

# PAF REVIEW – ADDRESSING SP01 SUPPLIER CHARGE

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<b>MEETING NAME</b>	Performance Assurance Board
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<b>Owner/author</b>	Beth Brown
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<b>Purpose of paper</b>	Decision
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<b>Classification</b>	Public
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<b>Summary</b>	This paper describes the options, including pros and cons, for addressing one of the Supplier Charge items, SP01, ahead of the main review of Supplier Charges due to conclude around the end of 2019.
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## 1. Background

- 1.1 ELEXON is reviewing the Performance Assurance Framework (PAF) assurance technique [Supplier Charges](#) as part of the wider [PAF Review](#). In May 2019, the Performance Assurance Board (PAB) (see paper [PAB220/12](#)) considered our initial findings that Supplier Charges could be an effective risk mitigation tool albeit with substantial changes. The PAB agreed with this conclusion and approved the scope of the full technique review to be carried out; this is due to be done between summer and winter 2019.
- 1.2 It is likely that the recommendations of the review will require BSC Modifications to implement them. The PAB would ask the Panel to raise any Modifications. It would be likely any approved changes would be implemented at the very least a year from now (mid 2020), possibly somewhat further out.
- 1.3 In considering the implications of this timescale for change, we noted the projected growth of SP01 charges as a proportion of total charges. SP01 charges are against delivery of performance monitoring reports by Party Agents and Suppliers. They are based on the number of Working Days that a full set of [PARMS Reports](#) has not been submitted i.e. one or more expected files are missing. The purpose of this is to incentivise parties to submit data that allows key performance metrics to be monitored, and to reflect how the PAF could be compromised if this monitoring can't be fully done. The charge is not end-dated, so keeps being accrued for historical days, even after the reports would no longer be of use for performance monitoring. SP01 already makes up over 90% of total charges, and we forecast that by September 2020 the uncapped SP01 charge would be around £10m a month.
- 1.4 See Appendix A for a summary of all Supplier Charges. The graph in Appendix B shows the total Supplier Charges and capped volumes at market level over the last 12 years, with step decreases for refreshed PARMS Serials and specific efforts to submit missing files.
- 1.5 In May, the PAB also agreed that ELEXON examines how the SP01 charge could be addressed (i.e. reducing or removing the charge) as an interim measure, before the main review concluded.
- 1.6 This paper presents the options we have identified, along with the pros and cons of each, for the PAB to consider. Note that costs have not been impact assessed with any BSC Agents / service providers or BSC Parties. The five options are:
  - a) Alternative distribution
  - b) Itemised invoicing
  - c) Working days limit
  - d) Setting the charge to £0
  - e) Turning off the charge

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## 2. Addressing SP01 charges now

- 2.1 There are clear arguments for reconsidering if and how Supplier Charges should be used to incentivise co-operation with the PAF, such as timely submission of data that supports performance monitoring. It has long been argued that these charges do not reflect a genuine pre-estimate of loss for the damage caused from failure to submit data. Additionally, the charges do not appear to have the desired effect of encouraging report delivery: in 2018 48% of Suppliers received SP01 charges every month; 11% did not receive SP01 charges in any month. ELEXON spends resource identifying and following up missing reports to encourage submission but there are frequently repeat offenders who have not established robust processes to meet the requirements.
- 2.2 These full arguments will be examined in the main review of Supplier Charges. We have identified the following points for/against addressing SP01 sooner than the main review will conclude.
- 2.3 Parties would likely see some change in their usual net position under any of these options. Some who are usually net receivers of redistributed Supplier Charges currently may see a fall in their receipts.

### Pros of addressing SP01 now

- Charges would be refocused on the performance-related measures which directly impact Settlement (in particular SP08). Most of the Serials are not routinely used in PAF reporting, so non-delivery does not compromise the robustness of our risk management.
- Incidental incentive effect (in addition to the remedial effect of compensating parties that 'lose out') of the charges may be more apparent in relation to SP08 charges.
- The obligation to submit the PARMS Serials remains, and other techniques can be used to mitigate non-delivery of reports. These may well be more effective e.g. Error and Failure Resolution which asks parties to implement process change to eliminate non-compliance.
- We are less likely to see cap levels reached once SP01 charges are stripped out, therefore charges will more accurately reflect each Suppliers' contribution to Settlement Error.
- Less frequent breaches of the cap means net charges are more likely to reflect a genuine pre-estimate of loss on the Settlement performance related standards (i.e. parties will be compensated for SP08).
- Other Supplier Charges would be unaffected by the change, it could be done in isolation.
- Proves, in itself, that changes can be made to a technique that has remained static for a long time.
- Removing a potential challenge that the charge is disproportionate, due to the cumulative methodology that does not reflect a real 'loss' of non-delivery of reports.

### Cons of addressing SP01 now

- More PAPs may fail to deliver the reports if this incentive is removed – but this could be addressed in other ways; failure to comply with other parts of the PAF doesn't attract a Supplier Charge.
- There is no guarantee a Modification to address SP01 would progress smoothly, and some of the effort could be duplicated if the main set of changes due to be raised next year caught up with this Modification. If this did occur, we would use the work done so far to inform the other Modification(s) and minimise additional effort.

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## 3. Interim options for addressing SP01

### A - Alternative distribution

3.1 This proposal would amend the recipients of re-distributed<sup>1</sup> Supplier Charges so that:

- i) SP01 charges are distributed to all Trading Parties according to market share; and
- ii) SP08 charges go only to Non-Half Hourly Suppliers.

3.2 Pros

- Reflects impact on all Trading Parties of a potentially weakened PAF, where performance cannot be monitored consistently and completely.
- Could be paired with separate cap for different Supplier Charges to allow greater flexibility in reflecting reasonable levels of charges depending on the nature of the Serial.

3.3 Cons

- Potential cost and length of time to implement the system change.
- We have not modelled what the impact could be of amending the distribution methodology (and it appears this would be complex to do), but it is not apparent how this option alone would sufficiently address SP01 in the short term - the objective of this proposal. Suppliers would continue to incur the charges for reports missing from years ago.

### B - Itemised invoicing

3.4 This proposal would provide more information in invoices that clearly shows for each Serial how much each Supplier was being charged and would receive. Currently the invoices contain only a single line of the total Supplier Charges – aggregated across the Serials and with charge and redistribution already netted off. Example extract below.

Type of Cost	Allocation Method	Cumulative Units	Amount Due	Previously Charged	Charge This Invoice
Supplier Charges	PARMS Reports	Variable	1,474.97	952.57	522.40
Subtotal: Other Charges			1,474.97	952.57	522.40

3.5 Pros

- Seeing clearly all components of the charge and redistribution will allow Suppliers to understand how they can influence their own charges and what they are being compensated for.

3.6 Cons

- On its own, this option does not address SP01 in the short term as Suppliers would continue to incur the charges as now.
- No guarantee more granular information would positively influence behaviour and reduce SP01 charges through greater compliance.
- Unknown cost and length of time to implement the system change to the invoice production (impact assessment not yet performed).

<sup>1</sup> 90% of funds collected from a GSP Group are re-distributed to the Non Half Hourly (NHH) Suppliers operating in the GSP Group, based on their share of NHH energy traded in the GSP Group. 10% are re-distributed to all Trading Parties based on their Main Funding Share.

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## C – Working days limit

3.7 This option would see SP01 charges 'expire' after 12<sup>2</sup> months.

3.8 Pros

- The remedial / incentive effect is not entirely removed, and Suppliers could still incur notable charges for failure to meet BSC obligations. As cited previously, nearly half of Suppliers incurred an SP01 charge every month in 2018.
- Reflects the fact that data submitted after that time would not be used for monitoring and reporting anyway, so no additional loss will be incurred.

3.9 Cons

- Hard to model what the impact of this option would be due to difficulties in extracting data from the SC calculation system at different points in the calculations.
- With capping, the total charge may be little or no different to not having a time limit. Therefore this option may have little effect on its own.
- Unknown complexity, cost and length of time to implement the system change (impact assessment not yet performed).

## D – Setting SP01 charge to £0

3.10 This option would see SP01 charges set to £0 for legacy and ongoing missing data – i.e. for the full SP01 calculation.

3.11 Pros

- Reflects the minimal direct financial impact on Parties of others not submitting complete PARMS data, and focuses attention on the material Serials, in particular SP08.
- Based on recent Supplier Charge data, the total of other charges is unlikely to breach cap values, so would better reflect performance-related charges.
- Quick, simple, low cost change (based on impact assessment from recent Modification [P366](#) of changing SP08a charge to zero).
- Is a parameter change, so could be adjusted away from zero at a later date. We could also set a date at which it would revert to the current (or a different) value, if no alternative permanent solution had been implemented by that time.
- Appears to be the most pragmatic option due to the ease of effecting it, and of reversing it, and that it gets straight to the core of the issue by taking SP01 out of the equation.

3.12 Cons

- Would remove an incentive on Suppliers to get data submitted on time. Suppliers who make the effort to ensure PARMS data is complete are not compensated for those efforts.
- Would require a Modification to change the charge rate again, or to continue at zero if it was set to revert back at a later date.

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<sup>2</sup> We suggest 12 months as it allows time for any issues with submissions to be investigated and rectified, and retains an incentive for the performance information to be available before Final Reconciliation.

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## E – Turning off the SP01 charge

- 3.13 This option would see SP01 charges switched off temporarily or permanently within BSC central systems, so Supplier Charge invoices were no longer calculated to include them. The effect would be the same option D above, but would require more extensive system changes.
- 3.14 Pros
- Reflects the minimal direct financial impact on Parties of others not submitting complete PARMS data.
  - Based on recent Supplier Charge data, the total of other charges is unlikely to breach cap values, so would better reflect performance-related charges.
  - We could set a date at which they would switch back on, if no alternative permanent solution had been implemented by that time.
- 3.15 Cons
- Unknown complexity, cost and length of time to implement the system change, but assumed to be less complex than options A or C, and possibly also B.
  - Would remove an incentive on Suppliers to get data submitted on time. Suppliers who make the effort to ensure PARMS data is complete are not compensated for those efforts.
  - Would require a Modification to switch it back on, or to continue it if it was set to turn back on at a date.

## 4. Suggested approach

- 4.1 Taking into consideration the above options and their pros and cons, ELEXON recommends that a Modification is drafted for proposal to the Panel at the next available opportunity, to set the SP01 charge to zero (option D). This option is the most straight forward, low cost and resolves the identified 'problem', whilst the main Supplier Charge review is looking at the full technique.
- 4.2 We don't see particular merit in setting a future date for the charge to revert to the current, or to another value, as the expectation is that the main Supplier Charge review will have completed, and any further changes will be best done as part of a Modification on the entire technique.
- 4.3 The current wording in BSC Section S-1 is:

*3.6 Failure to Comply with Serial SP01 and Serial SP02*

*3.6.1 A Supplier who fails to comply with Serial SP01 or (as the case may be) Serial SP02 shall be liable to a charge of **£25.50** per Business Day in respect of each Routine Performance Monitoring Report which is not provided or, as the case may be, each Routine Performance Monitoring Log which is not maintained in accordance with the time limits and in the manner specified in Serial SP01 and Serial SP02 respectively.*

The charge is increased by RPI each April.

## 5. Next steps

- 5.1 The PAF Review project will be reviewing all aspects of the Supplier Charges assurance technique in the coming months, including the ideas for options in this paper. Capping, redistribution, time limits, reporting / invoicing, the measures that could have a charge applied and the methodology for calculating charges are in scope of that review. We consider this Modification can progress independently of that detailed review work, which is due to conclude this winter, and will be followed by proposals for BSC document and systems change to support the approved recommendations.

## 6. Recommendations

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6.1 The PAB is invited to:

- a) **CONSIDER** the options described in this paper for addressing SP01 and the suggested approach;
- b) **DECIDE** which option is preferable; and
- c) **APPROVE** a Modification proposal is drafted.

### Appendices

Appendix A – List of Supplier Charges

Appendix B – Supplier Charge historical totals

#### For more information, please contact:

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## APPENDICES

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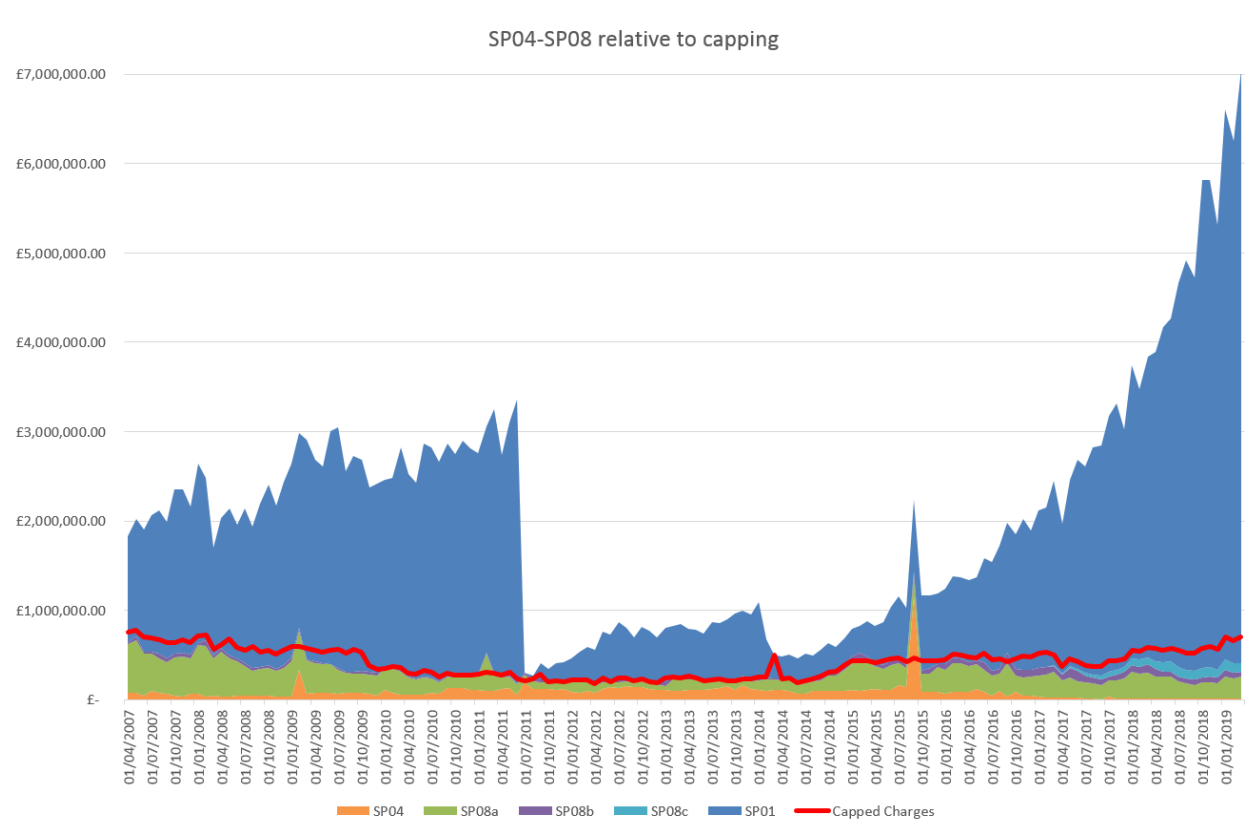
### Appendix A – List of Supplier Charges

Serial	Serial Description	Standard
SP01	Delivery of Routine Performance Monitoring Reports	Zero Working Days that a full set of PARMs Reports has not been submitted into PARMs
SP02	Delivery of Routine Performance Monitoring Logs	Zero Working Days that Drill Down or Ad-Hoc data has not been submitted to the Performance Assurance Administrator
SP04	Installation of Half Hourly (HH) Metering	Zero Calendar Days where a mandatory HH Meter has not been installed
SP08a	Percentage of Non-Half Hourly (NHH) Energy Settled on Annual Advances	R3 – 80% RF – 97%
SP08b	Percentage of HH Energy Settled on Actual Readings	SF – 99% R1 – 99%
SP08c	Percentage of non-mandatory HH Energy Settled on Actual Readings	RF – 99%

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## Appendix B – Supplier Charge historical totals

The graph below shows the total Supplier Charges and capped volumes at market level over the last 12 years.



The first drop was when a new set of Serials was introduced and historical SP01 charges were removed for the redundant Serials. The charges started creeping up and the second drop was due to a concerted effort by ELEXON and affected parties to clear them by submission of missing historical files. The charges have since ramped up again to current levels.