



## Stage 04: Draft Modification Report

Self-Governance Modification: final decision to be made by the Panel on 13 December 2012

# P288: Aligning Supplier Charge SP08a calculation with current practice

This Modification Proposal seeks to align a minor inconsistency between the BSC and the current Supplier Charge calculation for PARMS Serial SP08a, so that BSC reflects that SP08a is calculated to 1 d.p. instead of 2 d.p.



The Panel initially recommends:  
**Approval** of the Proposed Modification under the Self-Governance arrangements



Low Impact:  
ELEXON

What stage is this document in the process?

01 Initial Written Assessment

02 Definition Procedure

03 Assessment Procedure

▶ 04 Report Phase



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### Any questions?

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## About this document:

This document is the P288 Draft Modification Report, updated following the P288 Report Phase Consultation for presentation to the Panel on 13 December 2012. The Panel will consider the recommendations, and agree a final view on whether or not this change should be made.

P288 is being progressed under the Self-Governance arrangements. Unless the Authority decides to intervene, the Panel will determine whether or not P288 is approved for implementation. In accordance with Section F6.4 of the BSC, Parties will then have 15 Working Days to appeal the Panel's decision to the Authority.

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### Why Change?

There is a minor inconsistency between the Code and the Performance Assurance Reporting and Monitoring System (PARMS) in relation to the calculation of underperformance against PARMS Serial SP08a for the purpose of Supplier Charges.

BSC Section S Annex S1, 3.2.2 states that the Supplier Charges for PARMS Serial SP08a is calculated on underperformance rounded to 2 d.p. Supplier Charges for SP08a are currently, and have always, calculated based on underperformance values calculated to 1 d.p. in PARMS. Changing the Code to reflect how the system work is the more efficient and cost effective solution as no System changes are required and there will be no impact on parties as the Code will reflect current practice. This solution was recommended to the Panel by the Performance Assurance Board (PAB) which is responsible for the application of the Performance Assurance Techniques (PATs), which includes Supplier Charges.

### Solution

The Proposed Solution will amend Section S Annex S1, 3.2.2 to reflect that underperformance against PARMS Serial SP08a for the purpose of Supplier Charges is calculated to 1 d.p. rather than 2 d.p. as stated currently in the Code.

### Impacts & Costs

P288 is a Code only change; it will not have any effect on ELEXON's activities, BSC Parties and Party Agents, BSC Systems and process, Code Subsidiary Documents or contractual arrangement with service providers.

### Implementation

P288 requires only minimal changes to the Code, and if approved will be implement 1 Working Days after the 15 Working Day Self-Governance Appeal window closes. This window would close on 7 January 2013 (allowing for the Christmas, Boxing Day and New Year bank holidays). Therefore this Modification would be implemented on 8 January 2013.

### The Case for Change

The Panel believes that this Modification better facilitates Applicable BSC Objective (d) in that it removes a potentially confusing inconsistency from the BSC. The Panel considers it to be self-evident that changing the Code to reflect the current practice of calculating underperformance for the SP08a to 1 d.p. for the purpose of the Supplier Charges is more cost efficient and effective. It also avoids the potentially costly system changes to align the relevant systems with the Code, which may also have a wider impact on parties.

### Recommendations

The Panel's initial unanimous view is that P288 Proposed Modification should be approved and that it should be progressed as a Self-Governance Modification Proposal.

### What is the Defect?

Supplier Charges applicable to PARMS Serial SP08a are calculated based on an underperformance values to 1 d.p. The Code currently states it should be calculated to 2 d.p.

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## 2 Why Change?

Supplier Charges applicable to PARMS Serial SP008a – “Percentage of Non-Half Hourly (NHH) Energy Settled on Annual Advances” are currently, and have always been, calculated using an underperformance values rounded to 1 decimal place (d.p.). However, the BSC requires underperformance against SP08a should be calculated to 2 d.p. for the Supplier Charge calculation.

The Modification was raised by the Panel following a recommendation from the PAB to align the BSC with current practice.

### What are the Supplier Charges?

Supplier Charges is a remedial technique within the Performance Assurance Framework (PAF). They are liquidated damages that Suppliers incur if they fail to meet certain performance levels and compensate Parties disadvantaged by those who are not meeting defined standards. They are a form of genuine pre-estimate of loss.

The Performance Assurance Reporting and Monitoring System (PARMS) has 11 Supplier ‘Serials’, of which 4 have associated Supplier charges. A Supplier’ performance is measured against these serials, with PARMS calculating the Supplier Charges due each month based on any underperformance of the Supplier against the relevant PARMS Serials.

PARMS Serial SP08 monitors the percentage of energy settled on Annual Advances (AA) and Actual Readings. The Supplier Charge values for SP08 and the associated performance levels for the 2012/2013 are:

PARMS Serial	Description	Volume Allocation Run	Performance Level (%AAs)	Supplier Charge (£) per MWh of Underperformance
SP08a	% Energy Settled on Actual (NHH)	R3	80	0.19
SP08a		RF	97	2.04
SP08b	% Energy Settled on Actual (HH)	SF	99	0.19
SP08b		R1	99	2.04
SP08c	% Energy Settled on Actual (HH non-100kW)	RF	99	2.04

### What is the Issue?

PARMS Serial SP08a relates to the percentage of NHH Energy Settled on Annual Advances (%AA). The %AA values are submitted by SVAA each month in the SP08a file, which only allows %AA values to be stored to 1 d.p. Therefore the underperformance can only ever be calculated to 1 d.p.

For example, if a NHH Supplier was settling 96.44%AA at RF it would be underperforming by 0.56%. However the SP08a file stores the %AA value as 96.4% which would equate to an underperformance of 0.6%. However, BSC Annex S-1 section 3.2.2 requires that the Supplier Charges for PARMS Serial SP08a should be calculated on underperformance values rounded to 2 d.p. This has been the case since Supplier Charges for SP08a were introduced.

Note: This issue does not impact SP08b or SP08c as PARMS aggregates the energy volumes for each Settlement Day in SP08b and SP08c for each reporting period to calculate the %AA values to 2 d.p and are currently aligned with the BSC requirements. Whereas for SP08a PARMS uses the submitted %AA values to calculate underperformance.

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## 3 Solution

### Proposed solution

A one word change to Section S Annex S-1 Section 3.2.2 will be made to reflect that underperformance calculated for SP08a is rounded to 1d.p. and not 2d.p.

The proposed solution has no material impact on Parties as it would align the Code with the longstanding practice.

### Legal Text

The proposed legal text can be found in Attachment A.

### Why not change the system?

This issue was first identified in August 2004, when a paper explaining the situation was presented to the Supplier Volume Allocation Group (SVG). The SVG considered the inconsistency and decided to raise a Change Proposal (CP) to amend PARMS such that Supplier Charges for SP08a would be calculated to 2 d.p.

CP1071 'Amendment of SVAA and PARMS to correct decimal place issue' was subsequently raised and impact assessed. The estimated cost of implementing this change to the PARMS systems was around £16K.

In November 2004 the SVG considered CP1071 and debated whether or not the materiality of the issue outweighed the implementation costs. The SVG concluded that materiality of the issue did not outweigh the implementation costs and rejected the change, requesting that ELEXON log the issue in case an opportunity to address the issue in a cost-effective manner arose. Since that time, a suitable opportunity to amend PARMS in a cost effective way has not presented itself.

In early 2012 this issue was revisited following a query from a Party. In order to see if the materiality had changed since 2004 ELEXON undertook some analysis to find out the net impact on Parties by comparing the existing net impact with a re-calculated net impact where the SP08a had been calculated to 2 d.p.

The analysis showed that across the 2011 Supplier charge year the net difference was £76. For the Supplier charge year, there were 25 (4.66%) occurrences where a Supplier MPID had an impact of more than £1,000, either positively or negatively. On a Trading Party level, the analysis showed that only five Party IDs (5 of the big 6) were impacted by more than £1000 (either positively or negatively). With the biggest underpayment in a reporting period during 2011 was £2,495 and the biggest overpayment was £2,503.

Having reviewed the materiality, ELEXON believed the issue should be considered by the Performance Assurance Board (PAB), which is responsible for the Performance Assurance Framework including the deployment of each of the Performance Assurance Techniques (including PARMS and Supplier Charges), and a decision made as to whether the inconsistency should be removed by amending PARMS or the Code.

The issue was presented to the PAB at its July meeting (PAB138/05), with the option of either a:



#### Supplier Charge Dates

The Supplier Charge year is 1 April to 31 March

The Supplier charge month is each calendar month.

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- CP with an estimated implementation cost of at least £16,000 (likely more having not taken into account 8 years of inflation, although no formal new IA has been carried out) to change PARMS; or
- Modification to change the Code to reflect the current practice (only involving the cost of one man day to amend Section S Annex S1).

On consideration of the issue, the PAB decided that a recommendation to raise a Modification to the Panel should be made, such that the Code should reflect the existing practice. This results in avoiding the cost in changing PARMS, any resultant impact on parties and maintains the current status quo.

## 4 Impacts & Costs

### Costs

Implementation costs	
ELEXON effort	1 man day equating to £240
<b>Total costs</b>	<b>Approximately £240</b>

### Impacts

The Proposed Solution is a Code only change, and would amend the BSC as set out in the draft legal text in Attachment A. Its implementation would have no effect on BSC Parties and Party Agents, BSC Systems and Processes, Code Subsidiary Documents or the contractual arrangements with our service providers.

Impact on BSC Systems and process
None

Impact on BSC Agent/service provider contractual arrangements
None

Impact on BSC Parties and Party Agents
None. The Proposed Modification P288 will not cause any changes to Parties' Supplier Charges as the change reflects current practice.

Impact on Transmission Company
None

Impact on ELEXON
Minor impact to update the BSC Code section

Impact on Code	
Code section	Potential impact
Section S – Annex S-1 Section 3.2.2	Change will be required to implement the solution. Involving the replacement of the reference to the SP08a calculation being carried out to 2 d.p. being replaced by 1 d.p.

Impact on Code Subsidiary Documents
None

Impact on Core Industry Documents and other documents
None

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## 5 Implementation

### Implementation Approach

The Modification Proposal does not require system changes. As such, the Panel recommends that it is implemented 1 Working Day after the 15 day Self-Governance Appeal window has closed. The window would close on 7 January 2013 (allowing for the Christmas, Boxing Day and New Year holidays). This would mean that the Modification would be implemented on **08 January 2013**.

### Self-Governance

The Panel unanimously agreed that P288 meets the Self-Governance Criteria set out in Annex X-1 of the Code, and therefore agreed that it should progress as a Self-Governance Modification Proposal.

This Modification Proposal would only have a small impact on ELEXON. It has no impact on BSC Parties as the proposed change to the code will align it with existing practice.

## 6 The Case for Change

### Justification against the Applicable BSC Objectives

The Panel believes that P288 better facilitates the achievement of BSC Objective (d), “promoting efficiency in the implementation of the Balancing and Settlement arrangements”.

The Panel believes it is self-evident that the Proposed Modification will remove a potentially confusing inconsistency in the BSC. Equally this change ensures that the alternative costly system changes, and material impact on Parties, are avoided by aligning the Code with existing practice.



## 7 Panel's Initial Discussions

### Panel's consideration of the Modification Proposal

When considering the proposed Modification, a Panel member noted the net difference of £76, but queried what the biggest gross Supplier Charge difference across 2011 for a Party was. Analysis from an interested person had suggested £18,000.

ELEXON clarified that £18,000 was correct, but noted that this difference would only impact the Party if the Supplier Charge calculation for SP08a was changed to calculate the charge based on underperformance to 2.d.p and was re-run for 2011. As the Modification is not changing the system and maintaining the current practice of using 1 d.p. all Suppliers have always been treated the same.

A Panel Member added that the Supplier Charges process has a mechanism for parties to formally query a Supplier Charge if they have any concerns with it. The Panel member noted that no Supplier Charge queries have been raised in relation to the SP08a Supplier Charge.

## 8 Report Phase Consultation Responses

We received 5 responses, as summarised in the table below. The full responses to the P288 Report Phase Consultation are available in Attachment B and on the P288 page of the ELEXON website.

Summary of P288 report Phase Consultation Responses			
Question	Yes	No	Neutral/ Other
Do you agree that the draft legal, in Attachment A, delivers the intention of P288?	5	0	0
Do you agree with the Panel's suggested Implementation Date?	4	1	0
Do you agree with the Panel's view that P288 should be progressed as a Self-Governance Modification Proposal?	5	0	0
Do you agree with the Panel's views that the Proposed Modification should be approved?	5	0	0
Do you have any further comments on P288?	0	5	0

### Views on the Modification

All respondents were supportive of the Modification and agreed that the Modification should be made in order to address the identified inconsistency between the Code and the actual practice.

### Views on the Legal Text

All respondents agree that the proposed legal text delivers the aim of the Modification.

Following the Report Phase Consultation we have updated the P288 Proposed legal text to remove the typographical error of the pluralisation of decimal place. The updated legal text is provided as Attachment A.

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## Views on Implementation approach

Four out of five respondents agreed with the proposed implementation approach.

One respondent, who was fully supportive of the modification, believed a retrospective implementation date of NETA Go-live would be more appropriate. This would be in a similar manner to Modification [P235](#)<sup>1</sup>, which aligned the Code with how the FAA systems operated.

While retrospection is an option, the potential impacts on the current arrangements are minor and the material impact of P288 is very low, as the current process will be unchanged.

The main reason to make P288 retrospective would be to stop any queries on SP08a Supplier Charges. However as noted previously no Suppliers have raised queries on Supplier Charges associated with PARMS Serial SP08a since it was introduced, nor any since P288 was raised. Equally the deadline for raising queries against Supplier Charges for the most recent month is 10 WDs following receipt of the charge. You can only query the most recent Supplier charge period issued up to the 10 WD deadline, therefore retrospection is not needed. In light of this we still believe the proposed implementation approach is the most efficient and effective approach.

## Views on Self-Governance

All respondents to the Report Phase Consultation agreed that P288 should be treated as a Self-Governance Modification.

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<sup>1</sup> Aligning BSC requirements with the calculation of reconciliation interest performed by the Funds Administration Agent

## 9 Recommendations

ELEXON invites the Panel to:

- **NOTE** the P288 Draft Modification Report and the Report Phase consultation responses; and
- **DETERMINE** (in the absence of any Authority direction) that P288 is a Self-Governance Modification Proposal.
- **APPROVE** P288 with an implementation date of 1 Working Day after the Self-Governance appeal window closes (i.e. 08 January 2013); and
- **APPROVE** the legal text for Proposed Modification P288.

## 10 Further Information

More information is available in:

Attachment **A**: Proposed Legal Text

Attachment **B**: Report Phase Consultation Responses

All P288 documentation can be found on the [P288](#) page of the ELEXON website.