

PUBLIC

Performance Standards

PAF Review Recommendations



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PERFORMANCE STANDARDS PAF REVIEW RECOMMENDATIONS

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PERFORMANCE STANDARDS PAF REVIEW RECOMMENDATIONS

EXECUTIVE SUMMARY

When it was originally agreed that performance standards would be included within scope of the PAF review it was agreed that the PAF review would not seek to develop new performance standards, but rather develop a methodology for setting new standards and the governance required to do so. The key factors which dictate that wholesale revision of existing performance standards or the introduction of new standards would neither be efficient nor economical at this time are:

- i) It is anticipated that it would require significant time and resource for industry to achieve a consensus in respect of any new or amended performance standards (as doing so would require the undertaking of an academic study of how inputs should be measured and how loss should be quantified, with any changes inevitably having far reaching and inconsistent impacts across different market participants);
- ii) This is coupled with the anticipated transition to Market Wide Half Hourly Settlement (MHHS), which has been delayed past the end of the PAF review and which will have significant impacts on expected performance standards across the market requiring them to be reconsidered again in any case. As a result expending the time and resource required to reach a consensus regarding changes to the performance standards for the current market arrangements would be wasted when new arrangements come into effect through MHHS; and
- iii) In addition, since this decision was taken, the industry faces new pressures in the wake of COVID-19 limiting the availability of the industry resource which would be required to accommodate this significant extent of consultation and engagement.

The PAF review project team has therefore worked closely with operational teams and stakeholders to instead establish an appropriate methodology which the industry might use to agree changes to the existing suite of performance standards until we have seen the implementation of MHHS and resource within industry is more readily available. It is the view of the Performance Assurance Framework (PAF) review project team that it would be neither economic nor efficient to review and amend the performance standards at this time as future changes are expected and will have fundamental and far reaching implications informing all parts of the Standards regime currently used for Performance assurance.

The PAF review considered the suite of Performance Assurance Framework techniques holistically and though we cannot recommend the immediate update of the Standards regime, we do recommend that the regime be updated to reflect wide ranging industry change, such as MHHS. We have therefore sought to establish a proposed methodology for the review of the performance standards with consideration given to the various data sources, reporting and monitoring techniques available under the PAF. This has been done in line with the [PAF review's objectives](#).

Prioritisation of Recommendations

Recommendations put forward under the PAF review project have been assigned a priority rating (H, M or L) based on the value they are expected to deliver upon implementation in respect of efficiency, time/cost saving and improvements to the level of assurance delivered. Rationale for these ratings is provided under '[Implementation](#)' along with an outline of the approach the PAF review team envisages Operational teams taking to implement the recommendations.

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Recommendation

Our recommendations set out a methodology for the review of the performance standards at such time as industry deems appropriate and when the necessary resource is available.

Our recommendation is:

1. Methodology for revising or introducing new performance standards under the BSC **(L)**

Next Steps

Recommendations approved by the PAB will be translated into requirements by the operational team for implementation at such time as the PAB or industry feel it is appropriate.

INTRODUCTION

PAF Review Scope

As part of the PAF review Elexon will consider the performance measures and standards established under the BSC. The review will not seek to develop new performance standards, but rather develop a methodology for setting new standards and the governance required to do so, to ensure the PAB can respond to changing Settlement Risks in a proportionate and timely fashion as these changes occur.

Performance Standards Background

There was not a specified definition of BSC Standards provided and the widest interpretation of the word would encapsulate all BSC requirements, with the vast majority requiring a performance standard of 100% (i.e. compliance). In an effort to improve the education and ease of use, the digitization of the BSC will help small Parties to better understand their obligations under the BSC and the key performance indicators required. As per the PAF review's remit to review the Performance Assurance Techniques, most research and analysis focused on the Balancing and Settlement Code (BSC)'s performance standards for percentages of actual reads (Settlement performance) at each Settlement Run for each Measurement Class (MC). These standards were established prior to the transition to the BSC arrangements for the GB electricity market and reflected performance in terms of Settlement accuracy which was being achieved across the industry at the time. We have also considered the various other measures and standards established under the Code, many of which are binary rather than percentage based as with the standards for Settlement accuracy.

The last amendment to performance standards for the percentages of actual data entering Settlement enshrined in the Code was made following the introduction of MCs E, F and G. While the performance standards for Metering Systems within these MCs was initially set at 99% of energy settling on actual data at the First Reconciliation Run (R1) and all further runs, [Modification P347](#) 'Reduction in R1 Read Requirement for Half Hourly Sites' decreased the performance standards for MCs F and G to 90% for R1 only. This reduction was set with a sunset clause of 1 January 2020, when the performance standard would increase to 99% again. As of 1 January 2020 the standard has returned to 99%.

The PAF exists in part to ensure that the performance standards set out within the BSC are achieved, thereby ensuring that everyone who works with Elexon, and operates within the Balancing and Settlement arrangements, meets the standards and obligations of the BSC. This helps to give our customers confidence that the BSC operates efficiently, accurately and fairly.

The PAB conducts and administers activities to provide assurance that all participants in the BSC arrangements are suitably qualified and that the relevant standards are maintained.

When discussed with the Issue 69 Issue Group it was noted that the group did not believe there was a reason for the NHH and HH RF targets to be 97% and 99% respectively. One attendee stated that the 97% target was essentially random, based on the presumed accuracy before privatization and de-regulation. They considered that

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after 20 years performance should have improved. Participants also noted the introduction of Smart Meters should allow for more accurate and timely collection of metering data and therefore should alter Performance Standards. Whilst the industry changes that fundamentally alter the technology of metering, the Smart Meter Implementation Programme is not scheduled to complete until 2025 on current timelines. It was also considered that to increase targets at a time of industry change would neither be helpful nor incentivise innovation.

Performance Standards Review

The original scope of the PAF review included ensuring the PAF meets the challenges of a rapidly changing industry and continues to provide value to its stakeholders by enhancing the application of a risk-based assurance framework. The stated objective of the review was to provide a PAF that:

- a) Engages Performance Assurance Parties (PAPs) 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.

With these objectives and the wider context in which our recommendations are being put forward in mind we have focused on:

- a) Principles that will best support an appropriate set of performance standards, to ensure predictability and consistency;
- b) Introducing flexibility, to better allow the PAB to respond proportionately and promptly to a changing Settlement Risk landscape;
- c) Better document and communicate how the above elements are likely to influence performance;
- d) A high level methodology for estimating impact that can be deployed against various scenarios/risks, streamlining the analysis and evaluation of alternatives;
- e) A governance structure for the setting and amendment of performance standards within the PAF e.g. how to propose and implement changes and to make decisions. Again, we consider a clearly defined process will allow all Parties a greater degree of predictability and consistency in regards to any potential changes

CONSIDERATIONS

Looking ahead, we have considered which Settlement Risks might increase in prevalence, therefore having a greater impact on performance in respect of Settlement accuracy over the coming years. The following areas are noted:

SVA export and micro-generation

Identified as a likely growth area, when accurate metering will become important as energy volumes rise as a proportion of the total. Therefore Trading Parties could be more severely disadvantaged if energy volumes are inaccurate.

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Party Agent performance

It is noted in the PAB Strategy that an increasing number of customers are directly appointing agents. This can impact how Suppliers interact and manage performance standards with their agents. There has previously been a move to deploy additional techniques against agents in direct response to performance measures, such as Peer Comparison.

Market-Wide Half Hourly Settlement (MHHS)

The Target Operating Model (TOM) of the MHHS arrangements is currently being worked on by Elexon under the direction of Ofgem. The timescales to transition to the fully operational MHHS market are not yet concrete. However, we can consider the role of performance standards in incentivising the transition in terms of energy volumes and Settlement accuracy.

- a) Pre MHHS transition – We can assess the effects of performance standards as they are now.
- b) Transition to MHHS – As NHH MSIDs and energy volumes move to the HH market, the allocation of Group Correction Factor could cause increasingly erratic effects. We would need to assess whether performance standards' function as an incentive or disincentive in encouraging Suppliers to move their portfolios across.
- c) Full MHHS - The TOM design will provide a wider array of estimation techniques than now, and the accuracy of many estimation types will be much better for domestic SMETS customers as well. Therefore, the industry may wish to employ performance standards to encourage use of some estimating techniques over others to support overall Settlement accuracy, and the impact of estimated data on Settlement accuracy may vary between estimation methods.
- d) Post MHHS- Policy currently allows households to 'opt out' of MHHS. It is unclear what performance targets would exist for households without smart metering devices or opting out of such data collection.

Modification P366 – hard to read sites

P366 'Change to Supplier Charge SP08a calculations to account for small scale non-domestic Non Half Hourly hard-to-read Meters' was raised in April 2018. It seeks to negate the impact of the difficulties in obtaining reads from some sites ('hard to read' - HTR) which has a disproportionate effect for smaller Suppliers on achieving performance standards and therefore exposure to SP08a charges. The working group has developed main and alternative solutions. The main creates a process to identify and exclude HTR sites from SP08a calculations. The alternative solution does not require exclusion of any sites, but sets the SP08a Supplier Charge to £0.00 for all Suppliers.

At the May 2019 Panel meeting, the Panel rejected P366 on the basis that it did not better facilitate the BSC objectives. The final Modification report was presented to the June 2019 Panel and was then be submitted to the Authority for final decision where it was rejected.

Changes in the composition of Supplier portfolios

Consideration will also need to be given to whether or not performance standards remain achievable. The existing standards reflected the market conditions and competitive landscape at the time, and may no longer be compatible with today's market since the characteristics of the market have changed so drastically since their inception. In particular the move away from a core of large Suppliers with similar portfolio characteristics means the distribution of 'problem sites' has now skewed as engaged customers were most likely to switch and problem sites concentrated in the post-privatized Supplier.

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Issue 69

The Issue Group noted that given the NHH and HH RF targets of 97% and 99% respectively were essentially arbitrarily set based on performance standards being achieved at the time of their inception 20 years ago, it should be reasonable to expect that performance should have improved over this time. Suggesting that the standards for both the NHH and HH markets should instead be set to 100%. The Issue Group noted that while attaining 100% might be challenging, the lower standards could be blamed for allowing PAPs to avoid dealing with the hardest to read sites within their portfolios.

PAF REVIEW RECOMMENDATION

1. Methodology for revising or introducing new performance standards under the BSC (L)

- 1.1 In order to facilitate the review and potential amendment of the performance standards at such time as the impacts of MHHS in practice are better understood and the necessary industry resource is available, we have developed a methodology to be used in assessing potential new standards and the amendment of current standards.

Introducing a methodology

- 1.2 Where a new or revised standard has been proposed, the methodology prompts a user to consistently consider the elements each new/revised standard in order to determine their appropriateness and feasibility. These elements are:

- a) Associated risk/issue
 - i) What problem are we trying to fix by establishing amending a standard?
 - ii) When do we anticipate the risk being sufficiently mitigated if the standard is met – how long do we envisage it would apply for?
- b) Application
 - i) What is the statement?
 - ii) Which Party Role should then be the focus of the standard?
- c) Standard
 - i) What is the standard we should apply?
 - ii) Is the standard attainable?
 - iii) What do we estimate the associated cost to industry will be to achieve the standard?
 - iv) What is the cost to industry of failure to attain this standard over time?
 - v) How does the cost to industry of underperformance vary by Settlement Run?
- d) Incentive or Remedial?
 - i) Should the standard be set as an incentive (e.g. as a target to aim for to reduce balancing costs etc.) or as a punitive measure to address existing costly under performance?

- 1.3 An Issue 69 attendee noted that there would be various factors to consider in respect of whether a standard is achievable for a given segment of the market. For instance, the I&C market is more complex than the domestic market; contracts are longer and there are more vacant properties, so customer behaviour (and how they can be influenced) is different. Customer behaviour can be different depending on whether they are domestic or non-domestic. Exelon may need to have information about the varying composition of parties' portfolios of domestic and non-domestic customers, SMETS version etc. when assessing in order to

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distinguish, and understand this. This also presents challenges in respect of applying an industry wide standard at all as the challenges facing different market participants vary significantly.

Governance

- 1.4 Parties will be extensively consulted on proposed changes to or the introduction of new performance standards. This is one reason we do not consider a wholesale change to be desirable at this point in time.
- 1.5 Considerations and impacts around new and amended standards are likely to be too complex to include in the general annual consultation on the Risk Operating Plan (ROP) and would require bespoke engagement. The standards should be used to mitigate a new or changing risks to Settlement accuracy. It is intended that Elexon would review new or amended standards against the methodology and consult thereafter.
- 1.6 In order to avoid confusion and reduce costs the number of changes to performance standards should be limited within a given Performance Assurance Operating Period (PAOP).
- 1.7 As part of consultation with industry Elexon should present models of the impacts of a new or revised standard being achieved so that parties are able to understand what the new standard would look like in practice were it achieved and how this might impact their individual operations in respect of the different metering and customer types comprising their portfolios.
- 1.8 Elexon could potentially use a dedicated expert group to support us and the PAB in reviewing any proposed change to the performance standards, to ensure all aspects of and options for the new/revised standard were considered via the methodology.
- 1.9 As part of any change to the suite of performance standards established under the BSC we would expect to consult with and gain approval from the Authority. This along with following of the BSC Change process would introduce lead times for notification of many months (in line with current change timescales), and consultation ahead of voting and the Appeals mechanism. Essentially, changes would follow a similar timeline to the update of charging methodologies, such as those used for DUoS, with consultation and approval for the next measurement period, possibly many months hence.

Principles that best support an effective performance standards regime

- 1.10 As part of our review work we considered what principles underpin an effective suite of performance standards. We worked with subject matter experts to develop a list of principles:
 - i) The remedial effect of the technique should be separated from the incentive effect;
 - ii) Any measures should be considered, not just existing standards/serials;
 - iii) Reliability of data should be visible to parties;
 - iv) Standards should not be applied to activities that are not in a Party's ability to control;
 - v) All stakeholders should be clear about and understand which behaviours we are trying to incentivise, the cost of achieving the standards and the cost of underperformance against the standards; and
 - vi) The value of the measure should be of a magnitude that makes it worth monitoring or mitigating.

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IMPLEMENTATION

Operational

Should the PAB approve our recommendation, we will develop a plan for implementing at an appropriate time. This plan will be shared with the PAB.

Priority rating rationale

1. Methodology for revising or introducing new performance standards under the BSC (L)

While there is some consensus that the existing standards are overdue for review and revision, in light of the current circumstances it is unlikely that making changes now would be an economic or effective solution. This recommendation is therefore for the time being assigned a low priority rating.

Suggested Approach

It is our recommendation that the methodology proposed for amending the standards is further considered by industry and that when the transition to MHHS is nearing completion, an Issue Group is established to work towards putting this methodology into practice to arrive upon a new set of standards which are considered to be appropriate by the industry under those new arrangements. Responsibility for monitoring and review in respect of when implementation is appropriate will sit with Elexon's Assurance function.

Potential Dependencies

Implementation of the recommendation within this paper is contingent on the availability of resource within industry to undertake detailed consultation and discussion. It is likely that an Issue Group would need to be established and meet on a regular basis for a number of months prior to further industry wide consultation.

Modifications and Change Proposals

Any amendments to the existing performance standards would require amendments to the BSC. The required Modifications and Change Proposals would be the output of the necessary Issue Group.