

## Issue 69 'Performance Assurance Framework Review'



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### About This Document

This document is the Issue 69 Group's Report on the second workstream of the Performance Assurance Framework (PAF) Review. The workstream focused on the PAF Procedures, which provide the governance structure for the PAF. ELEXON will present this report at the Panel's meeting on 8 November 2018.

There are two parts to this document:

- This is the main document. It provides details of the Issue Group's discussions and proposed solutions to the highlighted issue and contains details of the Issue Group's membership.
- The workstream [recommendations report](#) approved by the Performance Assurance Board (PAB) in September 2018 is available with the PAB papers.

Further information is available on the [Issue 69](#) and [PAF Review](#) webpages.

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## Background

The current Performance Assurance Framework (PAF) provides for a flexible, integrated approach to the deployment of techniques. ELEXON and the PAB have identified opportunities to further enhance the application of the risk-based PAF envisaged by Modification 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', to address the challenges of a changing industry. Subsequently, a review of the PAF was agreed as an element of the 2016/17 Panel Strategic Work Programme (SWP). At its March 2017 meeting, the BSC Panel approved the scope and delivery approach of the PAF review (264/07), which has been divided into the following four work streams.

- Smart Metering
- Risk Evaluation Methodology (REM) and other PAF procedures;
- Data Provision; and
- Performance Assurance Techniques.

ELEXON raised Issue 69 'Performance Assurance Framework Review' on 30 March 2017. This Issue Group will explore the issues with PAF stakeholders, identify possible solutions and specify requirements; across all four work streams. The outcomes of each of these work streams will be documented in a series of interim Issue reports, which will be presented to both the PAB and BSC Panel.

The Issue 69 report for the Smart Metering workstream was presented to the Panel in July 2017. This report covers the second workstream on the PAF Procedures.

## Conclusions

Following input from the Issue 69 workgroup, a number of changes to the PAF Procedures were considered and approved by the PAB, including:

- Reducing the risk register from a large number of specific risks to a smaller number of risks with larger scope, and presenting the risks with more supporting information and in a new format;
- Modification P368 was approved and implemented, which introduces additional flexibility into delivery of the procedures including streamlining annual reviews and in-period revisions to the Risk Evaluation Methodology equal to those for the Risk Operating Plan and Risk Evaluation Register;
- Moving from the previous approach of assigning each risk an impact and probability rating to assigning each risk a material (£) figure, using available data sources overlaid with plausible assumptions. Target Impact values will be selected to express risk appetite and prioritise risks for mitigation;
- PAB meeting agenda structured around the reporting on the risks;
- Collating a central issue register and near miss register to better facilitate risk evaluation and mitigation; and
- Enhancing risk management through the Risk Manager and Risk Owner functions.

### PAF Procedures

The PAF Procedures are the documents that provide the structure to the assurance framework in terms of risk evaluation (the evaluation methodology and the risk register) and risk mitigation (the operating plan). The workstream reviewed the documents and the governance that sits around them.

### PAF Procedure Documents

#### Risk Evaluation Register (RER)

The workgroup discussed the proposed new fields for the RER, including:

- Risk sub-category (in addition to the risk's category);
- Risk factors (the principle causes);
- Relevant BSC and BSCP references;
- Consequences for Performance Assurance Parties (PAPs) of risks manifesting;
- Target Impact with an accompanying rationale;
- Variance (the difference between the current risk Impact and the Target Impact);
- Risk indicators (data that could be used to assess whether the risk has materialised and help forecast future error);
- Control strength rationale;
- Supplementary controls (those controls outside the BSC which parties could implement to help mitigate the risk); and
- Which PAP types are responsible for a risk factor or a control.

The workgroup noted that the new proposed fields improved both the clarity and utility of the register, and thus supported the introduction of the new, more comprehensive risk register.

In addition to the new, more comprehensive documentation of the risks, ELEXON discussed with the working group the notion of moving from capturing a large number of specific risks, to a smaller number with a wider scope. For example, by amalgamating risks such that the new register would contain around 40 distinct risks, in comparison to the current register which documents around 200. The workgroup response to this proposal was positive, with members noting that this approach would likely be conducive to greater engagement by making the RER more accessible and easier to understand.

#### Risk Evaluation Methodology (REM)

The workgroup considered the proposed changes to the REM, the function of which is to describe how risks are described and sized so they can be prioritised. ELEXON proposed a way to calculate a materiality (£) figure and an appreciation of plausible upper and lower limits of this materiality for a given risk in the coming year, to reflect the uncertainty in the various metrics used to estimate the materiality. To demonstrate the new approach, four example risks were presented with the rationale for how the materiality figure was

reached in each case using available data and assumptions. These risks included two SVA risks, and two CVA risks.

The workgroup was satisfied with the approach, though many workgroup members highlighted the importance of in-period revisions following significant changes to any of the values used in the scoring of a risk. For example, the materiality of many risks is calculated by multiplying the forecast megawatt hour error value by an estimated system buy price (SBP). Through the year some of these data points used in the risk evaluation may turn out to be materially different to the forecast (e.g. prices fluctuating through the year). Therefore, risks would be monitored at an appropriate frequency and mitigating actions adjusted if risks appear to be of greater or less significance than originally predicted.

In a separate teleconference, Issue group members were presented with a new method of representing the 'Volatility' associated with each materiality estimate, rated from low to high. The purpose is to capture the level of uncertainty in the forecast materiality using the difference between the most likely value and the plausible upper value. Response to this proposal was largely positive, although some workgroup members highlighted the importance of relatively complex concepts such as this being represented succinctly, perhaps with examples, so as not to make the register too complex for all interested parties to access.

## PAF Design

### PAF Response to Issues/Events

Through the PAF Review, ELEXON has developed a process for responding to issues and events as they occur (see recommendations report, PAB paper PAB212/06A). Part of this process includes the enhancement of the Risk Manager and Risk Owner functions, as well as a number of new documents and monitoring strategies. For instance, a framework document that describes the PAF in plain English, a new near-miss register, an issues register and a Risk Management Determination<sup>1</sup> register.

Despite the applicability of this process for any issue and event, the workgroup queried whether this approach would be appropriate for all PAPs. For instance, ELEXON's range of Performance Assurance Techniques were developed primarily for Suppliers and Supplier Agents, and thus these techniques could be inappropriate following an issue or event that required PATs to be deployed against Licensed Distribution System Operators. In response, ELEXON specified that although this new process provided a framework for risk owners to evaluate the consequence of an issue or event, and could guide courses of actions that may be applicable. ELEXON and the PAB would ultimately using their judgement to decide the best course of action. Furthermore, the applicability of each PAT to different types of PAPs would be considered and evaluated through the upcoming PAT Review workstream.

### PAF Flexibility

To facilitate dynamic risk management and a faster response to risk-related issues or events, ELEXON developed solutions within Modification [P368](#) with help from the working group.

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<sup>1</sup> Risk Management Determinations are the decisions the PAB makes to deploy mitigating techniques to individual Performance Assurance Parties

The Modification introduces within-period changes to the Risk Evaluation Methodology (REM) and removes restrictions on changes to the Risk Operating Plan (ROP) to support more efficient and effective delivery. The wording of Section Z has been updated to remove the sequence constraint of the annual review of the REM, the Risk Evaluation Register (RER) and the ROP so they can be done in parallel.

The workgroup supported and endorsed the changes, agreeing they could better facilitate stakeholder understanding of and engagement with the PAF.

## 3 Conclusions

### PAF Procedures

The Issue Group endorsed the proposed changes and agreed they be presented to the PAB for further approval.

The PAB approved the recommendations at its September 2018 meeting.

### Next Steps

There are two remaining workstreams to be considered under Issue 69:

- Data Provision; and
- Review of the Performance Assurance Techniques.

## Appendix 1: Issue Group Membership

### Issue Group membership and attendance

Name	Organisation	23/01/ 17	10/04/ 18	12/06/ 18	15/08/ 18	30/08/ 18	31/08/ 18
Beth Brown	ELEXON ( <i>Chair</i> )	✓	✓	✓	✓	✓	✓
Jemma Williams/ Edwin	ELEXON ( <i>Lead Analyst</i> )	✓	✓	✓	✓	✗	✗
Adam Rawles	ELEXON	-	-	-	✓	✓	✓
Julie Stacey	ELEXON	✓	✓	✓	✗	✗	✗
Nick Groves	ELEXON	✓	✓	✓	✓	✗	✗
Nathan Flood	ELEXON	✗	✗	✓	✓	✗	✗
Alayna Gadliauskaite	ELEXON	✓	✗	✗	✗	✗	✗
Terry Carr	E.ON	✓	✓	✗	✗	✗	✗
Richard Dakin	E.ON Energy Solutions	✓	✓	✓	✓	✗	✗
Alastair Barnsley	Independent industry expert	✓	✓	✓	✗	✗	✗
Nik Wills	Stark	✓	✓	✓	✓	✗	✗
Helen Knowles	Smartest Energy	✓	✓	✓	✗	✓	-
Robert Johnston	Smartest Energy	✗	✗	✗	✗	✗	✗
Pete Butcher	SSE	✓	✓	✓	✓	✗	✗
Julie Jeffreys	Spark	✗	✓	✓	✓	-	✓
Rhys Keally	Centrica	✓	✗	✗	✗	✗	✗
Colin Frier	Siemens plc	✓	✓	✓	✓	✗	✗
Angela Love	Love Energy Consulting	✗	✗	✗	✗	✗	✗
Clare Hannah	IMServ	✓	✓	✗	✗	✗	✗
Keren Kelly	Npower	✓	✗	✓	✗	-	✓
Mark Bellman	Scottish Power Energy Retail	✗	✓	✓	✗	✗	✗
Amy Genge	SSE	✓	✓	✓	✓	✗	✗
Hannah Hutchins	EDF	✓	✓	✓	✓	✗	✗
Karolis Jankus	KPMG (BSC Auditor)	✓	✓	✓	✓	✗	✗
Seth Chapman	Morrison Data Service	✓	✗	✓	✗	✗	✗
Aaron Dickinson	Utiligroup	✓	✗	✓	✗	✓	-
Martin Brooks	Haven Power	-	✓	✓	✓	✗	✗
Derek Weaving	Centrica/ British Gas	-	✓	✗	✗	-	✓
Sebastian Eyre	Green Energy Network	-	✓	✗	✗	✗	✗
Sash Pearce	Npower	-	✓	✗	✗	✗	✗
Lucy Reid	Engie	-	-	✓	✗	✗	✗

Angela McMullen	Scottish Power	-	-	✓	✓	✓	-
John Bolland	Scottish Power	-	-	✓	✓	✗	✗

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## Appendix 2: Glossary & References

### Acronyms

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

Acronyms	
Acronym	Definition
PAB	Performance Assurance Board
PAF	Performance Assurance Framework
PAP	Performance Assurance Party
PAT	Performance Assurance Technique
REM	Risk Evaluation Methodology
RER	Risk Evaluation Register
RMD	Risk Management Determination
SBP	System Buy Price

### 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
1	PAB212/06A PAF Review – Performance Assurance Procedures Workstream Report	<a href="https://www.elexon.co.uk/meeting/pab-212/">https://www.elexon.co.uk/meeting/pab-212/</a>
2	P368 Modification Proposal	<a href="https://www.elexon.co.uk/mod-proposal/p368/">https://www.elexon.co.uk/mod-proposal/p368/</a>

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