

PAB215/05 – PAB STRATEGY

MEETING NAME Performance Assurance Board

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Purpose of paper Decision

Classification Public

Summary This paper suggests a future strategy for PAB following input from members during a strategy and planning session in October 2018

1. Background

- 1.1 During a workshop with members of the Performance Assurance Board in October 2018, ELEXON presented a number of future events and factors for PAB members to consider for inclusion in its PAB Strategy.
- 1.2 This paper presents proposed PAB Strategy objectives for the year 2019/20, based on the discussions in the strategy workshop. The strategy will inform the focus of the Risk Operating Plan for the 2019/20 period.

2. Proposed Strategic Objectives

2.1 Having summarised the views shared within the working group, ELEXON proposes the following five strategic objectives, with key activities to work towards them.

2.2 The PAB will:

- a) **Regularly review future Industry changes and developments and consider consequential impacts on the PAF, so that the risk register reflects sources of risk in the relevant period, and the PAB can determine appropriate technique deployment**
 - The Performance Assurance Agent (PAA) will complete impact assessments on BSC Change and present material items to the PAB, primarily through reviews of the risk register
 - The PAB will form a sub-group to consider and direct the PAF response to Ofgem's Mandatory Half Hourly Settlement (MHHS) Significant Code Review
 - The PAA will periodically (at least every 6 months) facilitate discussion with the PAB on Change Horizon items and take actions as the PAB directs
 - The PAB will use lessons learned from previous market-wide changes (e.g. P272) when planning the PAF response to upcoming Industry change
- b) **Ensure accurate allocation of Settlement volumes is a priority within performance management and risk mitigation through risk reviews, deployment of mitigating techniques and performance reporting**
 - The PAB will consider the forecast Settlement Impact of risks in developing the Risk Operating Plan
 - The PAA will develop performance reporting that reflects the PAs' contribution to risk Impact volumes
 - The PAA will develop a broader understanding of CVA risks

- The PAA will review treatment of SVA export volumes, in particular estimation techniques
- c) Develop a more flexible approach to PAB meetings, membership and resources to allow PAB to provide adaptable, consistent and effective performance assurance**
 - The PAA will provide opportunities for straightforward PAB business to be managed outside meetings
 - The PAA will ensure that requests for information, made by PAB during escalations, are referenced and noted, so that this can be reviewed in any future escalations
- d) Create clear and visible communication channels between PAB, PAPs and Ofgem, highlighting notable negative and positive performance and giving clarity to all stakeholders**
 - The PAA will develop performance reporting during 2019 that provides a view of PAPs' contribution to risks and issues, with peer comparison where appropriate, that is easily accessible and easy to understand
- e) Provide transparency and feedback throughout the implementation period of the PAF. Review recommendations, to ensure the approach established reflects the changes approved by the PAB, and that PAPs understand the expectations placed on them and information required for them.**
 - The PAA and the PAB will establish approaches for key elements of the PAF, including EFR plans and performance reporting, likely to be of most importance to PAPs during the transition

3. PAF Strategy Session

- 3.1 On 24th October, ELEXON hosted a PAF Strategy Session with PAB members, to establish a set of strategic objectives to be considered within a PAB Strategy. ELEXON presented a number of different industry issues and future changes to the PAB and invited members to discuss the impact of these issues. The discussions covered three areas: Change Horizon, PAF Governance and Risk Appetite.
- 3.2 Change Horizon covered industry changes and issues that are due to happen in the next few years. The issues prioritised by the PAB are separated into short, medium and longer term timeframes (1, 3 and 5 years respectively)
- 3.3 PAF Governance looked at how the Performance Assurance Framework is administered and managed by the PAB and PAA. The discussions considered membership, meeting management and administration and how effective the current governance is.
- 3.4 The Risk Appetite session looked at draft Risk scoring and a comparative judgement exercise that will contribute to establishing a priority of Risks for the PAB.
- 3.5 A summary of the key points raised that feed into the strategic objectives above are detailed in the following sections.

Change Horizon

Long term

- 3.6 **The Growth of Micro Generation** - In light of recent BEIS and Ofgem reviews, it would be wise to monitor this growth market. It may become infeasible to rely on Group Correction Factor adjustments to account for very small-scale generation. Changes to the regulation of Micro Generation will likely land following Smart/HH Settlement Roll Out (4 - 5 Years).

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- 3.7 **Behind the Meter** – We are beginning to see innovations in Behind-the-Meter storage batteries, private networks, complex wiring and embedded generation. Commercial differentiation is driving this change, and may result in changes to party behaviour and focus. Developments should be monitored.

Medium term

- 3.8 **P344 - Project TERRE / P354 - Use of ABSVD for non-BM Balancing Services at the metered (MPAN) level** – Requirement to monitor this project closely, particularly around potential changes to Independent Aggregation (Virtual Lead Parties will be a new type of Qualified Person) and any additional complexities this may create.
- 3.9 **Mandatory Half Hourly Settlement** - Once a suitable Target Operating Model is approved, monitor and review progress of the Design Working Group (DWG) and subsequent developments under Ofgem’s Significant Code Review. Utilise lessons learned during Modification P272 such as clear expectations and goals; better monitoring; understanding residual issues (for P272 the “remaining” non-migrated customers and the impact this can have on performance). It was noted the Settlement reconciliation timetable may reduce considerably. The proposal is to set up a project whereby the PAA will complete an impact assessment on the PAF (including the remaining workstreams of the PAF Review) and report to the PAB quarterly on impacts as the MHHS plans progress.

Short term

- 3.10 **Smart Metering Roll Out** - Taking into consideration lessons learned with existing Smart installations and roll out, looking to address issues raised from communications failures and interoperability. Understanding pressures on BSC Parties in meeting demands of the roll out and commercial and regulatory pressures that will create.
- 3.11 **Performance of Measurement Classes E, F and G Meters** - Performance management of E, F and G Measurement Classes, following the P272 move to Half Hourly metering.
- 3.12 **Party Agent behaviour** - Increase in agents appointed by the Customer and completing Change of Supplier and Change of Agent (CoS and CoA) events.
- 3.13 **Party commercial decisions** - Includes Party system changes and Parties going into default that pose a risk to Settlement and the PAF objectives.

PAB/PAF Governance

- 3.14 **PAB Membership** –
- Establish a membership term (e.g. 4 - 5 years); understand skill set and specialism of each member; link knowledge requirements to strategy items.
 - Invite guest attendees to improve knowledge spread of PAB members. This could be facilitated with more public sessions.
- 3.15 **Engagement with PAPs** –
- Recognising Performance Assurance Parties are most likely to engage with the PAF when they are required to take action and be realistic about impacts on the PAP. Ticking the PAF “box” may not be high on CEOs’ priorities over all the other pressures faced by the industry.
 - Improving accessibility of the PAF documents, e.g. use of terminology.
 - Review of escalation processes and practices.

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- 3.16 **Greater clarity of cost and expenditure of PATs and PAF** – PAB members desire to have greater detail of the costs associated with individual PATs and the PAF to enable strategic planning and mitigation. The core focus should be on value for money.
- 3.17 **PAB meeting management** - The effectiveness of meetings could be increased by facilitating some “rubber stamping” items on the agenda outside of PAB meetings. PAA to work to keep meeting papers succinct and circulated on paper day. Paper content and subsequent discussions on them could be managed more effectively with the option to comment on papers prior to the meeting.

Risk Appetite

- 3.18 The new Risk Evaluation Register (RER) was presented to the PAB in [November 2018](#). There are nine risks in the 4th and 5th Impact bands (forecasting likely annual error of £10m - £25m and £25m+ respectively). Seven of these are not related in any way to risks that are currently considered “top” risks; three of them are in the Central Volume Allocation (CVA) market which have not been focused on before.

4. The PAF Review

- 4.1 A number of suggested strategy items raised by the PAB will be covered by the PAF Review recommendations, and would be included in the PAB Strategy in future if the PAB doesn't feel the workstream recommendations have delivered the benefits required. These points include:
- Transparency – reporting Performance Assurance Parties (PAP) with good and poor performance (risk performance reporting and Peer Comparison)
 - PATs providing more incentive and being more flexible / less prescriptive (PAT reviews)
 - Engaging with PAPs on their views of Settlement Risks (improved delivery of consultations and ongoing discussions on the risks and mitigating activities primarily driven by the Risk Manager and OSMs)

5. Next steps

- 5.1 Following approval of this PAB Strategy, ELEXON will present the Risk Operating Plan for approval in January 2019.
- 5.2 It is proposed that the strategy will be reviewed approximately half way through 2019/20, to assess the strategic objectives and progress towards them.

6. Recommendations

- 6.1 We invite you to:
- a) **APPROVE** the PAB Strategy strategic objectives in Section 2

For more information, please contact:

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