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Impact on BSC Settlement Risks
This Modification will help mitigate impacts on the following Settlement Risks: • 003: SVA Metering Equipment is installed, programmed or maintained incorrectly including where Commissioning is performed incorrectly or not at all; • 020: CVA Metering Equipment is installed, programmed or maintained incorrectly including where Commissioning is performed incorrectly or not at all; and • 026: Aggregation Rules in CDCA are incorrect such that CVA Metered Data is not correctly aggregated and the energy volumes required for Settlement are incorrect or missing by requiring new LDSOs to demonstrate their ability to perform these responsibilities before becoming operational.

Impact on BSC Systems and processes	
BSC System/Process	Potential Impact
None	N/A

Impact on BSC Agent/service provider contractual arrangements	
BSC Agent/service provider contract	Potential Impact
Qualification Service Provider	The Qualification Service Provider's scope will be extended to review and assess the responses that new LDSOs provide to ensure that they do not pose a significant risk to Settlement. The Qualification Service Provider has confirmed that this will not be a significant impact on its processes and can be delivered within the proposed implementation timeframe.

Impact on Code	
Code Section	Potential Impact
BSC Section J 'Party Agents and Qualification under the Code'	Section J will be amended to place an explicit obligation on LDSOs to Qualify in this role.

Impact on EBGL Article 18 terms and conditions and objectives
This Modification will not impact on the EBGL Article 18 Terms and Conditions.

Impact on Code Subsidiary Documents	
CSD	Potential Impact
BSCP537 'Qualification Process for SVA Parties, SVA Party Agents and CVA Meter Operators'	BSCP537 will be amended to describe the Qualification process for new LDSOs.

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Impact on other Configurable Items	
Configurable Item	Potential Impact
Self Assessment Document (SAD)	A new section will be added to the SAD containing the Questions that new LDSOs will need to respond to. Changes to the SAD to facilitate this Modification will be approved by the PAB as part of the implementation phase.

Impact on a Significant Code Review (SCR) or other significant industry change projects
We do not believe that this Modification will impact on any open SCR or other significant change projects. An SCR exemption request was sent to Ofgem on 30 June 2020.

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6 Recommendations

We invite the Panel to:

- **RAISE** the Modification Proposal in Attachment A in accordance with F2.1.1(d)(vi);
- **AGREE** that this Modification should be progressed directly to the Report Phase;
- **AGREE** that this Modification:
    - **DOES** better facilitate Applicable BSC Objective **(d)**;
- **AGREE** that this Modification **DOES NOT** impact the Article 18 Terms and Conditions held within the BSC;
- **AGREE** an initial recommendation that this Modification should be **approved**;
- **AGREE** an initial Implementation Date of:
    - **5 November 2020** as part of the November 2020 BSC Release;
- **AGREE** the draft legal text;
- **AGREE** the draft changes to BSCP537;
- **AGREE** an initial view that this Modification should be treated as a Self-Governance Modification; and
- **NOTE** that ELEXON will issue the draft Modification Report (including the draft BSC legal text) for a 12 Working Day consultation and will present the results to the Panel at its meeting on 13 August 2020.

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Appendix 1: Glossary & References

Acronyms

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

Acronym	
Acronym	Definition
BSCCo	Balancing and Settlement Code Company *(ELEXON)*
IDNO	Independent Distribution Network Operator
IWA	Initial Written Assessment
LDSO	Licensed Distribution System Operator
PAB	Performance Assurance Board *(Panel Committee)*
PAF	Performance Assurance Framework
PAT	Performance Assurance Technique
SAD	Self Assessment Document
SCR	Significant Code Review
SMRA	Supplier Meter Registration Agent
UMSO	Unmetered Supplies Operator
WD	Working Day

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
4, 6, 10	BSCPs	https://www.elexon.co.uk/bsc-and-codes/bsc-related-documents/bscps/
4	PAB 224	https://www.elexon.co.uk/meeting/pab224/
4	PAB233	https://www.elexon.co.uk/meeting/pab-233/
4	P207	https://www.elexon.co.uk/mod-proposal/p207/
4	PAF Review	https://www.elexon.co.uk/reference/performance-assurance/performance-assurance-framework-review/
6, 10	BSC Sections	https://www.elexon.co.uk/bsc-and-codes/balancing-settlement-code/
10	Self Assessment Document (SAD)	https://www.elexon.co.uk/bsc-and-codes/bsc-related-documents/self-assessment-documents/

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