






BSC Modification Proposal Form		At what stage is this document in the process?
<h2 style="color: green;">Amendments to Section Z to better facilitate the production of the Risk Evaluation Methodology, Risk Evaluation Register and Risk Operating Plan</h2>		<div style="display: flex; flex-direction: column; align-items: flex-end;"> <div style="border: 2px solid green; border-radius: 10px; padding: 5px; margin-bottom: 5px;">01 Modification</div> <div style="border: 2px solid blue; border-radius: 10px; padding: 5px; margin-bottom: 5px;">02 Workgroup Report</div> <div style="border: 2px solid purple; border-radius: 10px; padding: 5px; margin-bottom: 5px;">03 Draft Modification Report</div> <div style="border: 2px solid orange; border-radius: 10px; padding: 5px;">04 Final Modification Report</div> </div>
<p>Purpose of Modification:</p> <p>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. This proposal is to amend provisions in the timing and revision of the three documents in order to better meet the objectives of the PAF Review.</p>		
	<p>The Proposer recommends that this Modification should:</p> <ul style="list-style-type: none"> be treated as a Self-Governance Modification Proposal be sent directly into the Report Phase <p>This Modification will be presented by the Proposer to the BSC Panel on <i>14 June 2018</i>. The Panel will consider the Proposer's recommendation and determine how best to progress the Modification.</p>	
	<p>High Impact:</p> <p>N/A</p>	
	<p>Medium Impact:</p> <p>N/A</p>	
	<p>Low Impact:</p> <p>This Modification Proposal will positively impact the ability of Performance Assurance Parties (PAPs) to make better informed comments and the Performance Assurance Board's (PAB's) ability to make better informed decisions on the Performance Assurance Framework (PAF) Procedures.</p>	

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Timetable		
The Proposer recommends the following timetable:		
Consideration by Issue 69 'Performance Assurance Framework Review' Workgroup	10 April 2018	
Recommendation Paper presented to PAB	31 May 2018	
Workgroup Report presented to Panel	14 June 2018	
Report Phase Consultation	18 June 2018 - 29 June 2018	
Draft Modification Report presented to Panel	12 July 2018	
Final Modification Report published	19 July 2018	

1 Summary

What is the issue?

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.

Section Z details provisions for within-period changes 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 PAOP for a revised REM.

Such within-period revisions are allowed for the RER under the PABs discretion but only for the ROP following a within-period revision of the RER. If the mitigation efforts originally planned proved ineffective, the prerequisite of a within-period revision of the RER in order to allow such a revision of the ROP is overly restrictive.

Section Z also requires the REM, the RER and the ROP to be submitted or made available to interested persons for comment and approved by the PAB or Panel (delegated to the PAB) before the next document can be submitted. This results in a minimum end to end review time of nine months between ELEXON preparing the REM and the start of the PAOP – only three months after the current PAOP started. The current linear timeline required is unnecessary and inefficient.

What is the proposed solution?

The proposed solution for this 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. Additionally, wording shall be added in order to allow within period revisions of the REM and the ROP equal to that of the RER. This will enable the increased flexibility and effectiveness of the PAF to manage risk. Finally, wording shall 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.

The changes will allow a better understanding of the combined set of PAF Procedures which will encourage increased involvement from Performance Assurance Parties.

2 Governance

Justification for proposed progression

It is proposed to recommend to the Panel that this Modification should be progressed as a Self-Governance Modification as it is not likely to have a material effect on the following criteria:

- (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;

ELEXON views (v) as the only possible applicable criterion. However, 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 that if the PAB considers a revision to be significant, then draft copies shall be submitted to PAPs and other interested persons to provide opportunity to comment.

It is also proposed to recommend to the Panel that the Modification Proposal proceeds directly to the Report Phase. 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.

Requested Next Steps

This Modification should be:

- sent directly into the Report Phase

3 Why Change?

Background

The PAF identifies risks to Settlement and how they should be managed. Following the implementation [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'](#) ELEXON and the PAB identified opportunities to enhance the risk-based PAF envisaged in the Modification.

The BSC Panel considered the PAF should be reviewed and included it in its strategic forward work plan 2016/17. The objectives of the PAF Review include a number which are particularly relevant to this proposed Modification, around participant engagement and being reactive to change:

- Redesigning the REM to more accurately 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
- Party engagement – more parties respond to PAF consultations, parties report 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
- 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 2018, 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 Section Z 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 PAOP, equivalent to the BSC year.

What is the issue?

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 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 for 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, several months before it is even presented for comment. 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 (outlined in the ROP) three months after they saw the risk register. As a result of the extensive and inefficient timeline, few comments are received on any of the documents in most years.

Additionally, Section Z details provisions for within-period changes 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 annual review for a revised REM.

Such within-period revisions are allowed for the RER under the PAB's discretion but only for the ROP following a within-period revision of the RER. If, for example, the mitigation efforts originally planned in the ROP proved ineffective, the prerequisite of a within-period revision of the RER to allow such a revision of the ROP is overly restrictive as the risks themselves may not need to change.

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. Furthermore, the inability for within period changes to the REM and restrictions of changes to the ROP has the potential to cause inefficient and ineffective delivery of PAF procedures.

4 Code Specific Matters

In the event that the Panel reject this Modification to be progressed directly to Report Phase, it shall be instead progressed to Assessment Procedure. In this circumstance the following will be required.

Technical Skillsets

Members of Issue 69 would be consulted in order to assess the Modification in detail.

Reference Documents

[Section Z 'Performance Assurance'](#)

5 Solution

Proposed Solution

The proposed solution for this Modification is to amend Section Z in order to remove the sequence constraint of the annual review of the REM, the RER and the ROP. This is so they can be done in parallel, rather than the requirement of the consultation and approval of the REM happening before the RER; and the same for the RER before the ROP.

The proposed changes would allow a better understanding of the combined set of PAF Procedures, thereby giving interested parties the 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 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.

Additionally, wording shall be added (see attachment A for redlining) to amend within-period revision provisions of the REM and the ROP. This shall allow within period 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.

Finally, wording shall 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. Crucially 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 PAB for approval (as delegated by the Panel) shall remain.

6 Impacts & Other Considerations

Impacts

This is a facilitating Mod in order to improve the flexibility and effectiveness of the PAF. PAPs and the PAB will benefit from the improved flexibility of the PAF procedures, allowing them to more easily

understand the links between the REM, the RER and the ROP. This will facilitate the Parties and the PAB to make better informed comments and decisions on potential changes to the PAF procedures.

Does this modification impact a Significant Code Review (SCR) or other significant industry change projects, if so, how?

There are no expected impacts on SCRs or other industry change from this Modification. The Proposer requests that this Modification be exempt from the SCR Process.

Consumer Impacts

Day to day operation of balancing and settlement will be unaffected so there will be no direct cost on consumers.

Environmental Impacts

Day to day operation of balancing and settlement will be unaffected and so there will be no direct impact on the environment.

7 Relevant Objectives

Impact of the Modification on the Relevant Objectives:	
Relevant Objective	Neutral
a) The efficient discharge by the Transmission Company of the obligations imposed upon it by the Transmission Licence	Neutral
(b) The efficient, economic and co-ordinated operation of the National Electricity Transmission System	Neutral
(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	Neutral
(d) Promoting efficiency in the implementation of the balancing and settlement arrangements	Positive
(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]	Neutral
(f) Implementing and administrating the arrangements for the operation of contracts for difference and arrangements that facilitate the operation of a capacity market pursuant to EMR legislation	Neutral
(g) Compliance with the Transmission Losses Principle	Neutral

Objectives (d)

The Proposer believes that this Modification Proposal P365 will better facilitate Applicable BSC Objective (d) 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.
- Allowing within-period revisions to the REM, the risk register can be updated to better reflect risk at the time it is required rather than waiting for up to a year.

8 Implementation Approach

It is proposed that the amendments to Section Z be implemented on **1 November 2018 as part of the November 2018 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 prior to 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.

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. Furthermore, this Modification has gained [recommendation] from PAB to be raised by the Panel.

9 Legal Text

Text Commentary

The legal text required to give effect to this Modification Proposal is attached – see Attachment A.

10 Recommendations

ELEXON's Recommendation to the BSC Panel

The BSC Panel is invited to:

- Agree that this Modification be progressed as a Self-Governance Modification Proposal;
- Agree that this Modification be sent directly into the Report Phase.