



January 2003

Draft Modification Report
**P99 – Changes to Accreditation and the PARMs
Serials and Standards, resulting from the
Performance Assurance Framework (PAF)
Review (Phase 1)**

Prepared by ELEXON on behalf of the Balancing
and Settlement Code Panel

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Each BSC Agent	Various
The Gas and Electricity Markets Authority	Ofgem
Each BSC Panel Member	Various
energywatch	energywatch
Core Industry Document Owners	Various

c Related Documents

Reference	Document
Reference 1	P99 Assessment Report (P099AR20, 12 December 2002)

d Intellectual Property Rights and Copyright

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1 SUMMARY AND RECOMMENDATIONS

1.1 Recommendations

On the basis of the analysis, assessment and consultation undertaken with respect to this Modification Proposal P99, the Balancing and Settlement Code Panel (the Panel) recommend that:

P99 should be made with an Implementation Date of 20 January 2004, if an Authority determination is received prior to 1 March 2003; or 1 April 2004 if an Authority determination is received on or after 1 March 2003 but prior to 1 July 2003.

1.2 Background

The background and history of Modification Proposal P99 is detailed in full in the P99 Assessment Report (Reference 1) which is available on the BSC Website at the following location:

http://www.elexon.co.uk/ta/modifications/mods_docs.html

In September 2001 the Balancing and Settlement Code Panel ('the Panel') initiated a review of the Performance Assurance Framework (PAF) within the Trading Arrangements, with a view to reducing the costs incurred by BSC Parties while maintaining or improving the level of assurance provided. Phase 1 of the PAF Review focused on the techniques of Accreditation, Audit, Entry Processes and PARMS (the Performance Assurance Reporting And Monitoring Service), with each technique being analysed by an expert group comprised of industry participants representing a range of market roles. The findings of the PAF Review were presented to and approved by the Panel in April 2002, and an industry consultation was held to seek the views of participants to the changes.

The results of the consultation were in general favourable to the recommendations of the PAF Review, and so on 2 September 2002, Modification Proposal P99 was raised by British Gas Trading in order to implement the findings of the PAF Review. Of the four techniques considered in Phase 1, the Audit improvements were not included in the scope of P99 as the Panel agreed to progress them separately (the Audit is solely the responsibility of the Panel). However, the Entry Process improvements, while only requiring changes to Code Subsidiary Documents rather than the BSC itself, were included within P99 so as to ensure that where possible the majority of the Phase 1 improvements were approved and progressed as a whole.

The Proposer believed that the improvements to Accreditation would serve to reduce barriers to entry by making the process more straightforward both for new and existing participants. In this way the Proposer believed that P99 would promote competition and so better facilitate Applicable BSC Objective (c). The changes to PARMS were believed by the Proposer to provide more focused monitoring of key business processes and so give a clearer indication of the potential causes behind any participant performance issues that arise. The Proposer believed that this improved monitoring and reporting would encourage increases in performance standards of all participants, helping to improve the overall efficiency of the trading arrangements and so better facilitate Applicable BSC Objective (d).

1.3 Rationale for Panel Recommendations

At its meeting on 12 December 2002 the Panel considered and agreed the recommendations of the Volume Allocation Standing Modification Group (VASMGM) and supported the rationale put forward by the VASMGM in support of their recommendation. The Panel therefore agreed to recommend to the

Authority that P99 should be made, with an Implementation Date as recommended by the VASMG. The rationale for the VASMG recommendation is set out below.

The VASMG assessed P99 against the Applicable BSC Objectives and considered the responses to industry consultation and impact assessment. By the end of its discussions, the Group agreed that the revised system, being more flexible to change than the current system (for example, amendment of performance standards or Supplier Charges), should continue to provide a useful monitoring and reporting service for years to come and so would be a worthwhile development to the trading arrangements. The Group estimated that while the industry costs for P99 would be large (estimated at £1m - £3m in total), when considered on a per Metering System basis the Group agreed that the costs would be reasonable, amounting to around 8 pence per NHH Metering System and £12 per HH Metering System¹. Furthermore it was noted that P99 would help to reduce the costs currently incurred by BSCCo and participants in identifying and resolving data quality issues, and by doing so, also help to reduce the likelihood of a future BSC Audit being deemed to be qualified. The Group considered that over the long term, the potential benefit to industry could amount to a saving of between £2m - £5m per year.

In noting these benefits, the VASMG therefore agreed that P99 would better facilitate Applicable BSC Objectives (c) and (d).

2 INTRODUCTION

This Report has been prepared by ELEXON Ltd., on behalf of the Panel in accordance with the terms of the Code. 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.

This Modification Report is addressed and furnished to the Gas and Electricity Markets Authority ('the Authority') and none of the facts, opinions or statements contained herein may be relied upon by any other person.

An electronic copy of this document can be found on the BSC Website at www.elexon.co.uk.

3 DESCRIPTION OF THE PROPOSED MODIFICATION

The full details of the aims and requirements of P99 in terms of the changes to BSC, BSCCo and participant systems are described in the P99 Assessment Report (Reference 1). This section of the Modification Report focuses on the changes required to the BSC itself (the full legal text to give effect to P99 is attached in Annex A of this report).

Accreditation

Section J paragraph 3 of the BSC describes the requirements of the Certification Agent in relation to the Accreditation and Certification process. Under P99, the Certification Agent will only be required to become involved in this process where an applicant has been identified by BSCCo as a high-risk participant, based on the intended market role, the number of associated Metering Systems and the level of energy involved (the risk criteria will be documented in BSCP531 'Accreditation'). For medium- and low-risk applicants, the Accreditation and Certification process will be conducted with the assistance of the BSCCo Technical Assurance team. Section J will therefore be amended to reflect the

¹ This estimate was made using an assumption that a total cost of £3m would be split by around £1m for HH meters and £2m for NHH meters, then divided by 80,000 HH meters and 26m NHH meters.

reduced role of the Certification Agent, whereby only where applicable will the Agent be required to perform the actions described in Section J paragraph 3.

PARMS

Section J paragraph 1.3.2 describes the main functions of Supplier Meter Registration Agents (SMRAs) in providing and operating registration services for their respective SMRA Distribution Service Areas, and providing registration information to Parties, Party Agents and BSC Agents for the purposes of Settlement. Under P99, SMRAs will also be required to submit registration information to BSCCo for use in PARMS, therefore a new paragraph will be added to this section to reflect the requirement.

Annex S-1 of Section S of the BSC describes the Performance Levels and Supplier Charges that are used by PARMS to measure the performance of participants and apply appropriate penalties. Under P99 the set of the Supplier serials contained in Annex S-1 will be modified, with some being merged and others removed, and with the remaining set being renumbered accordingly. Similarly, the serials relating to Supplier Agent performance described in the Code Subsidiary Documents will be modified such that a complete set of 34 PARMS serials will be produced. Furthermore, the Performance Standards and Supplier Charges of the serials will be revised as per the proposals of the PAF Review, with the addition of a number of changes resulting from the P99 consultation process (see the Assessment Report for details).

Paragraph 3.10 of Annex S-1 describes the timing and commencement of the Supplier Charges listed in the BSC, explaining that all the charges shall apply from the Go-Live Date. This Section will be amended to reference that the revised Supplier Charges will be applied on and from the Implementation Date of P99. Furthermore, P99 proposes that implementation should be followed by a 2-month grace period in which Suppliers will not be penalised for late submission of data. Therefore, a clause will be added to state that the Supplier Charges for the two 'late submission' serials will not apply during the grace period².

It should be noted that the detailed PARMS specification will take into account any impact resulting from Modification P62 'Changes to Facilitate Competitive Supply on the Networks of New Licensed Distributors', approved for implementation on 1 August 2003. P62 reduces the natural link that currently exists between GSP Groups and Distribution Business (and therefore Supplier Meter Registration Agents) and so where relevant this factor will be taken into account during the implementation of P99.

4 HISTORY OF THE MODIFICATION PROPOSAL

P99 was raised by British Gas Trading on 2 September 2002. The Panel considered P99 and the Initial Written Assessment and agreed that P99 was sufficiently well defined to allow it to be submitted to the Assessment Procedure, with an Assessment Report presented to the Panel on 14 November 2002.

The Assessment Procedure consultation responses from industry on P99 showed a slight majority in favour of P99, the main basis of concern being the uncertainty in participant implementation costs for the PARMS proposals. The VASMG agreed that, while they were prepared to support the Modification Proposal in principle, they needed to confirm the likely extent of the participant costs before making a recommendation to the Panel. An Assessment Report was prepared and presented to the Panel at its meeting on 14 November 2002, with the recommendation that the Assessment Procedure be extended

² Under P99 these would be serials SP01 and SP02

by one month to allow the VASMG to request an additional industry impact assessment and so confirm the level of participant support for P99. The Panel agreed with the recommendation of the VASMG and following preparation of additional PARMS technical information, an impact assessment was requested.

At its meeting on 2 December 2002, the VASMG reviewed the impact assessment responses and agreed that, taking into account the participant implementation costs, P99 would better facilitate Applicable BSC Objectives (c) and (d). A revised Assessment Report (Reference 1) was duly drafted and presented to the Panel on 12 December 2002, with the recommendation that P99 should be made.

The Panel agreed with this recommendation and determined that a draft Modification Report should be prepared and issued for consultation, with the consultation responses and final Modification Report presented to the Panel at its meeting on 16 January 2003.

Consequentially a draft Modification Report was provided to industry for consultation on 20 December 2002, with responses due by 3 January 2003.

5 LEGAL TEXT TO GIVE AFFECT TO THE PROPOSED MODIFICATION

P99 requires changes to sections S and J of the BSC, as summarised in Section 3 of this Modification Report. The detailed redlined legal text is attached in Annex A of this Modification Report.

6 COST OF IMPLEMENTATION

The three aspects of P99 each contribute to the overall implementation cost of the Proposed Modification. The Entry Process Agent would carry out the majority of the changes for the Entry Process improvements (including the revisions to the test scripts and scenarios in the Entry Process BSCPs) at a cost of £54,000. Additional documentation updates and contractual re-negotiation will require around 20 man-days of BSCCo effort.

The Accreditation changes will involve extensive alterations to BSCPs and Local Working Instructions by BSCCO, and are expected to take around 80 man-days of effort to complete. Furthermore, the addition of two full-time staff in the BSCCo Technical Assurance team would incur an ongoing cost of around £70,000 per annum³.

In order to deliver the required data for PARMS, alterations are required to the BSC Systems operated by the SVA Agent (SVAA) and the Central Data Collection Agent (CDCA). These changes are expected to cost around £45,000 and £20,000 respectively.

The changes required by BSCCo for the PARMS changes are largely internal but are expected to take up to 9 elapsed months to complete. It is estimated that an external cost of around £250,000 is likely to be incurred should an external developer be required to deliver some components of the operational PARMS software based upon the design specified by BSCCo.

There will be a significant industry cost associated with the PARMS changes, as each Supplier, SMRA and Supplier Agent will be required to alter their internal data provision systems. In total, this cost was estimated by the VASMG to be of the order of £1m - £3m over the whole industry.

³ This cost is due to the increased role of the ELEXON Technical Assurance team in Accreditation under P99, in place of the Certification Agent. Further details regarding this change can be found in the Assessment Report.

7 SUMMARY OF REPRESENTATIONS

In response to the consultation on this Modification Report, 8 responses from 21 BSC Parties and 1 Party Agent were received. In summary:

- 4 respondents (9 Parties, 1 Party Agent) accepted the recommendations of the Modification Report;
- 2 respondents (2 Parties) provided no comment;
- 2 respondents (10 parties) did not agree with the Proposed Modification as they believed the benefits would not outweigh the cost of implementation.

One respondent commented that the significant increase in PARMS performance standards for certain serials would warrant a full review conducted by SVG or PAB up to 12 months following implementation to assess how the standards are being met by participants. This issue was discussed at the Panel meeting on 12 December 2002 where it was agreed that a significant post-implementation review would be carried out by a relevant body.

The two respondents who did not support the recommendations argued that the costs of implementation of the PARMS proposals would outweigh the benefits to industry. During the Assessment Procedure, the VASMG did consider all the issues raised by participants in detail when deciding upon its recommendations to the Panel. In most cases, the group was firm in its agreement that the serials proposed by P99 are valid, and that their introduction would prove to be a long-term benefit to industry, and Hence the VASMG did not agree with those respondents who did not support P99. However, in response to a comment regarding serials SH01, SH03 and NC01 (which involve the collection and monitoring of D0023 and D0095 exception reports by BSCCo) the group agreed that, as no specific performance standards are being applied, they should not be regarded as formal serials for which data has to be entered into PARMS system. Instead, they will act as a high level check on exceptions and allow BSCCo to investigate as necessary.

Annex B of this Modification Report contains the decisions agreed by the VASMG in response comments raised by a participants that chose not to support P99.

8 REPRESENTATIONS

Responses to the P99 Modification Report consultation were received from the following participants:

No	Company	File Number	No. BSC Parties Represented	Accept/Reject P99
1.	LE Group	P99_DR_001	7	Accept
2.	Aquila Networks	P99_DR_002	1	Accept
3.	Powergen	P99_DR_003	1	No Comment
4.	Scottish Power	P99_DR_004	6	Reject
5.	Npower	P99_DR_005	1	No Comment
6.	British Gas Trading	P99_DR_006	1	Accept
7.	Scottish and Southern	P99_DR_007	4	Reject
8.	IMServ	P99_DR_008	0	Accept

P99_DR_001 – LE Group

Dear Modifications

LE Group has supported the aims of Phase 1 of the PAF Review. We are therefore happy to support the Modifications to the BSC as set out in P99.

This reply is sent on behalf of: LE Group Plc, London Electricity Plc, Jade Power Generation Ltd, Sutton Bridge Power Ltd, West Burton Power, London Power Network Plc, and Eastern Power Network Distribution Ltd, ECS.

With kind regards, Paul Chesterman
for Liz Anderson
General Manager, Energy Strategy & Regulation

P99_DR_002 – Aquila Networks

Please find that Aquila Networks Plc response to P99 Consultation is 'Accept' subject to the following comments:

'As a member of the SCS consortium, Aquila Networks Plc feel that our current PARMS reporting adequately satisfies P99's requirements, without the need for further unnecessary works and expense on the majority of SMRS providers. Aquila estimate the effort required to implement the changes as 20-30 man days, this is dependent upon the clarification of SP07, St Clements Services are currently progressing this on our behalf.'

regards
Rachael Gardener

Deregulation Control Group &
Distribution Support Office
AQUILA NETWORKS

P99_DR_003 – Powergen

Powergen have no comments to make on the Modification Report.

Regards,

Afroze Miah
Powergen Retail Ltd.

P99_DR_004 – Scottish Power

P99 Draft Modification Report Comments

For and on behalf of: - *Scottish Power UK plc; ScottishPower Energy Trading Ltd.; Scottish Power Generation plc; ScottishPower Energy Retail Ltd.; SP Transmission plc; SP Manweb plc*

With reference to the above, we are disappointed with the Panel's proposed recommendation on P99: "Changes to Accreditation and the PARMS Serials and Standards, resulting from the Performance Assurance Framework (PAF) Review (Phase 1)" without due consideration of our detailed comments from previous assessments.

In this Consultation, we would reiterate the issues and concerns, which we have previously expressed in rejecting the details of P99. We believe that P99 can only better facilitate BSC Objectives (c) and (d) if the PARMS Serials detailed in our attached detailed comments (Attachment 1) are addressed and/or removed from the set in P99. In fact, our last set of detailed comments we sent as part of Additional DLIA via MC00027 (Attachment 1) do not seem to have been considered or addressed.

The Assessment Report prepared by the VASMG in advance of December's Panel Decision suggested that "The VASMG reviewed and discussed all the comments raised and agreed several revisions to the serials in order to address them, mostly by way of clarifying the requirements to avoid any potential ambiguity". We have not seen any of these revisions which makes it difficult to comment on this current Draft Modification Report.

Also, on the P99 papers submitted to the last Panel meeting, I attached our response (Attachment 2) on specific points contained in these Panel papers, which we have issues with.

The Draft Modification Report estimates the costs of the PARMS work to be £1m-£3m versus benefits of £2m-£5m. We have not seen any details behind these calculations, which again make it difficult for us to comment on the validity of the assumptions being made to get to the £2m-£5m figure. We would also like to see proper justification particularly on the costs of the PARMS Serials we detailed in our previous detailed comments (Attachment 1).

It is our view that P99 in its current form, does not better facilitate the Applicable Objective (c) and (d), particularly where NHH exceptions, for example, are either inherited from an errant supplier (potential barrier to entry for new suppliers - an issue referred to by other respondents) or arise through SMRS or NHHDA software problems (increased inefficiencies through unnecessary analysis). We therefore would urge the Panel to reconsider the recommendation and refer the modification back for further assessment so that the issues which industry participants have raised can be properly addressed. Should this course of action not be possible within the modification procedure specified in Section F of the BSC then we believe the correct course of action would be for the Panel to recommend that the modification should not be made. A fresh modification proposal could then be raised to allow the outstanding issues associated with P99 to be given proper consideration.

I trust that you will find these comments helpful. Nonetheless, should you require further clarification of any of the above, please do not hesitate to contact me.

Yours sincerely,

Man Kwong Liu
Calanais Ltd.

For and on behalf of: - *Scottish Power UK plc; ScottishPower Energy Trading Ltd.; Scottish Power Generation plc; ScottishPower Energy Retail Ltd.; SP Transmission plc; SP Manweb plc*

Encl.: - Attachment 1: MC00027 - Detailed Comments; Attachment 2: P99 - Panel 1202 Response

P99_DR_005 – Npower

We have no further comments to make.

Regards

Ros Parsons
npower
NETA & BSC Issues

P99_DR_006 – British Gas Trading

Modification Proposal P99: Changes to Accreditation and the PARMS Serials and Standards, resulting from the Performance Assurance Framework (PAF) Review (Phase 1)

Thank you for the opportunity to respond to the consultation on modification proposal P99. British Gas Trading Limited supports the VASMG view that the proposal does better facilitate Applicable BSC Objective's c) and d).

British Gas Trading agrees that P99 simplifies the requirements for the Certification Agent in relation to the Accreditation and Certification process and prevents unnecessary work currently carried out, thus promoting competition.

Under PARMS we believe that the monitoring of all performance aspects within the PARMS standards is extremely important allowing Party members early indications of problems arising within the industry and the ability to rectify issues promptly. The changes in reporting lines from the Supplier to the Agent to facilitate the reporting of PARMS we believe fits better as the Agents have better control of the data than Suppliers. However, there is clearly a need for the Supplier to receive reports directly from its Agents to ensure timescales are met. Mod 99 did not address this requirement, which could be achieved by contractual agreement between Suppliers and Agents.

British Gas Trading supports a 2 month grace period to allow the market place to adopt and weigh up the full impacts of the changes to the PARMS reporting.

We would however, like to draw your attention to one area within the Performance standards set in relation to SF, R1, R2, R3 and RF respectively. At one of the VASMG meetings it was highlighted that the changes in performance levels have significantly increased at R1 and R2 (as can be seen in Table 1 below) and it was recommended that the performance should be monitored closely over the following 12 months. We welcome this suggestion and propose that either SVG or PAB monitor and undertake a full review after a 12 month period to ensure that the targets are achievable by all parties.

Table 1.

Volume Allocation Run	Old Performance Level	New Performance Level
Initial Volume Allocation Run	3%	n/a
First Reconciliation Volume Allocation Run	17%	30%
Second Reconciliation Volume Allocation Run	43%	60%
Third Reconciliation Volume Allocation Run	78%	80%
Final Reconciliation Volume Allocation Run	97%	97%

If you would like to discuss this matter further please do not hesitate to contact me directly.

Yours faithfully,

Andrew Latham
Senior Account Manager (BSC & SAS)

P99_DR_009 – Scottish and Southern

This response is sent on behalf of Scottish and Southern Energy, Southern Electric, Keadby Generation Ltd. and SSE Energy Supply Ltd.

Further to your note of 20th December 2002, and the associated Draft Modification Report for P99, as with our previous comments on this Modification Proposal, whilst we supported the review of PARMS Serials in principal we do not believe that the suggested benefits outweighing the cost of implementation.

If the Modification Proposal P99 is approved, we agree with the proposed BSC Panel recommendation on the timing for the Implementation Date, as outlined in Section 1.1 of the Draft Modification Report.

Regards

Garth Graham
Scottish & Southern Energy plc

P99_DR_008 – IMServ

Following review of the draft Modification report an draft legal text in respect of P99 and a discussion with the Elexon analyst Stephen Francis IMServ has no adverse comments on the proposed changes. The performance levels in section 2.2 gave rise to some concern as they have increased significantly from the old values but as the LDs have stayed the same then we can see that this will add 'general encouragement' rather than penalise agents.

Thank you for your help in understanding the requirements.

regards, Carmen

Carmen Page
INVEST Commercial Manager
IMServ Europe Limited

ANNEX A – P99 LEGAL TEXT

Attached as a separate document.

ANNEX B – RESPONSES TO MODIFICATION REPORT CONSULTATION COMMENTS

Attached as a separate document.