

**March 2002**

**INITIAL ASSESSMENT OF MODIFICATION PROPOSAL**

**P68 – Modification to the BSC relating to the setting of  
Supplier Caps for use in the Supplier Charges (Liquidated  
Damages) calculation**

**Prepared by ELEXON Limited**

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## I DOCUMENT CONTROL

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0.1	05.03.02	Trading Strategy	-	Panel review
0.1	05.03.02	Kris Clapham	-	ELEXON Legal
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0.1	05.03.02	Jane Eccles	-	ELEXON Performance Management
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### b Distribution

Name	Organisation
Each BSC Party	Various
The Gas and Electricity Markets Authority	Ofgem
Each BSC Panel Member	Various
Energywatch	Energywatch
Each Performance Assurance Board Member	Various

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# 1 SUMMARY AND RECOMMENDATIONS

## 1.1 Modification Proposal P68

Modification Proposal P68, 'Modification to the BSC relating to the setting of Supplier Caps for use in the Supplier Charges (Liquidated Damages) calculation', was raised by the Balancing and Settlement Code Panel ("the Panel") on 14 February 2002. The Modification seeks to address an anomaly in the rules for the calculation of Supplier Charges. The Modification Proposal was raised in order to correct a manifest error<sup>1</sup> within the Balancing and Settlement Code ("the Code").

Modification Proposal P68 seeks to replace the existing way of calculating a Supplier's share of liability for Supplier Charges in each Grid Supply Point (GSP) Group for each month of Trading, by one that does not reward under-performance.

## 1.2 Areas of Impact

An initial assessment of Modification Proposal P68 has identified the following areas of impact:

- The Balancing and Settlement Code: Section S-1 'Performance Levels and Supplier Charges' is impacted as the Modification proposes the removal of the term 'Supplier Deemed Take' from the description, given in paragraph 3.8.2, for setting monthly Supplier Caps. Another term defined by the Panel will have to be used  
Section X-6 'Technical Glossary', Table X-5 'Definitions Applying to Section S', will require updating with a description of how the new data item is calculated.
- Code Subsidiary Documents: BSCP536 requires amendment to remove and replace the term 'Supplier Deemed Take' from Paragraphs 4.3.1 and 4.11.3
- BSC Systems and Processes: A potential impact on the Supplier Volume Allocation Agent (SVAA) systems if it is decided that a new data item should be sourced from SVAA.
- BSC Parties are impacted, as they may not be in receipt their Supplier credits or debits until Supplier Charges are run. It is known that a few Parties have developed means of calculating their Supplier Charges which will require amendment to accommodate the changes to the setting of Supplier Caps.
- The impacts on BSCCo are twofold. Firstly there will be a requirement to develop any necessary changes to the ELEXON Performance Assurance Reporting and Monitoring System (PARMS) and secondly there will be a need to develop a cost recovery mechanism to recover any development costs associated from this modification.

## 1.3 ELEXON Recommendations

The Modification Proposal is sufficiently well defined and it is therefore recommended that the Modification Proposal be progressed as follows:

- **Proceed to the Assessment Procedure, with an Assessment Report to be presented at the Panel Meeting on the 16 May 2002;**

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<sup>1</sup> Pursuant to Section F 2.1.1 (d) (iv) of the Code.

- **The Modification Proposal should be progressed by the Volume Allocation Modification Group;**

## **2 INTRODUCTION**

This Report has been prepared by ELEXON Ltd. on behalf of the Balancing and Settlement Code Panel ('the Panel'), in accordance with the terms of the Balancing and Settlement Code ('BSC'). The BSC is the legal document containing the rules of the balancing mechanism and imbalance settlement process and related governance provisions. ELEXON is the company that performs the role and functions of the BSCCo, as defined in the BSC.

An electronic copy of this document can be found on the BSC website, at [www.elexon.co.uk](http://www.elexon.co.uk)

## **3 DESCRIPTION OF THE MODIFICATION PROPOSAL**

Modification Proposal P68 seeks to correct a manifest error in the mechanism for calculating Supplier Charges. Supplier Charges are a performance assurance framework technique. The technique is targeted to incentivise Trading Parties to attain standards set out in Section S of the Code. The technique also compensates those Non Half-Hourly (NHH) Suppliers who have already paid for the under-performance of other Suppliers in a GSP Group.

The Supplier Charges calculation has not been executed for settlement days since Go-Live because of testing and amendment to the PARMS system to accommodate a change in the calculation of Supplier Charges which affected the post Go-Live operation of PARMS. Work began in June 2001 to allow the PARMS system to start calculating LDs from NETA Go-Live. The PARMS system was never designed to stop running LDs altogether and the complex nature of the calculations meant the work has taken several months. Testing for the re-commencement of LDs was completed in December. However detailed analysis of the results (the Supplier Charges monthly run produces approximately 3 reams of reports) identified an anomaly in the use of 'Supplier Deemed Take' as defined in the BSC. It was discovered that the use of 'Supplier Deemed Take' can give rise to a negative Supplier Cap in the LD calculation. This issue was highlighted to the PAB who support ELEXON in their proposal to the Panel to raise a modification. In fact the current rules benefit those Parties that under-perform due to the use of 'Supplier Deemed Take' in the calculation, especially if that Suppliers take is negative. The system used for calculating Supplier Charges under the existing rules is now able to perform the calculations and it is anticipated that these calculations will be initiated during April 2002 for settlement days since 27 March 2001.

The issue with the current calculations is that a term, 'Supplier Deemed Take', is defined in Section X of the Code and is used in the setting of the maximum payments to be used when calculating Supplier Charges. These maximum payments are referred to as "Supplier Caps" This is a means of measuring each Suppliers overall financial liability within a GSP group.

Using the current definitions within the Code, the use of 'Supplier Deemed Take' would lead to the distribution of funds to under-performing Parties whose 'Supplier Deemed Take' was negative. Those under-performing Parties would escape all liability from Supplier Charges and the overall sum of funds available for re-distribution within a GSP Group would be reduced.

Modification Proposal P68 seeks to remove the term 'Supplier Deemed Take' from the Supplier Charge calculation and replace it with another value for determining each Suppliers financial liability in a GSP Group.

A copy of the Modification Proposal can be found at Annex 1 to this report.

#### 4 IMPACT ON BSC SYSTEMS AND PROCESSES

BSC System / Process	Potential Impact of Proposed Modification
SVAA Systems	Potential additional data item required from SVAA for use instead of Supplier Deemed Take. Will require testing and implementation as well as an amendment to the SVAA contract for the additional item.

#### 5 IMPACT ON DOCUMENTATION

##### 5.1 Impact on Balancing and Settlement Code

BSC Section	Potential Impact of Proposed Modification
S-1: Performance Levels and Supplier Charges	Section S-1 ' Performance Levels and Supplier Charges' is impacted as the Modification proposes the removal of the term 'Supplier Deemed Take' from the description, given in paragraph 3.8.2, for setting monthly Supplier Caps. Another term defined by the Modification Group and agreed by the Panel will have to be used.
Section X-6: Technical Glossary	Table X-5 'Definitions Applying to Section S', will require updating with a description of how the new data item is calculated.

##### 5.2 Impact on Code Subsidiary Documents

Code Subsidiary Document	Potential Impact of Proposed Modification
BSC Procedure 536	Changes will be required to remove the term 'Supplier Deemed Take' from 4.3.1 and 4.11.3 and replace them with the new term.

#### 6 IMPACT ON ELEXON

Area of Business	Potential Impact of Proposed Modification
ELEXON PARMS Systems	The PARMS system will need to be updated to accept the new data items and process them in the Supplier Charge calculation.
Other (e.g. Costs, staffing, etc)	It is expected that costs to ELEXON will be increased to progress the Modification utilising resource.

## 7 IMPACT ON FINANCIAL ARRANGEMENTS AND BUDGET

Financial Arrangements	Potential Impact of Proposed Modification
SVAA Contract costs	If an additional data item is requested then the costs of the SVAA contract could be increased.

## 8 IMPACT ON BSC AGENT CONTRACTUAL ARRANGEMENTS

BSC Agent Contract	Potential Impact of Proposed Modification
Cap Gemini/Ernst Young	A new data item will require an update to the SVAA contract.

## 9 PROCESS AND TIMETABLE FOR PROGRESSING THE PROPOSAL

The issue surrounding Modification Proposal P68 is well defined. It is therefore recommended that Modification Proposal P68 be submitted to the Volume Allocation Modification Group (VAMG) for Assessment reporting back to the Panel at their meeting on 16<sup>th</sup> May.

### 9.1 Draft Timetable

The recommendation to complete the Assessment Report in time for the 16<sup>th</sup> May 2002 Panel meeting is based on the requirement to hold two Modification Group meetings to explore the implementation options for the Modification Proposal and allowing a period for consultation.

It is anticipated that a Modification Group Meetings will be held during the week commencing 18<sup>th</sup> March 2002, 8<sup>th</sup> April 2002 and possibly 2<sup>nd</sup> May 2002 to discuss the issues identified within this Initial Written Assessment. Investigation of the options will also be undertaken within the Modification Group in order to make a recommendation to the Panel at their meeting on 16<sup>th</sup> May 2002.

### 9.2 Estimate of Assessment Procedure Cost

Progression of the Modification will require two meetings of the Modification group. A budget of £10,000 should be established to enable progressing the Modification through the Assessment Procedure stage.

## 10 ISSUES

The following issues will need to be considered and addressed during assessment of the Modification Proposal:

### 10.1 Materiality of the issue

The Panel requested, when it raised Modification Proposal P68, what the likely materiality would be of implementing this Modification Proposal.

It is anticipated that costs would be incurred with the SVAA contract for the calculation, testing and ongoing provision of an additional data item. This is estimated to be less than £20,000.

An adjustment would be required to the PARMS system to accept and process the new data item within the Supplier Charges calculation.

The materiality of the issue for individual Suppliers' Supplier Charges should also be noted. It is agreed that running Supplier Charges under the current rules leads to a reduction in the overall funds available for redistribution. It also rewards those same under-performers with a greater share of the funds for re-distribution. The technique will not be able to properly reward those Suppliers whose good business practices have led to accurate settlement data and who have already incurred costs through the application of GSP Group Correction Factor.

## **10.2 Options for Replacement Data item:**

The purpose of the Modification Proposal is to formulate an appropriate means of apportioning the GSP Group Cap across Suppliers in accordance with their size. Energy volumes for consideration fall into the three categories of Active Import, Active Export and Unmetered Supplies. A number of options have been proposed for the Panel to ask the Modification Group to consider, they are outlined as: -

- Use of Active Import and Unmetered Supplies only.
- Use of absolute values of Active Import, Active Export and Unmetered Supplies.
- Amend the 'Supplier Deemed Take'

## ANNEX 1 – MODIFICATION PROPOSAL P68

<b>Modification Proposal</b>	<b>MP No: 68</b> <i>(mandatory by BSCCo)</i>
<b>Title of Modification Proposal</b> <i>(mandatory by proposer):</i>	
Modification to the BSC relating to the setting of Supplier Caps for use in the Supplier Charges (Liquidated Damages) calculation	
<b>Submission Date</b> <i>(mandatory by proposer):</i> 14 February 2002	
<b>Description of Proposed Modification</b> <i>(mandatory by proposer):</i>	
<p>The manner in which the Supplier Volume Allocation Agent (SVAA) calculates 'Deemed Take' under the Balancing and Settlement Code (BSC) can lead to a Supplier having a negative 'Deemed Take'. 'Deemed Take' is used for the purpose of setting Supplier Grid Supply Point (GSP) Group caps for calculating Supplier Charges (Liquidated Damages). A negative 'Deemed Take' leads to a negative GSP Group Cap that would, mathematically, reward a Supplier for under-performance. This is the direct opposite of the principle behind LDs. An appropriate measure of each Suppliers' energy take within each GSP Group needs to be determined to allow the Liquidated Damages calculations to run according to their purpose.</p> <p>The objective of the proposed Modification is to formulate an appropriate means of apportioning the GSP Group Cap across Suppliers in accordance with their size (i.e. apportion their total financial liability within each GSP group). Energy volumes for consideration fall into the three categories of Active Import (AI), Active Export (AE) and Unmetered Supplies (UMS).</p> <p>Three options have been raised for determining each Supplier's relative size and hence its portion of the GSP Group Cap liability. These are outlined below: -</p> <ul style="list-style-type: none"> <li>a) Use of Active Import and Unmetered Supplies only.</li> <li>b) Use of absolute values of Active Import, Active Export and Unmetered Supplies.</li> <li>c) Calculate a Supplier's deemed take to reflect the results as achieved under the Pooling &amp; Settlement Agreement (P&amp;SA).</li> </ul>	
<b>Description of Issue or Defect that Modification Proposal Seeks to Address</b> <i>(mandatory by proposer):</i>	
manifest error in the way that Supplier GSP Group Caps are calculated.	
<b>Impact on Code</b> <i>(optional by proposer):</i>	
Removal and replacement of BSC defined term 'Supplier Deemed Take' from Annex S-1, 3.8.2 of the Code. Removal and replacement of the BSC defined term 'Supplier Deemed Take' from BSCP 536, 4.3.1 and 4.11.3	
<b>Impact on Core Industry Documents</b> <i>(optional by proposer):</i>	
N/a	

<b>Modification Proposal</b>	<b>MP No: 68</b> <i>(mandatory by BSCCo)</i>
<p><b>Impact on BSC Systems and Other Relevant Systems and Processes Used by Parties</b> <i>(optional by proposer):</i></p> <p>Amendment will be required to PARMS system to incorporate changes. A new data item will be required from SVAA that can be used for setting Caps.</p>	
<p><b>Impact on other Configurable Items</b> <i>(optional by proposer):</i></p> <p>N/a</p>	
<p><b>Justification for Proposed Modification with Reference to Applicable BSC Objectives</b> <i>(mandatory by proposer):</i></p> <p>To correct a manifest error in the BSC Annex S-1, 3.8.2</p>	
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