

Modification proposal:	Balancing and Settlement Code (BSC) P427: 'Publication of Performance Assurance Parties' impact on Settlement Risk' (P427)		
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:	28 November 2022	Implementation date:	23 February 2023

Background

Exxon uses a variety of performance assurance techniques in its Performance Assurance Framework (PAF). Key amongst these is the 'Error and Failure Resolution' (EFR) process. EFR is used to assure Exxon, the Performance Assurance Board (PAB) and the rest of the industry that Performance Assurance Parties (PAP) understand any performance issues that have been identified and have robust plans in place to resolve them in a timely manner. As part of EFR, PAPs agree with Exxon what steps they will take to resolve their performance issues.

The EFR process can be applied for all BSC Settlement Risks where an issue has been identified. When applying EFR against a Settlement Risk, Exxon takes into account the net significance of the risk and the PAP's contribution to the issue identified. The PAB can define specific escalation criteria for specific Settlement Risks or net significance values. Where a PAP fails to meet one or more of the milestones set out within their EFR plan or otherwise meets certain escalation criteria, Exxon may escalate the EFR plan. EFR should be addressed by the the PAB in the first instance and then may be escalated to the BSC Panel if required.

Exxon notes that it often takes longer than expected to resolve issues affecting settlement performance. This has been particularly evident in the EFR process where many EFR plans remain open for over a year. The longer the period to rectify these issues, the longer there is a material impact on settlement accuracy. In addition, treating settlement performance and risk data as confidential protects the reputation of PAPs who are having a significant impact on other market participants. This has the potential to impact competition negatively as poorly performing PAPs can hide behind anonymity. This was the context in which P427 was raised.

The modification proposal

The Modification seeks to discourage market participants from causing or ignoring serious settlement errors. It seeks to increase the effectiveness of all detective and investigative PATs, including the EFR process, by publishing PAPs' performance data. This is expected to sharpen the incentives for PAPs to implement their EFR plans and so lead to a swifter resolution of issues affecting settlement performance. Overall, this should make the PAF more efficient.

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.

The proposed solution would amend BSC Section Z, BSCP533 and BSCP538 to allow the PAB to recommend to the BSC Panel to publish risk and performance data in respect of PAPs' contribution to Settlement Risk along with relevant risk data. Additionally, notices detailing the error/impact would be published if one of the following is triggered

- where a PAP within the EFR process fails against a milestone within its EFR plan after previously having been escalated to the PAB for the same EFR plan
- where the PAB deems that the publication of one or more sets of performance data would have a beneficial impact on settlement performance via peer comparison
- where a PAP's action or inaction results in a market wide impact with a total materiality meeting or exceeding the market wide impact threshold proposed by the PAB and approved by the BSC Panel
- where a PAP's action or inaction results in an impact to an individual market participant with a total materiality meeting or exceeding the individual BSC Party impact threshold proposed by the PAB and approved by the BSC Panel.

Under the BSC Panel's proposal, the publication of any risk and/or performance data must first be approved by the BSC Panel following a formal recommendation by the PAB. P427 would also enable the PAB to recommend the publication of new league tables for performance (recognising both good performance and areas for improvement) and contribution to Settlement Risk, where the PAB believes doing so would have a positive impact on performance, competition and compliance. The Modification would also establish *de minimis* thresholds for impact on one or more market participants to ensure that large Settlement Errors are attributed to the responsible party, incentivising behaviours to assist the early identification and resolution of such errors.

The Final Modification Report sets out the workgroup's recommendations in relation to the frequency with which different types of risk and performance data items should be published.³ In that document Elexon made clear that, if P427 were approved, the PAB would present a paper to the BSC Panel with the recommended data items to be published. Subsequently a webpage would be created on the Elexon site to host these data items. Elexon also clarified in the FMR that, where a PAP's data is to be published pursuant to P427, the PAP will be notified ahead of time so that it can appeal to the Panel before the data is published.

According to the proposer, the current arrangements have been seen to be overly restrictive with what performance data can be published, resulting in missed opportunities further to incentivise parties to meet performance targets. The intention is that Elexon will monitor parties' performance to ensure that the desired outcomes of improved efficiency of the PAF, swifter resolution rates to EFR plans and any other significant issues that impact settlement are realised.

³ See [Final Modification Report](#), Elexon, September 2022.

BSC Panel⁴ recommendation

At the BSC Panel meeting on 8 September 2022, the Panel agreed by a majority vote that P427 should be approved on the basis that it better facilitates BSC Applicable Objectives (c) and (d). The consumer representative was amongst those that voted to recommend approval of P427.

Our decision

We have considered the issues raised by the modification proposal and the Final Modification Report (FMR) of 14 September 2022. We have also considered the responses to the industry consultations, including their views on the proposed legal text.

We note that a minority of consultation respondents and Panel members opposed the modification whether on the basis that existing performance assurance mechanisms were sufficient to monitor and manage settlement performance, that publishing league tables would be unhelpful because they would not provide enough context about any underlying issues causing poor performance or would not speed up the EFR process and would not drive performance improvements. However, Ofgem agrees with the majority who voted to recommend approval that greater transparency in assurance reporting does have the potential to drive faster resolution of issues leading to improvements in settlement performance. We are also concerned to ensure that poorly performing parties should no longer routinely be able to hide behind anonymity.

One respondent said that the solution goes beyond the original problem statement that PAPs were spending too long in the EFR process and so the modification should not be approved. However, we accept Elexon's view that, whilst the solution has expanded since the modification process began, it has not exceeded the problem statement, which was that settlement issues take longer than expected to resolve.

We have therefore concluded that:

- implementation of the modification proposal will better facilitate the achievement of the applicable objectives of the BSC;⁵ and
- directing that the modification be made is consistent with our principal objective and statutory duties.⁶

Reasons for our decision

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

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](#).

⁵ As set out in [Standard Condition C3\(3\) of the Electricity Transmission Licence](#).

⁶ 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.

(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 is that, through publication of performance data, PAPs will be able to compare themselves against others. As noted above, we believe that greater transparency in assurance reporting could drive faster resolution of issues leading to improvements in settlement performance. If the Panel has the ability to publish this information, it might incentivise poorly performing PAPs to improve their performance. Improved performance could in turn allow those PAPs to climb the leader board and/or ensure that a notice of poor performance is not in fact published about them. We further note, as was pointed out in one of the industry consultation responses, that leading performers could cite published documentation as reflecting the high quality of service they provide.

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

We consider that the publication of PAPs' performance data (whether in isolation or as part of a league table) strengthens the incentives for better performance. This modification should, therefore, reduce settlement risks and improve accuracy, thereby promoting efficiency.

Decision notice

In accordance with Standard Condition C3 of the Transmission Licence, the Authority hereby directs that modification proposal BSC P427: 'Publication of Performance Assurance Parties' impact on Settlement Risk' be made. The Authority also directs that this Modification Proposal should be implemented on 23 February 2023 in line with the BSC Panel's recommendation.

Rachel Clark
Deputy Director Retail

Signed on behalf of the Authority and authorised for that purpose