
MEETING NAME BSC Panel Meeting

Date of meeting 11 December 2014

Paper number 231/11

Owner/author Kat Higby

Purpose of paper Decision

Classification Public

Summary This paper invites the BSC Panel to approve the list of Performance Assurance Technique (PATs) which form the Performance Assurance Framework (PAF), and in particular, agree an amended definition of the technique "Education".

1. Background

- 1.1 The Performance Assurance Framework (PAF) is a set of preventive, detective, incentive and remedial Performance Assurance Techniques which are used to address Settlement Risks.
- 1.2 Settlement Risks are defined in Section Z5.1 of the BSC as "a risk of any failure or error in a step or process required under the Code (including in each case a risk which has materialised as an actual failure or an error) for the purpose of effecting Settlement or otherwise required in connection with Settlement in accordance with the provisions of the Code".
- 1.3 Performance Assurance Techniques must address both risks to Settlement and the impact of actual failures or errors in Settlement.
- 1.4 As defined in Section Z 5.3.1¹ of the Balancing and Settlement Code (BSC), a list setting out those provisions of the BSC, which the Panel considers can mitigate (by detecting or preventing the occurrence, or correcting the effects, of) Settlement Risks should be set out and reviewed from time to time by the BSC Panel. These BSC provisions and processes are deemed to constitute Performance Assurance Techniques.
- 1.5 The Performance Assurance Board (PAB) determines which Performance Assurance Techniques it considers should be applied in relation to each Settlement Risk identified in the Risk Evaluation Register², and produces a Risk Operating Plan (ROP) each year which sets out the Performance Assurance Techniques it intends to use to address Settlement Risks as defined in Section Z³ of the BSC.
- 1.6 The list of Performance Assurance Techniques was last reviewed and approved by the BSC Panel on 09 November 2007. The recent lessons learned project carried out following trading Dispute DA618 has identified that changes should be made to the Panel Statement of PAF Techniques to amend the definition of "Education". Minor changes to the techniques "BSC Audit" and "Trading Disputes" have also been identified.

¹ The Panel shall prepare, and may from time to time amend, a list setting out those provisions of the Code, and/or processes established pursuant to provisions of the Code, which the Panel considers can mitigate (by detecting or preventing the occurrence, or correcting the effects, of) Settlement Risks.

² The Risk Evaluation Register contains the complete set of identified Settlement Risks

³ The Performance Assurance Board shall:

(a) determine what Performance Assurance Technique(s) it considers should be applied in relation to each Settlement Risk identified in the Risk Evaluation Register.

- 1.7 The ROP has already been approved by the PAB for audit year 2015-2016. Should the BSC Panel approve the suggested amendments to the definitions of PAF techniques, a within-period revision of the ROP will be taken to the PAB for approval at a future meeting.

2. Performance Assurance Techniques

- 2.1 The Performance Assurance Techniques available to the PAB should constitute a framework which, when deployed strategically, is able to address identified Settlement Risks.
- 2.2 There are four identified basic types of Performance Assurance Technique:
- **Preventative (P)** techniques are designed to limit the possibility of an undesirable outcome being realised.
 - **Detective (D)** techniques are designed to identify occasions of undesirable outcomes having been realised.
 - **Incentive (I)** techniques are designed to motivate action in order to avoid the possibility of an undesirable outcome being realised.
 - **Remedial (R)** techniques are designed to correct undesirable outcomes that have been realised.
- 2.3 The table in Appendix I summarises how the proposed Performance Assurance Techniques might address the identified types of Settlement Risk. An overview of these techniques is set out below, illustrating the primary type of assurance that each technique can provide:

Technique	Type
Qualification	P
Re-Qualification	P
Bulk Change of Agent	P
Education	P
Performance Monitoring and Reporting	D
Material Error Monitoring	D
Technical Assurance of Metering Systems	D
BSC Audit	D
Technical Assurance of Performance Assurance Parties	D
Peer Comparison	I
Removal of Qualification	I
Breach and Default	I
Supplier Charges	R
Error and Failure Resolution	R
Trading Disputes	R
Change Mechanisms	R

- 2.4 Appendix I also illustrates the proposed changes to the Performance Assurance Techniques "Education", "BSC Audit" and "Trading Disputes".

3. Proposed Amendments to "Education"

Current definition of Education

- 3.1 The Panel noted (Panel paper 133/11) that 'Education' was a preventative technique designed to limit the possibility of an undesirable outcome being realised. It defined Education as:
- Publication of guidance for key BSC and CSD documented processes / changes to processes.
 - Publication of guidance on common (market) issues identified by the PAF and on the best ways to address them. This may include a view as to root causes of these issues. It may also reference other areas of the BSC that may help in monitoring or controlling the issue in some way. This excludes the sharing of business operational practices as these are confidential and are an area where competitive advantages may be gained.
 - In addition to these communication and education mechanisms, ELEXON assigns an Operational Support Manager (OSM) to each BSC Party and Party Agent when they accede to the BSC. The OSM provides a first point of contact and is able to provide support and guidance regarding the BSC arrangements.

Education as a source of potential Settlement Error

- 3.2 Work Stream 3 of the DA618⁴ lessons learned project which followed Trading Dispute DA618 'Review of the Trading Disputes provisions' concluded that where ELEXON provides information to its customers (e.g. BSC Parties and Party Agents) in support of the BSC, such support should be construed as part of the Settlement process since it is intended to mitigate the risk that errors arise in the application of Settlement Rules.
- 3.3 In order for a Settlement Error to have occurred, a number of conditions and tests must be met. One element of these tests requires that an error must have occurred in the '*processes used for the purposes of Settlement*', that has affected, or may affect, the allocation and/or determination of Trading Charges.
- 3.4 The most recent interpretation of Settlement Error takes account of the obligations currently in place and the Panel's agreed definition of the Performance Assurance Framework Technique of 'Education'.
- 3.5 'Education' has been designated as a Performance Assurance Technique to mitigate the risk of Settlement Errors occurring, which by definition is 'the risk of *any* failure or error in a step or process required under the Code'. The Panel has noted that Education may therefore be considered a '*process used for the purpose of Settlement*' and has acknowledged⁵ that it should consider how best to take this into account in its definition of the Performance Assurance Framework Technique.

The view of the TDC

- 3.6 Feedback from TDC members indicated that it was important to make a distinction, wherever possible, between information that included errors, and the absence of information. (i.e. the not providing a comprehensive, detailed, explanation of the multitude of rules and requirements across the full hierarchy of BSC documents). However, it was also recognised that this distinction is not always straightforward.
- 3.7 TDC members felt that an assessment of completeness must be linked to the specific nature of the initial question that is asked. A specific query should be addressed at a corresponding level of detail. In general, however, it was felt that there should not be an expectation that, when providing support, ELEXON would be

⁴ Trading Dispute DA618 addressed the failure to remove the effects of a Metered Volume Reallocation Notification caused by a delay in submitting a Volume Notification Nullification Request Form has resulted in large Imbalance charges affecting a number of Balancing and Settlement Code Parties.

⁵ Panel Paper 228/17

required to provide specific guidance on points of detail within low-level BSC documentation (e.g. the Interface Design Document) unless asked.

Conclusions

- 3.8 It is important that the party seeking support from ELEXON is clear about the support it requires. Where there is ambiguity in the question(s) put to ELEXON, ELEXON should seek to confirm an agreed understanding of the nature and scope of the query on a reasonable endeavours basis. ELEXON should not be required to second guess, or insinuate subsequent questions or alternative meanings so as to provide detailed technical responses to general queries.
- 3.9 The BSC Panel should re-consider the definition of the Performance Assurance Framework technique, 'Education' to clarify that it is not intended to mitigate the entire risk of possible failures or errors in steps or processes, but can reduce it. Support will continue to be provided by ELEXON on a reasonable endeavours basis, and will be subject to agreed understanding of a query within the support request in question.
- 3.10 Details of the suggested amendment are illustrated in the table in Appendix II.

4. Proposed Amendments to "BSC Audit" and "Trading Disputes"

BSC Audit

- 4.1 An amendment has been identified to "BSC Audit" as the Materiality Threshold is currently set out in the Summary. The Materiality Threshold of 1.65TWh is now out of date, and has since been amended to 1.50TWh⁶.
- 4.2 In order to ensure the summary continues to be relevant, it is suggested that the Materiality Threshold is removed from the Summary as it is subject to change on an annual basis.

Trading Disputes

- 4.3 The summary section of "Trading Disputes" makes reference to "Trading Query". This is a term which is no longer in existence as it was removed in 2010. Only the term "Trading Dispute" is now relevant.

5. Recommendations

- 5.1 We invite you to:
- a) **APPROVE** the candidate list of Performance Assurance Techniques as set out in paragraph 2.3 above; and
 - b) **APPROVE** the amended definitions of the Performance Assurance Techniques, "Education", "Trading Disputes" and "BSC Audit"

Appendices

Appendix 1 – Overview of Proposed Performance Assurance Techniques

For more information, please contact:

Katharine Higby, technical Analyst

Katharine.higby@elexon.co.uk

020 7380 4184

⁶ http://www.elexon.co.uk/wp-content/uploads/2014/11/BSC-Audit-Scope-2014_15-v-1-0.pdf

6. Appendix I – Details of Proposed Performance Assurance Techniques

6.1 The table below sets out the current details of Performance Assurance Techniques with the suggested amendments to "Education", "BSC Audit" and "Trading Disputes":

Technique	Summary	BSC Obligation	Type
Qualification	<p>The process is designed to provide assurance that new organisations entering the market in certain roles have developed their systems and processes to an appropriate standard in order to meet their obligations under the BSC. This constitutes the approval of "Qualified status" to new participants (applicants) seeking to enter Settlement based upon:</p> <ul style="list-style-type: none"> ○ a declaration from an officer of the applicant that it will meet the requirements of the BSC; and ○ an independent review of evidence and risk-based witnessing of testing. 	<p>Defined in Section J of the BSC and detailed in BSCP537 "Qualification Process for SVA Parties, SVA Party Agents and CVA MOAs".</p> <p>Section Z of the BSC sets out PAB's responsibilities with regard to the Qualification process.</p>	P
Re-Qualification	<p>Once an organisation is Qualified in a certain role (other than Suppliers), that organisation is required to maintain its Qualified status through the re-Qualification process when it makes material Changes to its previously Qualified systems and/or processes. This requires re-approval of "Qualified status" for existing participants (applicants) seeking to make material changes to their systems and processes:</p> <ul style="list-style-type: none"> ○ a declaration from an officer of the applicant that it will continue to meet the requirements of the BSC; and ○ an independent review of evidence and risk-based witnessing of testing. 	<p>Defined in Section J of the BSC and detailed in BSCP537 "Qualification Process for SVA Parties, SVA Party Agents and CVA MOAs".</p> <p>Section Z of the BSC sets out PAB's responsibilities with regard to the Re-Qualification process.</p>	P
Bulk Change of Agent	<p>Where responsibilities change for large volumes of Metering Systems this preventative technique ensures that such bulk changes of agent are only carried out where the Panel is satisfied that the Supplier, Supplier Agents and SMRAs involved can undertake the necessary procedures in a controlled and competent manner without adversely impacting their daily operations and other Suppliers within the SMRS; thereby protecting the integrity of Settlements.</p>	<p>Defined in Section J of the BSC and detailed in BSCP513 "Bulk Change of NHH Supplier Agent".</p>	P

Technique	Summary	BSC Obligation	Type
Education	<p>Publication of guidance for key BSC and CSD documented processes / changes to processes.</p> <p>Publication of guidance on common (market) issues identified by the PAF and on the best ways to address them. This may include a view as to root causes of these issues. It may also reference other areas of the BSC that may help in monitoring or controlling the issue in some way. This excludes the sharing of business operational practices as these are confidential and are an area where competitive advantages may be gained.</p> <p>In addition to these communication and education mechanisms, ELEXON assigns an Operational Support Manager (OSM) to each BSC Party and Party Agent when they accede to the BSC. The OSM provides a first point of contact and is able to provide support and guidance regarding the BSC arrangements.</p> <p><u>Education is not intended to mitigate the entire risk of any possible failure or error in a step or process required under the Code.</u></p> <p><u>ELEXON shall provide support under these provisions on a reasonable endeavours basis and that, where applicable, such support will be subject to an agreed understanding of the particular query that has given rise to the support request.</u></p> <p><u>Information provided by ELEXON in connection with the implementation of the BSC under these support services shall be set out in plain English wherever possible and shall be framed as general support on the BSC rules and processes and which does not replace or remove the responsibility of parties operating under the provisions of the BSC from understanding and correctly applying its detailed requirements.</u></p>	Section C3.1.1 (e) of the BSC states that BSCCo is responsible for the provision of such facilities, services and information in connection with the implementation of the BSC as it may provide or the BSC Panel may require.	P
Performance Monitoring and Reporting	<p>The Performance Reporting and Monitoring process constitutes a detective technique that complements the BSC Audit and Technical Assurance processes through the provision of quantitative data designed to identify performance at key control points in Settlement processes.</p> <p>The Performance Assurance Reporting and Monitoring System (PARMS) Serials and Standards are defined Service Levels on Suppliers, Non Half Hourly and Half Hourly Data Aggregators, Non Half Hourly and Half Hourly Data Collectors, Non Half Hourly and Half Hourly Meter Operator Agents and Supplier Meter Registration Service Agents (SMRS).</p> <p>The purpose of the Serials is to provide assurance that participants are meeting their obligations in the BSC and CSDs. The Serial determines the process being measured, and the Standards are the measurement points within the process.</p>	<p>The Serials and Standards are established in Annex S-1 of the BSC and identified within Section J of the BSC as being further defined in BSCP533 "PARMS Data Provision".</p> <p>Section Z of the BSC sets out PAB's responsibilities with regard to performance monitoring and reporting.</p>	D

Technique	Summary	BSC Obligation	Type
Material Error Monitoring	The Material Error Monitoring process constitutes a detective technique that complements the BSC Audit, Technical Assurance and Trading Disputes processes through the provision of quantitative data designed to quantify the contribution made by Performance Assurance Parties to error and the impact of such errors on Performance Assurance Parties.	<p>Section C3.1.1 (n) of the BSC states that BSCCo is responsible for monitoring whether any Party is or could be in Default of the BSC (in accordance with Section H3).</p> <p>Data is collected by the PAB in order to calculate and track identified material errors on a regular basis. This monitoring supports a range of assurance mechanisms including, but not limited to, the BSC Audit as noted in section Z7.1.2 (f) of the BSC. It enables BSCCo to model and communicate the impact of identified settlement errors.</p> <p>The PAB establishes each set of reporting requirements as it considers necessary or appropriate in accordance with Sections Z1.4.2 and Z1.4.3 of the BSC.</p>	D
Technical Assurance of Metering Systems	The Technical Assurance Agent (TAA) service consists of a combination of sampled and targeted visits to sites with HH Metering Systems registered in SVA and CVA and is designed to monitor the compliance of these Metering Systems with respect to the requirements stated in the BSC and its Subsidiary Documents, in particular the Metering Codes of Practice (CoP). This provides a level of assurance that the metered values being passed into Settlement are representative of actual consumption.	<p>The Technical Assurance of Metering Systems is identified in Section Z of the BSC and the functions and activities of the Technical Assurance Agent (TAA) are set out in Section L of the BSC and detailed in BSCP 27 "Technical Assurance of Half Hourly Metering Systems for Settlement Purposes".</p> <p>Section Z of the BSC sets out PAB's responsibilities with regard to the Technical Assurance of Metering Systems process.</p>	D

Technique	Summary	BSC Obligation	Type
BSC Audit	<p>The BSC Audit involves reviewing systems and business processes at Suppliers, Supplier Agents and SMRS Agents, as well as the Central Settlement Systems in order to provide a level of assurance that the calculations and allocations that have been performed within Central Volume Allocation (CVA) and Supplier Volume Allocation (SVA) are in accordance with the BSC and its subsidiary documents.</p> <p>The scope of the BSC Audit is set by the Panel for each Audit year and includes the determination of the annual Audit Materiality Threshold.</p> <p>The BSC Auditor bases his opinion for a 'qualified' or 'unqualified' audit on the level of cumulative error discovered in Settlement against the acceptable level of error as defined by the Materiality Threshold⁷. The Materiality Threshold was increased for the Audit Year starting in April 2005 following an industry consultation and is now set at 1.65TWh which represents approximately 0.5% of the total annual electricity supplied across Great Britain.</p>	The BSC Audit is set out under section H5 of the BSC. The BSC requires that the BSC Audit is a compliance-based audit.	D
Technical Assurance of Performance Assurance Parties	<p>The service consists of a combination of routine and targeted checks and site visits which seek to ensure that each Supplier or Supplier Agent continues to meet its obligations in respect of the BSC.</p> <p>The scope of work for Technical Assurance is agreed by the PAB on an annual basis. The scope is designed to cover gap areas, recently introduced requirements and significant market issues. Targeted checks may also be performed by BSCCo. as and when required. Checks can either be performed centrally or as part of a site visit to a market participant.</p>	<p>The process of Technical Assurance is identified in Section Z of the BSC and defined in BSCP535 "Technical Assurance".</p> <p>Section Z of the BSC sets out PAB's responsibilities with regard to the Technical Assurance process.</p>	D
Peer Comparison	<p>Peer Comparison is designed to encourage performance improvement and compliance with the required standard through the publication of named Peer Comparison data to Trading Parties and also publicly on the BSCCo website.</p> <p>Suppliers and Supplier Agents are required to submit data for certain key performance Serials (Serials are defined above in the Reporting and Monitoring section). Graphs showing comparative performance levels are produced by BSCCo and then authorised for use by the PAB. A copy is also sent to all participants who appear on the graphs.</p>	<p>The process is identified in the BSC under section Z and is detailed in BSCP534 "PARMS Techniques".</p> <p>Section Z of the BSC establishes PAB's responsibilities with regard to Peer Group Comparison.</p>	I
Removal of Qualification	The PAB may remove previously granted Qualified status for Supplier Agents based upon historic performance and non-compliance with BSC requirements. As Suppliers must use Qualified Supplier Agents this constitutes a significant response to a breach of the BSC.	<p>Defined in Section J of the BSC and detailed in BSCP537 "Qualification Process for SVA Parties, SVA Party Agents and CVA MOAs".</p> <p>Section Z of the BSC sets out the PAB's responsibilities with regard to the Removal of Qualification process.</p>	I
Breach and Default	<p>Formal notification may be provided to a BSC Party of persistent or material breach of the BSC. A failure to address this breach in all material respects with all reasonable diligence and so far as reasonably practicable may constitute a 'Default'. The Panel may apply specific provisions to Defaulting Parties including (but not limited to):</p> <ul style="list-style-type: none"> o notifying each other Party of such Default; 	The breach and Default provisions are set out in section H3 of the BSC. Section Z of the BSC establishes PAB's responsibilities with regard to the PAB Escalation Cycle detailed in BSCP534 "PARMS	I

⁷ http://www.elexon.co.uk/wp-content/uploads/2014/11/BSC-Audit-Scope-2014_15-v-1-0.pdf

Technique	Summary	BSC Obligation	Type
	<ul style="list-style-type: none"> ○ suspending the right of the Party to submit: <ul style="list-style-type: none"> ○ Energy Contract Volume Notifications; ○ Metered Volume Reallocation Notifications; ○ Bid-Offer Pairs; or ○ with the prior approval of the Authority, the right to register further Metering Systems and BM Units; or ○ expelling the Party from the BSC in accordance with Section A5. 	Techniques" which may lead to escalation to the Panel.	
Supplier Charges	<p>Supplier Charges constitute liquidated damages that Suppliers incur for failing to meet applicable Performance Levels set out in the BSC. Pursuant to the BSC, each Supplier has agreed that each of the Supplier Charges represent a genuine pre-estimate of loss likely to be suffered by other Parties as a result of the failure of a Supplier to meet the appropriate Performance Level.</p> <p>The PARMS system calculates Supplier Charges per calendar month (reporting period) and by Grid Supply Point Group (GSPG). The charges are capped for each Supplier based on the Supplier energy take in the GSPG thus limiting the liability of any participant in any one reporting period.</p> <p>Ninety percent of the total capped Supplier Charges are then redistributed to other Non Half Hourly Suppliers in each GSPG pro-rated according to the energy registered to each Supplier for that month with a further ten percent of the total charge distributed to Trading Parties.</p>	Supplier Charges are applied for failure to meet obligations set out in Annex S-1 of the BSC and are applied only to those Serials defined within Annex S-1. The process for managing Supplier Charges is detailed within BSCP536 "Supplier Charges". Section Z of the BSC sets out PAB's responsibilities with regard to Supplier Charges.	R
Error and Failure Resolution	<p>The Error and Failure Resolution (E&FR) processes are managed by BSCCo and constitute a remedial assurance technique that is composed of a number of activities.</p> <p>The objective of the technique is to provide a structured and managed framework for the rectification of Party and Party Agent issues including areas of non-compliance and underperformance against obligations and standards prescribed in the BSC. The process includes the provision of general support and information.</p> <p>This technique ensures that action is taken to resolve issues identified in the detective techniques, in particular issues found during the BSC Audit and Technical Assurance checks.</p>	<p>Section C3.1.1 (n) of the BSC states that BSCCo is responsible for monitoring whether any Party is or could be in Default of the BSC (in accordance with Section H3).</p> <p>The Error and Failure Resolution Process allows BSCCo to track areas of non compliance and is identified in the BSC under section Z and is detailed in the associated BSCP.</p> <p>Section Z of the BSC establishes PAB's responsibilities with regard to Error and Failure Resolution which interfaces with the PAB Escalation Cycle detailed in BSCP534 "PARMS Techniques".</p>	R
Trading Disputes	<p>The process for resolving Trading Disputes is a remedial technique that provides a mechanism for the correction of identified settlement errors. A Trading Query or Trading Dispute can arise where errors in the data, processes and/or rules used for the purposes of settlement are identified and where such errors affect the amounts paid to or from Trading Parties.</p> <p>Trading Queries and Disputes can also arise as a result of errors in the determination of whether a Party is in Credit Default.</p>	<p>The process for settling Trading Disputes under the BSC is set out in Section W of the BSC and is detailed in BSCP11 "Trading Queries and Disputes".</p> <p>Section W of the BSC sets out TDC's responsibilities with regard to Trading Disputes.</p>	R
Change Mechanisms	The PAB, on identifying a perceived weakness or defect in the arrangements set out in the BSC may recommend to the Panel that a Modification Proposal is raised. Alternatively, the PAB may instruct	Amendments to the BSC, Code Subsidiary Documents, BSC Systems and associated	R

Technique	Summary	BSC Obligation	Type
	ELEXON to raise a Change Proposal to address the identified defect. This provides a mechanism to correct areas of weakness within the design of the Settlement under the BSC. This limits the scope of the technique to only those applications of the change process made in order to address specific defects relating to Settlement Risks. It is distinct from the more general Change Management function and the assurance that it may provide to Trading Parties.	documentation are subject to a formal change procedure as set out in Section F of the BSC.	