

## Performance Thresholds Review

### Performance Assurance Board (PAB)

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Summary	<b>Recommendations to change the thresholds in place to manage the Supplier performance standards</b>		

### 1. Background

- 1.1 In October 2020, the PAB carefully considered the best approach to take to monitoring and managing issues associated with the Performance Standards, including the deployment of Error and Failure Resolution (EFR) following the pausing of the technique during the first lockdown.
- 1.2 Since then, Elexon and the PAB have reviewed this approach on a quarterly basis. All the threshold review papers to date are public and available on the Elexon website. These set out the logic of past reviews and the previous thresholds that have been agreed. The current principles agreed by the PAB are:
  - There will be an ongoing quarterly review approach taken to managing performance standards and the application of EFR;
  - These reviews will set the threshold for 'focus Suppliers' for the next quarter and provide an indication of what is likely for the subsequent review. The indication for the subsequent review would still require confirmation at the next quarterly review, but providing this communication to the industry should help Suppliers to prepare for any changes and have forewarning of the potential of EFR at the next review;
  - Elexon and the PAB's efforts would be predominantly focused on Suppliers with the largest volume of non-compliant estimation ('focus Suppliers');
  - Elexon would consider whether EFR is appropriate at the PAB meeting one month after the Supplier has been identified as "in focus";
  - EFR exit criteria is also considered on a quarterly basis with the new exit criteria being applied at the PAB meeting a month after it is agreed;
  - Whilst there will be some fluctuation in the thresholds to take account of seasonal or significant external issues, the overall priority is to bring the industry performance in line with the relevant standards and to then manage outliers and early risk indicators;
  - The PAB now requires Suppliers to provide a Settlement performance forecast at least one quarter ahead. These forecasts will be monitored and explanations provided to the committee where they have been missed. However, EFR escalation to the PAB will only occur in cases where there has been a lack of engagement or co-operation with the EFR process; and
  - That the PAB expected all Suppliers, not just the focus Suppliers, to work to meet or maintain the Settlement standards.
- 1.3 At the last threshold review in August 2021, the PAB agreed that:
  - The focus Suppliers should be those with a monthly non-compliant estimation volume of above 2,000MWh in Half Hourly (HH) Measurement Class (MC) C, HH sub-100kW and Non Half Hourly (NHH) markets respectively for the quarter from May to July;

- This threshold could decrease to as low as 1,500MWh for the quarter (from November 2021 to January 2022) for all of the above market areas at this November 2021 review;
- The EFR exit criteria should be for Suppliers that have less than 1,000MWh of non-compliant estimation and that this could reduce at the November 2021 review, potentially to as little as 700 MWh; and
- Suppliers would be required to provide more detail in their EFR plans and a performance forecast for at least one quarter ahead from August 2021.

#### 1.4 The November 2021 quarterly review provides:

- Recommended thresholds of non-compliant estimation for the focussed Suppliers to be applied from December 2021 and the current EFR exit criteria;
- Recommendations for the deployment of EFR to Suppliers as a result of the review, where required; and
- Recommendations for the likely performance approach that will be taken in February 2022.

## 2. Performance overview, changes over the last quarter and potential impacts in the next, which we need to consider

The volume of non-compliant estimation of Suppliers under the standard in all three of the market areas (Settlement Days in August 2021 at R1 and Settlement Days in August 2020 at RF) is set out below. We can see that the impact of the NHH market has continued to reduce proportionally and now the volume of non-compliant estimation is spread almost evenly between the NHH and HH markets.

Market Area	Settlement Run and standard used for current view	Settlement month used in current view	Industry Average	Volume of non-compliant estimation in MWh for Suppliers not meeting the standard	% of the impact per market area
HH MC C	R1 99% (standard required at SF but assessed due to risk based approach at R1)	August 2021	98.27% at R1	68,628MWh	33%
HH MC E,F and G	R1 99%	August 2021	95.41% at R1	36,510MWh	18%
NHH	RF 97%	August 2020	96.23% at RF	102,841MWh	49%
Total:				207,979MWh	

#### 2.1 The following table shows the key changes that have taken place since the last review:

		HH	Sub-100kW	NHH
Industry Average performance	September 2020	97.87 % at R1	94.23% at R1	95.98 % at RF
	February 2021	98.02% at R1	94.60% at R1	95.01% at RF
	May 2021	98.08% at R1	94.51% at R1	95.07% at RF
	August 2021	98.38% at R1	95.40% at R1	96.12% at RF
	November 2021	98.27% at R1	95.41% at R1	96.23% at RF
	Difference from September 2020 to November 2021	+0.40%	+1.18%	+0.25%
	Difference from August 2021 to November 2021	-0.11%	+0.01%	+0.11%

### Half Hourly performance considerations for this quarter

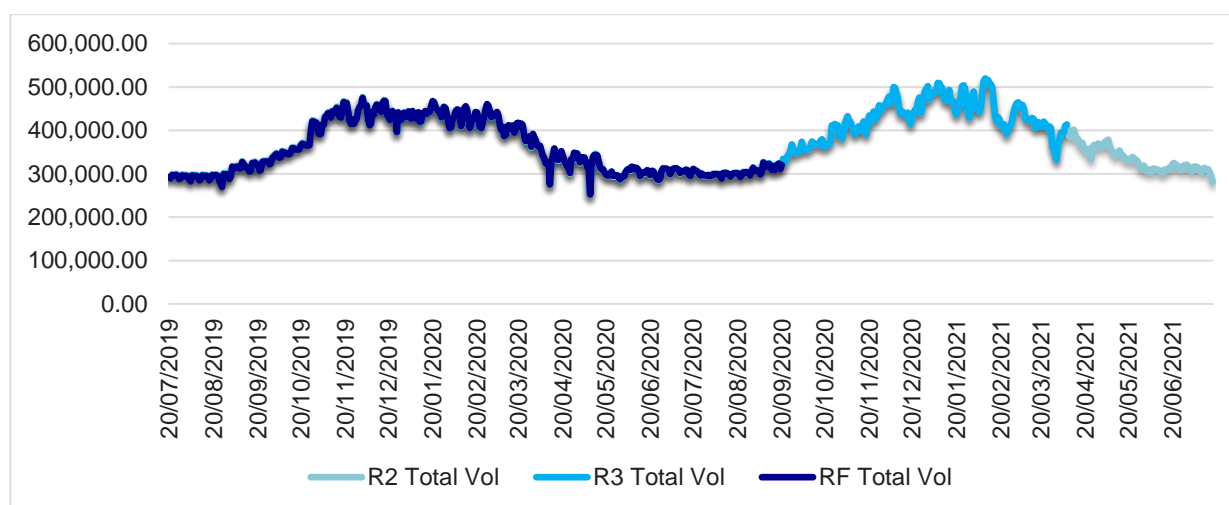
- 2.2 The HH MC C market has decreased performance slightly at R1 since the August 2021 report. The sub-100kW market has improved performance slightly at R1 over that same timespan.
- 2.3 Suppliers in MC C have reported that there are difficulties fixing communication faults, which has now been exacerbated by the shortage in Meter stock availability. This means that there is further reliance on manual reads. Suppliers have noted that this has been further frustrated by the impact of field staff being ill, needing to

self-isolate, and the petrol shortage. One large Half Hourly Supplier's performance has also been impacted by migration activity.

- 2.4 Over the next quarter we are not expecting announcements of further government restrictions which would impact the ability for site visits to take place.
- 2.5 The total volume of energy in HH does not fluctuate seasonally as much as that within the NHH. However, we would expect some increase over the next three months (last year, for example, HH MC C Volume increased from 9,041,716MWh in August to 9,169,976 MWh in November). It is hard to predict the level of increase as the total volume of energy this August already exceeds the total volume for last November, potentially impacted by the remaining COVID-19 restrictions being lifted in July 2021.
- 2.6 Elexon anticipates that there will be ongoing issues with site visits due to new health and safety requirements and due to the Meter stock shortage. However, we recognise that it will be important for Elexon and the PAB to understand the impact of these issues further for those Suppliers in focus.
- 2.7 Elexon has also observed a significant impact in the HH performance for both MC C and sub-100kW markets following the contract round on 1 October 2021. MC C industry performance at SF was still over 0.5% lower for Settlement Date 17 October 2021 than 30 September 2021. The sub-100kW SF was over 1% lower between the same dates. Performance is also likely to deteriorate for Settlement Days over the Christmas period when there are fewer field staff available to undertake site visits to undertake manual reads or Meter fixes and more businesses are temporarily closed.

### **Non Half Hourly considerations for this quarter**

- 2.8 The NHH market has increased performance at RF since the May 2021 reporting period. However, the average NHH performance for Settlement Days from 1-19 September 2020 have been lower than the average for Settlement Days recorded for August 2020. This appears to relate to a significant drop in performance for a large Supplier caused by a system issue. The Supplier has informed Elexon that this issue has now been resolved and we now expect to see some improvement in industry performance.
- 2.9 However, the current RF dates (November 2020) correspond to dates just prior to the second lockdown in England. This period demonstrated a peak in R3 performance, with the subsequent lockdown causing a decline in performance. The impact from this lockdown was more pronounced at R2, and reduced by R3. This was due to the work Suppliers undertook once restrictions were lifted. Elexon would expect the impact to reduce even further at RF, but it is possible this impact will slow the rate of performance improvement.
- 2.10 The volume of total energy passing through RF in the NHH market will increase significantly over the next three months as the NHH market fluctuates seasonally. For example, the total volumes at RF for Settlement Days in August 2019 were around 9,000,000MWhs in comparison with the peak winter volumes of over 13,000,000MWhs for Settlement Days at RF in January 2020. We are expecting the winter volumes that will start to hit RF towards the end of the next quarter to be even higher than the 2019/2020 winter volumes, as the graph below, which sets out the daily industry volumes using the latest run available, illustrates:



- 2.11 An increase in total volume would also result in an increased volume of non-compliant estimation for any under-performing Suppliers. This could, depending on the threshold level applied, increase the number of focus

Suppliers. Elexon and the PAB need to consider this in our threshold approach as we have limited resources at our disposal and having too many focussed Suppliers reduces our ability to prioritise the Suppliers with the very highest volumes of non-compliant estimation.

- 2.12 A small number of Suppliers are currently highlighting a reduction in pedestrian Data Retrieval availability, which is affecting the forecast improvements they expected from this activity.
- 2.13 There have been a vastly increased number of Suppliers of Last Resort (SoLRs) within the NHH market in the last two months and it is anticipated there will be more over the next quarter. This has the potential to cause disruption in the NHH market. The post-SoLR migration activity can result in some data quality and processing issues, and key staff at Replacement Suppliers may temporarily prioritise managing these migrations over other Settlement improvement actions – both of which could reduce industry performance levels. Conversely, if the level of Meters migrated through SoLRs is high over the next quarter, the resulting Change of Supply reads could increase the performance of the Supplier Id previously registered to the Failing Supplier and lead to a consequential improvement in industry performance.

### **3. Recommendations for the threshold for Focus Suppliers and EFR for the next quarter**

- 3.1 Elexon has considered the following points in order to set the thresholds for the next quarter:
- The current number of Suppliers that fall above a number of different potential thresholds for each market area (below);
  - The relative volume of non-compliant estimation between each of the market areas; and
  - The performance considerations coming up in the next three months (set out in section two).

#### **HH MC C – 33% of all non-compliant estimation**

- 3.2 Elexon considered the effectiveness of the following thresholds for the HH MC C market:

Threshold (MWh)	No of Suppliers	Vol of non-compliant energy	% coverage of non-compliant energy in this market
1,000	14	59,831MWh	87%
1,500	9	53,672MWh	78%
2,000	8	51,811MWh	75%
2,500	7	49,448MWh	72%

- 3.3 Elexon concluded that reducing the threshold to 1,500 MWh and a market coverage of 78% of the non-compliant estimation would:
- Cover the majority of non-compliant estimation and ensure the number of focus Suppliers is increased slightly to reflect the increased proportion of non-compliant now within the HH market;
  - Keep the level of market coverage and number of Suppliers under focus at a level that enables us to maintain a good level of oversight of the Suppliers with the highest volumes of non-compliant estimation (Aug 2021 2,000MWh, 7 Suppliers, 72%); and
  - Enable us to continue to move back towards the pre-pandemic threshold levels.

#### **HH Performance sub-100kW – 18% of all non-compliant estimation**

- 3.4 Elexon considered the effectiveness of the following thresholds for the HH sub-100kW market:

Threshold (MWh)	No of Suppliers	Vol of non-compliant energy	% coverage of non-compliant energy in this market
1,000	9	26,377MWh	72%
1,500	6	22,689MWh	68%
2,000	5	20,883MWh	57%
2,500	4	18,718MWh	51%

3.5 Elexon concluded that, as with HH MC C, reducing the threshold for this area to 1,500 MWh and a market coverage of 68% of the non-compliant estimation would:

- Cover the majority of non-compliant estimation and ensure the number of focus Suppliers is increased slightly to reflect the increased proportion of non-compliant now within the HH market; and
- Keep the level of market coverage and number of Suppliers under focus at a level that enables us to maintain a good level of oversight of the Suppliers with the highest volumes of non-compliant estimation (Aug 2021 2,000MWh, 5 Suppliers, 55%);

#### **NHH Performance – 49% of all non-compliant estimation**

3.6 Elexon considered the effectiveness of the following thresholds for the NHH market:

Threshold (MWh)	No of Suppliers	Vol of non-compliant energy	% coverage of non-compliant energy in this market
1,000	16	91,022	89%
1,500	14	88,567	86%
2,000	12	85,475	83%
2,500	11	83,052	81%

3.7 Elexon concluded that keeping the threshold at 2,000MWh would:

- Cover the majority of non-compliant estimation whilst ensuring the number of focus Suppliers is at a manageable level sufficient to maintain sufficient focus;
- Ensure that Elexon and the PAB are mindful of the increasing volume of total energy approaching RF, which is likely to lead to an increase in Suppliers' volumes of non-compliant estimation. An increase in focus Suppliers would therefore be expected in each of the threshold categories above as the next quarter progresses which would make it more difficult for Elexon to maintain the focus needed for the Suppliers with the largest volumes of non-compliant estimation Aug 2021 2,000MWh, 12 Suppliers, 82%) ; and
- Reflect that the impact of this market area in proportion to the HH market has reduced and that maintaining the current threshold still results in a greater proportion of the NHH market covered than both of the HH markets will, even with the reduced thresholds.

3.8 Whilst maintaining the current threshold for the next quarter does not work to move the monitoring thresholds back towards the pre-pandemic levels, Elexon can review the numbers of focus Suppliers against the potential options in February when the total volumes will be approaching the winter peak. The numbers will then be more certain and we should be more able determine if a threshold reduction is possible whilst maintaining the necessary focus on the Suppliers with the largest volumes of estimation under the standard.

#### 4. Review of EFR exit requirement and EFR exit recommendation

- 4.1 In October 2020, the PAB agreed that Suppliers were no longer required to maintain a performance average above the relevant standard for three months to exit EFR and agreed that that an EFR exit threshold for performance standards issues would be set and reviewed on a quarterly basis.
- 4.2 This threshold was initially set so that Suppliers with a volume of below 1,000MWh of non-compliant energy would be able to exit EFR so that Elexon and the PAB's focus could remain on the Suppliers with the largest Settlement impact and Elexon has not yet recommended we should adjust it at the reviews since.
- 4.3 The exit criteria needs to be set at a level that enables Elexon and the PAB's focus to be on the Suppliers that have the largest impact on industry performance whilst guarding against the potential of Suppliers exiting EFR and then re-entering soon afterwards when the thresholds change.
- 4.4 Elexon considers that an exit threshold set to half the volume of non-compliant estimation that would result in a Supplier becoming in focus is currently sensible. Therefore, we recommend that we reduce the exit criteria for the next quarter for both HH MC C and the HH sub-100kW areas to 750MWh and maintained at 1,000MWh for the NHH market.

#### 5. Likely changes as a result of the next threshold review in February 2022

- 5.1 The assessment of the threshold review in February will consider analysis for the Settlement Days in November 2021 at R1 for HH and November 2020 for NHH. It will apply to the quarter after which relate to the months of December to February in all market areas.
- 5.2 This period is at a time we would expect to see significantly increased total volumes (as a result of the winter season), which in turn could be expected to lead to higher volumes of non-compliant estimation for Suppliers under the standard. The quarter considered is a time when there are many challenges in the Half Hourly market as Christmas and poor weather make access more difficult for all Suppliers.
- 5.3 Therefore, Elexon is likely to recommend that the HH thresholds remain at 1,500MWhs at the February review and then a further reduction considered at the subsequent review in May.
- 5.4 As set out in section 3.8, Elexon will consider the number of NHH Suppliers against the potential thresholds at the February review and determine if a threshold reduction to 1,500MWh is feasible.

#### 6. EFR Considerations

- 6.1 Elexon will assess any Suppliers that have become in focus following this review to determine whether EFR should be applied and an update will be provided to the PAB in the confidential Risk Report at its December meeting.
- 6.2 The following assessment timetable for EFR entry or exit will then be applied for the rest of the quarter:

PAB Reporting Month	Relevant Settlement Dates for Reporting	EFR Exit Criteria assessed	Focused Suppliers assessed for EFR
December 2021	September 2021 at R1 for HH September 2020 at RF for NHH	December 2021	January 2022
January 2022	October 2021 at R1 for HH October 2020 at RF for NHH	January 2022	February 2022
February 2022	November 2021 at R1 for HH November 2020 at RF for NHH	February 2022	March 2022 (apart from in the unlikely event that the February threshold review removes the need for this assessment).

- 6.3 Whilst the approach above sets out the agreed performance monitoring approach that will usually be applied in order for Elexon and the PAB to effectively manage the performance standards with the resources available, it should be noted that EFR may be applied to any Supplier with performance below the relevant Code standards.

Therefore, Elexon is able, where required, to consider EFR in cases that there is a risk to industry level performance when Suppliers have not yet exceeded the threshold. This will include where there is data from earlier Settlement Runs that indicate that further significant underperformance is likely.

## **7. Recommendations**

7.1 Elexon recommends that the PAB:

- a) NOTE** the contents of the paper;
- b) AGREE** that a 1,500MWh threshold is applied for the focus Suppliers in the HH MC C and HH sub-100kW and a corresponding 750MWh EFR exit criteria;
- c) AGREE that** the 2,000MWh threshold is applied to the NHH market and the corresponding 1,000MWh EFR exit criteria; and
- d) AGREE** the likely changes to the thresholds at the next review in February whilst noting that Elexon will confirm or amended these indicative approaches in February.

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