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BSC Panel Strategy (January 2019)

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Victoria Moxham

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BSC PANEL STRATEGY (JANUARY 2019)

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BSC PANEL STRATEGY (JANUARY 2019)

BSC PANEL AND PANEL COMMITTEE MEMBER OBJECTIVES

BSC Panel Objectives

The BSC places an obligation on the BSC Panel to conduct its business with a view to achieving a number of key objectives. These objectives, which can be found in BSC Section B1.2.1, can be summarised as:

- Giving full and prompt effect to the BSC consistent with achieving the Applicable BSC Objectives in a transparent, economic, efficient and non-discriminatory way.

Applicable BSC Objectives

Condition C3 of the Electricity Transmission Licence establishes seven Applicable BSC Objectives. These are set out in full in Appendix 2 and can be summarised as:

- a) Efficient Discharge of Transmission Licence Obligations;
- b) Efficient Operation of Transmission System;
- c) Promoting Effective Competition;
- d) Efficient Implementation of the Balancing and Settlement Arrangements;
- e) Compliance with European Regulations;
- f) Facilitating Delivery of Electricity Market Reform; and
- g) Compliance with the Transmission Losses Principle.

The BSC Panel must undertake work and make recommendations so as to better facilitate the delivery of these objectives.

Scope

The BSC governs balancing and settlement activities in Great Britain. Other aspects of the electricity trading arrangements are dealt with under different governance arrangements. For example issues relating to transmission system operation are contained within the Grid Code and the Connection and Use of System (CUSC) arrangements, whereas issues associated with settlement registration are dealt with under the provisions of the Master Registration Agreement (MRA) and the Distribution Use of System Code (DCUSA) governs issues around connection to and use of the various distribution systems.

The BSC Panel has a general responsibility to keep itself informed of issues that fall outside the direct governance of the BSC and assess (and take steps to address) any impact on the BSC in a co-ordinated way.

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STRATEGIC PRIORITIES

The BSC Panel's overall focus and main priority continues to be the delivery of its BSC obligations and the ongoing provision of robust, effective BSC services. The Panel also remains mindful that the energy market is experiencing a period of substantial change and that it must take this into account when conducting its work. The Panel's priorities are therefore:

- Protecting, maintaining and efficiently managing the balancing and settlement arrangements as they exist today; and
- Looking ahead to the evolution of the market and how the current balancing and settlement arrangements need to adapt to facilitate such change.

To deliver these priorities, the Panel has identified work to be progressed in the following areas:

1. Delivery of Core BSC Services

- 1.1 The Panel will continue to focus on the delivery of its responsibilities, powers and functions as set out in Appendix 3.
- 1.2 Over the coming BSC Year, particular focus will be placed on:
 - **Delivering Change:** Delivery of change is one of the Panel's key responsibilities. The Panel recognises the importance of making the change process as accessible as possible to all BSC Parties and of making it easier for them to stay informed and get involved in changes. The Panel and ELEXON will work together to improve and evolve the BSC Change process so it remains fit for the future and the 'go to' change model.
 - **Code governance review and Cooperation with other Code Administrators:** The Panel acknowledges the importance of aligning BSC Modifications and Change Proposals (CPs) with changes to other codes to support the industry's timely transition to the future energy system design envisioned by the Smart Systems and Flexibility Plan. ELEXON and the Panel will continue to work with other Code Administrators to this end and will continue to play an active role in Code Administration Code of Practice (CACoP) Workgroups. ELEXON and the Panel will also continue to support Ofgem's overall objective for code governance remedies and to share insights with Ofgem and BEIS on alternative ways that code governance can be approved without the need to await new legislation. Wherever possible, the Panel will provide its expertise in working towards simplification of the code governance landscape and consolidation of codes.
 - **Digitising ELEXON's technology platform:** Since 2017/18, ELEXON has been working on a programme to re-architect our central systems to deliver a flexible, scalable, open platform to provide settlement and other value-added services appropriate to the needs of the future market. This programme will modernise the delivery of central Settlement services, whilst also allowing us to provide customer-focused services able to adapt quickly to rapidly developing flexibility markets, recognising for example, the impact of Electric Vehicles and storage, local balancing and Market-wide Half Hourly (HH) Settlement. ELEXON will continue to seek the Panel's input and keep the Panel informed of developments and key milestones within the project.
 - **Balancing Mechanism Reporting Service (BMRS):** This service is now more popular than ever, and we recognise that delivering a high quality data publishing service is one of our top priorities. Under the oversight of the Panel, ELEXON will improve the accessibility and accuracy of data on the BMRS, working towards it becoming a one-stop-shop for energy market data.

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- **Open data:** ELEXON and the Panel will strive to improve access to open data, particularly for smaller BSC Parties. In particular, we will seek opportunities for enabling sharable industry data that can be queried and passed on, reducing the need for specialist software to interpret data. Resource will continue to be directed towards using this capability to provide data insights and market reports to BSC Parties as well as the Panel.
- **Document management:** Delivery of BSC controlled documents in an efficient, managed way is a key part of the BSC Change process. Work is being undertaken to ensure that we are using modern tools for BSC changes that provide control and visibility for document configuration management and effective reporting.
- **Review of Section D Charges:** The Panel has instructed ELEXON to undertake a review of Section D Charges for the year 2019/20 to ensure that all charges remain appropriate and fit for purpose. The review will be undertaken by an Issue Group, which will assess the behaviours driving costs and whether the current charging structure is fit for purpose. The Panel has encouraged the Issue Group to focus on simplicity and cost reflectivity. Exact timings for the Issue group to be confirmed.

2. Resolution of known BSC Issues

- 2.1 As the Panel becomes aware of issues impacting or potentially impacting the BSC, it may consider asking ELEXON to investigate that issue and take action as appropriate. In addition, there are circumstances where the Panel may see value in undertaking a post-implementation review of a specific change to the BSC.
- 2.2 Over the next year, the Panel will monitor the post-implementation status of the following pieces of work:
- **Dispensations and non-standard Balancing Mechanism Units (BMUs):** ELEXON will continue to monitor the post-implementation status of this review and its recommendations, and provide updates as appropriate to the Panel.
 - **P326 (Implementation of non-Working Day adjustment to the Credit Cover Percentage Calculation):** ELEXON will monitor impacts of the change and update the Panel on its findings.
 - **P370:** This Modification is pending Ofgem decision but scheduled for implementation in March 2019. If approved, ELEXON will monitor any subsequent impact on the numbers of Modification Proposals raised, and the Panel will be on hand to provide additional support to any non-BSC Parties wanting to engage in the BSC Change processes.
- 2.3 In addition, ELEXON will continue, as appropriate, to identify opportunities for simplification:
- **Panel raised Modifications:** An Issue Group will be progressed to assess a potential modification to introduce the ability for the Panel to raise modifications on grounds other than simple efficiency.
 - **Removal of redundant arrangements:** ELEXON will draft a Modification Proposal on behalf of the Panel to remove specific clauses of the BSC identified as being redundant.

3. Efficient working practice and communication between Panel Committees

- 3.1 The BSC Panel remains committed to continuous improvement by identifying and implementing improvements to its working practices. This includes:
- **Review of election process:** In response to feedback from Panel members and other stakeholders, ELEXON has undertaken a review of the Panel election process to ensure that it is efficient, inclusive and fit for purpose. Modifications to the BSC will be required and will be processed in sufficient time for the 2020 Panel elections.

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- **Review of Panel Committee Terms of Reference:** ELEXON will undertake a review of the Panel Committee terms of reference and seek Panel's views on any recommendations for change. Consideration will also be given to assessing the effectiveness of the Panel and Panel Committees. The Panel will be kept informed of and, where appropriate, endorse, any changes arising to the working arrangements of the PAB that arise from the PAF review.
- **Review of Panel Chair terms:** the Panel may wish to conduct a review of the Panel Chair's terms ahead of the end of the current Panel Chair's term on 30 September 2019.

4. Evaluation and management of evolving risks

- 4.1 Changes in market design will change the profile of risk across BSC systems and processes. It is important to ensure that appropriate assurance can be provided in relation to this changing risk profile. In recognition of this, the Panel has instructed ELEXON to undertake a review of the Performance Assurance Framework (PAF) to ensure that it is fit for purpose. In addition to this, the Performance Assurance Board (PAB) will continue to focus on areas of risk, applying Performance Assurance Techniques as appropriate to identify issues and mitigate risks. A new PAF regime resulting from the review will go live from April 2020. In the meantime, and continuing throughout 2019, a full review of the individual PAF techniques will be undertaken with 'quick wins' implemented as appropriate.

5. External drivers for change that may impact the BSC

- 5.1 The Panel and its Committees have acknowledged that it is important to remain well informed and to provide support and input, where appropriate, in relation to the following drivers for change:
- **European developments:** The Panel will ensure it is informed of impacts and changes resulting from European developments, and takes action as required. This will involve understanding the impacts on the BSC of any Brexit outcome in the lead up to 29 March 2019 and supporting BSC Modifications driven by the European Electricity Balancing Guideline (EB GL) and the impacts of harmonisation of Imbalance Settlement.
 - **Implementation of Project TERRE:** The Panel will have a role in contributing to and overseeing activities required for the successful development and implementation of TERRE, scheduled for implementation in two stages in the February and November 2019 BSC Releases.
 - **Cashout and Balancing – P305 (Electricity Balancing Significant Code Review Developments):** The most recent implementation phase for P305 was November 2018, when the price calculation parameter Price Average Reference (PAR) was reduced from 50MWh to 1MWh. ELEXON will ensure that the Panel is kept informed of any impact on prices following implementation of the PAR.
 - **P362 – BSC Sandbox:** The Panel will play a key role in assessing potential candidates for the BSC Sandbox. At this stage, it is hard to anticipate the likely numbers of applications, so there will be a need for ongoing assessment and refinement of the Panel's role and processes. Sandbox arrangements may be impacted by Modification Proposal P374: Aligning the BSC with EB GL which is currently in the Assessment Procedure.
 - **Half Hourly Settlement (HHS) Design:** As the work on market-wide HHS continues and market arrangements evolve to fully realise the benefits smart meters and smart grids, there will be a wide range of potential implications on the BSC. The Panel will have a role in considering the practicalities of these implications, including the impacts on residual NHH provisions (eg profiling), data quality issues, Electric Vehicle integration and calls to reduce the Settlement timetable. The Design Working Group (DWG) has finalised its preferred target operating model (TOM). The TOM will be presented to Ofgem in early 2019, and an update provided to the Panel in January 2019. Going into 2019, the DWG's work

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will focus on developing the approach for transitioning from the current Settlement arrangements to the TOM.

- **Retail Energy Code (REC):** The introduction of the REC could have significant impacts on the BSC and the role of the BSC Panel. ELEXON will ensure that the Panel is kept fully informed of REC-related developments. The Panel will continue to support ELEXON in advocating the case for appointing a REC administrator based on Ofgem's strategic direction for code administrators, ie verified performance results, proven history of an open and collaborative approach, delivery of best-in-class customer services. An indicative timetable suggests procurement for the REC Manager beginning in May 2019 with appointment of the REC Manager in December 2019.
- **New business models and technologies:** ELEXON will provide the BSC Panel with regular updates on emerging business models and technologies, with consideration on how these may impact the BSC and settlement.
- **P378 Introduction of a CM Supplier Interim Charge:** On 15 November 2018 the General Court of the Court of Justice of the European Union found in favour of Tempus Energy, against the European Commission (EC), annulling the Commission's State aid approval for the GB Capacity Market (CM). All CM cost recovery by Suppliers and payments to Capacity Providers have been suspended with all credit cover available to be returned. The UK Government maintains that the CM is the most cost effective way of ensuring security of supplies and is working with the EC to reinstate the CM. P378 proposed to use the BSC to introduce a CM Supplier Interim Charge for Suppliers with effect from 1 January 2019. This will act as a contingency fund to protect the industry, and customers, from a price shock in the event that the CM standstill is lifted and backpayments are required to be made. At the time of writing, P378 had been raised as an Urgent Modification Proposal.
- **Joint BEIS and Ofgem Review of Codes:** BEIS and Ofgem have launched a joint review of codes and code governance. The review's Terms of Reference were published in November 2018 and a series of workshops will begin in the New Year, leading to a consultation in the summer. The scope of the review will include the whole set of rules governing both the wholesale and retail markets for gas and electricity, so could have wide reaching implications for BSCCo and the Panel.

6. Other considerations

- 6.1 A 'holding list' of issues/areas of concern along with risks that the Panel has identified as potentially requiring action in the future is included in Appendix 1. The lists will be reviewed on a regular basis and factored into future iterations of the Panel Strategy.

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LIMITATIONS AND EXCLUSIONS

The Panel Strategy sets out the non-business as usual activities that address the strategic concerns identified by the BSC Panel. It includes references to some Modification work (either existing Modification or anticipated Modifications) which relate to the Panel's strategic concerns to provide context. However, it does not contain specific reference to:

- An exhaustive list of all existing Modifications in assessment or awaiting implementation (this can be found in the various change reports already published by ELEXON);
- Standard business required by the BSC, including, for example, the various scheduled parameter reviews considered by the Panel and Panel Committees (usually on an annual basis);
- Standard demand driven activities and services prescribed by the BSC such as Accession, Market Entry and Exit, SVA Qualification assessments, consideration of Balancing Mechanism Unit Registrations, Metering Dispensations and the investigation and assessment of Trading Disputes etc; and
- Work associated with the implementation and delivery of Electricity Market Reform (EMR) which is delivered by the wholly owned ELEXON subsidiary, EMR Settlement Limited.

OWNERSHIP, REVIEW AND MAINTENANCE

The Panel Strategy is owned by the BSC Panel. It will be maintained by the BSC Panel Secretary and updated periodically (no more than quarterly). It will also be reviewed by Panel Committee Chairs and Panel Sponsors on a quarterly basis and by the BSC Panel every six months. Reviews will include a review of the holding list and risk register.

DELIVERY, RESOURCING AND IMPACTS

The amount of change across the industry is high and the volume of work under the BSC is likely to reflect this.

The Panel has acknowledged that addressing its strategic priorities may require an increase in the cost of delivering the BSC and that prioritisation of work (for example, prioritising Modifications according to significance) may be required.

Any additional activities beyond those currently set out on the Panel Strategy or significant increases in the volume of business as usual services will require a re-adjustment of priorities or consideration of alternative options for delivery.

The BSC Panel recognises that the current level of change (both within and out with the BSC) may contribute towards an upward pressure on cost. The Panel has highlighted the fact that this may be further exacerbated by the risk of errors arising from large industry change programmes, particularly the roll-out of smart metering, and changes being driven from Europe and related to Brexit. The Panel has made it clear that ELEXON should ensure it has the capacity to monitor and address these increased risks and associated errors, should they arise.

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APPENDIX 1: HOLDING LIST AND RISK REGISTER

The list below sets out issues/areas of concern that the Panel has identified as potentially requiring action in the future. The list will be reviewed on a regular basis and factored into future iterations of the Panel Strategy:

Issue	Commentary	Next steps
Ofgem Code Administrators Survey findings	Subject to the results of Ofgem's survey, actions may be required by the BSC Panel.	Consider actions in conjunction with the findings of the ELEXON customer engagement survey.
Multiple Suppliers	ELEXON published a white paper on solutions to facilitate multiple Suppliers. A Modification would be required to implement the proposals. Several BSC Parties have expressed an interest in raising a Modification.	Ongoing discussions with a Party who has expressed an interest in raising the required Modification.
Section H Defaults	This year, an unprecedented number of Section H Defaults occurred with increasing volumes occurring in November/December. Subject to further developments and ELEXON's monitoring, the Panel may wish to further investigate causes of the recent defaults.	An update on the volume of Section H Defaults and any relevant background is being provided to the Panel in January. Review status following this update.
ELEXON customer engagement survey	ELEXON conducts a customer engagement survey on an annual basis. Results will be fed back to the Panel, which the Panel may wish to use as the basis for consequential actions.	Review when survey complete (survey complete, results due to be reported early 2019).
'Off the shelf' Suppliers	The Panel has previously expressed concern around the ability of Suppliers to transfer businesses between Supplier IDs following a default event. This issue will be fed into the review of the relevant Performance Assurance Techniques being undertaken as part of the PAF review.	<p>Review of Qualification/Re-qualification scheduled to run Feb 19-July 19.</p> <p>Review of Default process scheduled to run March 20 – May 20.</p> <p>Provide updates to the Panel as the PAF review progresses.</p>

The PAB is developing a comprehensive log of risk, issues and near misses as part of the PAF review, which will document current and emerging risks to settlement that may arise as a consequence of change in the industry.

In addition to these settlement-specific risks, the Panel has identified the following risks that may have an impact on either BSC Systems and/or processes or the operation of the BSC:

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Risk	Actions
The risk that ELEXON is appointed as REC Administrator, leading to a potential impact on resource available for core BSC operations.	Review status as part of next quarterly strategy review.
The risk that the BEIS/Ofgem review of codes will have a significant impact on the BSC.	Review status as more information on likely outcomes of the review becomes available.

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APPENDIX 2: APPLICABLE BSC OBJECTIVES

Condition C3 of the Electricity Transmission Licence establishes seven Applicable BSC Objectives:

- a) The efficient discharge by the Transmission Company of the obligations imposed under 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 and administration 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;
- 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; and
- g) Compliance with the Transmission Losses Principle.

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APPENDIX 3: BSC PANEL POWERS AND FUNCTIONS

The BSC prescribes the powers and functions of the BSC Panel in Section B.3. The Panel has the power to:

- Decide any matter which, under any provision of the Code, is or may be referred to the Panel for decision;
- Establish Panel Committees and to delegate its powers, functions and responsibilities as provided for under the Code to any such Panel Committee. Panel Committees cannot further delegate their responsibilities or powers unless the BSC or the BSC Panel permits this.

Specific powers and functions are identified in BSC Section B3.1.2 and are detailed further in the relevant sections of the BSC and the Code Subsidiary Documents (BSC Procedures etc.). The Panel has delegated some of these functions and responsibilities to its Panel Committees as outlined below. In summary, the BSC Panel is responsible for:

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| a) Deciding (subject to a reference to or approval of the Authority, as provided in the Code) on the expulsion or suspension of the rights of any Party (see Section H for the Default provisions relating to Credit Default or breach of the BSC); | Not Delegated |
| b) Implementing or supervising the implementation of the procedures for modification of the BSC (see BSC Section F for the procedures); | Not Delegated |
| c) Establishing arrangements for the resolution of Trading Disputes (see BSC Section W); | Delegated (in part) to:
TDC |
| d) Determining values for trading parameters (to be applied in the BSC) as may be required of the Panel in accordance with any provision of the Code; | Delegated (in part) to:
ISG, SVG and Credit Committee |
| e) Adopting and from time to time revising Code Subsidiary Documents (see BSC Section F3); | Mainly delegated to:
ISG and SVG but also
TDC & PAB |
| f) Taking steps to ensure that the Code is given effect in accordance with its terms, and (but only where expressly so provided in the Code) taking steps to ensure compliance by Parties with the provisions of the Code; | Mainly delegated to:
PAB |

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| g) Providing or arranging for the provision of reports and other information to the Authority in accordance with the further provisions of the Code; | Delivered by Panel and across Panel Committees as appropriate |
| h) Approving the Business Strategy prepared by ELEXON for each BSC Year, and revisions to that plan; | Not Delegated |
| i) Deciding matters which are referred to it (pursuant to any provision of the Code providing for such referral) following any decision or determination of ELEXON or a BSC Agent; | Not Delegated |
| j) Setting the terms of reference for the BSC Auditor and considering the BSC Audit Report; | Delegated (in part) to: PAB |
| k) If requested by the Authority, conveying any direction or request of the Authority to any Party, ELEXON, the BSC Auditor or any BSC Agent; | Not Delegated |
| l) Preparing, considering, recommending changes (if necessary) and approving documents relating to performance assurance (in accordance with BSC Section Z) and hearing and determining Risk Management Plan Appeals. | Mainly delegated to: PAB |
| m) approving or rejecting applications for transfer of a Party's Accession Agreement and BSC Party ID in accordance with Section A; and | Not Delegated |
| n) implementing or supervising the implementation of the procedures for BSC Sandbox Applications and monitoring BSC Derogations in accordance with Section H10. | Not Delegated |

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APPENDIX 4: PANEL WORKPLAN

