

# 270/08 – P332 UPDATE

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<b>MEETING NAME</b>	BSC Panel Meeting
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<b>Date of meeting</b>	14 September 2017
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<b>Owner/author</b>	Lawrence Jones
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<b>Purpose of paper</b>	Decision
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<b>Classification</b>	Public
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<b>Summary</b>	This paper provides a summary of the P332 Workgroup views regarding Ofgem's provisional thinking on the P332 interim report. The paper invites the Panel to direct the P332 Workgroup in light of Ofgem's provisional thinking and agree a revised P332 progression timetable.
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## 1. Background

- 1.1 At its meeting on 11 May 2017, following ELEXON's recommendation, the Panel ([Panel 266](#)) requested an interim report on [P332 'Revisions to the Supplier Hub Principle'](#) in accordance with Balancing and Settlement Code (BSC) Section F2.6.10(a). P332 is likely to be a large and costly Modification to progress and the Panel believed an interim report would be a sensible step before proceeding any further.
- 1.2 The Panel considered the P332 interim report ([Panel 268/06](#)) on 13 July 2017 and decided to seek Ofgem's views on whether the findings of the interim report were consistent with its provisional thinking and strategic direction in accordance with F2.6.10(b). The letter sent to Ofgem to seek their views can be found in Attachment A.
- 1.3 Ofgem responded to this request on 15 August 2017. The response can be found in Attachment B.
- 1.4 The P332 Workgroup met on 16 August 2017 and discussed:
  - Ofgem's provisional thinking on the P332 interim report; and
  - the responses received to the data request of 5 June 2017 that provided the number of Customer Preferred Agents (CPAs) for Half Hourly Data Collector serviced Metering Systems<sup>1</sup>.
- 1.5 This paper provides a summary of the discussions related to Ofgem's views on P332 progression. This paper also includes the views and recommendations of the Proposer and the Workgroup.
- 1.6 The P332 Assessment Procedure was extended, with the Panel's agreement, until a response from Ofgem was received. The Panel should consider whether to extend the P332 Assessment Procedure or proceed directly to Report Phase (in accordance with F2.2.11). Furthermore, Section F2.6.10(c) allows the Panel to issue 'such directions as it sees fit to the Workgroup in consequence of the Authority's views.'

## 2. Workgroup Discussions

- 2.1 Ofgem stated that it had identified a number of concerns in regard to the P332 Interim Report, which would suggest the Modification should be withdrawn, but that ultimately this was for the BSC Panel to decide. These concerns were:

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<sup>1</sup> Measurement Classes C, D, E and G

- the significant costs and impacts on BSC Parties identified by the Interim Report are disproportionate when considering the lack of evidence base and lack of agreement on a solution which would clearly address the issue;
- a lack of clear evidence on the extent of the issue and that the issue is having a negative impact on participants and their Settlement performance;
- a deficiency of a viable solution with measurable benefits that could be achieved through the BSC, in particular how the Modification would better facilitate the BSC Objectives;
- potential to divert attention away from existing major industry projects in order to conduct this work given industry resource constraints; and
- that P332 work is likely to cut across the scope of the Mandatory Half Hourly Settlement Significant Code Review<sup>2</sup> (SCR).

### 2.2 The Proposer made three observations based on Ofgem's response:

- i) The P332 defect was built on a point of principle – a Supplier's choice to appoint its preferred Supplier Agent is undermined by Customer's contracting directly with Supplier Agents. Ofgem's response suggests that it is not sufficient to make a BSC change based only on the current arrangements being inappropriate. An evidence base, demonstrating the impact of the issues and the benefits from fixing the issues, is required. The Proposer did not agree with this view but understood it, noting that the majority of Suppliers had acknowledged the issue in the request for information conducted in July 2016;
- ii) Ofgem's response does not explicitly state whether P332 is in direct conflict with any early thinking on the direction of the Supplier Volume Allocation (SVA) market, but the implication is that it is not in conflict with any existing thinking; and
- iii) Further evidence and analysis should be gathered over the next six months to better inform Ofgem/industry. The challenge has been made to provide further evidence on the impact of the issues and this should be taken up.

### 2.3 In listening to the Proposer's comments the Ofgem attendee commented:

- it is not just about the evidence base, it's about all of the concerns together that suggest P332 should be withdrawn or suspended;
- the scope of the SCR includes all of the SVA arrangements, including Supplier Agent roles. Ofgem wishes to maintain its discretion to include the traditional HH market in its reforms; and
- it was important that all of the concerns, not just the evidence base, were addressed, and that only if all of these concerns can be addressed, would Ofgem welcome a further interim report in six months' time.

### **Significant Code Review on Mandatory Half Hourly Settlement**

- 2.4 The Workgroup discussed the overlap between P332 and the SCR. Ofgem confirmed that the SCR scope includes the whole of the SVA processes and systems, including the roles of Supplier Agents. However, work on the Target Operating Model (TOM) for the Half Hourly Settlement arrangements, a key deliverable of the SCR, has not yet commenced. The Proposer noted that whilst the issue is potentially 'in scope' there is no guarantee that it will ultimately be addressed by the SCR.

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<sup>2</sup> <https://www.ofgem.gov.uk/publications-and-updates/electricity-settlement-reform-significant-code-review-launch-statement-revised-timetable-and-request-applications-membership-target-operating-model-design-working-group>

- 2.5 A Workgroup member pointed out that, as the SCR is overlapping with P332, Ofgem would need to conduct similar analysis to that of P332 and he believed it made more sense for the SCR to do this work. Another member believed P332 could get a head start on the analysis and feed it into the SCR. Ofgem was of the view that this may not be timely, as the SCR Design Working Group first needs to decide how to treat the traditional Half Hourly market within the TOM. Consequently, the issues to be addressed in the TOM may have moved on by the time the analysis is delivered.
- 2.6 A Workgroup member did not believe it appropriate for P332 work to continue. He believed that the part of the market that P332 is targeting could be included in the SCR TOM, and the Supplier Agent roles could be redefined by the SCR, rendering any P332 solution incompatible. Until the SCR Phase has concluded, expected in quarter three of 2019, the changes to the SVA arrangements would not be known and work on P332 should therefore not continue.
- 2.7 Another member suggested, rather than waiting until the end of the SCR Phase, work on P332 could continue during the SCR Phase if the traditional HH market was excluded from the TOM. However, Ofgem pointed out that the TOM could change at any point during the SCR Phase. As such, the impact of the SCR on P332 would not be known until the SCR has fully concluded.
- 2.8 A member highlighted the interaction between Modifications and a SCR, as referenced in Ofgem's response. Modifications raised prior to a SCR are not required to be assessed for SCR exemption<sup>3</sup>. However, the Proposer may, at any time prior to submission of the Assessment Report to the Panel, request that the Panel suspend progress of the Modification Proposal until the SCR Phase ceases in accordance with F5.4.1. If the Panel agrees with this request, the Modification becomes a SCR Suspended Modification Proposal. Consequently, the Modification timetable for completion of the Assessment Procedure must be revised taking into account the suspension<sup>4</sup>. The Proposer said he would consider this option.

### Further Evidence

- 2.9 Ofgem's response welcomed an updated interim report within six months, if the Panel believed further work could provide greater clarity on the proposal for change and resolve the key concerns outlined above.
- 2.10 The Proposer believed the next step should therefore be to gather further evidence, particularly to demonstrate that the current arrangements are unduly impacting Suppliers' Settlement performance. This could inform both P332 and the SCR. The Proposer believed this would decrease the workload for the SCR and decrease the planned P332 costs by focussing on evidence gathering and less on Workgroup assessment. He added that the results of the recent data request justify further analysis.
- 2.11 A member believed it was crucial to scope and define what further evidence and analysis was needed. This would help establish whether six months was sufficient, the costs and effort involved, and the likelihood of adding value to the process.
- 2.12 The Proposer suggested that the logical next step would be to establish the comparative percentage of energy settled on Actuals (% of Actuals) for CPA and non-CPA appointments. Performance Assurance Reporting and Monitoring System (PARMS) Serial SP08 measures % Actuals for Suppliers and is used to measure the impact of Settlement Risk 81, which is a key Settlement Risk monitored by the Performance Assurance board (PAB). The Proposer recognised that it is not possible to break SP08 data into CPA and non-CPA pots without further data from Suppliers and/or Supplier Agents.

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<sup>3</sup> Modifications raised during a SCR, must be determined by Ofgem as a SCR Exempt Modification Proposal, or be a SCR Subsumed Modification proposal. See Section F5.2.

<sup>4</sup> A period of suspension in respect of a SCR Suspended Modification Proposal shall not be treated as a period of extension of the Modification timetable.

- 2.13 A member believed it would be important to understand the performance for individual Agents and perhaps even for individual Supplier/Agent relationships. He believed that performance would vary across Agents and Supplier/agent relationships. Two members stated that their agent operational activities are identical, hence the performance is identical, whether they are paid for the service by a Supplier or an end customer.
- 2.14 The Proposer added that Suppliers would need to provide additional data. Volumes of both Actuals and Estimates would be preferable to % Actuals so that the potential materiality could also be calculated. A member was worried that Suppliers would be asked to provide data under P332 and again under the SCR.
- 2.15 The Workgroup discussed other issues with measuring % Actuals, primarily that it does not identify root causes. Any correlation between % Actuals and CPAs would not prove that one caused the other. There could be a host of other factors driving performance, for example churn of data between different participants. However, as ELEXON pointed out, % Actuals does provide a broad indicator as to the general health of the arrangements - if all upstream processes are working, Actual data will be submitted into Settlement leading to higher % Actuals. A member added that this analysis would not address the question of whether the current solution was appropriate or would help improve things.
- 2.16 An ELEXON representative from the Performance Assurance Framework (PAF) review commented that he had been closely watching P332 and was very conscious of the issues and the importance of trying to quantify them as part of the PAF Review. This included considering whether % Actuals is a good indicator of error where estimation is sufficiently robust and accurate.
- 2.17 A member said he was concerned that the P332 analysis may not be consistent with the SCR analysis, so it could be a waste of time. Ofgem reminded the group that a key part of the SCR governance arrangements was the Design Working Group, which would be comprised of volunteers from industry. At the time of the Workgroup meeting Ofgem was seeking members and he encouraged P332 members to engage with the process<sup>5</sup>. A Workgroup member thought it would be better to conduct the analysis work as part of the SCR, rather than as a separate outside piece of work.
- 2.18 A member held a different view. He believed that this group could add value by providing further analysis now and feed this into the SCR. The % Actual analysis could help establish, one way or the other, whether there is any correlation between CPAs and Settlement performance. He also stressed the importance of the SCR addressing the structural issues in the current arrangements identified in P332.
- 2.19 Ofgem emphasised it had not asked exclusively for further analysis. Rather its letter sets out its key, inter-related concerns. If the Panel believes all of these concerns can be addressed it would welcome an updated interim report in six months' time (from receipt of the letter).
- 2.20 ELEXON suggested an alternative approach could be for Ofgem to give the P332 Workgroup a clear set of principles and criteria to work to. This would avoid conducting superfluous analysis. Ofgem believed a better way would be for interested parties to actively engage in the SCR.
- 2.21 Ofgem also highlighted that it was considering whether to have a specific Supplier hub workstream either as part of the SCR, or as a separate project.

### **ELEXON Data**

- 2.22 Following the Workgroup meeting, ELEXON has sought to understand how it could support further analysis on CPAs.

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<sup>5</sup> Interested parties should email Ofgem at [halfhourlysettlement@ofgem.gov.uk](mailto:halfhourlysettlement@ofgem.gov.uk)

- 2.23 ELEXON currently holds data<sup>6</sup> at an MPAN level that can be used to calculate % Actuals. ELEXON would require Suppliers to provide a list of MPANs that are CPA and non-CPA appointments in order to calculate % Actuals for CPA and non-CPA sites. During the Workgroup meeting, Suppliers indicated that it would be relatively straightforward to provide the MPANs for the CPA and non-CPA instances as it would be an extension of the data request of 5 June 2017.
- 2.24 ELEXON asked the PAB at its meeting on 31 August whether it believed it worthwhile to conduct any analysis on CPAs. The PAB members unanimously gave the view that they did not believe any analysis on CPAs was warranted at this time. Whilst some members recognised issues can arise with CPA sites, particularly for smaller Suppliers, they did not believe it was the right time to conduct this work. They believed the SCR could change the baseline against which the analysis would be based so could be wasted effort. Furthermore, some members did not believe it was a priority as there were much more significant issues impacting Settlement performance.
- 2.25 Based on its recommendation, ELEXON accepts PAB's view and will not recommend otherwise.

### 3. Workgroup and Proposer Recommendations

- 3.1 The recommendation options to the Panel that were discussed were:
- Suspend the revised progression timetable as detailed in the interim plan; and, either
    - conduct further analysis: Establishing the % Actual performance of CPAs would help move the debate on and could feed into the SCR but may be a broad measure that masks underlying, potentially transient issues;
    - pause P332: P332 should be paused until after the SCR Phase (currently expected second half of 2019). This would keep P332 'live' during the SCR, keeping open the option of continuing work during the SCR if appropriate. This would require the Assessment Procedure to be extended until the end of the SCR Phase, with any further P332 work requiring specific approval from the Panel;
    - suspend P332: The Proposer could request the Panel suspend P332 as a SCR Suspended Modification Proposal until the end of the SCR Phase; or
    - withdraw P332: The Proposer could withdraw P332 and raise a new Modification if he felt the issues had not been adequately addressed by the SCR.
- 3.2 ELEXON observed that the last three options were very similar and ultimately resulted in the same outcome – wait until the end of the SCR Phase and decide what to do then. The difference between the options is down to what is most appropriate and efficient. The Workgroup, having considered these options, decided to take a vote on the recommendations.

### Workgroup Conclusions

- 3.3 The Workgroup unanimously agreed that the progression timetable in the interim report should not commence until the end of the SCR Phase. Ofgem confirmed the scope of the TOM would be developed before the end of the SCR Phase, but may be subject to change during the SCR Phase. Once this SCR Phase had finished, the Workgroup and Proposer would need to form a view as to what the appropriate next steps would be, and seek Panel approval.
- 3.4 The Workgroup voted on whether further analysis should be conducted at this time and whether to pause P332:

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<sup>6</sup> D0036 (Validated Half Hourly Advances for Inclusion in Aggregated Supplier Matrix) data from April 2016 to July 2017 inclusive has been loaded into a relational database

- The majority (3/5) believed no further analysis should be conducted and that P332 should be paused until the end of the SCR Phase.
  - The minority (2/5), including the Proposer believed further analysis should be conducted during the next six months.
- 3.5 However, it should be noted that 15 industry participants attended the Workgroup, of which only five were voting members. Of the 15 attendees:
- The majority (12/15) believed P332 should be paused and did not want to conduct further analysis.
  - The minority (3/15) wanted to conduct further analysis.

### **Proposer Conclusions**

- 3.6 At the meeting the Proposer agreed to consider the options detailed in 3.1 of this paper and has since provided the following position:
- 3.7 The Proposer agrees with the Workgroup that the progression timetable in the interim report should not commence until the end of the SCR Phase. However, the Proposer still believes there is value in conducting analysis into the correlation between poor Supplier performance and CPAs. Even if correlation does not prove causation it is still necessary to demonstrate that supplier performance is affected.
- 3.8 ELEXON believes this analysis could be done relatively easily and could be done under P332, building on the analysis already done. ELEXON estimates the analysis would take between 15 and 30 man days, subject to further requirements gathering and specification. Rather than hold further Workgroup meetings to agree the requirements and specification, ELEXON believes it would be more efficient for ELEXON to draft the requirements and specification and send for Workgroup review via email.
- 3.9 It is only since the publication of the Ofgem letter that it has been made clear that more evidence than just Suppliers' perceptions of an issue is necessary. The Proposer notes with interest that the letter from Ofgem does not state that P332 should be suspended or withdrawn and this view has only been communicated verbally. The Proposer's view is that there are no guarantees that the issue will be settled by the SCR and further analysis will help inform the PAF review and the SCR.
- 3.10 The Proposer's view therefore is that the P332 should be suspended after the analysis has been conducted, and is prepared to withdraw P332 if no correlation is found.
- 3.11 The Proposer can well believe that the correlation of poor performance is more related to the fact that sites with greater volumes are more likely to have a CPA and that when dataflows associated with these sites fail there is a disproportionate impact on Supplier performance. The fundamental issue is that Suppliers' performance is measured on energy volumes, whereas Agent performance is measured on meter counts.
- 3.12 If there is no appetite on the part of the Panel to pursue P332, the Proposer would be grateful for an assurance from the Panel that the discrepancy between the measurement of performance between Suppliers and Agents will be addressed in the PAF Review.

## **4. Recommendations**

- 4.1 We invite you to:
- a) NOTE Ofgem's letter in Attachment B;
  - b) DIRECT the P332 Workgroup as the Panel sees fit in consequence of Ofgem's views; and
  - c) AGREE a revised progression timetable for the P332 Assessment Procedure.

## 270/08 – P332 UPDATE

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### Attachments

Attachment A – Letter seeking Ofgem’s provisional thinking on the P332 interim report

Attachment B – Ofgem’s provisional thinking on the P332 interim report

### **For more information, please contact:**

Lawrence Jones, BSC Change Team Leader

[Lawrence.jones@elexon.co.uk](mailto:Lawrence.jones@elexon.co.uk)

020 7380 4118