

## 264/06 – BSC AUDIT SCOPE

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**MEETING NAME** BSC Panel Meeting

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**Date of meeting** 9 March 2017

**Owner/author** Jason Jackson

**Purpose of paper** Decision

**Classification** Public

**Summary** This paper provides details of the proposed BSC Audit scope for the audit period 1 April 2017 to 31 March 2018. This was endorsed by the Performance Assurance Board at its meeting on 23 February 2017. The Panel is invited to approve the proposed BSC Audit scope and to delegate authority for any in-year changes in scope to the Performance Assurance Board.

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### 1. Background

- 1.1 This document sets out the proposed BSC Audit scope for the BSC year 1 April 2017 to 31 March 2018.
- 1.2 There are changes proposed to the audit scope from the previous audit period, details of which are outlined in section 3 of this document. The PAB will also consider potential changes to the scope following the completion of the 2016/17 BSC Audit.

### 2. Delivery of the Audit

- 2.1 As stated in BSC Section H5.1.2, "the objective of the BSC Audit is to provide assurance (to such level as the Panel considers appropriate) that the provisions of the BSC and Code Subsidiary Documents (CSDs) in relation to Settlement and in relation to the calculation of Funding Shares has been complied with in the Audit Year".

### Data coverage

- 2.2 The BSC Year relates to Settlement Days from 1 April to 31 March. The BSC Audit in respect of the BSC Year shall encompass all Reconciliation Settlement Runs that are processed (regardless of the audit period in which the relevant Settlement Day sits from 1 April 2017 to the date of the Initial Settlement Run for the last Settlement Day in the BSC Year).

### The BSC Audit materiality threshold

- 2.3 We have reviewed the total energy consumption up to the end of December 2016 and consumption has fallen by 0.76% when compared to 2015's total volume. Given this small change, the materiality threshold for the overall opinion for the BSC Year will remain at 1.3TWh.
- 2.4 The total combined volume of all quantifiable material errors noted by the BSC Auditor in the course of the BSC Audit will be compared against this materiality threshold. Should the total quantifiable error volume exceed the materiality threshold, the BSC Auditor may choose to qualify the BSC Audit.

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BSC Audit Materiality Thresholds for 2015/16, 2016/17 and 2017/18			
Period	Total Energy Consumption (TWh)	0.5% of Consumption during period (TWh)	Value rounded to 1 decimal place (TWh)
01 January 2014 – 31 December 2014	270	1.345	1.4
01 January 2015 – 31 December 2015	262	1.31	1.3
01 January 2016 – 31 December 2016	260	1.301	1.3
<b>Average</b>	<b>264</b>	<b>1.318</b>	<b>1.3</b>

### 3. Proposed changes

#### Focus of the BSC Audit in 2017/18

3.1 ELEXON has identified a number of key industry processes that it deems to be high-risk and sees as high priority for the BSC Audit. The three processes included in the direction of the audit were selected based on the BSC Auditor's Approach in 2016/17 and changes in the market in the previous audit year.

#### Rotational approach

3.2 In order to balance the changes introduced this year, some lower-risk audit scope areas will continue to be audited on a rotational approach, i.e. every other year. These areas are shaded a lighter grey colour in the BSC Audit Scope document (Attachment A):

- Calculation of Market Index Data:
  - The controls surrounding the calculation and transfer of the Market Index Data to the Balancing Mechanism Reporting Agent (BMRA) and Settlement Administration Agent (SAA)
  - Determination and calculation of the Market Index Data (in accordance with the Market Index Definition Statement)
- Unmetered Supplies
  - Interfaces with Suppliers and Supplier Agents

#### Removals from the BSC Audit scope

3.3 In order to balance the changes introduced this year, ELEXON proposes to remove some lower-risk areas from the BSC Audit scope for 2017/18. Redlined as removed in the BSC Audit Scope document (Attachment A):

- Unmetered Supplies
  - Provision of Standard Settlement Configuration (SSC) and Profile Class (PC) details including disconnections and Energisation Status
  - Creation and provision of Unmetered Supplies (UMS) Certificates
  - Maintenance and provision of connection agreements

The rationale for removing these areas under Unmetered Supplies from scope is as follows:

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- These items constitute very basic requirements for establishing UMS Supplies in the first place.
- UMS disconnections rarely occur and energisation statuses rarely change. This is because although individual streetlights may be disconnected or de-energised the registered Metering Point Administration Number (MPAN) covers the whole inventory.
- UMS certificates and connection agreements are only required for new developments that require UMS inventories. Likewise, there is little interaction with Suppliers on UMS (other than Distribution Use of System (DUoS) billing).
- Change Management
  - Processes and controls used to implement BSC change releases by Suppliers, Supplier Agents, Licensed Distribution System Operators (LDSOs)

This item is being replaced with a more specific audit on the implementation of selected BSC system/process changes (see section 3.5).

### Reductions in audit intensity

3.4 In order to balance the changes introduced this year and in response to changes in the market, ELEXON proposes to reduce audit intensity with respect to the following lower-risk areas within the BSC Audit scope for 2017/18. Redlined as appropriate in the BSC Audit Scope document (Attachment A):

- Proving tests in the SVA market
  - [CP1472<sup>1</sup>](#) will remove the requirement for proving tests in approximately 90% of instances. This reduces the number of instances/scenarios the BSC Auditor will need to check with respect to proving tests. As such less time is expected to be spent on this element of the BSC Audit.
- CVA MOA (CVA Activities)
  - Market issues – Issue 5176 ‘Lack of documented processes at small CVAMOs’. Although this market issue is of significant concern, as it has already been identified and recorded, it would render more merit to implement a fix for this issue before resuming full audit intensity or increasing audit intensity in the 2018/19 audit year
  - Based on information provided by Central Systems, the BSC Auditor has identified two small CVA MOAs due to undergo limited scope audits to be scoped out for the 2017/18 audit year on the basis that no activity has taken place to date during 2016/17.

### Additions to the BSC Audit scope

3.5 ELEXON proposes that the following additions should be made to the BSC Audit Scope for 2017/18. These additions were identified through review of the BSC Audit Report for 2015/16, the BSC Audit Issue database and meetings of the Risk Evaluation Work Group (REWG).

- Implementation of Specific BSC Changes
  - Audit of the implementation of 1 to 3 Specific BSC changes intended to mitigate serious Settlement risks (Particularly ones that impact Suppliers).

This item will replace the ‘change management’ item detailed in the ‘removals from BSC Audit scope’ section above. There were a large number of Trading Disputes off the back of BSC Releases in 2015/16.

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<sup>1</sup> CP1472 - Removal of SVA proving tests for Meters with a pulse multiplier of one

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Auditing the implementation of specific changes before issues have been identified would represent a more proactive approach than targeting PAPs as the result of issues already having occurred.

Releases will be selected based on materiality or impact on BSC Parties.

If there are no changes of significant impact, then this will not be done.

- 'Off the shelf Suppliers'
  - Between one and four 'off the shelf suppliers' will be targeted for Audit irrespective of whether or not they fall in scope through MSID threshold. A proportional number of smaller Suppliers which do meet the MSID threshold, and have performed well in previous audits, and are therefore considered low-risk, will be removed from scope to compensate.
  - ELEXON will aim to target managed services groups. ELEXON will also focus on Suppliers it doesn't have a good degree of communication with. Only 'off the shelf Suppliers' approaching threshold will be considered for this exercise.

It is perceived as a gap between the Qualification process and the BSC Audit process that the majority of the newer 'off the shelf Suppliers' do not breach the threshold to fall into scope for the BSC Audit. By including one to four such Suppliers in scope for the 2017/18 BSC Audit, ELEXON will gain visibility of the adequacy of the experience and processes in place at such Suppliers.

While the size of these smaller Suppliers limits their potential impact on Settlement there are concerns in some cases that sufficient experience and processes are not in place in order to operate effectively in terms of Settlement.

This approach will be a response to the changing market where looking purely at MSID thresholds might no longer be entirely appropriate.

- ELEXON to determine (based on MSID count, growth and other performance measures) where both Half Hourly (HH) and Non-Half Hourly (NHH) should be audited where only HH or NHH MSIDs have breached audit threshold. Allowing for an intelligent approach to determining where auditing a Party for both HH and NHH might add value where the BSC Auditor is already on site for either HH or NHH.
  - ELEXON perceives a gap in the audit process where it might not be able to take advantage of the fact that the BSC Auditor is already on site by auditing both HH and NHH which it might be appropriate to do so.

### Commissioning

- 3.6 Commissioning will remain in scope for the 2017/18 BSC Audit year, focusing on the requirements and associated timescales set out by [CP1458](#)<sup>2</sup>.
- 3.7 The BSC Audit scope will continue to exclude the work done by the Technical Assurance Agent (TAA) and the BSC Auditor will not investigate/check Meters on site.

### Licensed Distribution System Operation and Independent Distribution Network Operation

- 3.8 No additional audit work on LDSOs or IDNOs is proposed at this time. The change to the BSC Audit scope is a clarification of wording only. This is to indicate that both LDSO and IDNO roles are audited through the BSC Audit.

## 4. Next Steps

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<sup>2</sup> CP1458 - Introduction of timescales for the P283 Commissioning process for SVA CT operated Metering Systems

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- 4.1 The BSC Audit scope may be subject to amendment within the year. We recommend that the Panel delegates responsibility for any future revisions to the PAB for the year 2017/18.
- 4.2 Such amendments to the BSC Audit scope may be proposed in light of:
- The Panel's considerations of the BSC Audit Report for the BSC Year ending 31 March 2017. This is scheduled for submission to the June 2017 Panel meeting; and
  - The Annual Performance Assurance Report (APAR) which will be published in August 2017. The APAR will provide details of the PAB's progress in mitigating Settlement Risks. Should this report identify areas which require greater focus, the BSC Audit scope may be updated.
- 4.3 ELEXON will provide notification of any updates made to the BSC Audit scope to Parties and other interested persons via the Panel minutes; any subsequent changes will be highlighted in Newscast.

### 5. Recommendations

- 5.1 We invite you to:
- a) **NOTE** that the PAB has endorsed the BSC Audit scope;
  - b) **APPROVE** the BSC Audit scope for 2017/18; and
  - c) **AGREE** to delegate responsibility for any future amendments to the BSC Audit scope 2017/18 to the PAB.

### Attachments

Attachment A – BSC Audit Scope 2017/18

#### For more information, please contact:

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