

PAF REVIEW RECOMMENDATIONS – SUPPLIER CHARGES

MEETING NAME	Performance Assurance Board
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Purpose of paper	Decision
Classification	Public
Summary	This cover paper details recommendations for changes to the Supplier Charges Performance Assurance Technique, identified as part of the PAF Review. It seeks PAB approval to implement changes to the technique

1. Background

- 1.1 PAB (222/12A) approved scope for the second review stage of Supplier Charges was:
- Focus on the principles that will best support an effective charging regime.
 - Look to introduce flexibility, to better allow the PAB to respond proportionately and promptly to changing Settlement Risk landscape.
 - Work with stakeholders to examine in detail the elements (redistribution, capping, reporting, role types etc.) to understand how they are likely to influence performance, to understand how they can be useful for risk management in the future.
 - Look to propose a high level methodology for estimating loss that can be deployed against various scenarios/risks.
 - Propose a governance structure for the charge regime within the Performance Assurance Framework (PAF) e.g. how to propose and implement changes and to make decisions.
 - Look to propose any immediate changes to improve efficiency of the technique, such as raising a Modification to set SP01 charges to zero or removing it from the Supplier Charges set to focus attention on the performance standards.
- 1.2 Part two of the Supplier Charges review was conducted between August 2019 and March 2020. The PAF Review team engaged with the Performance Assurance Framework (PAF) Owner, subject matter experts, and industry (via the Issue 69 Working Group) in order to develop recommendations for change.

2. Technique Review

- 2.1 Mindful of the objectivesⁱ of the entire PAF Review, the team sought to resolve perceived issues with the technique.
- 2.2 Although the PAF Review team drew up some examples of new charges which could be useful, the Issue 69 working group could not reach a consensus on any of these. As a result we developed a methodology for the operational team and work group to use in assessing potential new charges. This can be put to use once the ROP identifies risks which performance/PAF cooperation charging could be deployed against when new/existing risk and new data sources become available.
- 2.3 Our proposed recommendations are as follows:
- Move obligations to a BSCP for a more agile process for amendment of current charges. The BSCP would enable the ability to:

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- Allow charges to be based on sources other than Performance Assurance Reporting and Monitoring System (PARMS) Serials
- Introduce ability to use charging as an incentive i.e. for co-operation with the PAF
- Introduce a methodology to assist in developing new charge structures.

2.4 The Issue 69 working group were not in favour of the existing Supplier Charges technique being repurposed for PAF cooperation charges but ELEXON is keen to meet the current and future needs of the Panel, the PAB and the wider electricity industry; a stated objective of the PAF Review. We consider that removing the obligations and configurable elements from the BSC and removing the tie to only PARMS Serials will provide a more flexible, effective and efficient technique able to mitigate future risks. In addition, if decisions were made to scrap certain charges when there is evidence of their redundancy, the process would be simplified.

3. Recommendations

3.1 We invite you to:

- a) **APPROVE** the move of obligations to the BSCP (amend BSC Section D 2.2.1 to refer to BSCP536 instead of Annex S-1, move BSC Section D 4.6 and the whole of Annex S-1 into BSCP536)
- b) **APPROVE** the introduction of the ability to add incentive charges
- c) **APPROVE** the removal of ties only to PARMS Serials
- d) **APPROVE** the introduction of an operational methodology¹

Attachments

Attachment A – PAF Review Recommendations Report – Supplier Charges

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ⁱ to provide a PAF that a) engages Performance Assurance Parties in identifying and, from time to time, re-appraising the things that do and don't matter to them (their risk appetite); b) meets the current and future needs of the Panel, the PAB and the wider electricity industry for the delivery of efficient, effective and economic assurance on those things that matter; and c) enables the Performance Assurance Administrator (PAA) to deliver a valued and trusted assurance service to BSC Parties under the strategic and tactical guidance of the BSC Panel and PAB.

¹ Appendix 1 of Attachment A