

'Disapplication of Supplier Charge SP01'

Currently over 90% of total Supplier Charges are levied against SP01 'Delivery of Routine Performance Monitoring Reports'. Supplier Charges are intended to charge Parties where they fail to meet certain performance levels, and redistribute such funds to disadvantaged Parties. However, the non-submission of Performance Assurance Reporting and Monitoring System (PARMS) reports does not directly disadvantage other Parties. Therefore, the application of Supplier Charge SP01 does not clearly align to the objective of Supplier Charges.



ELEXON recommends the Panel raises the attached Modification Proposal in accordance with the provisions of Section F 'Modification Procedures' 2.1.1(d)(vi)



ELEXON recommends this Modification is progressed directly to the Report Phase with an initial recommendation to approve

This Modification is expected to impact:

- Suppliers
- All other Trading Parties (except Non-Physical Traders)
- ELEXON as the Balancing and Settlement Code Company (BSCCo)

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About This Document

This document is a recommendation to the Balancing and Settlement Code (BSC) Panel to raise a Modification Proposal (Attachment A) in accordance with [BSC Section F 2.1.1\(d\)\(i\)](#). ELEXON will present this paper to the BSC Panel at its meeting on 10 October 2019. 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 accordingly.

There are three parts to this document:

- This is the main document. It provides details of the Modification Proposal, an assessment of the potential impacts and a recommendation of how the Modification should progress.
- Attachment A contains the Modification Proposal Form.
- Attachment B contains the draft Legal Text to deliver the solution.



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1 Why Change?

Background

The Performance Assurance Framework (PAF) is a set of incentive, preventive, detective and remedial techniques the Performance Assurance Board (PAB) uses to assess whether there are any active issues or risks in the market that may impact the integrity of Settlement. The PAF provides the PAB with the ability to monitor and manage BSC Party and Party Agent performance against the requirements and obligations outlined in the BSC.

ELEXON is currently undertaking a review of the PAF 'the PAF Review', which is seeking to ensure the PAF meets the current and future assurance needs of the GB Balancing and Settlement market. Market participants are engaged in such review through [BSC Issue 69 'Performance Assurance Framework Review'](#).

Overall, the PAF Review is seeking to make recommendations of how the PAF can be improved, which can be implemented through BSC Changes (Modifications and Change Proposals), or other means that do not require BSC Changes as appropriate.

The PAF Review has conducted a preliminary review of Supplier Charges, an incentive Performance Assurance Technique (PAT). The conclusion of the review, as described in paper [PAB/220/12](#), was that Supplier Charges is a useful assurance technique that warrants a full review of all its elements.

A further conclusion was that the PAB should consider raising a Modification to refocus Supplier Charges on losses from underperformance in the short term and that this should be progressed prior to the full technique review. The PAB approved the proposed solution described here in paper [PAB/222/15](#).

The Performance Assurance Reporting and Monitoring System

As part of the PAF, a set of PATs are used to help mitigate the Settlement Risks. The Performance Assurance Reporting and Monitoring System (PARMS) is a database containing information about how Suppliers and their Supplier Agents are performing. The data from PARMS supports PAF techniques of Performance Monitoring, Peer Comparison and Supplier Charge techniques, and provides such data for reporting purposes to Parties for information, and to the PAB for information. Further, data from PARMS supports the BSC Audit and we periodically provide information to the BSC Panel and other Panel Committees or Modification groups.

PARMS data is provided in reports referred to as Serials. A Serial is a defined area for measuring a Supplier or Supplier Agents' performance against key industry processes. The majority of PARMS Serials are submitted by Supplier Agents.



What is the Performance Assurance Board (PAB)?

The PAB is a sub-Committee of the BSC Panel, which conducts and administers activities to provide assurance that all participants in the BSC arrangements are suitably qualified and that the relevant standards are maintained.



What is a Settlement Risk?

A Settlement Risk is a risk of any failure or error in a step or process required under the BSC (including in each case a risk which has materialised as an actual failure or error) for the purpose of effecting Settlement or otherwise required in connection with Settlement according to the provisions of the BSC.

Settlement Risks are outlined in the Settlement Risk Register (SRR)

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The table below shows the six PARMS Serials and Standards for which Supplier Charges are incurred in instances of underperformance.

Serial	Serial Description	Standard
SP01	Delivery of Routine Performance Monitoring Reports	Zero Working Days that a full set of PARMS Reports has not been submitted into PARMS
SP02	Delivery of Routine Performance Monitoring Logs	Zero Working Days that Drill Down or Ad-Hoc data has not been submitted to the Performance Assurance Administrator (PAA)
SP04	Installation of Half Hourly (HH) Metering	Zero Calendar Days where a mandatory HH Meter has not been installed
SP08a	Percentage of Non-Half Hourly (NHH) Energy Settled on Annual Advances	R3 – 80% RF – 97%
SP08b	Percentage of HH Energy Settled on Actual Readings	SF – 99% R1 – 99%
SP08c	Percentage of non-mandatory HH Energy Settled on Actual Readings	RF – 99%

Supplier Charges are applied based on underperformance by Supplier ID, Reporting Period (Calendar Month) and Grid Supply Point (GSP) Group. Supplier Charges levied against Serial SP01 are applied to encourage submission of PARMS reports.

As part of the PARMS process, Suppliers have to let PARMS know which PARMS Serials to expect from which of their Agents and GSP Group. Suppliers do this by submitting a Data Provider Information (DPI) file to the PARMS by the 15th Working Day (WD) of each month, for the relevant Reporting Period. Once received, PARMS will expect only the PARMS Serials from the Agents named in the DPI.

Suppliers will incur a SP01 charge for each day data remains outstanding, until all data as expected from the DPI file is provided. If a Supplier fails to submit a DPI, the database will count all Serials as outstanding for the Reporting Period. This means that the Supplier will incur incompleteness SP01 charges in each GSP Group until a DPI is received to correct it.

Capped/uncapped Supplier Charges

The PARMS database calculates the total Supplier Charges due each calendar month. A cap limits each Supplier's total monthly Supplier Charge for a GSP Group, reflective of the Supplier's 'active import energy' market share. This limits each Party's liability in any one reporting period. A GSP Group monthly liability cap is calculated based on its annual energy take for the previous financial year. A Supplier's monthly liability cap is calculated based on its total active import energy in the reporting period within each GSP Group.

ELEXON have visibility of both capped and uncapped charges, though a Supplier will only receive their capped charges.

Because of the significant growth of the SP01 charges, a Supplier's capped limit is often substantially below the total charge apportioned to them. This means that even significant

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performance improvements (e.g. for SP08) mean a Supplier is still over its cap due to SP01, and so is liable to its total capped amount.

What is the issue?

Supplier Charges are the liquidated damages that Suppliers incur if they fail to meet certain performance levels against six PARMS Serials. Supplier Charges are intended to charge Parties where they fail to meet certain performance levels, and redistribute such funds to disadvantaged Parties. This is regarded as a remedial PAT. However, the non-submission of PARMS reports does not directly disadvantage other Parties. Therefore, the application of Supplier Charge SP01 doesn't clearly align to the objective of Supplier Charges.

Supplier Charges levied against Serial SP01 are applied to encourage submission of PARMS reports. However, the non-submission of PARMS reports does not directly disadvantage other Parties. Therefore, the application of Supplier Charge SP01 doesn't clearly align to the objective of Supplier Charges.

Currently, over 90% of total Supplier Charges are levied against serial SP01. This strongly suggests that this charge is not effective in acting as an incentive and masks the actual performance measures (e.g. Serials SP08) that comprise the compensation, which is the focus of this technique. SP01 related charges are cumulative and we have therefore seen them grow exponentially. The associated uncapped charges have risen from £2.5m per month in August 2017 to £6.8m in April 2019.

The full review of Supplier Charges began on 15 August 2019 and ELEXON aims to present recommendations to the PAB in December 2019. If approved, BSC Changes necessary to enact the recommendations will subsequently be raised. Modifications will typically take six to eight months to progress to final decision, with implementation timescales following. By this time, uncapped SP01 charges could be in excess of £14m per month and represent 97% of total Supplier Charges, further undermining the intent of Supplier Charges. Whilst Suppliers aren't exposed to this level of charge, it does demonstrate that the SP01 charge is masking the effectiveness of other Supplier Charges.

Resolving this issue would refocus Supplier Charges on the performance-related measures, which directly impact Settlement.

Proposed solution

This Modification proposes to set the SP01 charge to zero, which will involve an amendment to paragraph 3.6 of [BSC Section S Annex S-1](#). Further, a routine operational amendment to the parameters within the PARMS system will be required.

The value of £0 will be applied to the next Supplier Charge period, after the Modification (if approved) is implemented. Therefore, historic missing data for which an SP01 Charge is applicable will also revert to zero after the Implementation Date of this Modification. For the avoidance of doubt, Supplier Charges already reconciled will not be retrospectively amended.

This Modification rectifies the issue previously outlined, as it will ensure Supplier Charges are refocussed on charging Parties where they fail to meet certain performance levels more related to Settlement performance, and redistribute such funds to disadvantaged Parties.

The PAF Review data provision workstream, as part of the wider PAF Review, will continue to consider PARMS Serials more generally, and the ongoing Supplier Charge review will review the methodology used to apply appropriate Supplier Charges. Any subsequent recommendations will need progressing and implementing through a subsequent Modification or Change Proposal. This Modification will deliver a 'quick-win'.

In the interim, should ELEXON and the PAB believe the submission of PARMS Serials is not at the level required for some Parties, other PATs could be deployed, for example Error and Failure Resolution (EFR).

Some Parties may not receive the same levels of payment from the redistribution of Supplier Charges following the implementation of this Modification. However, as identified under the Issue section of this Modification Proposal, Supplier Charge SP01 does not align to the purpose of Supplier Charges.

Applicable BSC Objectives

We believe this Modification will better facilitate Applicable BSC Objectives (c) and (d) compared to the current baseline.

(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.

The intention of Supplier Charges as a PAT is to redistribute charges due to those who suffer loss due to others failure to meet performance levels, and such loss has not been directly incurred for the SP01 Serial with its current calculation methodology. This Modification will refocus the technique on this original intention. Therefore, this Modification is positive against BSC Objective (c) by mitigating the competition dis-benefit from the existing SP01 Supplier Charge not delivering benefits that align to the principle of Supplier Charges.



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

Removing the SP01 portion of Supplier Charges will focus the technique to be on the Settlement performance Serials, whereby Suppliers are charged for failing to meet the standards of percentage of energy settled on actual metered data for the Half Hourly and Non-Half Hourly markets. This will ensure the Supplier Charges technique is efficient in managing Settlement Risk.

Implementation approach

Due to the minimal changes required to implement this Modification, it should be implemented in a manner that will ensure the benefits can be realised at the earliest opportunity.

Therefore, we propose this Modification be implemented on 27 February 2020 as part of the February 2020 BSC Release.

PAB Endorsement

An update on the PAF review, with particular focus on addressing the SP01 Supplier Charge was presented to the PAB at its meeting on 25 July 2019 [PAB/222/15](#). This paper described the options, including pros and cons, for addressing Supplier Charge SP01, ahead of the main Supplier Charges review due to conclude at the end of 2019.

The PAB agreed that the SP01 charge should be set to zero through a BSC Modification. At its meeting on 26 September 2019, the PAB **unanimously** recommended to the Panel that this Modification be raised in accordance with [BSC Section Z 'Performance Assurance'](#) 8.2.

Next steps

As the solution to this Modification Proposal is self-evident, discussed by the Issue 69 Group and recommended by the PAB, we suggest it be sent directly into the Report Phase for Report Phase Consultation.

This Modification Proposal should not be progressed under the Self-Governance arrangements as it could materially impact Self-Governance criterion:

(a)(ii) competition in the generation, distribution, or supply of electricity or any commercial activities connected with the generation, distribution, or supply of electricity

Whilst the SP01 charge is not a payment, rather a redistribution, we understand some Parties significantly benefit from SP01 payments. Therefore, there is a possibility that the disapplication of the SP01 charge could materially impact a Supplier's commercial activity.

Proposed Timetable

Proposed Progression Timetable	
Event	Date
Present Initial Written Assessment to Panel	10 October 2019
Report Phase Consultation	14 October 2019 – 30 October 2019
Present Draft Modification Report to Panel	14 November 2019
Final Modification Report to Authority	W/C 18 November 2019



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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4 Likely Impacts

Central Implementation Costs

The Central implementation costs to amend documentation and internal working practises for this Modification will be approximately £3120.

Market Participant Implementation Costs

We do not expect there to be any direct market participant implementation costs resulting from this Modification Proposal.

Impacts

Impact on BSC Parties and Party Agents	
Party/Party Agent	Potential Impact
Suppliers	Suppliers are impacted as they will no longer be required to pay SP01 charges. Suppliers that currently receive the re-distribution of Supplier charges will no longer receive such funds.
All Trading Parties except non-Physical Traders	Under the Code, 90% of Supplier Charges collected are redistributed to NHH Suppliers, with the remaining 10% distributed across all Trading Parties based on main funding share, with the exception of Non-Physical Traders. Therefore, all other Trading Parties (except Non-Physical Traders) are impacted by the redistribution of SP01 Supplier Charges.

Impact on the National Electricity Transmission System Operator (NETSO)
No impacts anticipated.

Impact on BSCCo	
Area of ELEXON	Potential Impact
Operations	The Operations department will need to update internal working procedures and guidance documentation published on the BSC Website.

Impact on BSC Settlement Risks
Whilst there is no direct impact on any particular BSC Settlement Risk from this Modification, its implementation will positively impact the effectiveness of the PAF through the Supplier Charges PAT. This is because Supplier Charges will be refocussed on the performance-related measures, which directly impact Settlement.

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Impact on BSC Systems and processes

BSC System/Process	Potential Impact
PARMS	The SP01 charge parameter in the PARMS system will need to be changed to zero, to implement this solution on the Implementation Date (once approved). This will be achieved as a routine 'business as usual' process. The wider Supplier Charge calculation process will not be affected.

Impact on BSC Agent/service provider contractual arrangements

BSC Agent/service provider contract	Potential Impact
There is no impact on BSC Agent/service provider contractual arrangements resulting from this Modification Proposal.	

Impact on Code

Code Section	Potential Impact
BSC Section S Annex S-1 'Performance Levels and Supplier Charges'	The Legal Text for BSC Section S Annex S-1 will need to be amended to give effect to the solution.

Impact on Code Subsidiary Documents (CSDs)

CSD	Potential Impact
There are no CSDs requiring amendment to implement this Modification Proposal. SP01 Supplier Charge provisions will remain in the BSC and its subsidiary documents, but the charge will be set to zero.	

Impact on other Configurable Items

Configurable Item	Potential Impact
No impacts on other BSC Configurable Items.	

Impact on Core Industry Documents and other documents

Document	Potential Impact
Ancillary Services Agreements	No impacts identified.
Connection and Use of System Code	
Data Transfer Services Agreement	
Distribution Code	

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Impact on Core Industry Documents and other documents

Document	Potential Impact
Distribution Connection and Use of System Agreement	
Grid Code	
Master Registration Agreement	
Supplemental Agreements	
System Operator-Transmission Owner Code	
Transmission Licence	
Use of Interconnector Agreement	

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

We do not expect this Modification to impact any ongoing SCR. We sent the request for SCR exemption to the authority on 3 October 2019.

Impact on Consumers

We do not anticipate there to be any direct impacts on consumers resulting from this Modification Proposal.

Impact on the Environment

We do not anticipate there to be any direct impacts on the environment resulting from this Modification Proposal.

5 Recommendations

We invite the Panel to:

- **RAISE** the proposed Modification Proposal in Attachment A (in accordance with F2.1.1(d)(vi));
- **AGREE** that this Modification progresses directly to the Report Phase;
- **AGREE** that this Modification:
 - **DOES** better facilitate Applicable BSC Objective (c); and
 - **DOES** better facilitate Applicable BSC Objective (d);
- **AGREE** an initial recommendation that this Modification should be **approved**;
- **AGREE** an initial Implementation Date of:
 - 27 February 2020 as part of the February 2020 BSC Release;
- **AGREE** the draft legal text;
- **AGREE** an initial view that this Modification should not be treated as a Self-Governance Modification; and
- **NOTE** that ELEXON will issue the draft Modification Report (including the draft BSC legal text) for a 13 Working Day consultation and will present the results to the Panel at its meeting on 14 November 2019.

Appendix 1: Glossary & References

Acronyms

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

Acronym	
Acronym	Definition
BSC	Balancing and Settlement Code
BSCCo	Balancing and Settlement Code Company
CSD	Code Subsidiary Document
DPI	Data Provider Information
EFR	Error and Failure Resolution
GSP	Grid Supply Point
IWA	Initial Written Assessment
NETSO	National Electricity Transmission System Operator
NHH	Non-Half Hourly
PAB	Performance Assurance Board
PAF	Performance Assurance Framework
PARMS	Performance Assurance Reporting and Monitoring System
PAT	Performance Assurance Technique
SCR	Significant Code Review
WD	Working Day

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		
Description	URL	Page
BSC Section F	https://www.elexon.co.uk/the-bsc/bsc-section-f-modification-procedures/	2
Issue 69	https://www.elexon.co.uk/smg-issue/issue-69/	3, 13
PAB Meeting 220	https://www.elexon.co.uk/meeting/pab220/	3
PAB Meeting 222	https://www.elexon.co.uk/meeting/pab222/	3, 8, 13
BSC Section S Annex S-1	https://www.elexon.co.uk/the-bsc/bsc-section-s-annex-s-1-performance-levels-and-supplier-charges/	6
BSC Section Z	https://www.elexon.co.uk/the-bsc/bsc-section-z-performance-assurance-3/	8

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