Stage 01: Initial Written Assessment

What stage is this document in the process?

- 01 Initial Written Assessment
- 02 Definition Procedure
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P275 Extending BSC Performance Assurance

This Modification seeks to broaden the responsibilities and scope of Performance Assurance under the BSC to include all BSC Parties, not just Trading Parties, and to consider risks that Settlement data issues may present to BSC Parties that use this data for purposes other than the determination and settlement of Trading Charges.

ELEXON recommends:

A 5-month Assessment Procedure (including a proposed 15 WD consultation period of 13/01/12 – 03/02/12)

High Impact:
ELEXON

Medium Impact:
BSC Parties

Contents

About this document:

This document is an Initial Written Assessment (IWA), which ELEXON will present to the Panel on 13 October 2011. The Panel will consider the recommendations and agree how to progress P275.

You can also find further information in:

- Attachment A – P275 Modification Proposal

Any questions?

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1 Why Change?

Background

Distribution Price Control

Ofgem administers a Distribution Price Control regime every five years. This sets the total revenues that each Licensed distribution System Operator (LDSO) can collect from customers at a level that allows an efficient business to finance their activities.

Distribution Price Control also places incentives on LDSOs to innovate and find more efficient ways to provide an appropriate level of network capacity, security, reliability and quality of service. Toward the end of each price control period Ofgem undertakes a Distribution Price Control Review (DPCR) in order to set the controls for the next price control period.

Losses incentive scheme

The losses incentive scheme is an incentive used to encourage LDSOs to achieve an efficient level of losses on their networks. This scheme adjusts LDSOs allowed annual revenues according to how they perform each year against their losses target. The LDSOs calculate losses as the difference between the electrical units entering and exiting their distribution network. Settlements data is used to measure units exiting the network.

The losses incentive scheme also has a rolling retention mechanism (LRRM) to encourage the LDSOs to undertake loss reduction initiatives throughout the price control period by guaranteeing rewards (or penalties) for a subsequent five year period. As part of the DPCR5[1] Final Proposals Ofgem set out how they would calculate the revenue adjustments which should apply to each LDSO as a result of the DPCR4 LRRM, which will (in part) be based on the final settlement data for 2009-10.

Gross Volume Correction

The settlement systems, administered by the Balancing and Settlement Code (BSC), are primarily designed for the purposes of the electricity trading and retailing system. Use of settlement data to evaluate LDSO losses performance is an ancillary function.

Errors and inaccuracies in Settlement can occur. However, once a Settlement Day has been subject to the Reconciliation Final Volume Allocation Run (RF Run), data shouldn't be changed unless the Metering System in question is subject to an upheld Trading Dispute. Suppliers (and their Non Half Hourly Data Collectors) may use a technique called Gross Volume Correction (GVC) to correct errors relating to Meter Advance Periods during which some Settlement Dates have already been subject to the RF Run. The effect of using GVC is to reallocate the lost or gained energy volume to a range of Settlement Dates for which RF Runs have not yet taken place. This process ensures that the total gross volume of energy is correct, although it will be allocated to the wrong Settlement Days/Settlement Periods. The process also ensures that consumption data for Settlement Days for which RF Runs have taken place (referred to as 'crystallised' data) isn't changed.

Large scale application of GVC can distort apparent losses performance by LDSOs, and affect the associated allowed revenues. When Suppliers make large adjustments to Settlement data it artificially inflates the determination of losses and LDSOs are penalised.

Losses Incentive Scheme

Designed to drive LDSOs to manage losses on their networks, this scheme compares units entering and exiting networks.

[1] Current DCPR for the period 1 April 2010 until 31 March 2015.

This occurs via the setting of their allowed revenue through the Distribution Price Control Review.

Performance Assurance Framework

The BSC Performance Assurance Framework (PAF) is in place to provide assurance that:

- Energy is allocated between Suppliers efficiently, correctly and accurately;
- Suppliers and Supplier Agents transfer Metering System data efficiently and accurately; and
- Calculations and allocations of energy and the associated Trading Charges are performed in line with the requirements detailed in the BSC.

The Performance Assurance Board (PAB) uses the Performance Assurance processes to identify and evaluate Settlement Risks before deploying Performance Assurance Techniques to Performance Assurance Parties (PAPs[2]) to address identified issues.

The PAB is responsible for Trading Parties only and Performance Assurance is driven by Settlement Risks, which do not include risks to processes outside of the BSC that may use Settlement data, such as the ancillary use of data for LDSO's Losses Incentives.

Issue

In the 2009-10 regulatory year there was an increase in Suppliers using GVC. This created a significant distortion in relation to distribution losses for some LDSOs. However, because the issue was not a risk to Settlement, LDSOs were unable to use the PAF to address their issues. The proposer contends that this situation highlights that LDSOs, as Performance Assurance Parties are subject to Performance Assurance techniques (such as audit, Technical Assurance checks etc) but they are not served by the PAF in instances like this (e.g. the use of GVC is compliant with the BSC but has a detrimental impact on LDSOs).

Along with other BSC Parties, LDSOs rely on Settlement data and processes for various business purposes. In the case of LDSOs, this includes billing Suppliers Distribution Use of System (DUoS) charges (which amount to approximately £4 billion per annum); operation of the distribution loss incentive scheme described above (with financial implications of many £100 million per annum); and setting Line Loss Factors for use in Settlements. The proposer asserts that even though the issues with Settlement data could have very material financial implications for LDSOs there is no recourse for them to resolve such issues via the PAF.

Related changes

This Modification proposal is one of several changes that seek to mitigate the issues with the Distribution Loss Incentive Mechanism's use of Settlement data. The other related (but not interdependent) changes are Modification P274, 'Cessation of Compensatory Adjustments' and several anticipated Change Proposals relating to the following areas:

- GVC and Dummy Meter Exchanges' Audit Records;
- Removal of Residual Negative EACs;
- Removal of Extreme EACs; and

[2] Defined in the BSC as a Supplier, Meter Operator Agent, Data Collector, Data Aggregator, Meter Administrator, Licensed Distribution System Operator and/or a Registrant

- Addressing Settlement data in a Balanced Manner.

2 Solution

This Modification seeks to:

- Extend the responsibilities of the PAB from just Trading Parties only to all BSC Parties; and

- Broaden the scope of Performance Assurance such that it includes issues with Settlement data that do not directly impact Settlement and are therefore not covered by the current definition of Settlement Risks.

The proposer considers that P275 would better facilitate the achievement of **Applicable BSC Objectives (c)** by reducing unnecessary costs and risks to these BSC Parties **and (d)** by reducing the need for ELEXON to undertake specific initiatives outside of the PAF to address such matters.

3 Areas for consideration

In this section we highlight areas we believe the Panel should consider when making its decision on how to progress this Modification proposal. If P275 goes into the Assessment Procedure, then we would recommend that the areas below form the basis of the Workgroup's Terms of Reference.

Extension of the PAF remit

The P275 Group should consider the following:

- Whether extension of Performance Assurance should be limited, i.e. P275 proposes extension beyond Trading Parties to all BSC Parties, such as LDSOs, Interconnector Administrators and the Transmission Company, but only identifies LDSOs as an example of another Party type for which application of Performance Assurance outside of Settlement Risks would be beneficial - could extension of Performance Assurance be limited to LDSOs or a specific sub-set of non-Trading Parties?

- How should the scope of the PAF be extended to include risks to processes that are reliant on the quality of Settlement data and which can adversely impact non-Trading Parties (i.e. given that under the current definition of Settlement Risk, data quality for non-Trading Parties will only be included in the PAF to the extent that it impacts Settlement (e.g. Line Loss Factor estimates));

- Should the PAF be extended for the use of all Settlement data or only where its use is mandated?

- Consider how an extension of the PAF would be applied in practice and what benefits it would deliver e.g. What are the risks? What is the materiality of the risks? What data is available? How could the PAF be used? The Workgroup may want to consider examples of these to demonstrate how the PAF could be applied and what benefits it could deliver.

What’s the impact?

Extension of Performance Assurance would require the PAF to significantly adjust the way they assess risk. The Workgroup may therefore wish to consider what Parties/processes will be included and how to evaluate evidence of additional risk and deployment of the assurance techniques to detect/correct non-compliances e.g. What data would be used and how? Would controls outside the BSC need to be taken into account?

The Workgroup should also consider any associated costs and benefits of extending the remit of the PAF.

Related Changes

As discussed on page 4 above (Related Changes) there are a set of proposed changes which we believe are related but not interdependent. We recommend that consideration be given to whether these other proposed changes do have any relevance to P275.

4 Proposed Progression

If P275 proceeds to the Assessment Procedure we recommend a five month assessment, conducted by the Volume Allocation Standing Modification Group (VASMG), supplemented with any other relevant experts and interested Parties.

Terms of Reference

We recommend the P275 Workgroup is formed of members of the VASMG and considers the following areas.

P275 Terms of Reference	
	Development of the P275 proposed solution.
	Assessment of P275 against the Applicable BSC Objectives.
	Any alternative approach.
	How best to extend the PAF remit
	Changes to BSC documentation, systems and processes are needed to support implementation of P275.
	Benefits and drawbacks of extending the PAF to include consideration of risks to Parties even if there is no Settlement Risk (as currently defined).
	Quantification of P275 costs and benefits where possible.
	Impact on industry participants.
	Any unintended implications.
	Implementation approach.

Timetable

The dates in the proposed timetable are provisional and are subject to change depending on factors such as whether they are required as P275 develops, availability of Workgroup members etc.

Proposed progression timetable for P275 Assessment Procedure

Activity	**Date**
Present IWA to Panel	13 October 2011
Workgroup meeting 1	w/c 24 October
Workgroup meeting 2	w/c 7 November
Issue P275 for impact assessment (15 WD)	18 November
Impact assessment response deadline	9 December
Workgroup meeting 3	w/c 12 December
Issue P275 industry consultation (15 WD)	13 January 2012
Consultation response deadline	3 February
Workgroup meeting 4	13 February
Present Assessment Report to Panel	8 March

Estimated Progression Costs

Estimated progression costs based on proposed timetable	
Meeting costs (including Modification Group member expenses)	£2000 (based on four Workgroup meetings)
Non-ELEXON legal and expert costs	Zero
Service Provider impact assessment costs	£3000
ELEXON resource	50 man days, equating to approximately £12,000

The ELEXON resource cost is an estimate of how much time and effort it will take us to progress P275 through the Assessment Procedure and Report Phase. It includes time supporting industry groups, drafting documentation and producing legal text.

Below is our estimate of the cost incurred by the industry in assessing P275:

Estimate of total industry assessment costs					
Workgroup support	Est #mtgs	Est # att	Est effort	Est rate	Sub-total
	4	6	1.5	605	£21,780
Consultation response support	Est #con	Est # resp	Est effort	Est rate	Sub-total
	2	6	2.5	605	£18,150
Total					**£39,930**

Meeting costs reflect the expected number of Workgroup meetings and the industry effort spent supporting these meetings. The calculation is based upon an anticipated average number of six members at each meeting putting in an average of 1.5 man days effort per meeting. A standard rate of £605 per man day is applied.

Consultation costs represent an estimation of the anticipated industry response to consultations issued to support P275 and the approximate time and effort spent on responses. The calculation is based upon an anticipated number of six responses to the intended two consultations (i.e. the Assessment Procedure and Draft Modification Report consultations), and assumes each response requires 2.5 man days of industry effort. A standard rate of £605 per man day is applied.

5 Likely Impacts

Impact on BSC Parties and Party Agents
After implementation more BSC Parties will have recourse to the PAF for non Settlement Risk issues and Parties may be affected by new PAF activities.

Impact on ELEXON	
Area of ELEXON's business	Potential impact
PAF	Increased responsibilities beyond Settlement Risk issues.

Impact on Code	
Code section	Potential impact
Z	Revision of definition of what should be considered under the PAF.

6 Recommendations

On the basis of the initial written assessment, ELEXON invites the Panel to:

- DETERMINE that Modification Proposal P275 progresses to the Assessment Procedure;
- AGREE the Assessment Procedure timetable such that an Assessment Report should be completed and submitted to the Panel at its meeting on 8 March 2012;
- DETERMINE that the P275 Modification Group should be formed from members of the VASMG; and
- AGREE the Modification Group's Terms of Reference.

7 Further Information

You can find more information in:

Attachment A – P275 Modification Proposal.

4.5. MP Form

Modification Proposal – BSCP40/03	MP No: P275 *(mandatory by BSCCo)*

Title of Modification Proposal: Extending BSC Performance Assurance

Submission Date *(mandatory by originator)***:**
29 September 2011

Description of Proposed Modification *(mandatory by originator)*
This Modification seeks to broaden the responsibilities and scope of Performance Assurance under the Balancing and Settlement Code (BSC) to include all BSC Parties, rather than just Trading Parties, and to consider the risks that Settlement data issues may present to BSC Parties that make use of this data for purposes other than the determination and settlement of Trading Charges.

The Modification would:

- Extend the responsibilities of the Performance Assurance Board (PAB) from Trading Parties only to all BSC Parties, e.g. Licensed Distribution System Operators (LDSOs) Interconnector Administrators and the Transmission Company; and
- Broaden the scope of Performance Assurance such that it includes issues with Settlement data that do not directly impact Settlement and are therefore not covered by the current definition of Settlement Risks.

These changes will enable Performance Assurance obligations and activities to be applied where issues may affect Settlement data used by Parties but do not directly impact Settlement.

The Modification will amend Section Z 1.6.1 of the BSC, and any other appropriate references within Section Z, to replace 'Trading Parties' with 'all BSC Parties' and will impact other parts of Section Z which determine the scope of Performance Assurance under the BSC.

Description of Issue or Defect that Modification Proposal Seeks to Address (*mandatory by originator)*
Performance Assurance under the BSC does not consider performance matters that impact BSC Parties, regardless of the scale of the impact, unless Trading Parties are impacted and there is a direct risk to Settlement. Some Parties use Settlement data for purposes not directly related to Settlement, and can be impacted by data issues which may not affect Settlement directly. This Modification contends that this means that Performance Assurance under the BSC does not provide adequate assurance to all Parties in relation to the risk of Settlement data issues.

Background:
LDSOs are required, through Standard Licence Condition 44B (Distribution Losses Reporting Regime), to use Settlement data to determine and report energy entering and energy exiting their networks in accordance with Regulatory Instruction and Guidance (RIGs). This information is the

Modification Proposal – BSCP40/03	MP No: P275 *(mandatory by BSCCo)*

primary input into the Distribution Loss Incentive Mechanism (DLIM), which is effected through Special Condition CRC[1] 7 (Adjustment of licensee's revenues to reflect distribution losses performance).

LDSOs are required to report this information for the Distribution Price Control Review 5[2] (DPCR5) so that the DLIM for this period can operate; and for the DPCR4[3] period so that the DLIM for this period can be closed down and so that the DLIM targets for the DPCR5 period can be set.

The incentive / penalty was £48/MWh for the DPCR4 period and is £60/MWh for the DPCR5 period. As a consequence, the financial implications of the DLIM for each LDSO can run into many £100s millions for each 5 year price control period.

Determination of the inputs to the DLIM – both in terms of target setting and of performance measurement – is based on Settlement data. As a consequence, the mechanism is reliant on the quality of this data. More specifically, effective operation of the mechanism is reliant on the Settlement data used to set the targets being consistent with the Settlement data used to measure the performance.

However, the scale of Supplier adjustments to Settlement data in the 14 months reconciliation window increased significantly in the five year DPCR4 period. The principal reason for this was an increased focus by Suppliers in addressing Settlement data quality issues – using a variety of techniques currently permitted under the BSC. This has created an inconsistency between the basis of the target setting and performance measurement components of the DLIM. For DPCR4, this is having a very material impact on LDSOs – running into £10s millions for most; and greater than £100 million for some. Ofgem is soon to consult on the most appropriate means of addressing this.

LDSOs are very concerned that such issues could impact the operation of the DLIM in DPCR5 in a similar manner – with comparable financial implications. This creates uncertainty for LDSOs in their regulated allowable revenue; uncertainty for Suppliers in the Distribution Use of System (DUoS) costs they will incur. Impacts such as more volatile energy prices and / or increased energy prices could also affect for consumers, though this is outside the scope of the BSC.

LDSOs and Suppliers set up an industry working group under the Distribution Charging Methodology Forum (DCMF) to consider these issues. These ran over an 11 week period from June to August. This group concluded that the primary issue lies with the design of the DLIM. However, Ofgem has indicated that there is no scope for making any fundamental changes to the DLIM effective in DPCR5. Consequently, LDSOs want to ensure, to the extent that it is possible, that Settlement data better supports its operation.

Issue:
Along with other BSC Parties, LDSOs rely on Settlement data and processes for various business purposes. In the case of LDSOs, this includes billing Suppliers DUoS charges (which amount to

[1] Charge Restriction Condition.
[2] Running for the 5 year period starting on 1st April 2010.
[3] Running for the 5 year period ending on 31st March 2010.

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approximately £4 billion per annum); operation of the DLIM described above (with financial implications of many £100 million per annum); and setting Line Loss Factors for use in Settlements. However, the Performance Assurance Framework within the BSC only considers performance matters that relate to Trading Parties and can directly impact Settlement. This means that a performance / compliance issue that gives rise to erroneous Settlement data but does not impact Trading Parties and Settlement directly is not considered at all; even though the issues with that Settlement data could have very material financial implications for other BSC Parties.

Impact on Code *(optional by originator)*
Section Z.

Impact on Core Industry Documents or System Operator-Transmission Owner Code *(optional by originator)*
None.

Impact on BSC Systems and Other Relevant Systems and Processes Used by Parties (*optional by originator)*
None.

Impact on other Configurable Items (*optional by originator)*
None.

Justification for Proposed Modification with Reference to Applicable BSC Objectives *(mandatory by originator)*
The proposed modification better facilitates Applicable BSC Objective (c) (the promotion of effective competition in the generation and supply of electricity, and (so far as consistent therewith) promoting such competition in the sale and purchase of electricity). It does this by enabling the PAF to address BSC performance / compliance issues that impact BSC Parties - even if they do not impact Trading Parties directly to the same extent. This would help reduce unnecessary costs and risks to these BSC Parties; and help to provide more certainty in costs throughout the supply chain. This in turn would allow members of the supply chain, including Suppliers, to compete more effectively.

The proposed modification also better facilitates Applicable BSC Objective (d) (the promotion of efficiency in the implementation and administration of the balancing and settlement arrangements). It does this by enabling the Performance Assurance Framework (PAF) to address BSC performance / compliance issues that impact BSC Parties - even if they do not impact Trading Parties directly to the same extent. This would reduce the need for ELEXON to undertake specific initiatives outside of the PAF, and address such matters without the benefit of the PAF techniques.

Is there a likely material environmental impact? *(mandatory by originator)*
No.

Urgency Recommended: Yes / No *(delete as appropriate) (optional by originator)*
No.

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Justification for Urgency Recommendation *(mandatory by originator if recommending progression as an Urgent Modification Proposal)*	
Self-Governance Recommended: Yes / No *(delete as appropriate) (mandatory by originator)* No.	
Justification for Self-Governance Recommendation *(mandatory by originator if recommending progression as Self-Governance Modification Proposal)*	
Should this Modification Proposal be considered exempt from any ongoing Significant Code Reviews? *(mandatory by originator in order to assist the Panel decide whether a Modification Proposal should undergo a SCR Suitability Assessment)* Yes; there is no ongoing SCR relevant to this Modification Proposal.	
Details of Proposer: ***Name Tony McEntee*** ***Organisation Electricity North West Limited*** ***Telephone Number 01925 846 854*** ***Email Address Tony.McEntee@enwl.co.uk***	
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Details of Representative's Alternate: ***Name* Haz Elmamoun** ***Organisation* Engage Consulting Limited** ***Telephone Number* 07887 730483** ***Email address* haz.elmamoun@engage-consulting.co.uk**	
Attachments: Yes / No *(delete as appropriate) (mandatory by originator)* No. **If Yes, Title and No. of Pages of Each Attachment:**	