

TECHNIQUE REVIEW RECOMMENDATIONS – SUPPLIER CHARGES

MEETING NAME	Performance Assurance Board
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Date of meeting	30 May 2019
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Paper number	PAB220/12
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Owner/author	Nathan Flood
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Purpose of paper	Decision
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Classification	Public
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Summary	This paper details recommendations for changes to the Supplier Charges identified as part of the PAF Review. It seeks the PAB's approval to proceed with the main review of Supplier Charges starting in August 2019.
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1. Background

- 1.1 ELEXON sought stakeholder feedback prior to the PAF Review commencing. This highlighted issues with the technique, notably that it is ineffective in its current form, the data on which it is based is not robust, capping weakens the incentive, and that they do not reflect a genuine pre-estimate of loss.
- 1.2 Stakeholder feedback contributed to the scope of the BSC Audit review, which was approved by the Panel in March 2017 and focuses on whether it is feasible to improve the area of focus for the technique by using more accurate risk appraisal and improving the pre-estimate of loss methodology. If this is not feasible, the review considers if alternatives exist and if the technique should be discontinued.
- 1.3 In November 2018 the Design Working Group (DWG) for Market-wide Half Hourly Settlement requested clarity around high-level performance assurance principles required to support MHHS, the elements of the PAF that will need to be changed under the Target Operating Model (TOM). In February 2019 the PAB agreed for the PAF Review to commence earlier than planned with a focus on the principles around whether it is an effective incentive assurance technique and adds value to the assurance toolkit. If we considered the technique to add value we would recommend full review as planned in August 2019.

2. Overview

- 2.1 The review has found that Supplier Charges could be an effective tool within the PAF as a remedial technique, and also the scope to provide an incentive to improved performance. Substantial changes are likely to be necessary to give the most value to risk mitigation and performance assurance.
- 2.2 We note the P366 and Issue 78 overlap with this review; we are encouraging stakeholders to let the Supplier Charges review (as well as the PARMS review which will cover the performance standards) complete, and use those reviews to evaluate necessary changes in the wider context of the full PAF rather than trying to tackle individual components.

3. PAF Review Recommendations

- 3.1 We have two main proposals to this first stage of the review:
 - Proceed with the main review of Supplier Charges from August 2019, to examine all aspects of the current approach and alternatives which could increase its effectiveness.
 - Consider raising a Modification to switch off SP01 or set to zero as an interim measure to refocus Supplier Charges back on losses from underperformance against Settlement standards. We would need to fully consider the pros and cons of the different approaches for achieving this; we would work with operational teams to complete this analysis.

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1. Recommendations

3.2 We invite you to:

- a) **APPROVE** the recommendation to proceed with the full review, based on our findings outlined in the attached report.
- b) **APPROVE** the recommendation that PAB proposes a Modification to switch off SP01 charges or set them to zero.
- c) **APPROVE** the scope and approach recommended for the second part of the review.

Attachments

Attachment A – Supplier Charges Recommendation Report

For more information, please contact:

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