

PAB216/11 – PERFORMANCE ASSURANCE ACTIVITIES FOLLOWING A SUPPLIER OF LAST RESORT EVENT

MEETING NAME	Performance Assurance Board
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Purpose of paper	Decision
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Classification	Public
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Summary	This paper sets out the legal interpretation of the obligations relating to Performance Assurance activities that would apply following a Supplier of Last Resort (SoLR) event. It also sets out the actions that should be taken for the Supplier MPIDs which have recently been through a SoLR event.
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1. Introduction and Background

- 1.1 Following a number of increasing SoLR events in 2017 and 2018, BSC Parties and the PAB questioned how the different Performance Assurance Techniques (PATs) should be applied to the failing Supplier's Market Participant Identifier (MPID) that is transferred during a SoLR and the existing MPID of the Replacement Supplier.
- 1.2 Details of the SoLR process and obligations for the failing Supplier and Replacement Supplier are detailed in the BSC in Section K7.1.3 and K7.1.5.
- 1.3 The current approach taken upon a SoLR event is that ELEXON migrates the MPID(s) of the failing Supplier to the Replacement Supplier upon the SoLR Appointment Day within the Central Registration Agent (CRA) system and Market Domain Data (MDD). This process leaves all customers with the same Supplier MPID(s), but the ownership of that MPID(s) transfers to a different Trading Party. The Replacement Supplier can choose to migrate customers to its existing MPID(s), or continue to operate the additional MPID(s) it has gained.
- 1.4 ELEXON's legal team has provided advice and clarification on this area, to ensure that a consistent and correct approach is taken, by both ELEXON and the Replacement Supplier, in delivering BSC processes.
- 1.5 In the interim, ELEXON has continued to apply the PATs that had been applied to the Supplier MPID prior to the SoLR event.
- 1.6 This paper sets out the approach that should be taken for each of the PATs and ELEXON's proposals to ensure processes are in line with that approach.

2. General Principles

- 2.1 From the SoLR Appointment Day, all BSC responsibilities transfer to the Replacement Supplier. However, any Settlement Dates which fall before the SoLR Appointment Day (and any responsibilities or obligations associated with those Settlement Dates) remain the responsibility of the failing Supplier. This takes the same approach as if a standard Change of Supplier (CoS) event had taken place.
- 2.2 For clarity, in an example where a SoLR Appointment Day was 1 January, the Replacement Supplier will be responsible for obligations relating to all Settlement Dates from that point forward, so would only begin to be responsible for Final Reconciliation (RF) Performance after 14 months (when 1 January reaches the RF run). Until that point, the responsibility of RF performance would remain with the failing Supplier.

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- 2.3 When a SoLR Appointment Day occurs in the middle of a period being used for a PAT, that period should not be the responsibility of either the failing or Replacement Supplier. This is because it would not be possible to accurately quantify the materiality or impact of the two Suppliers throughout that period. An example of this is detailed below in paragraph 3.18.
- 2.4 In practice, ELEXON is not likely to deploy any PATs against the failing Supplier, as they will likely have ceased trading and be operated by an Administrator.
- 2.5 This paper focusses on how the PATs can, or cannot be applied to the failing and Replacement Suppliers. Assurance activities undertaken against appointed Supplier Agents are unaffected, and would continue as if a CoS event had occurred.

3. Approaches for PATs

PATs not impacted

- 3.1 The following PATs are not impacted by this clarification of the obligations:

- Bulk Change of Agent
- Qualification
- Re-Qualification
- Education
- Breach and Default
- Removal of Qualification
- Change Mechanisms
- Peer Comparison

PATs impacted

Material Error Monitoring

- 3.2 This technique covers Large Estimated Annual Consumption (EAC)/Annualised Advance (AA) Reporting, Unmetered Supplies (UMS) Reporting, Energisation Status Reporting, and the Smart Meter Technical Details (MTD) Reporting.
- 3.3 These reports should be split so that only data relating to Settlement Dates after the SoLR Appointment Day are included in the reports sent to the Replacement Supplier.
- 3.4 The Large EAC/AA data which applies to SR0072 in the Supplier Dashboard should only use data from after the SoLR Appointment Day.

Technical Assurance of Metering Systems

- 3.5 Non-compliances raised against the failing Supplier before the SoLR Appointment Day are inherited by the Replacement Supplier. The Technical Assurance Agent (TAA) will send an email to the Replacement Supplier detailing the inherited non-compliances. This process is automated within the Technical Assurance Agent Management Tool (TAAMT).
- 3.6 Any organised TAA Inspection Visits should be re-confirmed with the Replacement Supplier and should still take place. The TAA should also advise the Replacement Supplier whether any planned Inspection Visits have been previously confirmed with the customer by the failing Supplier or not.

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3.7 Any new TAA Inspection Visits should be planned with the Replacement Supplier.

Technical Assurance of Performance Assurance Parties (TAPAP)

- 3.8 Any non-compliances identified before the SoLR Appointment Day should be closed (as there is no way the failing Supplier would be able to resolve them)
- 3.9 Non-compliances may be re-opened under the Replacement Supplier if the same non-compliance is identified on a date on or after the SoLR Appointment Day.
- 3.10 Any TAPAP checks planned or organised should be re-confirmed with the Replacement Supplier, but should still take place. Any new TAPAP checks should be planned with the Replacement Supplier.

BSC Audit

- 3.11 All open BSC Audit issues raised against the failing Supplier should be closed.
- 3.12 BSC Audit site visits currently planned or being undertaken should continue, in discussion with the Replacement Supplier. The sample checks should only utilise Settlement Dates after the SoLR Appointment Day.
- 3.13 BSC Audit Issues uncovered through this Audit check should be allocated under the Replacement Supplier, which will have responsibility to resolve these issues.

Performance Monitoring

- 3.14 This technique covers PARMS and PARMS submissions.
- 3.15 Any complete PARMS Reporting Periods (i.e., calendar months) falling before the SoLR Appointment Day remain the responsibility of the failing Supplier to submit DPI and SP04 files, and ensure completeness against these periods. It is unlikely that any outstanding or updated data from these periods will ever be submitted, and thus there is a risk that reports that utilise the PARMS data will not contain a full or correct set of industry data. ELEXON removes the incompleteness of failing Suppliers in the reports to the PAB.
- 3.16 Any complete PARMS Reporting Periods falling after the SoLR Appointment Day are the responsibility of the Replacement Supplier to perform these tasks.
- 3.17 Any PARMS Reporting Period which straddles the SoLR Appointment Day does not have a clear responsibility with either Party for these tasks. Therefore, no incompleteness should be considered for this period.
- 3.18 For example, if the SoLR Appointment Day was on 15 February 2018, the January 2018 PARMS Reporting Period would be the responsibility of the failing Supplier, and the March 2018 PARMS Reporting Period the responsibility of the Replacement Supplier. The February 2018 PARMS Reporting Period would not be the responsibility of either.
- 3.19 To deliver this, the Operational Support Managers will have to conduct a short manual process whenever providing updates on PARMS Completeness status to Suppliers, to ensure they remove the period which straddles the SoLR Appointment Day and do not chase Parties to submit data for this period.

Supplier Charges

- 3.20 Supplier Charges for SP01, SP02 and SP04 for complete PARMS Reporting Periods (i.e. calendar months) falling before the SoLR Appointment Day should be assigned to the failing Supplier and are its responsibility to pay.
- 3.21 Supplier Charges for SP01, SP02 and SP04 for complete PARMS Reporting Periods falling after the SoLR Appointment Day should be assigned to the Replacement Supplier and are its responsibility to pay.

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- 3.22 Supplier Charges for SP01, SP02 and SP04 for PARMS Reporting Periods which straddle the SoLR Appointment Day do not have a clear responsibility with either Party, and therefore should not be assigned to either.
- 3.23 SP08 and SP09 Supplier Charges should be examined by Settlement Date, with Supplier Charges relating to a Settlement Date prior to the SoLR Appointment Day being assigned to the failing Supplier, and Supplier Charges relating to a Settlement Date on or after the SoLR Appointment Day to the Replacement Supplier.
- 3.24 The invoices Suppliers receive are in line with this approach. However, in the reports presented to the PAB, ELEXON has been manually adjusting the data to remove these charges. ELEXON will investigate how the reporting can be updated to ensure it is fully aligned with the invoicing and aligns with the outcome of the review of Supplier Charges as part of the wider PAF Review project.
- 3.25 Supplier Charges form part of the ELEXON invoices to Suppliers. A Supplier who is in Default of the BSC and unable to pay invoices would have their bills placed into the Final Reconciliation bills, which are shared by the industry under the Default Funding Share.
- 3.26 The data from PARMS Serial SP08, used for Supplier Charges, is also used for some PAB reporting. Paragraph 4 of this paper details these impacts further.

Error and Failure Resolution (EFR)

- 3.27 All open EFR plans should be closed.
- 3.28 If the performance standards are breached for Settlement Dates following the SoLR Appointment Day, the Replacement Supplier can be placed into EFR in line with the normal EFR processes.

Trading Disputes

- 3.29 Settlement Dates falling before the SoLR Appointment Day will be the responsibility of the failing Supplier to correct. Note that this is not likely to be possible if the company has ceased trading and therefore could pose a notable risk to the market in the event of a high value dispute. If this is the case, the Funds Administration Agent (FAA) would either redeem or reimburse the monies, via the failing Supplier's administrator, or smear it across the industry.
- 3.30 Settlement Dates on or after the SoLR Appointment Day will be the responsibility of the Replacement Supplier to correct. The Trading Disputes team will contact the Replacement Supplier to advise them of these.
- 3.31 Any charges and/or refunds necessitated by any Trading Disputes will also be assigned to the failing or Replacement Supplier dependent on the Settlement Date/s for which the Dispute occurs.

4. Impacts on PAB Reporting

- 4.1 The approaches for the PATs detailed above will require some updates to the way ELEXON presents data and reports to the PAB each month.
- 4.2 Due to costs and system complexity, it will not be possible to perform changes to the systems that create reports such as the Business Unit Settlement Risk Rating (BUSRR) Report and Supplier Dashboards quickly. Therefore we will provide manual updates to these to the PAB and to Suppliers, identifying which BUSRRs and periods of data are invalid due to the current Supplier not being responsible for those Settlement Dates. The reporting is going to be re-designed in 2019 in line with the PAF Review outcomes.
- 4.3 Likewise, for any processes such as EFR or TAPAP checks, we will also provide updates, as appropriate.
- 4.4 The new Settlement Risks and risk approach, to be introduced in April 2019, have the potential to change the way much of the PAB reporting is done. Therefore, ELEXON will ensure that the SoLR process and the

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responsibilities highlighted by this paper are taken into account in the design requirements for new or updated reporting functions.

5. Assurance Considerations

- 5.1 A SoLR event could result in a material impact on one or more risks. The Risk Evaluation Register prepared for the 2019/20 assurance year, captures SoLRs as an “event”; in the Risk Operating Plan the PAB can direct mitigation activities. ELEXON has held discussions both internally and with the BSC Auditor over the risk presented by the increasing rate with which the SoLR process has needed to be deployed.
- 5.2 It is ELEXON and the BSC Auditor’s joint recommendation to the PAB that during the 2018/19 BSC Audit year, test programs should be developed and undertaken in order to investigate the implementation of the SoLR process with both Suppliers and ELEXON. This audit activity will consider risk and compliance both in respect of ELEXON’s internal SoLR processes and of the process as adhered to by the failing and Replacement Suppliers involved in the SoLR process.
- 5.3 Should this activity be approved, a detailed resource and cost assessment will be undertaken by ELEXON and the BSC Auditor. However, it is ELEXON’s expectation that the costs of this additional audit and assurance activities will be covered within the existing BSC Audit budget, due in part to the reduction of overall audit activity (this in part due to the failing Suppliers no longer requiring a BSC Audit) and the additional contingency ELEXON sets aside under the revised Audit arrangements. ELEXON has worked through a number of different scenarios with the BSC Auditor in order to estimate potential cost impact in each of the most likely scenarios.

6. Conclusions

- 6.1 This paper clarifies and confirms the approaches that currently should be taken with regards to the various Performance Assurance aspects which may impact Suppliers. Future Changes or Modifications may be raised to mitigate some of the risks identified and subsequently change these requirements.
- 6.2 The PAF Review could lead to Modifications or Changes on the PATs. ELEXON will continue to provide updates to the PAB as necessary.
- 6.3 Suppliers who gain customers through the SoLR process have opportunities to recover certain costs from Ofgem. We understand that some of the Parties have used this process already; including recovering some of the costs of Performance Assurance activities which this paper confirms should be responsibilities of the failing Supplier.

7. Recommendations

- 7.1 We invite you to:
 - a) **NOTE** the contents of the paper;
 - b) **COMMENT** on the paper;
 - c) **AGREE** that ELEXON and the BSC Auditor should work to develop a BSC Audit test program to provide assurance of the SoLR processes undertaken by ELEXON and BSC Parties; and
 - d) **APPROVE** the Within Period Revision to the 2018/19 Risk Operating Plan required in order to deliver the audit work proposed within c) above.

Appendices

Appendix 1 – List of SoLR events within 28 months

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Appendix 1 – List of SoLR Events within the last 28 months (since September 2016)

Date of SoLR Event	Supplier MPID	Old Supplier	New Supplier
30 November 2016	ALTI	GB Energy (ALTITUDE)	Co-Operative Energy (VOLA)
31 January 2018	SIRO	Future Energy Utilities (SIROCCO)	Hudson Energy [Green Star] (AMPERE)
01 August 2018	IRES	Iresa (IRESA)	Octopus Energy (MERCURY)
15 September 2018	BCFC	Gen4u (GEN4U291)	Octopus Energy (MERCURY)
19 October 2018	GONG	Usio Energy Supply (GOLDING)	First Utility (FRST01)
25 November 2018	CALL	Extra Energy Supply (CALLISTO)	Scottish Power (SPSUP01)
28 November 2018	SPRK	Spark Energy Supply (SPARKNRG)	Ovo Electricity (OVOE)
14 December 2018	CFWR	OneSelect (CRNFLWR)	Eddington Energy Supply [Together Energy] (EDDINGTN)
12 January 2019	ECON	Economy Energy (PAL)	Ovo Electricity (OVOE)