

Phase

Initial Written Assessment

Definition Procedure

Assessment Procedure

Report Phase

Implementation

'Amendments to Section Z to better facilitate the production of the Risk Evaluation Methodology, Risk Evaluation Register and Risk Operating Plan'

The Risk Evaluation Methodology (REM), Risk Evaluation Register (RER) and Risk Operating Plan (ROP) are produced annually in accordance with the Annual Performance Assurance Timetable (APAT). This proposal seeks to amend provisions in the timing and revision of the three documents in order to support the objectives of the Performance Assurance Framework (PAF) Review in delivering a more efficient and effective PAF.



The Performance Assurance Board (PAB) recommend that the Panel raise this Modification in line with BSC Section F2.1.1(d)(vi)



ELEXON recommends the Modification Proposal be raised and progressed directly to the Report Phase with an initial recommendation to approve

This Modification is expected to impact:

- Suppliers
- Distributors
- Half Hourly Data Aggregators
- Non Half Hourly Data Aggregators
- Meter Administrators
- Half Hourly Data Collectors
- Non half Hourly Data Collectors
- Central Volume Allocation Meter Operator Agents
- Half Hourly Meter Operator Agents
- Non Hourly Meter Operator Agents
- Supplier Meter Registration Agents

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About This Document

This document is a recommendation to the Panel, by PAB, to raise a Modification Proposal (Attachment A) in accordance with Section [F2.1.1\(d\)\(vi\)](#). If the Panel agree to raise the Modification Proposal, this document will form its Initial Written Assessment (IWA) and the Proposal Form will be updated and published on the ELEXON Website.

ELEXON will present the Modification Proposal to the Panel on 14 June 2018 and ask the Panel to consider its recommendations and decide whether to raise the Modification Proposal and how to progress it.

There are three parts to this document:

- This is the main document. It provides details of the draft Modification Proposal, an assessment of the potential impacts and a recommendation of how the proposal should be progressed; and
- Attachment A contains the Proposal Form; and
- Attachment B contains the draft Legal text.

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1 Why Change?

Background

The PAF identifies risks to Settlement and how they should be managed. In 2007 [P207 'Introduction of a new governance regime to allow a risk based Performance Assurance Framework \(PAF\) to be utilised and reinforce the effectiveness of the current PAF'](#) was implemented, which introduced a more risk based PAF. In 2016 ELEXON and the PAB identified further opportunities to enhance this approach originally envisaged by P207.

The BSC Panel included a review of the PAF in its [strategic forward work plan 2016/17](#). The PAF Review included a number of objectives which are particularly relevant to this proposed Modification, around participant engagement and reactivity to change:

- Redesigning the REM to better reflect current risk and make it more meaningful to participants;
- Redesigning the engagement with PAB and participants to make the revised view of risk as flexible, accurate, clear and compelling as possible;
- To improve Party engagement in order to encourage increased Party responses to PAF consultations, to enable Parties to report that they better understand the process, how/why it affects them and that at least some of their top risks are reflected in the focus of the PAF;
- There are mechanisms for the Panel strategy, Modifications and PAB strategy to be reviewed for impact on Settlement risk; and
- For all such impacts, the PAB is able to use the REM to identify and describe new/changed risks.

In delivering the PAF Review, which commenced in February 2017, ELEXON is working with the Issue 69 Working Group and the PAB to undertake a review of the [PAF Procedures](#). This review has identified related changes to [BSC Section Z 'Performance Assurance'](#) that would facilitate a faster and more effective approach to delivering the PAF.

BSC Section Z sets out how the PAF Procedures (the REM, the RER and the ROP) are reviewed and updated. A new version of each is produced annually for each Performance Assurance Operating Period (PAOP), equivalent to the BSC Year.

The Issue 69 Working Group, which is supporting the PAF Review through all the Work Streams, has reviewed this proposal for change and endorsed the proposed legal text and rationale.

What is the issue?

ELEXON has identified that the linear ordering of the PAF Procedures required by the Code is a barrier to achieving a more flexible PAF, and to promoting meaningful engagement with Parties and interested persons. The inability for within period changes to the REM and restrictions on changes to the ROP has the potential to cause inefficient and ineffective delivery of the PAF Procedures.

The current wording of Section Z requires the REM, the RER and the ROP to be submitted or made available to interested persons for comment and approval from PAB separately. Each document must complete this process before the next can be submitted. This has the effect that the annual review of the REM, the RER and the ROP starts just a few months

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after the current PAF Procedures come into force (see example timetable below), and before many of the agreed risk mitigating actions have been carried out and their impacts observed.

An example below is for the 2019/2020 PAOP, which will be prepared from mid-2018 and come into effect on 1 April 2019 (note that the 2018/19 PAOP runs from 1 April 2018 to 31 March 2019).

Risk Evaluation Methodology	PAB meeting dates
Present draft revisions to REM 2019/20 to PAB for endorsement	June 2018
Issue draft revisions to REM 2019/20 for Industry consultation	June 2018
Present revised REM 2019/20 to PAB for approval	August 2018
Publish approved REM 2019/20 on the BSC Website	August 2018
Risk Evaluation Register	
Present draft revisions to RER 2019/20 to PAB for endorsement	September 2018
Issue draft revisions to RER for 2019/20 for Industry consultation	September 2018
Present revised RER 2019/20 to PAB for approval	November 2018
Publish approved RER 2019/20 on the BSC Website	November 2018
Risk Operating Plan	
Present draft revisions to ROP 2019/20 to PAB for endorsement	December 2018
Issue draft revisions to ROP 2019/20 Industry consultation	December 2018
Present revised ROP 2019/20 to PAB for approval	February 2019
Publish approved ROP 2019/20 on the BSC Website	February 2019

In practice this means that Parties and the PAB are asked to comment on or approve the methodology for evaluating risks without seeing the resultant risk register, which would not be produced until several months later. Although the methodology has rarely changed to date, if it did, the current process could hinder a Party's ability to accurately and effectively evaluate the proposed change.

Parties are then asked to comment on the plan for mitigating risks three months after the risk register has been presented. Few comments are received on any of the documents in most years, which may in part be due to this drawn out and fragmented review process.

Additionally, Section Z 'Performance Assurance Procedures' details provisions for within-period revisions to the RER and the ROP but not for the REM. If for instance there was major industry change, significant changes would be required to the RER. In this circumstance, it may not be appropriate to continue to use the same risk rating system and inefficient to wait until the next PAOP for a revised REM.

Such within-period revisions are allowed for the RER under the PAB's discretion. However for the ROP, a within period revision is only allowed if there is a within period revision of the RER first. If the risk mitigation efforts originally planned proved ineffective, the prerequisite of a within-period revision of the RER to allow such a revision of the ROP is overly restrictive.

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Proposed Solution

Remove the linear ordering

The proposed solution for this proposed Modification is to amend the wording of Section Z in order to remove the sequence constraint of the annual review of the REM, the RER and the ROP so they can be done in parallel. Currently it is required that the consultation and approval of the REM happens before the RER; and the RER before the ROP.

The proposed changes would allow for a better understanding of the combined set of PAF Procedures, thereby giving interested parties better opportunity to comment on the PAB's proposed risk register, including risk ratings, and deployment of mitigating techniques. This would encourage increased involvement from PAPs, which is critical to the success of the PAF and a PAF review objective.

By reducing the time taken to prepare the PAF Procedures for the next PAOP, the PAB will be able to review the risk register and operating plan closer to the start of the PAOP, and therefore more likely to be using more recent data and risk indicators.

Remove the sequence constraint

Wording shall be added (see Attachment A for redlining) to amend within-period revision provisions of the REM and the ROP. This shall allow revisions of the REM equal to that of the RER and also remove the prerequisite of within-period revision of the RER before allowing such a revision of the ROP. If the PAB considers such revisions significant it shall submit them to PAPs and other interested persons for comment as is currently the process for the RER.

This will improve the increased flexibility and effectiveness of the PAF to manage risk.

Remove the set reoccurring dates

Section Z will be amended to allow the REM, the RER and the ROP to be produced annually in varying months of the year as opposed to a reoccurring set date. Note that the documents shall still be available for the start of the PAOP. This will further support the increased flexibility of the PAF.

For clarity, the requirement of a [timetable](#) detailing when the documents shall be issued for consultation and presented to the PAB for approval (as delegated by the Panel) shall remain.

Applicable BSC Objectives

We believe this proposed Modification would better facilitate Applicable **BSC Objective (d)** for the reasons set out below.

This proposed Modification would better facilitate Applicable BSC Objective (d) as outlined in the reasoning for the Solution



What are the Applicable BSC Objectives?

(a) The efficient discharge by the Transmission Company of the obligations imposed upon it by the Transmission Licence

(b) The efficient, economic and co-ordinated operation of the National Electricity Transmission System

(c) Promoting effective competition in the generation and supply of electricity and (so far as consistent therewith) promoting such competition in the sale and purchase of electricity

(d) Promoting efficiency in the implementation of the balancing and settlement arrangements

(e) Compliance with the Electricity Regulation and any relevant legally binding decision of the European Commission and/or the Agency [for the Co-operation of Energy Regulators]

(f) Implementing and administering the arrangements for the operation of contracts for difference and arrangements that facilitate the operation of a capacity market pursuant to EMR legislation

(g) Compliance with the Transmission Losses Principle

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Implementation approach

The proposed Implementation Date is **1 November 2018**, as part of the November 2018 scheduled BSC Release. This will enable the improved flexibility to be available for use in the new PAF design, which is anticipated to be in use for April 2019.

The implementation will have no systems or process impacts, and the requirement to deliver the PAF Procedures in line with the approved APAT (produced each year) remains.

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3 Proposed Progression

Next steps

ELEXON recommends that this proposed Modification be sent directly to the Report Phase and hence be subject to the Report Phase Consultation. The reasons for this proposed approach are:

- Both the clearly defined solution and the progression of this Modification have gained support from the Issue 69 Workgroup that it would better facilitate the Applicable BSC Objectives.
- The solution of this Modification is clear and self-evident in its fulfilment of the PAF Review objectives. Furthermore, the solution has been agreed by the Issue 69 group and the PAB.
- The PAB has endorsed this Proposal and recommends that it is raised in accordance with Z8.2
- In submitting this proposal directly to the Report Phase, industry will still have the opportunity to comment, through the Report Phase consultation, on the merits of the proposal. The Report Phase consultation still enables new arguments to be surfaced and considered.

Self-Governance

ELEXON recommends that this Modification should be progressed as a Self-Governance Modification (no Ofgem approval sought) as it is not likely to have a material effect on the Self-Governance criteria.

ELEXON considered whether this proposal could have a material impact on the Code's governance procedures (criteria v). However through further legal consideration, it was viewed that removing the right to approve the REM, the RER and the ROP in sequence does not reduce the rights of Parties to be engaged in the process. Arguably Parties gain more visibility and opportunity to understand how they would be affected by an approval, where the REM, RER and ROP are consulted on in parallel.

Adding the ability for the PAB to make in-period revisions to the REM may reduce the rights of Parties to be engaged in the process of changing the REM (which currently must be done only in accordance with the Annual Performance Assurance Timetable (APAT), including consultation etc). ELEXON does not view this effect as material, as it does not rise to the same level of materiality as the relevant examples in the [Self-Governance Guidance](#), i.e. *an effect is likely to be material if it reduces the rights of industry parties to be engaged in proposed changes to the BSC, or if it changes the decision-making capacity of the BSC Panel in relation to BSC Modifications and Change Proposals*, of which neither are the case in this circumstance.

Additionally, ELEXON does not consider that within-period revisions of the ROP, made without corresponding revisions to the RER, are inherently likely to be of a significantly higher or lower materiality than those made with corresponding revisions to the RER. Therefore, requiring the PAB to submit such revisions to the Panel, as is the case for the annual review but not for a within-period ROP revision with corresponding RER revision is unnecessary. The proposed provision includes the caveat that if the PAB



What is the Self-Governance Criteria?

A Modification that, if implemented:

(a) is unlikely to have a material effect on:
(i) existing or future electricity consumers; and
(ii) competition in the generation, distribution, or supply of electricity or any commercial activities connected with the generation, distribution, or supply of electricity; and
(iii) the operation of the national electricity transmission system; and
(iv) matters relating to sustainable development, safety or security of supply, or the management of market or network emergencies; and
(v) the Code's governance procedures or modification procedures; and

(b) is unlikely to discriminate between different classes of Parties.

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considers a revision to be significant, then draft copies shall be submitted to PAPs and other interested persons to provide opportunity to comment.

Timetable

Should the Panel agree to raise this proposed Modification, we have outlined the proposed progression of the Modification below:

Proposed Progression Timetable for this Modification	
Event	Date
Present Initial Written Assessment to Panel	14 June 2018
Report Phase Consultation	18 June 2018 – 29 June 2018 – 10 Working Days
Present Draft Modification Report to Panel	12 July 2018

PAB's initial views and recommendation

The proposed Modification was presented to the PAB at its meeting on the 31 May 2018 as a recommendation paper. The PAB agreed with the proposed Modification and made a recommendation to the Panel to raise a Modification Proposal.

The PAB queried the implementation cost breakdown, to which ELEXON clarified that the breakdown consisted of operating costs only and no additional resourcing would be required. These costs have been included in the report to provide transparency to the implementation of the Modification.

4 Likely Impacts

Impacts

Impact on BSC Parties and Party Agents

Party/Party Agent	Potential Impact
PAPs	This Modification Proposal will allow PAPs' to consider the PAF Procedure documents in relation to one another. The proposal changes when parties will be expected to provide comments on the documents. Minor procedural changes will therefore be required.

Impact on Transmission Company

None identified.

Impact on BSCCo

Area of ELEXON	Potential Impact
Disputes and Compliance and BSC Admin	ELEXON will need to update the relevant PAF Procedure LWIs.

Impact on BSC Systems and processes

BSC System/Process	Potential Impact
None identified.	

Impact on BSC Agent/service provider contractual arrangements

BSC Agent/service provider contract	Potential Impact
None identified.	

Impact on Code

Code Section	Potential Impact
Section Z	Redlining amendments as proposed by the solution to this proposed Modification Proposal.
Change Subsidiary Documents	None identified.

Impact on a Significant Code Review (SCR) or other significant industry change projects

We do not believe this Modification will impact any open SCRs. ELEXON requested that this Modification be exempt from the Significant Code Review process.

Ofgem granted the SCR exemption request on 15 May 2018.

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Impact on Consumers

We do not believe this proposed Modification has any direct impacts on consumers.

Impact on the Environment

We do not believe this proposed Modification has any direct impacts on the environment.

Estimated central implementation costs

The central implementation costs to deliver the solution to this Modification is £360. This is derived from one Working Day to implement the change to Section Z, and half a working day to update the relevant PAF Procedure LWIs.

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5 Recommendations

We invite the Panel to:

- **RAISE** the Modification Proposal in Attachment A (in accordance with F2.1.1(d)(vi));
- **AGREE** that this proposed Modification progresses directly to the Report Phase;
- **AGREE** that this proposed Modification:
 - **DOES** better facilitate Applicable BSC Objective (d);
- **AGREE** an initial recommendation that this proposed Modification should be **approved**;
- **AGREE** an initial Implementation Date of 1 November 2018 as part of the November 2018 BSC Release:
- **AGREE** the draft legal text;
- **AGREE** an initial view that proposed Modification should be treated as a Self-Governance Modification; and
- **NOTE** that if raised, ELEXON will issue the draft Modification Report (including the draft BSC legal text) for a 10 Working Day consultation and will present the results to the Panel at its meeting on 12 July 2018.

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Appendix 1: Glossary & References

Acronyms

Acronyms used in this document are listed in the table below.

Acronym	
Acronym	Definition
APAT	Annual Performance Assurance Timetable
BSC	Balancing and Settlement Code
IWA	Initial Written Assessment
PAB	Performance Assurance Board
PAF	Performance Assurance Framework
PAOP	Performance Assurance Operating Period
PAP	Performance Assurance Party
REM	Risk Evaluation Methodology
RER	Risk Evaluation Register
ROP	Risk Operating Plan

External links

A summary of all hyperlinks used in this document are listed in the table below.

All external documents and URL links listed are correct as of the date of this document.

External Links		
Page(s)	Description	URL
3	BSC Section Z webpage of ELEXON website	https://www.elexon.co.uk/bsc-and-codes/balancing-settlement-code/bsc-sections/
3	Modification P207 webpage of ELEXON website	https://www.elexon.co.uk/mod-proposal/p207-introduction-of-a-new-governance-regime-to-allow-a-risk-based-performance-assurance-framework-paf-to-be-utilised-and-reinforce-the-effectiveness-of-the-current-paf/
3	PAF Processes webpage of ELEXON website	https://www.elexon.co.uk/reference/performance-assurance/performance-assurance-processes/
3	Panel webpage of the ELEXON website	https://www.elexon.co.uk/group/the-panel/
5	Performance Assurance Techniques, Timetable and Methodology webpage of ELEXON website	https://www.elexon.co.uk/reference/performance-assurance/performance-assurance-techniques/

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External Links		
Page(s)	Description	URL
7	BSC Modifications Self-Governance guidance page of ELEXON website	https://www.elexon.co.uk/guidance-note/bsc-self-governance-guidance/

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