

Stage 01: Recommendation to raise a Modification Proposal and Initial Written Assessment

'Further Qualification Assurance for Suppliers'

The Performance Assurance Board (PAB) recommends that the Panel raise a Modification to add three additional controls for the PAB to use to monitor Suppliers entering the market following Qualification.



The PAB recommends that the Panel raise the attached Modification Proposal and submit it into the Assessment Procedure



Medium Impact:
Qualification Service Provider



Low Impact:
Suppliers; and BSCCo

What stage is this document at in the process?

01 Initial Written Assessment

02 Definition Procedure

03 Assessment Procedure

04 Report Phase

Contents

1	Why Change?	3
2	Solution	4
3	Areas to Consider	6
4	Proposed Progression	7
5	Likely Impacts	8
6	Recommendations	9

About This Document

This is a recommendation from the Performance Assurance Board (PAB) to the Panel to raise a Modification Proposal.

We will present this recommendation to the Panel on 9 January 2014. If the Panel agrees to raise the Modification Proposal, this document also forms the Initial Written Assessment (IWA) and sets out how we believe the Modification should be progressed.

The Panel will consider the recommendations and agree whether to raise the Modification Proposal and, if so, how to progress it.

You can find further information in the attached Modification Proposal (Attachment A) and in the Qualification Process Flow Diagram (existing and proposed) (Attachment B).



Any questions?

Contact:

Simon Fox



simon.fox@elexon.co.uk



020 7380 4299

220/04

Request to Raise a
Modification and Initial
Written Assessment

2 January 2014

Version 1.0

Page 2 of 9

© ELEXON Limited 2014

1 Why Change?



Managing the risk of Material Changes to Qualified Suppliers

The Performance Assurance Board (PAB) is concerned with the risk to Settlement associated with Qualified Suppliers being sold to another organisation that then carries out a Material Change. A Material Change is where a Supplier uses other systems, processes and/or staff that had not been assessed during Qualification.

In the past 12 months there has been an increase in the trend of Qualified Suppliers being sold on, with 16 Suppliers completing Qualification with 12 having Qualified with the intention of being sold to third parties. Of these 12, seven off-the-shelf Suppliers have changed ownership during this period. In total, there are currently 33 dormant Suppliers, of which 18 have gained PAB approval with the intention to be sold to third parties.¹

At its meeting on 26 September 2013, the PAB discussed how Suppliers that have not become operational for a substantial amount of time following their Qualification could continue to meet the Balancing and Settlement Code (BSC) requirements (PAB152/11).

The PAB has agreed that it would use the existing Post Qualification Checks and Error and Failure Resolution (EFR) process to mitigate any concerns and risks to Settlement. However, it is currently limited to these steps, which in some cases may not be sufficient to address the risk to Settlement.

The PAB also agreed that it should seek additional methods to provide assurance, which it would use at its discretion.

What is the issue?

The Qualification process does not address the risk of a Supplier becoming operational with different systems, processes or staff than those that were assessed during the Qualification process. The PAB already has powers in regards to Party Agents (agents) to address this risk. It would like to be able to apply these powers to Suppliers too.

The practice of selling a Qualified Supplier to another entity can also lead to a discrepancy in the level of assurance that Parties are required to provide by avoiding the Qualification assessment.

Based on the current trend of new entrants to the market, there could be a similar number of Suppliers gaining PAB approval and entering the market in the next year. This could further increase the risk of introducing an error that impacts Settlement.

Qualification process

The Qualification process provides assurance that Suppliers entering the market can meet the requirements and obligations outlined in the BSC. All Suppliers must undergo Qualification.

Qualification is initiated by an applicant, which informs ELEXON of its intention to Qualify in a particular role. The applicant must then complete a self-assessment by completing the Self Assessment Document (SAD) and provide evidence. ELEXON reviews the SAD and evidence to determine the risk of the application.

There may also be an element of witness testing. This provides further assurance that the applicant can perform in the role to specified standards. The level of witness testing, if any, will depend upon the SAD responses and evidence provided.

The Qualification Service Provider will often carry out the witness testing and assessment of the SAD and evidence on behalf of ELEXON.

The PAB decides on whether to grant Qualification in the applied for role.

You can find further information on the [SVA Qualification pages](#) of the ELEXON website.

220/04

Request to Raise a Modification and Initial Written Assessment

2 January 2014

Version 1.0

Page 3 of 9

© ELEXON Limited 2014

¹ Figures taken from the September 2013 Supplier Metering Registration Service (SMRS) data extract.



Additional information

Attachment B provides a process diagram. This sets out how the PAB intends to use the new controls and how these would fit into the existing processes.

Proposed solution

The PAB recommends that the Panel raise the Modification Proposal in Attachment A to add three additional controls to provide further assurance around the Supplier Qualification process. The proposed solution is intended to focus on Suppliers entering the market. Both BSC Section J and BSCP537 contain clauses providing assurance for agents, which describe the process of:

- revocation of Qualification;
- requesting further information; and
- re-Qualification.

Revoke Supplier Qualification

The Modification proposes to introduce a similar process, to the revoking of an agents Qualification, for Suppliers. Under this proposal, if a Supplier is not sure of when its first appointment will be or if this date falls beyond 12 months, then the PAB will consider the Supplier's response on a case-by-case basis. It will decide on whether to revoke the Supplier's Qualification or to allow the Supplier to remain inactive and request further information later.

As an example, a Supplier can respond to the PAB's information request with an unconfirmed date, due to not knowing when the Supplier will be sold to a third party. The PAB can then decide whether to revoke the Supplier's Qualification or to wait for an agreed length of time for further information.

Qualification Health Check

The Modification proposes to introduce a similar process to the requesting of further information from agents by introducing a Qualification Health Check for Suppliers. This would be an assessment performed by the Qualification Service Provider (QSP). This is to see if the Supplier is using the same systems, processes and staff that were assessed as part of its original Qualification and determine if Material Changes have been made. It would be similar to the Risk and Impact Assessment (RIA) performed by agents to assess the impact of Material Changes, which helps inform the agent on whether to seek re-Qualification.

This addresses the situation where a Supplier has just met the minimum requirements to gain PAB approval. However, the PAB would like to gain further assurance regarding the Supplier's operations.

The duration of the Qualification Health Check would depend on the complexity of the potential changes made to the Supplier's systems, processes or staff. We estimate that on average the Qualification Health Check could take three to four days.

220/04

Request to Raise a
Modification and Initial
Written Assessment

2 January 2014

Version 1.0

Page 4 of 9

© ELEXON Limited 2014

Supplier re-Qualification

The Modification proposes to introduce a similar process, to the revoking of an agents Qualification, for Suppliers. The PAB could trigger re-Qualification for Suppliers when it is aware of any Material Changes. Invoking this would result in the Supplier having to re-Qualify in order to maintain its Qualification status.

It is proposed that the re-Qualification process for Suppliers will be similar to the current re-Qualification process performed by Party Agents following a Material Change where the final goal is to seek PAB approval in order to maintain Qualification status.

The duration of the Supplier re-Qualification process would also be similar to an agent's re-Qualification process and be dependent on the nature and complexity of the Material Change made.

Justification

The PAB believe that by introducing these additional controls it would be able to better manage associated Settlement Risks. However, the PAB recognises that the additional methods would require changes to Section J and BSCP537 to enable these additional controls.

Applicable BSC Objectives

The PAB believe that this will better facilitate Applicable BSC Objectives (c) and (d).

BSC Objective (c)

This would promote competition in the electricity market by providing equality with newly Qualified Suppliers that become active soon after Qualifying.

BSC Objective (d)

This would better promote efficiency by reducing the risk to Settlement associated with inactive Supplier IDs that are then operated by persons and/or systems that hadn't undergone the Qualification.



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]

220/04

Request to Raise a Modification and Initial Written Assessment

2 January 2014

Version 1.0

Page 5 of 9

© ELEXON Limited 2014

3 Areas to Consider

In this section, we highlight areas that we believe the Panel should consider when making its decision on how to progress this Modification Proposal, and which a Workgroup should consider as part of its assessment of the Modification. We recommend that the areas below form the basis of a Workgroup's Terms of Reference, supplemented with any further areas specified by the Panel.

Process, criteria and lead times for revoking Supplier Qualification

We believe that the Workgroup should consider the lead times between when the PAB initiates a revoking of a Supplier's Qualification and the effect of the revocation. In addition, there should be consideration for the actual triggers and process.

Process, criteria and lead times for Supplier re-Qualification

We believe that the Workgroup should consider the lead times for how quickly the Supplier re-Qualification process should be started after a Material Change has been identified. We also believe that it should also consider whether a Supplier could volunteer to go through the re-Qualification process.

Criteria for an inactive and active Qualified Supplier

Currently, ELEXON deems a Supplier active as soon as it has registered a Metering System. The PAB believe that it should have the discretion of determining which Suppliers it should apply these additional measures to and that it should not be defined by specific criteria. We believe that the Workgroup should consider this aspect.

Areas to consider

The following table provides a summary of the proposed areas that the Workgroup should consider and which would form part of the Workgroup's terms of reference.

Areas To Consider
If the PAB decide to revoke a Supplier's Qualification, how long will the process take and what will the actual revocation process involve?
How quickly should the PAB initiate the Supplier re-Qualification process after it becomes aware of a Material Change?
Can a Supplier volunteer to go through the re-Qualification process?
What criteria should the PAB consider in determining whether a Qualified Supplier is inactive?
What changes are needed to BSC documents, systems and processes to support the Modification and what are the related costs and lead times?
Are there any Alternative Modifications?
Does the Modification better facilitate the Applicable BSC Objectives than the current baseline?

220/04

Request to Raise a
Modification and Initial
Written Assessment

2 January 2014

Version 1.0

Page 6 of 9

© ELEXON Limited 2014

4 Proposed Progression

Next steps

We recommend that the Panel raise the Modification and that it is progressed to an Assessment Procedure for consideration by a Workgroup.

We do not believe that this Modification should be progressed as a Self-Governance Modification due to the material changes to the existing arrangements, and we believe that it has no interaction with the on-going Significant Code Review (SCR).

Workgroup membership

We propose to seek membership from any relevant experts in the Qualification process and Performance Assurance Framework along with any other interested parties.

Timetable

We recommend a four month Assessment Procedure, meaning the Workgroup will submit the Assessment Report to the Panel at its meeting on 8 May 2014.

As part of the Assessment Procedure, the Workgroup will meet to develop, and consider the merits of, the Proposed Modification (and any Alternative) and issue the solution(s) for a 15 working day industry consultation.

Proposed Progression Timetable	
Event	Date
Present Initial Written Assessment to Panel	09 Jan 14
Workgroup Meeting 1	W/B 27 Jan 14
Workgroup Meeting 2	W/B 24 Feb 14
Assessment Procedure Consultation	14 Mar 14 – 04 Apr 14
Workgroup Meeting 3	W/B 07 Apr 14
Present Assessment Report to Panel	08 May 14
Report Phase Consultation	09 May 14 – 30 May 14
Present Draft Modification Report to Panel	12 Jun 14
Issue Final Modification Report to Authority	13 Jun 14

220/04

Request to Raise a
Modification and Initial
Written Assessment

2 January 2014

Version 1.0

Page 7 of 9

© ELEXON Limited 2014

5 Likely Impacts

Impact on BSC Parties and Party Agents

Suppliers that are Qualified and not yet active may become subject to the provisions introduced by the approval of this Modification, but there should be no direct impact on Suppliers in implementing this Modification. No other impact is anticipated on BSC Parties or Party Agents.

Impact on Transmission Company

No impact

Impact on BSCCo

Area of ELEXON	Potential Impact
Qualification and Re-Qualification Processes	Addition of processes for carrying out the new controls

Impact on BSC Systems and process

No impact

Impact on BSC Agent/service provider contractual arrangements

BSC Agent/service provider contract	Potential Impact
QSP	Addition of processes for carrying out the new controls

Impact on Code

Code Section	Potential Impact
Section J	Addition of new controls to allow the PAB to revoke a Supplier's Qualification, request the QSP carry out a Qualification Health Check or request Suppliers to undergo re-Qualification.

Impact on Code Subsidiary Documents

CSD	Potential Impact
BSCP537	Addition of new controls to allow the PAB to revoke a Supplier's Qualification, request the QSP carry out a Qualification Health Check or request Suppliers to undergo re-Qualification.

220/04

Request to Raise a Modification and Initial Written Assessment

2 January 2014

Version 1.0

Page 8 of 9

© ELEXON Limited 2014

6 Recommendations



The PAB invites the Panel to:

- **RAISE** the Modification Proposal in Attachment A.

If the Panel agrees to raise the Modification, ELEXON invites the Panel to:

- **AGREE** that the Modification should progress to the Assessment Procedure;
- **AGREE** the proposed Assessment Procedure timetable;
- **AGREE** the proposed membership for the Modification Workgroup; and
- **AGREE** the Workgroup's Terms of Reference.

Recommendations

We agree with the PAB's recommendation that the Panel raise the Modification Proposal and progress it to the Assessment Procedure for assessment by a Workgroup.

220/04

Request to Raise a
Modification and Initial
Written Assessment

2 January 2014

Version 1.0

Page 9 of 9

© ELEXON Limited 2014