

INITIAL WRITTEN ASSESSMENT for Modification Proposal P157 Replacement of current Supplier Charges rules

Prepared by: ELEXON¹ Limited

Date of issue:	09/01/04	Document reference:	P157IR
Reason for issue:	Decision	Issue/Version number:	1.0

This document has been distributed in accordance with Section F2.1.10² of the Balancing and Settlement Code.

RECOMMENDATIONS

On the basis of the initial assessment BSCCo recommends that the Panel:

- **DETERMINE that Modification Proposal P157 should be submitted to the Definition Procedure;**
- **AGREE the Definition Procedure timetable such that a Definition Report should be completed and submitted to the Panel for consideration at its meeting on 11 March 2004;**
- **DETERMINE that the Definition Procedure should be undertaken by the Volume Allocation Standing Modification Group (VASMG); and**
- **AGREE any refinement to the Modification Group Terms of Reference.**

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¹ ELEXON Ltd currently fulfils the role of the Balancing and Settlement Code Company ('BSCCo'), pursuant to Annex X-1 of the Balancing and Settlement Code (the 'Code').

² The current version of the Code can be found at www.elexon.co.uk/ta/bscrel_docs/bsc_code.html

CONTENTS TABLE

Summary of impacted parties and documents	3
1 Description of Proposed Modification.....	4
1.1 Modification Proposal.....	4
1.2 Issues raised by the Modification Proposal.....	5
2 Initial assessment of impacts of Modification Proposal.....	5
2.1 Impact on BSC Systems and processes	5
2.2 Impact on other systems and processes used by Parties.....	5
2.3 Impact on documentation	5
2.3.1 Impact on Balancing and Settlement Code.....	5
2.3.2 Impact on Code Subsidiary Documents	5
2.4 Impact on Core Industry Documents.....	5
2.5 Impact on other configurable items.....	5
3 Impact on BSCCo	5
4 Impact on BSC Agent contractual arrangements	5
5 Rationale for BSCCo’s recommendations to the Panel	5
6 Process, timetable and cost for progressing the Modification Proposal	5
7 Document control	5
7.1 Authorities.....	5
7.2 References	5
Annex 1 Modification Proposal	5
Annex 2 Gantt chart.....	5

SUMMARY OF IMPACTED PARTIES AND DOCUMENTS

As far as BSCCo has been able to assess the following parties/documents have been initially identified as being potentially impacted by Modification Proposal P157.

Parties	Sections of the BSC	Code Subsidiary Documents	
Suppliers <input checked="" type="checkbox"/>	A <input type="checkbox"/>	BSC Procedures <input checked="" type="checkbox"/>	
Generators <input checked="" type="checkbox"/>	B <input type="checkbox"/>	Codes of Practice <input type="checkbox"/>	
Licence Exemptable Generators <input checked="" type="checkbox"/>	C <input type="checkbox"/>	BSC Service Descriptions <input type="checkbox"/>	
Transmission Company <input type="checkbox"/>	D <input type="checkbox"/>	Service Lines <input type="checkbox"/>	
Interconnector <input checked="" type="checkbox"/>	E <input type="checkbox"/>	Data Catalogues <input type="checkbox"/>	
Distribution System Operators <input type="checkbox"/>	F <input type="checkbox"/>	Communication Requirements Documents <input type="checkbox"/>	
Party Agents			
Data Aggregators <input type="checkbox"/>	G <input type="checkbox"/>	Reporting Catalogue <input type="checkbox"/>	
Data Collectors <input type="checkbox"/>	H <input type="checkbox"/>	MIDS <input type="checkbox"/>	
Meter Operator Agents <input type="checkbox"/>	J <input type="checkbox"/>	Core Industry Documents	
ECVNA <input type="checkbox"/>	K <input type="checkbox"/>	Grid Code <input type="checkbox"/>	
MVRNA <input type="checkbox"/>	L <input type="checkbox"/>	Supplemental Agreements <input type="checkbox"/>	
BSC Agents			
SAA <input type="checkbox"/>	M <input type="checkbox"/>	Ancillary Services Agreements <input type="checkbox"/>	
FAA <input type="checkbox"/>	N <input type="checkbox"/>	Master Registration Agreement <input type="checkbox"/>	
BMRA <input type="checkbox"/>	O <input type="checkbox"/>	Data Transfer Services Agreement <input type="checkbox"/>	
ECVAA <input type="checkbox"/>	P <input type="checkbox"/>	British Grid Systems Agreement <input type="checkbox"/>	
CDCA <input type="checkbox"/>	Q <input type="checkbox"/>	Use of Interconnector Agreement <input type="checkbox"/>	
TAA <input type="checkbox"/>	R <input type="checkbox"/>	Settlement Agreement for Scotland <input type="checkbox"/>	
CRA <input type="checkbox"/>	S <input checked="" type="checkbox"/>	Distribution Codes <input type="checkbox"/>	
Teleswitch Agent <input type="checkbox"/>	T <input type="checkbox"/>	Distribution Use of System Agreements <input type="checkbox"/>	
SVAA <input type="checkbox"/>	U <input type="checkbox"/>	Distribution Connection Agreements <input type="checkbox"/>	
BSC Auditor <input type="checkbox"/>	V <input type="checkbox"/>	BSCCo	
Profile Administrator <input type="checkbox"/>	W <input type="checkbox"/>	Internal Working Procedures <input checked="" type="checkbox"/>	
Certification Agent <input type="checkbox"/>	X <input type="checkbox"/>	Other Documents	
MIDP <input type="checkbox"/>		Transmission Licence <input type="checkbox"/>	
TLFA <input type="checkbox"/>			
Other Agents			
SMRA <input type="checkbox"/>			
Data Transmission Provider <input type="checkbox"/>			

Estimated cost for progressing P157 through Modification Procedures	£ 0 + 80 ELEXON man days
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1 DESCRIPTION OF PROPOSED MODIFICATION

1.1 Modification Proposal

Modification Proposal P157 'Replacement of current Supplier Charges rules', (P157), was raised on 5 January 2004 by EDF Energy. P157 proposes to replace the current Supplier Charges rules in Annex S-1 of the Code with a robust set of rules that adhere to the proposed criteria for a corrective technique suggested by the VASMG on its work on Issue 6 (Supplier Charges).

The Proposer believes that a firm set of transparent rules will improve the quality of data entering settlement. The latest BSC Audit has been qualified and it is the Proposer's view that a major contributory factor to this was the level of poor data quality in Supplier Volume Allocation especially within the Non Half Hourly sector. Supplier Charges are intended to be a corrective technique but the recent work of the VASMG on Issue 6 has raised serious concerns over the appropriateness of the current rules and their effectiveness as a corrective technique.

P157 also proposes to minimise the effort required to process the existing Supplier Charges rules, calculated using pre-P99 Serials, by ensuring that there is no need for the old set of rules to be "run off" over a period of 14 months (see later).

During consideration of Issue 6 by the VASMG, it was decided that the new rules should satisfy as many of the following principles as possible to be effective:

- **Simplicity:** Simplicity should ensure that the technique is understood by all participants and all participants would be aware of the circumstance in which the technique would apply to them. However, the VASMG suggested that simplicity should not equate to rudimentary.
- **Transparency and Clarity:** Most VASMG members considered it important that participants are able see how the Performance Assurance Framework (PAF) techniques were to be applied to them. All elements of the technique should be visible and it should be clear what is expected of participants and what the effects of the technique are.
- **Significant in Magnitude:** The VASMG agreed that there was little point in having incentives if they only had a negligible financial impact.
- **Progressive and Reflective of Performance:** The VASMG agreed that incentives should be explicitly linked to a clearly desired outcome. The further participants deviate from their obligations, the bigger the incentive should be to comply.
- **Reflective of Impact:** The VASMG noted that a failing participant with a significant market share would have a bigger impact on settlement than a smaller participant. The VASMG agreed that the ability to scale the technique was desirable, provided that it does not add too much complexity.
- **Immediacy:** The group agreed that incentives work best when the non-compliance is addressed quickly. Delayed processing may have the effect of lessening the impact.

The VASMG have discussed several ideas for alternative incentive mechanisms and corrective techniques. These are (see Panel paper 69/020 for a more detailed view of the VASMG discussion of these options):

- **New Supplier Charges:** Based on obligations relating to the percentage of actual energy data entering Settlement. Suppliers can easily ascertain their liabilities based on their own performance. In addition there would be no cap and an appeal mechanism would be set up;
- **Reallocation of Grid Supply Point (GSP) Group Correction energy based on estimates submitted into Settlement:** The VASMG considered the idea of amending the current rules

surrounding the application of GSP Group Correction energy. Two possible scenarios were considered. First, to apply a greater proportion of the group correction energy to Estimated Annual Consumptions (EACs) than to Annualised Advances (AAs). The second scenario would see additional volumes being applied directly to EACs (as opposed to applying a Group Correction Factor);

- **Naming:** The VASMG considered two proposals relating to the use of Naming as a corrective technique. The first was to use simple peer comparison reported on a regular basis. The second idea was to use naming by exception.

The VASMG will have to decide which of these techniques, in isolation or combination is the most preferable taking into account the principles listed above, or if there are any other options.

The Implementation Date suggested as being the most efficient by the Modification Proposal is 1 May 2004, the P99 Implementation Date. The rationale behind such an Implementation Date would be for it to accomplish several things; to prevent the need to "run off" the pre-P99 Supplier Charges provisions within the Code which relate to the pre-P99 set of Serials, and to replace these with a new mechanism that would incentivise Suppliers to enter accurate data into Settlement. A practical implementation of this would be to terminate the existing pre-P99 Supplier Charges on 1 May 2004, whilst introducing the new technique as brought in by P157 for Settlement Days on or after this date. It could be argued that having Supplier Charge provisions within the Code prior to 1 May 2004 was enough of an incentive and that the application of such charges during a 14 month "run off" will not induce any corrective behaviour.

As explained below the Supplier Charge calculations are being carried out to a timetable which is scheduled to complete during late 2004. If the proposed rate of Supplier Charge calculation is agreed by Performance Assurance Board (PAB) and maintained, the April 2004 reporting month Supplier Charges will be calculated in November 2004. Therefore November 2004 may be the first month during which the P99 May 2004 Supplier Charges will be calculated, so November 2004 may be a more suitable Implementation Date for P157.

The Proposer considered that P157 better facilitated the achievement of Applicable BSC Objectives (c) and (d). The achievement of Applicable BSC Objective (d) - promoting efficiency in the implementation and administration of the balancing and settlement arrangements, would be achieved by P157 since the quality of data entering Settlement will be improved through the introduction of a Supplier Charges mechanism that is easily understood and that provides incentives on Parties. The Proposer further argued that any mechanism that is effective in improving data quality should also better facilitate the achievement of Applicable Objective (c) – promoting effective competition in the generation and supply of electricity, and promoting such competition in the sale and purchase of electricity.

1.2 Issues raised by the Modification Proposal

An initial assessment of Modification Proposal P157 has identified the following potential areas of impact and issues which will need to be considered and addressed in progressing the Modification Proposal.

- The definition of the new rules to replace the current Supplier Charges must be developed and assessed against the criteria set out by the VASMG (as listed above);
- The Modification Proposal appears to give flexibility to the choice of an Implementation Date, whilst at the same time recommending that it believes the most efficient solution to be 1 May 2004. The VASMG would have to consider all aspects of the Implementation Date implications as described above. It will then need to decide the most suitable Implementation Date for P157;
- Interaction with the P99 Project development plans must be considered. The P99 Project has thus far not needed to implement the existing Supplier Charges rules. The calculation of existing Supplier Charges was suspended whilst a technical solution to deal with trade sales was developed. The

calculations have now commenced with the expectation that the December 2001 Supplier Charges will be presented to the PAB at its January 2004 meeting. PAB will need to agree a suitable timetable for the calculation of Supplier Charges for periods from January 2002 onwards. This is likely to be completed later in 2004. Due to the complexity of the Supplier Charges rules, and in particular the rules related to capping, it is not possible to calculate Supplier Charges based on P99 Serials until the pre-P99 catch up has been completed. It is therefore appropriate that the development of Supplier Charges rules within P99 Performance Assurance Reporting and Monitoring System (PARMS) is deferred until later in 2004, allowing time for the progression of P157.

These issues are to be put into the Modification Group's Terms of Reference.

2 INITIAL ASSESSMENT OF IMPACTS OF MODIFICATION PROPOSAL

2.1 Impact on BSC Systems and processes

An initial assessment has been undertaken in respect of all BSC Systems and processes and the following has been identified as potentially being impacted by the Modification Proposal.

BSC System / Process	Potential Impact of Proposed Modification
Reporting	BSC Systems and Processes associated with reporting may change.

2.2 Impact on other systems and processes used by Parties

An initial assessment has been undertaken in respect of systems and processes used by Parties and the following has been identified as potentially being impacted by the Modification Proposal.

System / Process	Potential Impact of Proposed Modification
Reporting	The data Parties submit and receive may change.

2.3 Impact on documentation

2.3.1 Impact on Balancing and Settlement Code

An initial assessment has been undertaken in respect of all Sections of the Code and the following Section has been identified as potentially being impacted by the Modification Proposal.

Item	Potential Impact of Proposed Modification
Annex S-1	The current Supplier Charges rules are contained in Annex S-1 and these will be replaced.

2.3.2 Impact on Code Subsidiary Documents

An initial assessment has been undertaken in respect of all Code Subsidiary Documents and the following document has been identified as potentially being impacted by the Modification Proposal.

Item	Potential Impact of Proposed Modification
BSCP536 "Supplier Charges"	The current Supplier Charges rules will be replaced.

2.4 Impact on Core Industry Documents

An initial assessment has been undertaken in respect of Core Industry Documents and no documents have been identified as being impacted by the Modification Proposal.

2.5 Impact on other configurable items

An initial assessment has been undertaken in respect of other configurable items and the following have been identified as potentially being impacted by the Modification Proposal.

Item	Potential Impact of Proposed Modification
PARMS related items	PARMS related configurable items would have to be modified to carry out the calculations required by P157.

3 IMPACT ON BSCCO

An initial assessment has been undertaken in respect of BSCCo and the following have been identified as potentially being impacted by the Modification Proposal.

Area of Business	Potential Impact of Proposed Modification
BSCCo Systems	The PARMS system may have to be modified to carry out the calculations required by P157, depending on the solution chosen.
BSCCo Procedures	Several areas of BSCCo may be affected by P157 including Stakeholder Assurance, Corporate Assurance, Finance and possibly Service Delivery. There may also be an impact on the P99 Project depending on the solution chosen. An assessment of the impact will be identified during any Assessment Procedure.
Other (e.g. costs, staffing, etc.)	An assessment of the cost of P157 will be made during the Assessment Procedure and will depend on the solution chosen.

4 IMPACT ON BSC AGENT CONTRACTUAL ARRANGEMENTS

An initial assessment has been undertaken in respect of BSC Agent contractual arrangements and none have been identified as potentially being impacted by the Modification Proposal.

5 RATIONALE FOR BSCCO'S RECOMMENDATIONS TO THE PANEL

BSCCo recommend to the Panel that P157 progress to a 2 month Definition Procedure with the Definition Report being presented to the Panel at its meeting on the 11 March 2004.

A practical test used to decide whether a Modification Proposal requires further definition before it is assessed is whether the Proposed Modification can be written in plain English. The VASMG have deliberated the matters and solutions associated with this subject of Supplier Charges under Issue 6 for several months. The Proposer raised Modification Proposal P157 so that the more detailed work required to implement a replacement to the current Supplier Charges rules could be undertaken and a solution could be decided upon and hence no solution was recommended by the Modification Proposal. For this reason a 2 month Definition Procedure is recommended. This is to provide the Modification Group sufficient time to consider the issues in Section 1.3, issue a consultation document and in turn create a clear statement of the P157 requirements prior to entering the Assessment Procedure.

6 PROCESS, TIMETABLE AND COST FOR PROGRESSING THE MODIFICATION PROPOSAL

BSCCo recommends that this Modification Proposal be submitted to the VASMG for further definition. The VASMG should be actioned to provide its report to the Panel on 11 March 2004. The VASMG will have two meetings and issue one consultation document to industry in this period (See Gantt chart in annex 2).

7 DOCUMENT CONTROL

7.1 Authorities

Version	Date	Author	Reviewer	Change Reference
0.1	07/01/04	Dena Harris	Change Delivery	P157IR
0.2	08/01/04	Dena Harris	Change Delivery	P157IR
0.3	08/01/04	Dena Harris	Change Delivery	P157IR
1.0	09/01/04	Dena Harris	Change Delivery	P157IR

7.2 References

Ref	Document	Owner	Issue date	Version
P99MR	"Changes to Accreditation and the PARMS Serials and Standards, resulting from the Performance Assurance Framework (PAF) Review (Phase 1)"	BSCCo	24/01/03	1.0
69/020	Issue 6 – Report from the VASMG	BSCCo	13/11/03	1.0

ANNEX 1 MODIFICATION PROPOSAL

Modification Proposal	MP No: 157 <i>(mandatory by BSCCo)</i>
Title of Modification Proposal <i>(mandatory by proposer):</i> Replacement of current Supplier Charges rules.	
Submission Date <i>(mandatory by proposer):</i> 05 January 2004.	
Description of Proposed Modification <i>(mandatory by proposer):</i> The Supplier Charge rules set out in Annex S-1 should be replaced by a robust set of rules that adhere to the proposed criteria for a corrective technique suggested by the VASMG on its work on Issue 6. Any revised Supplier Charges would be most efficiently implemented with a Calendar Day Implementation of 1 May 2004 to accompany the revised changes to the Performance Assurance Framework and avoid unnecessary cost to, and work being carried out on, the new P99 PARMS. A Calendar Day will also prevent the need to "run off" the pre-P99 Supplier Charge provisions within the Code which are being replaced on the Settlement Day of 1 May 2004.	
Description of Issue or Defect that Modification Proposal Seeks to Address <i>(mandatory by proposer):</i> The latest BSC Audit has been qualified. A major contributory factor to the qualification was the level of poor data quality in Supplier Volume Allocation especially the Non Half Hourly sector. Supplier Charges are meant to act as a corrective technique but the recent work of the Volume Allocation Standing Modification Group on Issue 6 has raised serious concerns over the appropriateness of the current rules and their contribution to the efficiency of the Trading Arrangements. The rules that govern Supplier Charges require replacement. The VASMG suggested that the current Supplier Charges do not qualify as an effective corrective technique against a simple set of criteria. Annex S-1 needs to be revised with a more robust set of rules in line with the principles agreed by the Volume Allocation Standing Modification Group.	
Impact on Code <i>(optional by proposer):</i> Revision of Section S: Annex S-1	
Impact on Core Industry Documents <i>(optional by proposer):</i> Revision of BSCP 536: Supplier Charges	
Impact on BSC Systems and Other Relevant Systems and Processes Used by Parties <i>(optional by proposer):</i> Impact on PARMS	
Impact on other Configurable Items <i>(optional by proposer):</i>	

Modification Proposal	MP No: 157 <i>(mandatory by BSCCo)</i>
<p>Justification for Proposed Modification with Reference to Applicable BSC Objectives <i>(mandatory by proposer):</i></p> <p>The prime aim of this Modification Proposal is to improve the quality of data coming forward into Settlements, through the introduction of a Supplier Charges mechanism that is easily understood and that provides corrective techniques. It follows that Applicable BSC Objective (d) - promoting efficiency in the implementation and administration of the balancing and settlement arrangements, would be better facilitated by this Modification. It can be further argued that any mechanism that is effective in improving data quality should also better facilitate Applicable Objective (c) – promoting effective competition in the generation and supply of electricity, and promoting such competition in the sale and purchase of electricity.</p>	
<p>Details of Proposer:</p> <p style="padding-left: 40px;">Name: Paul Chesterman</p> <p style="padding-left: 40px;">Organisation: EDF Energy</p> <p>Telephone Number: 020 7752 2527</p> <p style="padding-left: 40px;">Email Address: Paul.Chesterman@edfenergy.com</p>	
<p>Details of Proposer's Representative:</p> <p style="padding-left: 40px;">Name: Tony Diccico</p> <p style="padding-left: 40px;">Organisation: EDF Energy</p> <p>Telephone Number: 020 7752 2521</p> <p style="padding-left: 40px;">Email Address: Tony.Diccico@edfenergy.com</p>	
<p>Details of Representative's Alternate:</p> <p style="padding-left: 40px;">Name: Paul Chesterman</p> <p style="padding-left: 40px;">Organisation: EDF Energy</p> <p>Telephone Number: 020 7752 2527</p> <p style="padding-left: 40px;">Email Address: Paul.Chesterman@edfenergy.com</p>	
<p>Attachments: NO</p> <p>If Yes, Title and No. of Pages of Each Attachment:</p>	

ANNEX 2 GANTT CHART

