Performance Thresholds Review

Performance Assurance Board (PAB)

Date of meeting	**25 August 2022**	Paper number	**PAB259/02C**
Owner/author	**Anna Millar, Ben Mitchell and Adam Cox**	Purpose of paper	**Attachment**
Classification	**Public**	Document version	**1.0**

Summary This Quarterly Performance Thresholds Review recommends maintaining the HH performance management threshold and the Error and Failure Resolution exit criteria, and reducing those for the NHH market for the quarter ahead. It also provides an update on a change of approach to combine performance monitoring of Measurement Classes A and F agreed at the May PAB.

Background

Elexon and the PAB review performance on a quarterly basis (each February, May, August and November). All the threshold review papers to date are public and available on the Elexon website on the PAB webpage. These set out the logic of past reviews and the previous thresholds that the committee has agreed.

Executive Summary

This **August 2022** quarterly review provides:

- Recommended thresholds of non-compliant estimation for the focussed Suppliers to be applied from September to November 2022:
    - Half Hourly (HH) MC C and HH sub-100kW – will be maintained at **1,000MWh**
    - Non-Half Hourly (NHH) **1,250 MWh**, decreased from 1,500MWh from last quarter
- Recommended EFR exit criteria:
    - HH MC C and HH sub-100kW – will be maintained at **500MWh**
    - NHH - **625MWh**, decreased from 1,000MWh from last quarter
- An update on the progress for the likely performance approach that will be taken from November 2022; and
- An update on the change of approach to our performance standard risk management that was agreed at the May PAB to ensure Suppliers are not discouraged from moving Metering Systems to settle Half Hourly.

Performance overview, changes over the last quarter and potential impacts in the next

The volume of non-compliant estimation of Suppliers under the standard in all three of the market areas is set out below.

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% *	May 2022	98.13% at R1	82,792MWh	39%

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 E, F and G	R1 99%	May 2022	95.53% at R1	35,675MWh	17%
NHH	RF 97%	May 2021	96.50% at RF	91,267MWh	44%
Total				209,763MWh	100%

** standard required at SF but assessed at R1 due to risk based approach*

However, in considering how each market impacts the overall volume of non-compliant estimation, we also need to have an awareness of how the total volumes in each market have changed between review periods. This is because the greater the total volume is in a market, the greater the volume of any non-compliant estimation will also be.

The table below sets out the changes in total volume and non-compliant estimations. It highlights that whilst in both the MC E, F and G and NHH areas, due in part to performance improving, the non-compliant energy has decreased further than the total volume of energy has reduced this quarter, for MC C the level of non-compliant energy has increased at a greater level than the increase in total volume.

Market area	Volume of total energy (MWh)		Difference	Volume of non-compliant estimation of Suppliers under the standard (MWh)		Difference
	May	August		May	August	
MC C	9,018,065	9,242,082	+2%	56,050	82,792	+32%
MC EFG	1,099,605	1,027,459	-7%	40,276	35,675	-11%
NHH	12,619,143	10,569,860	-16%	134,970	91,267	-32%

The following table shows the overall industry-level Settlement Performance for each market sector at the previous review points:

Review Point	HH (R1)	Sub-100kW (R1)	NHH (RF)
February 2021	98.02%	94.60%	95.01%
May 2021	98.08%	94.51%	95.07%
August 2021	98.38%	95.40%	96.12%
November 2021	98.27%	95.41%	96.23%
February 2022	98.22%	95.11%	96.11%
May 2022	98.39%	95.34%	96.25%
August 2022	98.13%	95.53%	96.50%
Difference May 2022 to August 2022	**-0.26%**	**+0.19%**	**+0.25%**
Difference August 2021 to August 2022	**-0.25%**	**+0.13%**	**+0.38%**

Half Hourly performance considerations for this quarter

- The threshold will apply from September to November and these reporting months map to June to August 2022 R1 dates for HH.
- MC C is now 39% of total volume of non-compliant estimation, compared to 24% at the May review. Sub 100kW is now 17%, compared to 18% in May.
- The latest reporting period used for MC C R1 was May 2022, and we have since seen R1 performance improve to 98.39%.
- Suppliers continue to inform us that the shortage in Meter stock is impacting performance.

- Suppliers are also noting a significant increase in the lead time for site visits from around 10-15 working days to 7-10 weeks ahead.
- Last year we noted a slight drop in performance from Settlement Days from late July to August which, based on conversations with Suppliers, appeared to be due to annual leave of both field and back office staff.

Non Half Hourly considerations for this quarter

- The threshold will apply from September to November and these reporting months map to June to August 2021 RF dates for NHH.
- NHH is now 44% of total non-compliant estimation, compared to 58% at the May review.
- R3 is relatively stable and performing consistently during this period.
- Total volumes (and therefore the volume of any non-compliant estimation) is at its lowest in the year.
- Issues following some Supplier migration activity is likely to result in some additional non-compliant estimation at the same time as other Supplier migration activity is likely to be resulting in deemed reads following the change of Supplier process - which may be masking some non-compliant estimation.

Recommendations for the threshold for Focus Suppliers and EFR for the next quarter

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 – 39% of all non-compliant estimation

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

Threshold (MWh)	No of Suppliers	Volume of non-compliant energy (MWh)	Coverage of non-compliant energy in this market
750	17	76,247	92%
900	16	75,339	91%
1000	13	72,567	88%

Elexon concluded that maintaining the threshold of 1,000MWh would:

- Increase the level of market coverage (from 84% at the point the last threshold was agreed to 88%);
- Ensure the number of Suppliers under focus is at a level that enables us to obtain a good level of oversight of the Suppliers with the highest volumes of non-compliant estimation: Maintaining the threshold at this point, still results in an increase in the focus Suppliers from the 10 that were within this threshold at the May review. We are concerned that reducing this further now will increase the Elexon workload for a minimal further market coverage increase. Elexon would prefer to continue our efforts to understand the breakdown of issues for Suppliers already within the EFR technique where the bulk of the non-compliant energy already exists and where progress has been inconsistent. We would like to understand more fully the breakdown of the agents affecting Suppliers' performance and the issues reported and to discuss this with the Retail Energy Code Performance Assurance team.

HH Performance sub-100kW – 17% of all non-compliant estimation

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

Threshold (MWh)	No of Suppliers	Vol of non-compliant energy (MWh)	Coverage of non-compliant energy in this market
750	13	30,249	85%
900	11	28,603	80%
1000	10	27,616	77%

Elexon concluded that maintaining the threshold of 1,000MWh and a market coverage of 77% of the non-compliant estimation would:

- Broadly maintain the level of market coverage (which was 78% when we reviewed this in May);
- Ensure the number of Suppliers under focus is at a level that enables us to obtain a good level of oversight of the Suppliers with the highest volumes of non-compliant estimation: Maintaining the threshold at this point, maintains the number of focus Suppliers at 10, as it was at the May review point. We are aware that the Meter stock issue is resulting in Meters being prioritised for higher volume sites. It's Elexon's view that we would be better to focus resource time on getting a better understanding, from Suppliers already within EFR and with the bulk of the non-compliant estimation, on how these issues break down across the agents. We will then liaise with the Retail Energy Code where required to highlight the Settlement impact of Meter Operator performance when this is clearer.

NHH Performance – 44% of all non-compliant estimation

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

Threshold (MWh)	No of Suppliers	Vol of non-compliant energy (MWh)	Coverage of non-compliant energy in this market
1,000	17	81,321	89%
1,250	13	77,016	84%
1,500	12	75,879	83%

Elexon concluded that reducing the threshold to 1,250MWh would:

- Broadly maintain the level of market coverage (which was 86% against a 1,500MWh threshold when we reviewed this in May);
- Reflect the lower total volumes (and therefore lower expected volumes of non-compliant estimation): Elexon had considered reducing the threshold further at this review to reflect these lower volumes and then increase the thresholds again to take account of the increased winter 2021 total volumes at the next review. When considering the number of threshold changes that have taken place this year, however, Elexon considered that it would be better to reduce the threshold more marginally now with the intent of maintaining this threshold at the next threshold review, unless the potential impact of the winter volumes does not materialise In this case Elexon would consider further reducing the thresholds. The group of Suppliers that would currently be in focus under a 1,000MWh threshold would be likely to become focus Suppliers with the proposed 1,250MWh threshold in the winter, due to the increased volumes, if their performance does not improve.
- Bring the threshold closer to those in place prior to the pandemic (with a further reduction expected at the next review); and
- Take account of the consistent industry performance at R3 during this period.

Review of EFR exit requirement and EFR exit recommendation

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.

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.

In line with the approach to the performance thresholds, Elexon recommends that the exit criteria for the next quarter for all market sectors are half of the volume of non-compliant estimation of the entry trigger (500MWh for HH and 625MWh for NHH).

Likely changes as a result of the next threshold review in November 2022

The assessment of the threshold review in November will consider analysis for the Settlement Days in August 2022 at R1 for HH and August 2021 at RF for NHH. The threshold will apply for Settlement Days from September to November of 2022 at R1 for HH and of 2021 at RF for NHH.

Based on the current concerns with HH Settlement and as Meter manufacturers and operators have provided feedback to us that indicates the Meter stock issues are expected to remain until the end of the year, Elexon expects to maintain the current threshold during the next quarter.

For NHH, the R3 performance improves during the period that will be under review in November but the total volume of energy (and therefore the volume of estimation under the standard) is expected to go up substantially at the start of the winter period. As there have already been some changes to the thresholds this year, Elexon has set a threshold now which takes account of improvements at RF and R3 but which also takes account of the increased winter volumes for the following quarter with the expectation of maintaining the threshold of 1,250MWh threshold into the following quarter. If the winter volumes do not result in a significant increase in focus Suppliers a further reduction to the threshold will be considered at the next review.

Recommended adaptions to our approach in consideration of the move to Market-Wide HH Settlement (MHHS)

In the May review, Elexon noted we had received feedback from some Suppliers that they are reluctant to move sites to HH from NHH as it will impact their NHH performance. This was because on transferring sites with working smart or Advanced Meters to HH Settlement, the remaining NHH portfolio would have less energy settled with an AA at RF. They were concerned this could result in Elexon and the PAB triggering EFR, or, for those already in the EFR process, would hinder progress of performance improvements.

Additionally, some Suppliers have highlighted that monitoring sub-100kW performance separately to HH MC C is not in line with how they manage their HH operations, where Suppliers are working all the HH settled Meters collectively.

Elexon recommend the following changes to address this:

- The current NHH volumes (MC A) should be merged with MC F to monitor the 97% NHH performance standard at RF. MC F monitoring would be provided separately too and reviewed on a quarterly basis as part of the threshold review to determine if further changes are required; and
- Combine the remaining sub 100kW Meters (MC E and G) with Measurement Class C to monitor the 99% HH performance standard at R1 into a “HH Business” area.

Elexon noted the approach would ensure that:

- Suppliers are not dis-incentivised from moving sites from MC A to F due to Elexon and the PAB’s performance approach; and
- Simplify the approach for HH Suppliers, Elexon and the PAB.

The recommended approach related to the risk based approach that Elexon and the PAB take to managing performance not impact the Code standards or Supplier Charges.

The PAB approved the recommendation on merging NHH and MC F subject to industry consultation but decided not to approve the option of merging MC C with MC E and G, as it considered that this may reduce the Settlement performance for the Meters already within MC E and G.

Elexon also recommended the following activities were undertaken to implement the recommended change of approach:

Month	Activity
May	Approach set out to PAB as part of Quarterly Performance Review
June and July	Customer feedback requested and provided to the PAB
August PAB	Decision point for parallel running at PAB in quarterly thresholds

September	Parallel reporting starts to Suppliers and PAB (OSMs will agree with Suppliers the frequency of any parallel reporting)
September and October	EFR plan re-alignment discussions and decisions take place
November	New approach goes live. New EFR outlook provided to the PAB- confirmation of EFR plans in each area
By end of December	Deadline for any EFR plan updates (for Suppliers already in EFR)

We have now completed the first two activities and the full responses received are available in Confidential Attachment D of the Risk Report for PAB members.

The 14 respondents to the industry survey all agreed that the PAB should amend the Settlement performance monitoring approach to combine NHH volumes with elective HH domestic volumes RF. These respondents represented organisations that account for approximately 60% of the total volumes at RF in the August PAB reporting. The respondents also provided details of the likely numbers of Metering Systems that they would migrate if the PAB implemented this approach.

Given the industry feedback was 100% in favour of the proposed recommendation, Elexon recommends that we now proceed with the implementation timetable and begin the parallel reporting activity.

Two of the 14 respondents (representing organisations with approximately 4.5% of the total NHH RF volumes but 22% of the total sub 100kW volumes) requested that the proposed approach were extended to non-domestic sites under 100kW (MC E and G) so that non-domestic Suppliers are also incentivised to move Smart and advanced Meters to HH Settlement. A further two Suppliers (representing organisations with approximately 2.5% of the total NHH RF volumes but 15% of the total sub 100kW volumes) noted that non-domestic Suppliers do not benefit from the merging approach. There is considerably more volume within MC E and G, which was moved as part of Modification P272, than is currently in the elective MC F. Therefore, extending the merging arrangement for non-domestic would not be as straight-forward and may require Elexon to consider a number of options. Elexon recommends the PAB considers the comments from non-domestic Suppliers and determines whether Elexon should investigate this further and provide an update to the PAB as part of the November threshold review.

EFR Considerations

Elexon will assess any Suppliers that have become in focus following this review to determine whether EFR should be applied and, if required, an update will be provided to the PAB in the confidential Risk Report at its June meeting.

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 entry
September 2022	June 2021 at R1 for HH June 2020 at RF for NHH	September 2022	October 2022
October 2022	July 2022 at R1 for HH July 2021 at RF for NHH	October 2022	November 2022
November 2022	August 2022 at R1 for HH August 2021 at RF for NHH	November 2022	December 2022 (apart from in the unlikely event that the November threshold review removes the need for this assessment).

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.

For more information, please contact:

Anna Millar, Risk and Technique Analyst

anna.millar@elexon.co.uk

020 7380 4368