



Stage 03: Assessment Consultation

Consultation deadline: 5pm on Friday 17 February 2012

P275: Extending BSC Performance Assurance

This Modification seeks to amend the BSC to clarify that the scope of Performance Assurance under the BSC is not limited to Trading Parties and that any risk of error or inaccuracy in Settlement data may be considered, not just issues that directly impact the determination and settlement of Trading Charges.

Note: the scope of P275 is much less than implied by the title and set out in the proposal form. P275 is a Code-only change to deliver a clarification of the BSC, and would not affect the actual scope by BSC Performance Assurance.



The Workgroup initially recommends:

Approval of P275 Proposed Modification



Low Impact:

ELEXON

What stage is this document in the process?

01

Initial Written Assessment

02

Definition Procedure

03

Assessment Procedure

04

Report Phase

P275
Assessment Consultation

30 January 2012

Version 1.0

Page 1 of 8

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Contents

1	Why Change?	3
2	Solution	5
3	Impacts & Costs	5
4	Implementation	6
5	The Case for Change	7
6	Further Information	8
	Attachment A: Assessment Consultation Question Form	8
	Attachment B: Legal Text Proposed	8

About this document:

The purpose of this Assessment Consultation is to obtain views or further evidence from BSC Parties and other interested Parties on matters discussed in this document and to confirm that the P275 solution has no implementation impact on Parties. The P275 Workgroup will discuss the consultation responses before making its recommendations to the Panel on 8 March 2012.

This consultation document provides details of the solution, impacts, costs, benefits and the implementation approach for this change. Attachment A is the Assessment Consultation Questions response form, which includes all the questions highlighted in this document. Attachment B is the proposed legal text.

1 Why Change?

Background

Distribution Price Control

Ofgem administers a Distribution Price Control regime every five years. This sets the total revenues that each Licensed Distribution System Operator (LDSO) can collect from customers at a level that allows an efficient business to finance their activities.

Distribution Price Control also places incentives on LDSOs to innovate and find more efficient ways to provide an appropriate level of network capacity, security, reliability and quality of service. Toward the end of each price control period Ofgem undertakes a Distribution Price Control Review (DPCR) in order to set the controls for the next price control period.

Losses incentive scheme

The losses incentive scheme is used to encourage LDSOs to achieve an efficient level of losses on their networks. This scheme adjusts LDSOs allowed annual revenues according to how they perform each year against their losses target. The LDSOs calculate losses as the difference between the electrical units entering and exiting their distribution network. Settlements data is used to measure units exiting the network.

The losses incentive scheme also has a losses rolling retention mechanism (LRRM) to encourage the LDSOs to undertake loss reduction initiatives throughout the price control period by guaranteeing rewards (or penalties) for a subsequent five year period. As part of the DPCR5¹ Final Proposals Ofgem set out how they would calculate the revenue adjustments which should apply to each LDSO as a result of the DPCR4 LRRM, which will (in part) be based on the final settlement data for 2009-10.

Gross Volume Correction

The settlement systems, administered by the BSC, are primarily designed for the purposes of the electricity trading and retailing system. Use of Settlement data to evaluate LDSO losses performance is an ancillary function.

Errors and inaccuracies in Settlement can occur. However, once a Settlement Day has been subject to the Reconciliation Final Volume Allocation Run (RF Run), data shouldn't be changed unless the Metering System in question is subject to an upheld Trading Dispute. Suppliers (and their Non Half Hourly Data Collectors (NHHDCs)) may use a technique called Gross Volume Correction (GVC) to correct errors relating to Meter Advance Periods during which some Settlement dates have already been subject to the RF Run. The effect of using GVC is to reallocate the lost or gained energy volume to a range of Settlement dates for which RF Runs have not yet taken place. This process ensures that the total gross volume of energy is correct, although it will be allocated to the wrong Settlement Days/Settlement Periods. The process also ensures that consumption data for Settlement Days for which RF Runs have taken place (referred to as 'crystallised' data) isn't changed.

Large scale application of GVC can distort apparent losses performance by LDSOs, and affect the associated allowed revenues. When Suppliers make large adjustments to Settlement data it artificially inflates the determination of losses and LDSOs are penalised.

¹ Current DCPR for the period 1 April 2010 until 31 March 2015.

This occurs via the setting of their allowed revenue through the Distribution Price Control Review.

Performance Assurance Framework (PAF)

The BSC PAF is in place to provide assurance that:

- Energy is allocated between Suppliers efficiently, correctly and accurately;
- Suppliers and Supplier Agents transfer Metering System data efficiently and accurately; and
- Calculations and allocations of energy and the associated Trading Charges are performed in line with the requirements detailed in the BSC.

The Performance Assurance Board (PAB) uses the Performance Assurance process to identify and evaluate Settlement Risks before deploying Performance Assurance Techniques to Performance Assurance Parties (PAPs) to address identified issues.

Issue

The P275 Modification Proposal asserts that even though issues with Settlement data can have very material financial implications for LDSOs there is no recourse for them to resolve such issues via the PAF. However, following the Workgroup's discussions the Proposer agreed that the PAF was not as restricted as they believed. The Proposer therefore considers that the issue is that the Code is not clear that the PAF can consider issues relating to non Trading Parties such as LDSOs.

The Proposer believed the original intent of P275, to remove restrictions on the scope of the PAF, would better facilitate Applicable BSC Objective (c) by clarifying to non Trading Parties that the PAF may consider any issue that impacts them, helping to reduce these Parties' costs and risks, and by increasing certainty in costs throughout the supply chain, which would enable more effective competition. The Proposer also cited benefit against Objective (d) due to increased PAF scope reducing the need for ELEXON to undertake specific initiatives outside the PAF. However, these arguments are not necessarily applicable to the Code-only change developed by the Workgroup and Proposer – views on the proposed P275 solution are detailed as part of the Workgroup's discussions later in this report.

Background materiality

Although not directly relevant under the BSC, the Proposer believes it is important to note examples of the kind of implications that Settlement data can have outside the BSC.

Along with other BSC Parties, LDSOs rely on Settlement data and processes for various business purposes. In the case of LDSOs, this includes billing Suppliers for their use of the Distribution System - which amounts to approximately £4 billion per annum); setting Line Loss Factors for use in Settlements; and operation of the distribution loss incentive scheme described above (with financial implications of many £100m per annum).

In the 2009-10 regulatory year there was an increase in Suppliers use of GVC. This created a significant distortion in relation to distribution losses for some LDSOs. However, because the issue was not a risk to Settlement, LDSOs felt they were unable to use the PAF to address their issues. The proposer contends that LDSOs felt they were subject to Performance Assurance techniques (such as audit, Technical Assurance checks etc) but were not served by the PAF in instances that require consideration of errors that do not directly impact Trading Parties.

2 Solution

The P275 solution is a Code-only change that aims to clarify the existing responsibilities, functions and powers of the PAB, and consequently the scope of the PAF. It is not intended that the implementation of this change will impact Parties or any other market participants.

The P275 Modification Proposal envisaged more wide ranging changes to change the scope of the PAF, but the Proposer agreed this Code only change following the Workgroup discussions and input on the relevant Code provisions from ELEXON.

Legal text

The proposed redlined changes to the BSC to deliver the P275 solution can be found in Attachment B.

The existing provision 1.6.1 in Section Z specifies that 'the responsibilities of the Performance Assurance Board are owed only to Trading Parties collectively, and to no other person'. The Workgroup considers this to be a statement relating to the ultimate responsibility and liability of the PAB, not a definition of the scope of the PAB's activities. P275 proposes to add a new and separate paragraph, Z1.7, as follows:

1.7 Relationship between the Performance Assurance Board and Performance Assurance Parties

- 1.7.1 Subject always to paragraph 1.6.1, the Performance Assurance Board shall have the powers and functions specified in paragraph 1.4 which it may perform (as applicable) in respect of Performance Assurance Parties from time to time.

The rationale for adding this new paragraph 1.7 is that the existing paragraph 1.6.1 is preserved unchanged, so the PAB's responsibilities are unaltered, but the new paragraph clarifies that 1.6.1 does not limit the PAB's scope to the consideration only of issues relating directly to Trading Parties.

This change is not intended to have any practical impact on the operation of the PAB/PAF.

Question 1

Do you agree with the Workgroup that the legal text delivers the intention of P275?

3 Impacts & Costs

The solution proposed is a status quo change to align the Code with current practice and therefore there are no Party impacts or costs.

The only change is for ELEXON to implement the change to the BSC as detailed in the legal text. This will involve minimal effort, but we will include an estimate of the approximate cost in the P275 Assessment Report.

Question 2

Do you agree with the Workgroup that P275 imposes no impacts or costs for BSC Parties?

4 Implementation

As this is a Code only change which is purely a clarification, and does not require any system or process changes to be implemented, the Workgroup recommends an Implementation Date for the Proposed Modification of ten Working Days following approval. This is in line with the usual implementation approach for Code only changes without practical implementation impact.

Question 3

Do you agree with the Workgroup that, if approved, the P275 solution should be implemented ten Working Days following approval?

P275 solution

The Proposer initially sought to extend the responsibilities of the PAB to all BSC Parties and broaden the scope of Performance Assurance to include issues with Settlement data that did not directly impact Settlement. The Proposer felt that the PAB did not offer non Trading Parties the same level of consideration that they offered Trading Parties. The reason for this view was primarily the wording in Z1.6.1 which states 'The responsibilities of the Performance Assurance Board under the Code are owed exclusively to Trading Parties collectively, and to no other person.' Additionally the Proposer thought that the PAB should also consider the risks that Settlement data issues presented to BSC Parties that make use of the data. The Proposer thought that Settlement Risk as defined in the Code precluded this from happening.

However, the Workgroup and Proposer were unable to identify any practical impact that the proposed change would have on the PAB, because its Performance Assurance Techniques already cover BSC Parties and it currently seeks views from a wider constituency of stakeholders than Trading Parties when consulting upon Settlement Risks and its Risk Operation Plan. The group discussed the defect identified in the Modification Proposal and concluded that Performance Assurance under the BSC may consider performance matters that impact any BSC Parties. The aim of P275 should be to clarify the BSC so that it clearly aligns with current PAB practice because the current wording in the BSC may create confusion around what the scope and focus of the PAB's activities should be.

The Proposer was therefore minded to develop the solution into a Code only clarification change. The P275 solution was developed to provide clarification of the statement in Z1.6.1 such that it makes clear that the powers and functions of the PAB extend to all PAPs.

Workgroup discussions

The group discussed whether the proposed new paragraph provides the clarity in the BSC sought by the Proposer. Some of the Workgroup suggested changing the wording to explicitly state that the PAB gives consideration to issues relating to all PAPs and not just Trading Parties. However, the group noted that the benefit of the proposed wording is that it refers specifically to the interaction of existing provisions, delivering a clear distinction without risking the introduction of ambiguity or subjective descriptions. The Proposer confirmed they were satisfied that the proposed paragraph delivered the clarification sought. The group considered whether the new paragraph proposed by P275 should be:

- added to the existing section Z1.4, 'Powers and Functions of the Performance Assurance Board';
- added to the existing section Z1.6, 'Responsibilities owed to Trading Parties alone'; or
- placed in a new, separate section Z1.7.

Some members argued that, though it might deliver the clarification that the PAB acts on behalf of all PAPs, adding the new paragraph to Z1.6 could also make existing provision Z1.6.1 less clear. The group considered adding the paragraph into Z1.4, but there was concern that this approach might not make the interaction with Z1.6.1 sufficiently apparent, undermining the benefit of the clarification. Following significant discussion the Workgroup agreed that placing the new paragraph in a new, separate section was an

appropriate approach that would avoid the concerns raised around its inclusion in either of the existing sections. The group believed that this approach would make it clear that the intention of the new section (i.e. Z1.7) is to clarify the interaction between the PAB's responsibilities being owed solely to Trading Parties (who fund the PAB) and the PAB's powers and function (which extend to a wider constituency, i.e. all PAPs).

The Proposer noted that, given the reduced scope of P275 compared with the original proposal, they did not consider competition considerations (i.e. that would be linked to Applicable BSC Objective (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) to be relevant.

A group member suggested that it might be possible to argue that there could be an element of benefit linked to Objective (c), on the basis that the clarification would confirm that the PAB's role includes application of the PAF to Party agents. Applying the PAF to Supplier agents promotes efficiency in Supplier's activities, and this may be considered to promote effective competition among Suppliers. However, the member was dubious of the practical validity of this argument, and neither the member nor the rest of the group included this reasoning in their initial views against the Objectives.

Initial views

The majority of the Workgroup support the P275 Proposed solution. The initial majority view of the group is that P275 would better facilitate against BSC Applicable BSC Objective (d) (promoting efficiency in the implementation and administration of the balancing and settlement arrangements) compared with the existing Code baseline, on the basis that increased clarity in the BSC promotes efficiency in the BSC arrangements. Of the supporting majority, some members believed the clarification would be of real benefit to participants, whereas others felt the benefit would be marginal.

One member did not support the P275 Proposed solution because they believed the relevant BSC provisions are sufficiently clear already. This member therefore believed that P275 would not better facilitate Objective (d) compared with the existing Code baseline because the clarification it would introduce is unnecessary, and the implementation of unnecessary changes to the BSC is inefficient.

The group unanimously agreed P275 is neutral with respect to Objectives (a), (b), (c) and (e).

Question 4

Do you believe that P275 would better facilitate the Applicable BSC Objectives when compared with the current Code provisions?

6 Further Information

More information is available in

Attachment **A**: Assessment Consultation Question Form

Attachment **B**: Legal Text Proposed

A complete version of the consultation and impact assessment responses received are available on the P275 page of the ELEXON website.

P275
Assessment Consultation

30 January 2012

Version 1.0

Page 8 of 8

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