

PAB216/07 - EARLY REVIEW OF SUPPLIER CHARGES

MEETING NAME	Performance Assurance Board
---------------------	-----------------------------

Date of meeting	31 January 2019
------------------------	-----------------

Paper number	PAB216/07
---------------------	-----------

Owner/author	Nathan Flood
---------------------	--------------

Purpose of paper	Decision
-------------------------	----------

Classification	Public
-----------------------	--------

Summary	This paper sets out the reasons for requesting Supplier Charges to be partially reviewed earlier in 2019, as a result of P366 and Market-wide Half-Hourly Settlement Target Operating Model (TOM)
----------------	---

1. Background

- 1.1 The detailed review of Supplier Charges, under the Performance Assurance Framework (PAF) Review, was originally planned to start in August 2019, alongside the other data Performance Assurance Techniques (PAT) – after the conclusion of the Data Provision work stream, leading to a set of recommendations to be proposed to the Performance Assurance Board (PAB) in December 2019.
- 1.2 [Modification Proposal P366](#) seeks to exclude hard to read sites from Supplier Charges SP08a calculations. The proposal contains an alternative solution to set all SP08a charges to £0.00. A Proposed and Alternative solution are due to be issued for consultation in February 2019.
- 1.3 [Market-wide Half-Hourly Settlement](#) (MHHS) will eventually ensure the need to mitigate risks relating to the current Non Half-Hourly arrangements (including the processes Supplier Charges are applied to) becomes obsolete. MHHS is due to go live in 2023. The Design Working Group (DWG) for Market-wide Half-Hourly Settlement is due to provide a first transition approach and estimation of Settlement impacts to Ofgem in August 2019.
- 1.4 The DWG [wrote](#) to the PAB on 14 November 2018 recommending that the PAB expands the scope of the PAF Review to consider the appropriate PAF for MHHS. The DWG request also sought clarity around high-level performance assurance principles required to support MHHS, the elements of the PAF that will need to be changed under the TOM, and Trading Disputes thresholds. The DWG requested clarity by May 2019.
- 1.5 ELEXON presented the DWG recommendations at [PAB214](#). The PAB concluded that the DWG recommendations should not form part of the PAF Review but should be a separate piece of work.

2. PAT Review Scope

- 2.1 The original Project Initiation Document recommends a full review of Supplier Charges including the system shared with Performance Assurance Reporting and Monitoring System (PARMS). The review will focus on confirming whether it is feasible to improve the areas of focus (i.e. the risks) for Supplier Charges using a more accurate risk appraisal and improving the methodology for pre-estimate of loss. If it is not feasible, the review will consider what alternatives might exist and if the technique should be entirely discontinued.
The review will also look at how effective the technique is at changing performance and behaviour.

3. Plan of action

- 3.1 ELEXON is proposing that the Supplier Charges review commence earlier than planned with a focus on the principles around whether it is an effective incentive assurance technique. If it is determined that Supplier

PAB216/07 - EARLY REVIEW OF SUPPLIER CHARGES

Charges can be an effective part of the assurance toolkit, we will then assess useful areas of focus and specific performance target changes.

- 3.2 It would be beneficial to consider the Supplier Charges methodology and feasibility separately in order to inform both P366 and MHHS prior to mid-2019. This partial review will consider our current knowledge around top risks and potential data sources.
- 3.3 We would therefore like to bring this section of the review forward to February 2019. We propose the main detail of the review, which would consider the exact Serials and Standards involved, be reviewed in August 2019 as currently planned.
- 3.4 The initial partial review would cover the following analysis (including but not limited to):
- Review of BSC requirements, including BSCPs, guidance notes etc.
 - Review of feedback and lessons learned from previous Change Proposals (CP), Modifications, Risk Operating Plans (ROPs), PAB strategies etc.
 - Comparison with any similar uses of genuine pre-estimate of loss elsewhere.
 - Agreement on what Supplier Charges should bring to the assurance toolkit in future and if it is possible to provide this. Specifically we will look into whether this technique achieves the aim of being a genuine pre-estimate of loss and whether it currently adds value to the assurance toolkit.
 - Assessing the validity of capping charges, the reallocation of funds, and the use of self-reported data.
 - Consider what changes are required to factor in Market-wide Half Hourly Settlement.
- 3.4.1 We anticipate a consultation with stakeholders (in particular Suppliers) on our findings to gather feedback.

4. Next steps

- 4.1 We will present our recommendations to the May 2019 PAB. The DWG has provisionally indicated that this timescale is acceptable and the PAF Review team will ensure they are kept informed about our analysis and draft recommendations.
- 4.2 The remaining part of the review in August 2019 would cover the following:
- Review the area of focus – are the PARMS Serials used reflective of priority Settlement Risks?
 - Review the data used to support Supplier Charges and considering if there are alternate data sources which do not require self-reporting.
 - Decide if new or alternate PARMS Serials should be used as a basis for charges.
 - Consider alternatives to Supplier Charges for the areas of focus identified. This will include looking at flexible data and systems to support changes in risk focus.
 - Analysis of the data used to produce Supplier Charges and consideration of alternate sources of data.
 - The performance standards, the value of the Supplier Charges and the level of capping.
- 4.3 Recommendations from the second stage of the Supplier Charges review are due to be proposed to PAB in December 2019.

5. Recommendations

- 5.1 We invite you to:
- a) **APPROVE** bringing forward the first stage of the review of the principles of Supplier Charges.

PAB216/07 - EARLY REVIEW OF SUPPLIER CHARGES

For more information, please contact:

Nathan Flood, PAT Review Lead

nathan.flood@elexon.co.uk

020 7380 4130