
Performance Assurance Framework Review Final Paper

BSC Panel

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Summary **Ellexon asks the Panel to note the summary of issues, learnings, conclusions and recommendations of the Performance Assurance Framework (PAF) Review.**

1. Overview

- 1.1 The PAF Review work has concluded, as set out in the objectives of the review.
- 1.2 This report summarises the issues, conclusions, and recommendations for all work completed. The work streams included:
- Smart Metering;
 - PAF Procedures;
 - PAF Techniques; and
 - Data provision.
- 1.3 A summary of issues, learnings, conclusions and recommendations of the PAF Review are set out in the final report, attached below.

2. Recommendations

- 2.1 We invite the Panel to:
- a) **NOTE** the learnings, conclusions and recommendations of the PAF Review.

Attachments

Attachment A – [Issue 69 'The Performance Assurance Framework Review' Report](#)

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PERFORMANCE ASSURANCE FRAMEWORK REVIEW FINAL PAPER

Summary of issues,
learnings, conclusions and
recommendations of the
PAF Review

Public

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Executive Summary

The Balancing and Settlement Code provides that all aspects of Performance Assurance be reviewed 'from time to time'. This allows all aspects of our assurance regime to be updated holistically as technology, regulation, or economic factors shift.

The first phase of the review began by attempting to understand all the existing and arising issues in the current set up. Defining the problem took the form of stakeholder interviews and consultations. From here the scope of the Performance Assurance Framework (PAF) Review was designed to ensure the PAF meets the challenges of a rapidly changing industry and continues to provide value to its stakeholders. It aimed to enhance the application of the risk-based PAF. The stated objective of the review was to provide a PAF that:

- engages Performance Assurance Parties (PAPs) in identifying and, from time to time, re-appraising the things that do and don't matter to them (their risk appetite);
- meets the current and future needs of the Panel, the PAB and the wider electricity industry for the delivery of efficient, effective and economic assurance on those things that matter; and
- enables the Performance Assurance Administrator (PAA) to deliver a valued and trusted assurance service to BSC Parties under the strategic and tactical guidance of the BSC Panel and Performance Assurance Board (PAB).

The PAF Review sought to achieve these objectives by formulating an overarching Framework in which every part worked together to provide a seamless system of validation and assurance. To this end all work streams with the PAF Review aimed to have standardised processes and procedures, which linked back to the overall risk model. Elexon aims to institute a culture of continuous improvement which should enable Risk owners to continue to innovate and keep Techniques up to date with further changes.

Brief summary of the key achievements of the review:

Smart metering

As the first workstream of the PAF Review, the workstream expedited preparations for the smart metering rollout to enable Elexon to fully understand the potential impacts of existing and emerging risks areas, and put in place effective monitoring to track performance as Meter installations ramped up to unprecedented levels.

Risks

Following a robust review of the BSC Settlement Risks associated with rollout which was supported by an industry workgroup, we concluded that the highest risk area to be the interface between the Supplier and agent when transferring technical details related to the Smart Meter. To monitor this emerging risk area, we developed reporting (Smart MTD report) to track key metrics and trends in performance. This report was originally published in January 2018 and continues to be updated monthly on the Elexon website. We received excellent feedback on the report including a request to share it with the equivalent assurance arrangements in the gas market to facilitate discussions around gas risks related to the rollout.

This monitoring proved key in identifying performance issues at a subset of Meter operators which triggered targeted audits and remedial actions to address non-compliance. This demonstrated how the focus of assurance activities can be quickly and efficiently directed towards emerging risk areas, and this model was used to inform the outcomes for the remainder of the review.

PAF Procedures

An effective assurance regime must be flexible enough to meet an ever changing risk landscape. The on-going review of Settlement Risks, determining where best to deploy mitigating actions and the backwards looking lessons learned are governed and administered through the PAF procedures under the auspices of the Performance Assurance Board. Our preliminary review activities identified opportunities to make these procedures more accessible, in an effort to improve understanding and engagement, a key objective of the Review. Therefore, as an early activity in the PAF Review, we undertook a holistic and thorough review of the PAF procedures. Our review included discussing best

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practices with assurance regimes inside and outside the energy industry, we made a number of substantial changes to our approach. One key change was to how we record and assess Settlement Risk. This resulted in the risk register reducing in size by over 100 risks, such that it is now more digestible and easier to engage with. We also made fundamental changes to how we assess Settlement Risk such that it now includes an estimation of monetary impact to justify the deployment of mitigating actions. This allows our risk models and technique deployment to flex and pivot in line with changes in industry and the wider economy. By knowing the impact of risks we are able to quickly adjust resources to maximise their impact reducing overall risk to settlement.

The new streamlined and targeted approach to Settlement Risk management has now been in live operation for a full year. Following implementation of the revised procedures, we have observed improved engagement with the PAF and it urgently responding to changes in the market such as the disapplication of Supplier Charges and other techniques due to COVID-19.

Data Provision

Preliminary review activities recognised that data is critical to the effectiveness of Performance Assurance, and that many of the issues cited with the existing arrangements could be partly attributed to current methods of provisioning data. This resulted in a separate workstream of the PAF Review on the subject of data provision, which included an assessment of the two detective techniques that are the primary vehicles for assurance data acquisition and reporting.

Following a thorough review of data provision for Performance Assurance purposes where we identified opportunities to address the issues, we concluded that it is not the right time to invest industry time and effort to make changes to the reporting framework. This is due to the significant volume of change on the horizon as the market undergoes transformation. In addition, the architecture of the target operating model for Market-wide Half Hourly Settlement (MHHS) presents the opportunity to deliver some of the improvements identified with access to more regular and granular data. Therefore, we plan continued engagement with this activity such that assurance reporting requirements can be implemented as we migrate to the new market design.

In the interim, we proposed to cease some aspects of assurance data provision that we do not feel are adding sufficient value. This will relieve the reporting burden on participants, saving industry an estimated £250k per annum, so that focus can be given to delivering upcoming change. We believe this approach is the most practical and pragmatic to support industry during a time of significant change whilst continuing to provide proportional and robust assurance.

A full list of the changes made are contained below. We consider that this suite of changes recommended in this review make the Elexon PAF world class. The learning from industries beyond energy and the move to a flexible, and incredibly agile system allows the PAB to control the levels of expenditure on particular risks and emerging issues. The key goals of the Review were to introduce flexibility and agility to all techniques as well as to ensure all techniques could work in concert with each other and the Risk Operating Plan.

We consider the scope of the Review has concluded, with all objectives completed.

The re appraisal of the PAF has led to modernisation and provided evidence on the need for digitization and standardisation across the techniques. In addition we consider the Framework is now ready to incorporate major industry change such as Virtual Lead Parties and MHHS.

New data methods and improved information presentation have been recommended to aid the PAB and Panel in their ability to quickly understand and process vast amounts of information and make robust decisions based on that evidence.

We consider the Framework provides a holistic and complete system for the validation of data and provides the evidence for robust decision making. We consider the Framework as a whole eliminates the need to take any consideration 'on faith' by providing trustworthy evidence and un-biased analysis.

Background Summary

Project Initiation

The Panel approved the preliminary scope and approach for the Performance Assurance Framework (PAF) review in July 2016 (paper [255/12](#)).

An Elexon team was assigned to the project, and began by validating the scope of the review and the approach for the Detailed Design Stage. This was done through engagement with Elexon Subject Matter Experts (SMEs), Performance Assurance Board (PAB) Members and other industry participants. Stakeholders were invited to provide their views on the following:

- The objectives of the review that the Panel approved in the original scope proposal in July 2016;
- The PAF's readiness for the smart metering rollout and Non-Traditional Business Models (NTBMs);
- The formal PAF procedures through which the PAB and ELEXON operate the PAF;
- The governance of the PAF;
- Industry engagement with the PAF;
- Each of the 16 Performance Assurance Techniques (PAT); and
- The current methods of data provision.

Identified Problems

In the set-up of the PAF Review the following issues to research around Performance Assurance were identified during engagement with the industry (see PAB paper 190B/09 for further detail).

- Lack of risk focus
- Lack of understanding of PAF effectiveness
- Poor engagement
- Neglect of CVA risk
- Issues with some key PATs
- Complexity and accuracy of data provision
- The assurance work for smart metering has not yet started

Project Scope

All aspects of Performance Assurance were originally in scope, i.e. all of the PAF procedures, all higher priority PATs, data provision, smart metering rollout readiness, and PAF strategy, delivery and coordination. The scope was subsequently refined by the PAB and stakeholder feedback to reflect the deliverables cited in the PID.

Desired Outcomes

The main outcome of the review was that upon delivery of the recommended improvements, the PAF would operate as effectively as possible and remain fit for purpose during the coming years in the face of the identified changes and challenges.

Project Delivery – Summary of conclusions and recommendations

This section provides a summary of each of the four workstreams – in particular their conclusions on the effectiveness of the assurance activities as assessed by the project, and the key recommendations approved by the PAB for implementation.

1. Smart Metering

- 1.1 This was the first work stream completed. We carried out an assessment of the Settlement Risks associated with the mass roll-out of smart Meters, in particular SMETS v2.0 Meters serviced by the Data Communications Company (DCC). The Issue 69 workgroup assisted us with developing an interim smart risk register, as an addendum to the RER in use at the time. Note that these risks have since been subsumed into the Risk Evaluation Register live from April 2019.
- 1.2 The workgroup considered the highest risk area to be the Supplier-agent interfaces; in particular, the risk that Metered Data is inaccurate or missing as a result of problems with the Supplier interface with its Non-Half Hourly (NHH) Meter Operator Agent (MOA) and NHH Data Collector (DC). This is due to Suppliers playing a new and key role in the production and submission of Meter Technical Details (MTDs) for DCC serviced smart Meters.
- 1.3 The PAB instructed us to review the feasibility of various monitoring activities identified as potential mitigations of the smart risks. We developed a report that provided general information about progress of the rollout, as well as performance information on the timeliness and accuracy of MTDs provided by MOAs, based on available data flows (i.e. not a complete market view).
- 1.4 The final work stream report was presented to the PAB in November 2017 – [PAB 202/12](#), and in January 2018 the first [Smart MTD report](#) was published (PAB204/11), and has continued being produced monthly at the time of writing.
- 1.5 There is no further implementation required for this work stream.

2. PAF Procedures

Overview

- 2.1 This work stream reviewed all aspects of the governance and administration of the assurance framework, primarily structured around the supporting core documents – the Risk Evaluation Methodology, Risk Evaluation Register, Risk Operating Plan and assurance report.
- 2.2 We engaged a risk management expert to support us in assessing the PAF Procedures as operated at that time, and developed recommendations aligned with general best practice, tailored to the BSC requirements.
- 2.3 An Issue 69 Working Group, and a sub-group of the PAB convened to review our proposals as we developed them.
- 2.4 All the recommendations were accepted by the Project Board in September 2018, and by the PAB at meeting 212 (paper 212/06).

Conclusions

- 2.5 We did not propose to change the core documents of the PAF Procedures, although we raised Modification P368 to introduce additional flexibility on timing and revisions of them into Section Z.
- 2.6 We did propose substantial changes to the content of these documents, and proposed a number of new elements should be added to the PAF Procedures. These were intended to add clarity to Elexon and stakeholder understanding of the Settlement Risks, provide easier ways for the PAB to decide on its risk appetite, and give Elexon more tools to gather information to make informed judgements about how to manage risks.

Recommendations

- 2.7 The recommendations were aimed at shifting the focus of PAF activities from issue management further towards risk management i.e. consideration of what drives the risk, describe the value of the risk and the options to efficiently deploy mitigations. In particular:
 - New Risk Evaluation Methodology that estimates a financial impact of risk in the year
 - New set of Settlement Risks with updated categories / sub-categories

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- The Performance Assurance Board (PAB) Strategy is reviewed annually and gives steer for Risk Operating Plan
- Risk appetite set by the PAB through Target Impact values
- New format risk register including supporting information and rationales
- Risk Manager role and more effective engagement of parties in the assurance framework
- PAB meeting agenda focused on risk management ahead of issue management
- The PAB directs Elexon on actions to manage higher priority risks via policies
- The PAF document set is redesigned to be more reader-friendly and aligned with PAF web pages
- A new 'PAF Document' is published as a guide to the PAF
- A controls log included in the risk register to describe how the controls work, and greater emphasis placed on controls to mitigate risks
- New format of the Risk Operating Plan, with more detail of planned deployment of mitigating techniques
- Use of "events" that cover multiple risks, which the PAB may seek to mitigate
- Quarterly versions of the Annual Performance Assurance Report build a picture of how Settlement Risks are changing through the year
- Issue register collated and maintained, reported by related risk(s)
- Use of a near miss register in certain scenarios e.g. change implementation
- Settlement Risks reviewed routinely, considering risk indicators, issues, near misses, BSC change, controls
- Log of Risk Management Determinations maintained with link to Settlement Risks
- BSC Change analysis enhanced to further consider the broader scope of Settlement Risk
- More accessible information on the top priority Settlement Risks e.g. on ELEXON website
- PAF Key Performance Indicators refreshed to support commentary on PAF efficacy.

Implementation

- 2.8 This workstream has been partially implemented to date.
- 2.9 The refreshed risk register was deployed for use in April 2019, along with the new operating plan. There have been quarterly versions of the assurance report produced and a risk team is in place to take a lead on risk management. Risk Owners have been assigned, and risk reporting drafts have been developed. The first annual review with the new methodology has concluded.
- 2.10 There is still deployment awaiting recommendations. New interim reporting has been developed and is now presented to PAB, there is still on-going work on developing new reports that align with the new risks.

3. Performance Assurance Technique Review

3.1 Technical Assurance of Metering (TAM)

Overview

- 3.1.1 The review found that the TAM technique continues to be a valuable element of the assurance framework. It is the primary technique that provides assurance over the quality of Metering System installations, which we consider one of the most significant risks to Settlement at this time. However, we have identified a number of opportunities to improve how the technique is scoped and delivered to facilitate a risk-based approach that remains proportionate to the perceived risk.

Conclusions

- 3.1.2 The TAM technique is important to monitor compliance and assess the overall health of the market as the risk landscape changes in future. However, the deployment of the technique should always be proportionate to the perceived risk. There are a number of ways in which the effectiveness of the technique could be improved which we have sought to deliver through our recommendations.

Recommendations

- Audit scope variation year on year
- Sample size variation year on year
- Lower intensity audits
- Coordination with other audit techniques
- Non-compliance categorisation
- Comparison of audit results
- Increased Engagement

- EFR and escalation
- Risk profile for each participant

Implementation

3.1.3 Recommendations were approved by the PAB and have been translated into requirements for implementation by the operational teams. Successful implementation of these recommendation is contingent on the provision and availability of required resource. The lower intensity “desktop” audits required Modification P391 which was implemented on 27 February 2020.

3.2 BSC Audit

Overview

3.2.1 The review has found that BSC Audit can provide a unique opportunity to identify otherwise unknown risks to Settlement. The operational team has recently made significant strides to make BAU improvements. We have identified a number of areas of improvement which we believe will allow the PAB to direct a flexible response to changing risks, mirrors our other audit techniques in the ability to utilise desktop auditing, and extends the audit period to create efficiencies and reduce the onerousness on Performance Assurance Parties (PAP).

Conclusions

3.2.2 The proposed recommendations sought to support the continued assessment and mitigation of Settlement Risks related to PAP systems and processes, and achieve the objectives of the BSC Audit technique. We did not propose any changes to the CVA elements of BSC Audit as they are explicitly described in the BSC and are felt to provide the right level of independent assurance on the central systems activities.

Recommendations

- TRAS (Theft Risk Assessment Service) data accessed to gain information on Revenue Protection risk.
- Dataflow D0382 included in future audits.
- Introduce an audit approach where any element may be dialled up or down in response to risk.
- Enhanced Audited Entity selection criteria.
- Revise the audit cycle to allow more time for actual audit work (as opposed to planning and reporting).
- Segment the audit period to separately focus on different market roles in whatever configuration best facilitates effective performance assurance.
- Extend use of desktop audits to reduce time spent on site and to improve the quality of site visits.
- Introduce a mechanism for closing Audit Issues that are not in scope.
- Greater interaction between the three audit techniques to ensure no unnecessary overlap of effort.

Implementation

3.2.3 A number of the changes have already been implemented. We have been working closely with the technique owner and Supply Chain Management throughout the review. We will provide an update to the PAB once we have an updated view of when the proposed changes can be implemented.

3.3 Qualification

Overview

3.3.1 The review has found that Qualification is a Performance Assurance Technique worth retaining as it is preventative and therefore has the potential to assist participants in avoiding negatively impacting Settlement. Also, the preventative nature of Re-Qualification is important in mitigating the risk of changes but not in its current form.

Conclusions

3.3.2 It is generally agreed that prevention will provide the most efficient and effective mitigation in any assurance toolkit. However, stakeholder feedback concluded that there “is a lack of true preventative techniques under the current Performance Assurance Framework (PAF). In practice, techniques are only applied once an issue is manifest”. We agree with this assessment and believe particular attention is therefore required to strengthening the Qualification technique.

Recommendations

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- Licensed Distribution System Operator (LDSO) (including Independent Distribution System Operator (IDNO)) subject to Qualification.
- Qualification Check focusing on staff and processes after a change of ownership has occurred.
- Single assessment of managed service provider's systems and processes.
- Reworded Annual Statements – inclusion of upcoming changes and party size / risk profile.
- Update Self-Assessment Document (SAD) questions and storyboards scenarios, and maintain them as Category 3 configurable items.

3.4 Peer Comparison

Overview

- 3.4.1 The Peer Comparison technique is designed to encourage performance improvement and compliance and is therefore regarded as an incentive. Comparisons are based on Performance Assurance Reporting and Monitoring System (PARMS) Serials to show comparative performance across Suppliers and Supplier Agents.
- 3.4.2 Stakeholder engagement took place ahead of the PAF Review commencing. Key feedback was:
- a) Stakeholders were all in favour of Peer Comparison in principle. However, they noted that a number of the current Serials reported are not viewed as sufficiently accurate (general comment not linked to any Serial in particular). Any comparison has to be based on credible data in order for it to be effective in encouraging improvement.
 - b) Some believe that the metrics have to have meaning and be easily understood by Supply business employees outside of their Settlement department. Other participants felt that comparisons encouraged improvements through competition and fear of negative publicity/brand tarnishing, even in Supply businesses. But the impact would be greater the more accurate the data was.
 - c) Support for Supplier Agent Peer Comparison was broader, in that Supplier Agents have clear business drivers which relate to their Settlement performance.
 - d) Comparing participants on a Market Participant ID (MPID)-level could also make the technique less compelling, because not all participants have meaningful business distinctions between their MPIDs. Because Peer Comparison is currently wholly linked to PARMS Serials and PARMS Serials sit in BSC we cannot report on comparisons in this way.
- 3.4.3 Stakeholder engagement informed the scope agreed by Panel in March 2017 (paper [264/07](#)) as follows:
- a) Peer Comparison will be redesigned to work with new Settlement Risks and key performance indicators (KPI).
 - b) If the techniques on which it is based are significantly altered through the review, it may have to focus on a much smaller set of key metrics than it does currently.
- 3.4.4 As part of our review we continued to engage with industry and met with the Issue 69 Working Group in November 2019. Feedback received from the group is included in our full recommendations, where relevant.

Conclusions

- 3.4.5 Despite strongly held industry opinions pertaining to the current usefulness of this technique, our first phase of review in May 2019 concluded that a compensation mechanism could be an effective PAF tool though substantial changes may be required.
- 3.4.6 The original scope of the entire PAF Review included ensuring the PAF meets the challenges of a rapidly changing industry and continues to provide value to its stakeholders by enhancing the application of the risk-based PAF.
- 3.4.7 With this in mind Elexon considers that the PAF requires techniques which can be flexibly applied to future and changing risks.
- 3.4.8 Elexon considers that incentive techniques are somewhat lacking in the framework and intend to strengthen our risk mitigation by introducing new ways of utilising charging.

Recommendations

- Despite strongly held industry opinions pertaining to the current usefulness of this technique, our first phase of review in May 2019 concluded that a compensation mechanism could be an effective PAF tool though substantial changes may be required.

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- The original scope of the entire PAF Review included ensuring the PAF meets the challenges of a rapidly changing industry and continues to provide value to its stakeholders by enhancing the application of the risk-based PAF.
- With this in mind Elexon considers that the PAF requires techniques which can be flexibly applied to future and changing risks.
- Elexon considers that incentive techniques are somewhat lacking in the framework and intend to strengthen our risk mitigation by introducing new ways of utilising charging.

Implementation

3.4.9 The Modification to open up Peer Comparison is yet to be raised. A handover document was prepared and is being actioned by the operational team.

3.5 Supplier Charges 1 & 2

Overview of Part One (completed by July 2019)

- 3.5.1 The review has found that Supplier Charges could be an effective tool within the PAF as a remedial technique, and also the scope to provide an incentive to improved performance. Substantial changes are likely to be necessary to give the most value to risk mitigation and performance assurance.
- 3.5.2 We note the P366 and Issue 78 overlap with this review; we are encouraging stakeholders to let the Supplier Charges review (as well as the PARMS review which will cover the performance standards) complete, and use those reviews to evaluate necessary changes in the wider context of the full PAF rather than trying to tackle individual components.

Conclusions

- 3.5.3 Our conclusion is that a compensation mechanism could be an effective technique in the PAF toolkit for the PAB to use to manage risk to Settlement; however substantial changes are likely to be necessary to achieve this.

Recommendations

- 3.5.4 We have two main proposals to this first stage of the review:
- a) Proceed with the main review of Supplier Charges to examine all aspects of the current approach and alternatives which could increase its effectiveness.
 - b) Consider raising a Modification to switch off SP01 or set to zero as an interim measure to refocus Supplier Charges back on losses from underperformance against Settlement standards. We would need to fully consider the pros and cons of the different approaches for achieving this; we would work with operational teams to complete this analysis.

Implementation

- 3.5.5 Recommendations were approved by the PAB and have been translated into requirements for implementation by the operational teams. Successful implementation of these recommendation is contingent on the provision and availability of required resource.

Overview of Part Two (completed March 2020)

- 3.5.6 PAB (222/12A) approved scope for the second review stage of Supplier Charges was:
- a) Focus on the principles that will best support an effective charging regime.
 - b) Look to introduce flexibility, to better allow the PAB to respond proportionately and promptly to changing Settlement Risk landscape.
 - c) Work with stakeholders to examine in detail the elements (redistribution, capping, reporting, role types etc.) to understand how they are likely to influence performance, to understand how they can be useful for risk management in the future.
 - d) Look to propose a high level methodology for estimating loss that can be deployed against various scenarios/risks.
 - e) Propose a governance structure for the charge regime within the Performance Assurance Framework (PAF) e.g. how to propose and implement changes and to make decisions.

- f) Look to propose any immediate changes to improve efficiency of the technique, such as raising a Modification to set SP01 charges to zero or removing it from the Supplier Charges set to focus attention on the performance standards.

3.5.7 Part two of the Supplier Charges review was conducted between August 2019 and March 2020. The PAF Review team engaged with the Performance Assurance Framework (PAF) Owner, subject matter experts, and industry (via the Issue 69 Working Group) in order to develop recommendations for change.

Recommendations

- 3.5.8 Move obligations to a BSCP for a more agile process for amendment of current charges. The BSCP would enable the ability to:
- a) Allow charges to be based on sources other than Performance Assurance Reporting and Monitoring System (PARMS) Serials
 - b) Introduce ability to use charging as an incentive i.e. for co-operation with the PAF; and
 - c) Introduce a methodology to assist in developing new charge structures.

Implementation

3.5.9 This was originally intended to be delivered as part of the Modification to deliver the rejected recommendation (and so would have sat in the BSCP). Instead, this will now require a Modification to insert reference to incentive charging (in addition to “genuine pre-estimate of loss”) into BSC Section S Annex-S1. We recommend allowing charges to be based on sources other than Performance Assurance Reporting and Monitoring System (PARMS) Serials. Other changes will require a Modification to insert reference to other sources into BSC Section S Annex-S1 Section 2.

3.5.10 The introduction of a methodology to assist in developing new charge structures. This was originally intended to be delivered as part of the Modification to deliver the rejected recommendation above (and so would have sat in the BSCP). Suspect this can be inserted into BSCP536.

3.6 Technical Assurance of Performance Assurance Parties

Overview

3.6.1 The PAF Review project team has worked closely with operational teams and stakeholders in order to identify the strengths and weaknesses of Technical Assurance of Performance Assurance Parties (TAPAP) as a Performance Assurance Technique (PAT). TAPAP has proven effective as a detective assurance technique under Elexon's PAF. The PAF Review has sought to maximise the flexibility and efficiency with which TAPAP is deployed.

Conclusions

3.6.2 TAPAP is already considered to be a highly flexible PAT, as the design and application of testing is at ELEXON's and the PAB's discretion, provided it is to be applied against a PAP in order to mitigate or better understand a Settlement Risk. The PAF review project found that there were however areas for improvement.

Recommendations

- Amend the timescales and process for agreeing TAPAP Findings Reports.
- TAPAP audits are undertaken of the actions taken by Suppliers regarding appointed Party Agents' BSC Audit Issues.
- Clarify communication channels and procedures for non-compliances identified through TAPAP processes.
- Provide assurance against Settlement Risks relating to Central Data Collection Agent processes.
- Sharing of best practice.
- Reduce overlapping PAT application
- Introduction of formal assurance of BSC process knowledge for TAPAP auditors.

Implementation

3.6.3 Recommendations were approved by the PAB and have been translated into requirements for implementation by the operational teams. Successful implementation of these recommendation is contingent on the provision and availability of required resource.

3.7 Error & Failure Resolution (EFR), Breach and Default

Overview

- 3.7.1 The PAF review project team has worked closely with operational teams and stakeholders in order to identify the strengths and weaknesses of the EFR technique while also considering how Breach and Default can be applied as an incentive supporting the EFR process. EFR has proven to be an effective tool for managing the resolution of issues which contribute to Settlement Risks.
- 3.7.2 Whilst Breach and Default has in the past primarily been applied in respect of insolvency, credit and payment defaults, the mechanism contains the flexibility to incentivise the resolution of other issues which materially contribute to Settlement Risks.
- 3.7.3 The PAF review has considered the suite of PATs holistically and has sought to maximise the flexibility and efficiency with which both EFR and Breach and Default are deployed and how they could be effectively coordinated. This has been done in line with the [PAF review's objectives](#).
- 3.7.4 In practical terms, we first set out the key issues we hoped to mitigate against, namely:
- EFR plans not resolved in a timely manner;
 - Lack of effective options for further escalation;
 - Lack of options for de-escalation;
 - EFR resource spent addressing lower priority issues, thereby being taken away from high impact/priority issues; and
 - Criticism in respect of the consistency of PAB decision making.

Conclusions

- 3.7.5 Our recommendations intended to improve the effectiveness of EFR in resolving material issues and sharpen the focus of our resource on the material issues which impact industry the most. We also intend to introduce more straight forward and agile mechanisms for the escalation and de-escalation of issues against which EFR has been deployed, achieving this by harnessing the potential of Breach and Default to incentivise the resolution of issues.

Recommendations

- Board-level sign off needed from Party for plan following escalation.
- More severe consequences for repeat EFR Issues.
- Rules limiting the duration of EFR plans.
- Linking EFR to risk 'events'.
- Letter sent to a director at the outset of the EFR process
- Streamlining customers' experience in EFR
- Introducing new working practices for EFR escalation
- Revising the process for the application of Breach and Default
- New working practices for EFR de-escalation
- 'EFR Avoidance' applied prior to EFR
- Increase focus on PAB precedent register.

Implementation

- 3.7.6 Recommendations were approved by the PAB and have been translated into requirements for implementation by the operational teams. Successful implementation of these recommendation is contingent on the provision and availability of required resource.

3.8 Standards

Overview

- 3.8.1 When it was originally agreed that performance standards would be included within scope of the PAF Review it was agreed that the PAF review would not seek to develop new performance standards, but rather develop a methodology for setting new standards and the governance required to do so. This work stream also benefitted from the work carried out by Issue Group 78, Measurement and monitoring of Settlement performance. The key factors which dictate that wholesale revision of existing performance standards or the introduction of new standards would neither be efficient nor economical at this time are:
- 3.8.2 It is anticipated that it would require significant time and resource for industry to achieve a consensus in respect of any new or amended performance standards (as doing so would require the undertaking of an academic

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study of how inputs should be measured and how loss should be quantified, with any changes inevitably having far reaching and inconsistent impacts across different market participants);

- 3.8.3 This is coupled with the anticipated transition to Market Wide Half Hourly Settlement (MHHS), which has been delayed past the end of the PAF Review and which will have significant impacts on expected performance standards across the market requiring them to be reconsidered again in any case. As a result expending the time and resource required to reach a consensus regarding changes to the performance standards for the current market arrangements would be wasted when new arrangements come into effect through MHHS; and
- 3.8.4 In addition, since this decision was taken, the industry faces new pressures in the wake of COVID-19 limiting the availability of the industry resource which would be required to accommodate this significant extent of consultation and engagement.

Conclusions

- 3.8.5 The PAF Review project team has therefore worked closely with operational teams and stakeholders to instead establish an appropriate methodology which the industry might use to agree changes to the existing suite of performance standards until we have seen the implementation of MHHS and resource within industry is more readily available. It is the view of the PAF Review project team that it would be neither economic nor efficient to review and amend the performance standards at this time as future changes are expected and will have fundamental and far reaching implications informing all parts of the Standards regime currently used for Performance Assurance.

Recommendations

- Methodology for revising or introducing new performance standards under the BSC.

Implementation

- 3.8.6 Recommendations were approved by the PAB and will be translated into requirements by the operational team for implementation.
- 3.8.7 It is our recommendation that the methodology proposed for amending the standards is further considered by industry and that when the transition to MHHS is nearing completion, an Issue Group is established to work towards putting this methodology into practice to arrive upon a new set of standards which are considered to be appropriate by the industry under those new arrangements.
- 3.8.8 Responsibility for monitoring and review in respect of when implementation is appropriate will sit with Elexon's Assurance function.

4. Data Provision

Overview

- 4.1 Preliminary engagement that helped form the scope of the PAF Review recognised that data is critical to the effectiveness of Performance Assurance. Furthermore, many of the issues cited with the existing arrangements could be partly attributed to current methods of provisioning data. This resulted in a separate work stream of the PAF Review on the subject of data provision. The review activities on this work stream have focused on addressing the issues identified and included an assessment of the two detective techniques¹ that are the primary vehicles for assurance data acquisition and reporting.
- 4.2 This work stream has been delivered in two stages. The first stage was an assessment of existing data sources which further defined the issues, how those issues limit our ability to deliver effective assurance, and identified opportunities for improvement. These opportunities were classified as those that could be progressed now or required further assessment. The second stage focussed on assessing the different options for future data provision that would address the identified issues. Following internal and external stakeholder engagement where the options were discussed, we reached a set of recommendations that we believe provide the most practical and pragmatic approach to navigate the upcoming market transformation activities.

Conclusions

¹ The Performance, Monitoring and Reporting (PMR), which is delivered through the Performance Assurance Reporting and Monitoring System (PARMS) and Material Error Monitoring (MEM).

- 4.3 Following conclusion of the first stage of the review, we identified improvements that weren't dependant of on-going review activities and could therefore be progressed in the short term. These recommendations were related to general data governance or specific to existing data sources.
- 4.4 Whilst the second stage of the review identified options to address the underlying issues with current data provision, they required significant investment in the reporting framework. We concluded that it is not the right time to progress such changes mainly due to the volume of change on the horizon primarily related with Market-wide Half Hourly Settlement (MHHS) and the Retail Energy Code (REC) which are expected to impact key BSC areas. We do not believe there is a case to progress changes at this time due to the additional updates that would be required in the coming years. In addition, the architecture of the target operating model for MHHS presents the opportunity to deliver some of the improvements identified with access to more regular and granular data. Therefore, we plan continued engagement with this activity such that assurance reporting requirements can be implemented as we migrate to the new market design which is anticipated in 2024/25.
- 4.5 In the interim, we proposed to cease some aspects of assurance data provision that we do not feel are adding sufficient value. This will relieve the reporting burden on participants so that focus can be given to delivering upcoming change. Until any improvements to data provision can be delivered through MHHS, our detective assurance activities will continue to use existing data sources that are providing value with continued support from auditing techniques where necessary.
- 4.6 We also proposed to formally define the process by which we obtain new data under the MEM technique. This technique was originally setup in such a way that it could be flexibly applied. However, the absence of a formal process on how new data sources should be obtained has resulted in a lack of awareness of the technique and the potential for it to be applied inconsistently. Defining such a process within a BSC Code Subsidiary Document (CSD) would support any future ad hoc changes to assurance data sources whilst providing better governance, transparency and opportunity for industry input.

Recommendations

- 4.7 The internal recommendations we made following conclusion of the first stage of the review were as follows:
- Data owners are assigned to each PAF data source
 - Introducing data ownership would ensure there is clear accountability surrounding how data is used and that knowledge is transferred when necessary
 - Timesheet codes are reviewed and amended to enable PAF activities to be better ring fenced
 - This aims to keep better track of internal resource spent on PAF activities to support setting the Risk Operating Plan (ROP) and justifying technique deployment
 - Avoiding using generic data access provisions for data of a personal nature if we envisage obtaining the data on an on-going basis
 - Data source specific recommendations
 - The remaining recommendations made as part of the initial stage were data source specific. Five of these recommendations were to further investigate enhancements to existing data to improve the value they add and the remaining recommendation proposed to cease access to a data source
 - Following conclusion of the second and final stage of the review, we made the following recommendations.
 - Some participant reported aspects of PARMS are ceased and not replaced at this time
 - Removing these aspects would allow participants to focus on delivering upcoming industry change and ELEXON, in its capacity as the Performance Assurance Administrator, to continue to engage with MHHS activities such that future assurance reporting requirements can be identified and fed in at the appropriate time
 - The process by which assurance data is obtained on an ad hoc basis through the Material Error Monitoring (MEM) technique is formalised within the BSC
 - The intention of this recommendation is to retain the flexibility that already exists within the MEM technique but explicitly define the process that should be followed to access new data. This process is envisaged to include some form of input from participants as obtaining new data is likely to involve a reporting burden on them.

Implementation

- 4.8 The internal recommendations made as part of the first stage of the review can be delivered as part of Elexon's BAU.
- 4.9 Both recommendations made following conclusion of the second stage of the review require Change Proposals to implement the relevant CSD changes. We proposed that the PAB uses its power in Section Z8.2 to recommend to the BSC Panel that these changes are raised. In order to relieve the current reporting burden on

participants sooner, we proposed that the recommendation to cease some of the participant reported aspects of PARMS be prioritised above the other recommendation.

- 4.10 To accomplish this the team reviewed all aspects of the PAF holistically and with the aim of future proofing the Framework to sustain the planned changes to the industry such as market wide smart metering.

Next Steps

The PAF Review has concluded. Some recommendations have been implemented, and further change and improvements will continue. The PAF Review team involved all Technique owners throughout the review and implementation of the recommendations. This enabled knowledge transfer and cross function co-working which remains in place.

Implementation of remaining recommendations

As of February 2021, 34 of the 94 Recommendations have been completed. The remaining changes are all contained within the relevant team plans as priorities for 2021. System changes will require an impact assessment by external providers before scheduling and work can begin.

It remains the governance that any request to alter or not implement any Recommendation will come to PAB for discussion and an amendment decision. Regular updates on all Recommendations are made by the Panel Chair at every PAB meeting.