

Issue 62 'Amending the BSC arrangements to allow ELEXON to tender for the Uniform Network Code Gas Performance Assurance Framework Administrator (PAFA) role'



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About This Document

This document is the Issue 62 Group's Report to the BSC Panel. ELEXON will table this report at the Panel's meeting on 14 April 2016.

This document provides details of the Issue Group's discussions and proposed solutions to the highlighted issue and contains details of the Workgroup's membership.

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Gas Performance Assurance Framework

Unlike the electricity market, there is currently no performance assurance regime in place in the gas market. Ofgem have discussed the benefits of having a regime with the industry and have, on a number of occasions, expressed a view that a Performance Assurance Framework (PAF) should be introduced into the gas market.

Under the Uniform Network Code (UNC) there were two Modifications raised, MOD506 and MOD506A, both of which looked to introduce the desired gas PAF arrangements to facilitate the monitoring and reporting of Transporter, Shipper and Transporter Agency performance. This would incentivise parties operating in the gas market to reduce settlement risk and improve accuracy. The Authority approved MOD506 shortly after the Issue 62 Group concluded their discussions.

The PAF under MOD506 encompasses a new Sub-Committee under the Uniform Network Code Committee (UNCC), a Performance Assurance Framework Administrator (PAFA), and supporting business rules (as set out in Appendix 1).

Appointment of the Performance Assurance Framework Administrator

The under MOD506 the PAFA runs the performance assurance scheme with the oversight of the UNCC and/or any relevant sub-committee.

MOD506 requires Gas Transporters to appoint a PAFA by competitive tender. Conditions for such appointment will be set out in the [UNC Related Document 'Guidelines for Energy Settlement Performance Assurance Regime'](#).

Further information on MOD506 can be found on the [MOD506](#) page of the Gas Governance website.

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ScottishPower raised [Issue 62 'Amending the BSC arrangements to allow ELEXON to tender for the UNC Gas PAFA role'](#) on 2 November 2015, before the Authority decision on MOD506.

They believe that ELEXON has significant experience and understanding of performance assurance techniques in the energy industry and has transferable skills and knowledge that may potentially meet the criteria for the appointment of the PAFA. Issue 62 was raised to explore the potential for the BSC arrangements to be changed to allow ELEXON to bid for the Gas PAFA contract.

The Proposer requested that the Issue Group consider the following questions when looking at whether ELEXON should participate in a competitive PAFA tender:

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Questions considered under Issue 62

1	Based on Ofgem's suggested criteria under P284, when assessing whether to propose ELEXON's participation in the gas assurance arrangements, consider the following: <ul style="list-style-type: none">• how would BSC Parties benefit from any diversification;• how the arrangements could ensure that there is no disproportionate risk placed on BSC Parties (what ring fencing provisions are required?);• how standards of service under the BSC should be maintained; and• how to assure that ELEXON's BSC role does not give it any undue competitive advantage in a contestable activity.
2	What are the potential synergies (and benefits) associated with ELEXON providing settlement assurance services for both gas and electricity?
3	Is there a time constraint on when a Modification would be required to allow ELEXON to participate in the provision of gas assurance services?
4	What are the relevant applicable BSC objectives associated with ELEXON's participation in gas assurance services?
5	Do Parties believe ELEXON should provide services on a not for profit basis, akin to the BSC?
6	Who would decide if ELEXON would submit a bid (Panel, BSC Parties, Board)?
7	How could a bid from ELEXON be funded?
8	Are there any other factors that need to be considered for a Modification to be developed that would permit ELEXON's participation in the provision of gas assurance services?

Modification progression and tender timescales

The Proposer advised the Issue Group that UNC MOD506 would be implemented ahead of October 2016¹, with a tender process starting as early as March/April 2016. ELEXON advised that a BSC Modification would be required to allow ELEXON to undertake the PAFA work. Realistically a Modification would need to be put in front of Ofgem around April 2016.

The Ofgem representative advised that, with all being well, Ofgem hoped to get details on the decisions for the UNC Modifications out ahead of Christmas². They also advised that Ofgem prefers a competitive module and have already provided views on ELEXON expanding its business model in its decisions on previous Modifications ([P284 'Expansion of Elexon's role via the 'contract model''](#) and [P289 'Enabling ELEXON to participate in tendering for the DCC Licensee role via a subsidiary'](#)). However, it aims to ensure that there are no barriers to a competitive tender either. Ofgem believes that the more organisations involved in the tender the better the process and the bids submitted will be. It also believes that any piece of work that ELEXON can take on is a good thing as there are synergies and knowledge that is of use to both the gas and electricity markets.

The Proposer asked whether urgency may be granted for a BSC Modification in order to expedite the progression. ELEXON advised that Ofgem has published its criteria for urgency, which includes Modifications associated with a date related event. Ofgem did look at urgency under P284 in order to allow ELEXON to meet the Data and Communications Company (DCC) timescales. However, Ofgem favour allowing for as much flexibility as possible within the normal Modification arrangements over granting urgency, and note that ELEXON will work with Ofgem in order to facilitate a quick decision turn around on any Modification raised.

An Issue Group member advised that, even if a Modification is raised it may be up to the ELEXON Board as to whether or not a bid is submitted. ELEXON advised the Workgroup that the Board sees synergies and benefits in taking on the role of gas PAFA but also want to consider the views of BSC Parties. If there is a significant industry view that ELEXON should not participate in the bid for this role the Board will take this view into account.

Are Issue Group members supportive of ELEXON participating in a competitive tender for the gas PAFA role?

ELEXON asked the Issue Group if there was support for it participating in the tender process for the gas PAFA role.

One member expressed support for the idea and advised there will be synergies between the BSC PAF and gas PAF. They also noted ELEXON's ability to run the BSC PAF and operate the Performance Assurance Board (PAB) meetings. Another member agreed with this view but expressed concern about the short timescales for getting an enduring solution into the BSC. ELEXON responded that, given the size of the PAFA role, it is confident that an enduring solution for the operation of the service can be introduced in the timescales.

¹ MOD506 was implemented on 28 January 2016.

² Ofgem approved MOD506 on 17 December 2016.

The Ofgem representative advised that there was a lot of complexity surrounding the DCC work done under P284. They noted that there needs to be context on the size of the PAFA tender in comparison. The industry's concerns under P284 were that the day to day operation of the BSC may be skewed due to the size of the DCC work. However, the work required to bid for and run the PAFA role may be less than that for the DCC. They also note that this work could be seen as an extension of what ELEXON is already doing. Ofgem believe that there are lessons learned that ELEXON can apply to gas assurance as well as efficiencies in the gas market that could be applied to electricity. Ofgem are comfortable with ELEXON stepping outside the scope of its current role and bidding for the gas PAFA role. There are benefits to both gas and electricity and Ofgem wish to facilitate the best possible tender process.

A member supported the Proposer's views and added that it would be beneficial to their organisation, should ELEXON take on the role as Gas PAFA, as they operate in both the electricity and gas markets, making ELEXON a central point of contact for them.

How will BSC Parties benefit from diversification?

The Proposer advised that there is potential for ELEXON to bring knowledge of assurance and lessons learned into the gas market if it is awarded the role of gas PAFA. They note that there are companies in both the gas and electricity markets (Shippers and supply companies for example) that operate under dual fuel. Therefore there is benefit to both sides in having a single point of contact for performance assurance.

An Issue Group member added that there is a competitive benefit in allowing ELEXON to tender for the role as the more organisations involved the better the market competition and bids will be. Another member advised that there may be simplifications introduced into the electricity market based on lessons learned in the gas market.

ELEXON advised the group that it delivers two services that can be seen as similar in terms of a business model; Warm Homes Discount (WHD) and Electricity Market Reform (EMR). Under EMR there are ring-fenced costs and resources paid by the government. ELEXON created a shell company with no staff but there are clear and separate budgets for both EMR and BSC work, with costs having been reduced for BSC Parties overall. For WHD the cost to BSC Parties are also defrayed like the EMR costs. ELEXON anticipate this to be the case for the Gas PAFA work as well.

Ofgem advised that WHD seems to be the closest example of how it would envisage the PAFA role being undertaken by ELEXON, as it is not outsourced. They do not see a reason why a similar practice with separate companies and accounts and clear overhead contribution should be an issue under PAFA. They added that ring-fencing costs and having a clear distinction between the work will give Parties a clear view of how they are benefiting from this.

How will the current standard of BSC services be maintained?

The Proposer noted that ELEXON already reports on its performance to the industry and that its more about how this reporting can be used to ensure there is no additional slippage should the Gas PAFA role be taken on. ELEXON confirmed that it already reports to the Panel every month and would be happy to add additional information if a Modification Workgroup deemed it necessary.

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A member questioned the risk to future services. For example, there are changes coming out of Europe looking at a 15 minute Settlement Period. The member asked whether ELEXON see an impact on future work. ELEXON responded that there is a lot of potential change out there, including a 15 minute Settlement Period. However, we do not see taking on the PAFA role as being a potential hindrance. If we were to adopt a 15 minute Settlement Period the foundation of settlement would need to be changed regardless. ELEXON would look to resource up to deliver such future work and adding the PAFA role onto this will not be a hindrance on our ability to resource future work.

Operating costs and profit

The Proposer advised that it envisioned ELEXON operating on a not for profit basis akin to the BSC for operations as the Gas PAFA.

ELEXON advised that, due to the short amount of time to develop a solution under a Modification, it is difficult to see how this could be done on a profit basis rather than a not for profit. A Group member added that they cannot see a reason for ELEXON to suddenly make profits when they are looking to simply extend their assurance roles.

Ofgem added that operating on a not for profit basis does not mean you cannot make a profit, it just means you cannot issue dividends. However, they do not wish for another natural monopoly to be inadvertently created. Therefore, we need to make sure that ELEXON does not have access to something that no one else does in order to run the Gas PAFA. If they tender for the role they cannot be any better off than other tenders.

An issue group member asked whether it would be appropriate for the cost of any bid to be capped to ensure there is not going to be a high cost to Parties. Another member suggested that a Modification Workgroup consider capping the cost but also looking at Panel approval for bidding costs as an alternative approach sitting outside the Modification itself.

The Proposer asked whether the BSC Central Systems will need to be used should the gas PAFA role be undertaken by ELEXON. ELEXON advise that if there is a need to use a system we currently have in place the costs of doing so will need to form part of the bid submitted. However, we cannot determine what systems may be impacted until we have a better understanding of what the requirements are under the tender.

What are the potential synergies/benefits of ELEXON providing settlement assurance services for both gas and electricity?

ELEXON advised the Issue Group that there is a benefit in cross pollination between the gas and electricity industries. It also allows for details of how each side works to be of benefit to the other.

A member advised that ELEXON providing assurance services for both gas and electricity will mean better management of Shippers and Suppliers. ELEXON will be at the centre of each market meaning that if there are dual fuel system issues it may be best placed to help resolve them quickly and efficiently.

Another member noted that it may not be efficient for ELEXON to use two different approaches for gas and electricity assurance. The Proposer advised that there will be a 12-month grace period with the new gas assurance services to allow for those involved to look at what needs improving and changing. The intention of the gas assurance regime is

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for it to be built upon as time goes on. In the first instance it may not align with the BSC PAF. However, the gas PAF is not as stringent as the BSC PAF and will therefore require less effort to run.

ELEXON noted that it will be the Performance Assurance Committee (PAC) that determines what the Gas PAFA does. Therefore, we will not seek to change processes unless we have to but will of course flex to meet the PAC's expectations where needed.

Who would decide if ELEXON would submit a bid (the Panel, BSC Parties and/or the Board)?

We advised the Issue Group that the ELEXON Board will ultimately determine on what basis they will submit a bid for the Gas PAFA. However, the Board are keen to understand the industry's views on how this may be beneficial before it makes its decision.

Ofgem advised that the decision should be at the discretion of the Board. Any commercial organisation will have to factor in a margin themselves if they wish to bid. They added that they do not wish there to be a hindrance on the percentage required for the bid.

The Proposer believes that encouraging too much industry involvement in the decision to bid will potentially alienate the Board. They added that this is ultimately a commercial strategy decision. Other members expressed the view that they are comfortable with the Board making the decision to submit a bid.

Conclusions

The Issue 62 Group considered the questions set out in Section 1 at its meeting on 30 November 2015. Issue Group members were supportive of ELEXON participating in a competitive tender process for the Gas PAFA role and there were no objections raised.

They noted that ELEXON's experience and ability to run the electricity PAF arrangements and conduct the PAB meetings could be of great benefit when introducing a PAF in the gas market. There were some concerns raised about the short timescales in which to raise a BSC Modification to enable ELEXON to tender.

The Issue 62 Group did not formally recommend that a Modification be raised to amend the BSC. Though, the Issue 62 Proposer felt that they had obtained enough information and proceeded to raise Modification [P330 'Allowing ELEXON to tender for the Uniform Network Code Gas Performance Assurance Framework Administrator \(PAFA\) role'](#) following the positive discussions had by the Issue Group.

The Issue 62 Report will be tabled at the April 2016 Panel meeting.

Issue Group membership and attendance

Issue 62 Group Attendance		
Name	Organisation	30 Nov 15
David Jones	ELEXON (<i>Chair</i>)	✓
Talia Addy	ELEXON (<i>Lead Analyst</i>)	✓
Geoff Norman	ELEXON (<i>Legal</i>)	✓
Angela Love	ScottishPower (<i>Proposer</i>)	✓
Michael Houston	ScottishPower	✓
Paul Carman	ScottishPower	✓
Jonathan Dixon	Ofgem	✓
Gregory Mackenzie	British Gas	✓
Tim Newton	E.ON Energy	✓
Ravi Matharu	RWE Npower	✓

Appendix 2: Glossary & References

Acronyms

Acronyms used in this document are listed in the table below.

Acronyms	
Acronym	Definition
BSC	Balancing and Settlement Code
DCC	Data and Communications Company
EMR	Electricity Market Reform
LCC	Low Carbon Contract
PAB	Performance Assurance Board
PAC	Performance Assurance Committee
PAF	Performance Assurance Framework
PAFA	Performance Assurance Framework Administrator
UNC	Uniform Network Code
UNCC	Uniform Network Code Committee
WHD	Warm Home Discount

External links

A summary of all hyperlinks used in this document are listed in the table below.

All external documents and URL links listed are correct as of the date of this document.

External Links		
Page(s)	Description	URL
2	UNC MOD506 Guidelines for Energy Settlement Performance Assurance Regime	http://www.gasgovernance.co.uk/0506
2	UNC MOD506 page of the Gas Governance website	http://www.gasgovernance.co.uk/0506
2	Issue 62 page of the ELEXON website	https://www.elexon.co.uk/smg-issue/issue-62/
4	P284 page of the ELEXON website	https://www.elexon.co.uk/mod-proposal/p284/
4	P289 page of the ELEXON website	https://www.elexon.co.uk/mod-proposal/p289/
8	P330 page of the ELEXON website	https://www.elexon.co.uk/mod-proposal/p330/

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