

PAB212/06 – PAF REVIEW – PAF PROCEDURES WORKSTREAM RECOMMENDATIONS REPORT

MEETING NAME Performance Assurance Board

Date of meeting 27 September 2018

Paper number PAB212/06

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Purpose of paper For Decision

Classification Public

Summary This paper presents the recommendations report of the PAF Procedures workstream of the PAF Review. The PAB is invited to approve the recommendations for enhancements to the PAF Procedures, which provide the structure and governance of the Performance Assurance Framework.

1. Introduction

- 1.1 The PAF Procedures are the set of documents and activities that provide the structure for operating the BSC's Performance Assurance Framework (PAF). Reviewing the PAF Procedures is the second workstream in the PAF Review. For background information to the review, please see Appendix 1.
- 1.2 The recommendations for changes to the PAF Procedures are set out in the workstream recommendations report in Attachment A. The PAB is invited to review the recommendations in Attachment A and direct ELEXON on those it approves for implementation, along with any specific instructions on the implementation.

2. Key recommendations

- 2.1 The full set of recommendations is provided in Attachment A; some specific recommendations we would like to draw to the PAB's attention are below:
- The PAB Strategy – should this be sent to the BSC Panel for information?
 - Provisional supplementary information in the risk register – input welcomed from PAB members as to impacts and controls outside of the BSC and any best practice guidance for users.
 - Risk Evaluation Methodology – the proposed approach to scoring risks is significantly different to the current approach. It does not use the 5x5 impact / probability matrix, but estimates an annual plausible materiality value in financial terms ("Impact"), accompanied by a volatility score that reflects the uncertainty of the Impact. Does the PAB approve the approach¹?
 - Recognition of non-financial impact – Not all parties experience Settlement Error as a direct financial impact e.g. Party Agents. We are proposing to capture other types of impact within fields in the risk register (see paragraph 4.22 of Attachment A). Does the PAB have other thoughts on how we propose to factor this in to risk management?
 - Flexibility in risk definitions – we propose that there will be flexibility in risk definitions in terms of what we describe as a risk, a risk factor or a control. At times, the PAB may wish to "promote" a risk factor or a control to be a risk in its own right should it be considered beneficial to provide that focus.

¹ The approach is also presented in PAB paper 212/10, which is the Risk Evaluation Methodology

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- f) Reporting - the detailed reporting suite will be developed over the coming months. Does the PAB have feedback on the reporting areas and principles described in Attachment A (paragraphs 5.1 and 5.2)?

3. Next steps and implementation notes

- 3.1 The Risk Evaluation Methodology (REM) is presented to this PAB meeting for endorsement prior to issuing to parties for comment. We propose to provide supporting information and offer a webinar where we will invite questions, in order to assist any stakeholder who want to provide comments.
- 3.2 The Risk Evaluation Register (RER) will be presented to the PAB in November 2018 for endorsement prior to issuing to parties for comment.
- 3.3 We are holding a session with the PAB on 24 October 2018 to start preparing the PAB Strategy for 2019/20, and to look at how to determine its risk appetite and decide on target risk impacts. The target impacts will be included in the Risk Operating Plan (ROP), due to be presented to the PAB in January 2019.
- 3.4 After November, we will have a picture of how the risks are prioritised in terms of estimated impact in 2019/20. We can then start considering how to transition between the current set of “top” risks and the new set. Note that those considered highest priority could be those with the highest impact, those furthest from the assigned target impact, or some other measure (or combination of measures) of prioritisation. We will need to consider the reporting requirements, frequency of risk reviews, measuring PAP contribution and how to manage mitigating techniques currently being deployed such as EFR plans.

4. Delivery of the PAF Review project

- 4.1 This report concludes the second workstream in the PAF Review project. See Appendix 2 for a timeline of the four project workstreams and progression through them to date.

5. Recommendations

- 5.1 We invite you to:
- a) **COMMENT** on the recommendations; and
 - b) **APPROVE** the recommendations for implementation

Appendices

Appendix 1 – PAF Review background

Appendix 2 – PAF Review timeline

Attachments

Attachment A – PAF Procedures Workstream Recommendations Report

Attachment B – PAF Procedures Workstream Recommendations Report attachments set

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Appendix 1 – PAF Review background

Initiation

The preliminary scope and approach for the review was approved by the BSC Panel in July 2016 (paper 255/12). ELEXON undertook a stakeholder engagement exercise to validate the preliminary scope, and the outcome and validated scope were endorsed by the PAB in November 2016 (paper 190B/09). In March 2017, the Panel approved the final scope and approach of the review (paper 264/07²).

Workstreams

The project has progressed via four workstreams:

- The Smart Metering workstream considered risks from and mitigations for Settlement error from the rollout of Smart Meters – it completed in May 2018³.
- The PAF Procedures workstream concludes with this paper. Previous papers have commented on the existing PAF approach⁴, other options⁵ and potential improvements.
- The Data Provision workstream which is due to conclude summer 2019, will recommend feasible alternative ways of provisioning data that provide improved risk evaluation, better support the use of mitigation techniques, place less burden on participants to provide data and are easier to change as required in future. Quick wins identified during the work will be implemented as appropriate.
- The Performance Assurance Technique Reviews workstream will assess the current toolkit of assurance techniques, identify any improvements to increase cost efficiency and recommend changes to the techniques to deliver the improvements. The reviews will be carried out through 2019 and into 2020, with quick wins implemented as soon as possible, and changes initiated as each review concludes. Note that the Data Provision workstream will feed into the reviews of the data-based techniques.

Stakeholder involvement

Issue 69 was raised on 30 March 2017 to support all the workstreams – stakeholders were invited to join groups for each of the four workstreams to allow for those with specific areas of knowledge and interest to participate.

Information on the Issue 69 meetings and reports to the Panel are available on the ELEXON website - <https://www.elexon.co.uk/smg-issue/issue-69/>

Suppliers and Licenced Distribution System Operators have been approached (through Cornwall Insight's Supplier forums and the Commercial Operations Group respectively), with presentations and invitations to contribute. We also sent a Request for Information to gather views on key risk areas to a broad range of parties.

Further information

Information on the project can be found on the ELEXON website -

<https://www.elexon.co.uk/reference/performance-assurance/performance-assurance-framework-review/>

² https://www.elexon.co.uk/wp-content/uploads/2016/08/27_264_07_PAF_Review_Scope_Approach_Approval_PUBLIC.pdf

³ See papers presented to the PAB in January, February and May 2018 -

<https://www.elexon.co.uk/group/performance-assurance-board-pab/group-meetings/>

⁴ The Findings Report, paper PAB202/10A - <https://www.elexon.co.uk/meeting/pab-202/>

⁵ The Options Report, paper PAB202/10B - <https://www.elexon.co.uk/meeting/pab-202/>

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