

Phase

Initial Written Assessment

Definition Procedure

Assessment Procedure

Report Phase

Implementation

P330 'Allowing ELEXON to tender for the Uniform Network Code Gas Performance Assurance Framework Administrator (PAFA) role'

Approved Uniform Network Code (UNC) Modification 506 will introduce performance assurance arrangements into the gas market for the first time and will require a competitive tender exercise to appoint an independent Gas PAFA.

The P330 Proposer believes that ELEXON has significant experience and understanding of performance assurance techniques in the electricity industry and has transferable skills and knowledge that potentially meet the criteria for the appointment of the PAFA. This Modification therefore seeks to amend the BSC arrangements to allow ELEXON to bid for the Gas PAFA contract.

This Assessment Procedure Consultation for P330 closes:

5pm on Friday 11 March 2016

The Workgroup may not be able to consider late responses.



The Workgroup initially recommends **approval** of P330

This Modification is expected to impact:

- BSCCo
- All BSC Parties

P330
Assessment Procedure
Consultation

19 February 2016

Version 1.0

Page 1 of 28

© ELEXON Limited 2016

Contents

| | | |
|----------|--|-----------|
| 1 | Summary | 3 |
| 2 | Why Change? | 5 |
| 3 | Solution | 7 |
| 4 | Impacts & Costs | 10 |
| 5 | Implementation | 12 |
| 6 | Workgroup's Discussions | 13 |
| 7 | Workgroup's Initial Conclusions | 22 |
| | Appendix 1: Business Rules for UNC MOD506 | 23 |
| | Appendix 2: Workgroup Details | 25 |
| | Appendix 3: Glossary & References | 27 |



Contact

Talia Addy

020 7380 4043

talia.addy@elexon.co.uk



About This Document

The purpose of this P330 Assessment Procedure Consultation is to invite BSC Parties and other interested parties to provide their views on the merits of P330. The P330 Workgroup will then discuss the consultation responses, before making a recommendation to the BSC Panel at its meeting on 14 April 2016 on whether or not to approve P330.

There are three parts to this document:

- This is the main document. It provides details of the solution, impacts, costs, benefits, drawbacks and proposed implementation approach. It also summarises the Workgroup's key views on the areas set by the Panel in its Terms of Reference, and contains details of the Workgroup's membership and full Terms of Reference.
- Attachment A contains the draft redlined changes to the BSC for P330.
- Attachment B contains the specific questions on which the Workgroup seeks your views. Please use this form to provide your response to these questions, and to record any further views or comments you wish the Workgroup to consider.

P330
Assessment Procedure
Consultation

19 February 2016

Version 1.0

Page 2 of 28

© ELEXON Limited 2016

Why Change?

Approved Uniform Network Code (UNC) Modification 506 introduced performance assurance arrangements into the gas market for the first time and will require a competitive tender exercise to appoint an independent Gas PAFA.

The P330 Proposer believes that ELEXON has significant experience and understanding of performance assurance techniques in the electricity industry and has transferable skills and knowledge that potentially meet the criteria for the appointment of the PAFA.

Solution

P330 will enable the BSCCo Board to choose to bid for the role of Gas PAFA under the UNC (and perform the role if the contract is awarded to ELEXON). This will be done via a separate subsidiary (called 'PAFACo' in this Modification) which will be funded by ELEXON (thru BSC Parties).

As ELEXON operates on a not for profit basis, if the BSCCo Board determines a bid should be submitted, the costs incurred in submitting a bid will be borne by BSC Parties. Any bid costs will be capped at £100k. ELEXON will report its bid costs to the BSC Panel to ensure it does not breach this limit.

Impacts & Costs

The cost to implement P330 is estimated at £240 (one man day) for ELEXON to implement the required document changes.

It should be noted that this Modification only seeks to allow ELEXON to be able to bid for the Gas PAFA role. Therefore, the effort required to implement P330 is minimal and there are no implementation impacts and costs to BSC Parties or BSC Agents anticipated.

Indicative industry costs of P330

There are no implementation impacts or costs to BSC Parties or Party Agents anticipated as P330 only seeks to allow for ELEXON to be able to bid for the Gas PAFA role. However, the costs incurred in submitting a bid will be borne by BSC Parties. If the bid is successful, Parties will be reimbursed for the bid costs and will not have to bear the costs of operating the PAFA role.

Implementation

The Workgroup recommends an Implementation Date of 5 Working Days following Authority approval.

Recommendation

The Proposer and the Workgroup initially unanimously believe that P330 better facilitates Applicable BSC Objective (d) compared to the baseline and initially recommends that P330 is approved.

2 Why Change?

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) a Modification (MOD506) was raised to introduce the desired Gas PAF arrangements to facilitate the monitoring and reporting of Transporter, Shipper and Transporter Agency performance. It is believed that this will incentivise parties operating in the gas market to reduce settlement risk and improve accuracy. The Authority approved MOD506 on 17 December 2015.

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.

Issue 62

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:

| 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? |

| Questions considered under Issue 62 | |
|-------------------------------------|--|
| 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? |

The Issue 62 Group considered the questions set out above 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 Performance Assurance Board (PAB) meetings could be of great benefit when introducing a PAF in the gas market. There were concerns raised about the short timescales in which to raise a BSC Modification to enable ELEXON to tender.

What's the issue?

The Authority approved UNC MOD506 shortly after the Issue 62 Group concluded its discussions. The Issue Group proposer, ScottishPower, believed there was a positive response from Issue Group members on the idea of ELEXON bidding for the Gas PAFA role.

Currently, the BSC does not allow ELEXON to do anything that is not set out in the Code. Therefore, in order to allow the ELEXON Board the option of bidding for the Gas PAFA role a Modification is required to amend the BSC.

Proposed solution

P330 'Amending the BSC to allow ELEXON to tender for the Uniform Network Code Gas Performance Assurance Framework Administrator role' was raised by ScottishPower on 1 December 2015.

This Modification seeks to enable ELEXON to bid for the role of Gas PAFA under the UNC (and perform the role, functions and responsibilities if the contract is awarded to ELEXON). This will be done via a separate subsidiary (called 'PAFACo' in this Modification). The decision on whether to bid for the PAFA work (and set up 'PAFACo') will sit with the ELEXON Board.

P330 will make changes to the BSC to ensure that ELEXON is ring-fenced from any enduring operational costs and risks associated with performing the role of Gas PAFA (via 'PAFACo'), with ELEXON resources being shared. The Proposer believes that there should be no cross subsidy between different ELEXON services for the cost of delivering the PAFA.

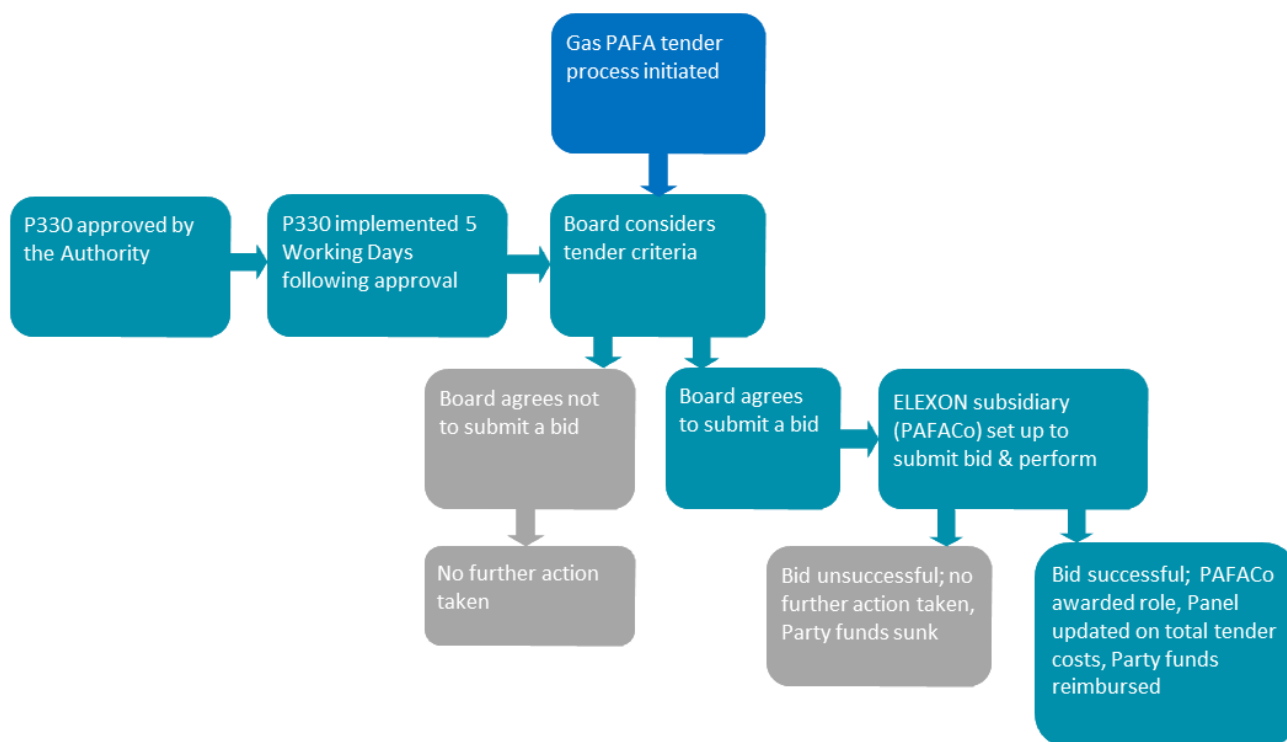
Bid Costs

If this Modification is approved, and the BSCCo Board determines that they wish to submit a bid for the PAFA role, BSC Parties will bear the cost of such a bid, since ELEXON operates as a not for profit organisation.

Under the P330 proposed solution the total cost for internal and external resources required for the bid has been capped at £100k. This capped value allows for variations and flexibility, as the criteria for the Gas PAFA tender have not yet been published. A summary of the internal and external activities required as part of the bidding process are highlighted in the table below.

| Bid Activities | |
|----------------|--|
| Internal | |
| o | tender evaluation |
| o | bid preparation |
| o | bid meetings |
| o | negotiations and clarifications |
| o | preparations for providing service |
| External | |
| o | legal support and advice (due diligence) |
| o | other (for example, contract support and advice) |

Under the proposed solution, ELEXON will be allowed to provide a loan to 'PAFACo'. If the a bid for the Gas PAFA role is lost there will be no liability on 'PAFACo' to repay the loan meaning funding costs will be sunk (as shown in the diagram below). If 'PAFACo' is successful in its bid the bid costs will be reimbursed to Parties.



Are there any Alternative Modifications?

The Workgroup do not believe there are any Alternative Modifications that would better facilitate the Applicable BSC Objectives.

Assessment Consultation Question

Do you have any potential Alternative Modifications within the scope of P330 which would better facilitate the Applicable BSC Objectives?

Please provide details of your Alternative Modification(s) and your rationale as to why it/they better facilitate the Applicable BSC Objectives.

The Workgroup invites you to give your views using the response form in Attachment B.

Other ELEXON activities outside the BSC

The Issue 62 Group noted that there are already two different models contained within the BSC where ELEXON (or an ELEXON subsidiary) conducts 'non-BSC' related activities. One model sits under the Warm Home Discount (WHD) scheme operated by ELEXON Ltd and the other under the Electricity Market Reform (EMR) services operated by the EMR Settlement Service Provider (EMRS). The Secretary of State directed both of these services.

It is worth highlighting that the tender and delivery for the Gas PAFA will be less complex than the Data and Communications Company (DCC) work to which P289 originally referred. There is a working assumption under the UNC that the procurement for the Gas PAFA, if MOD506 is approved by Ofgem, will be under the current [Official Journal of the European Union](#) (OJEU) procurement [threshold value](#) (£350k).

Draft legal text

The draft legal text changes can be found in Attachment A.

Assessment Consultation Question

Do you agree that the draft legal text in Attachment A delivers the intention of P330?
Please provide your rationale.

The Workgroup invites you to give your views using the response form in Attachment B.

4 Impacts & Costs

Estimated central implementation costs of P330

The cost to implement P330 is estimated at £240 (one man day) for ELEXON to implement the required document changes.

It should be noted that this Modification only seeks to enable ELEXON to be able to bid for the Gas PAFA role. Therefore, the effort required to implement P330 is minimal.

Indicative industry costs of P330

There are no implementation impacts or costs to BSC Parties or Party Agents anticipated as P330 only seeks to allow for ELEXON to be able to bid for the Gas PAFA role. However, as ELEXON operates on a not for profit basis, Parties will be asked to fund a bid submitted for this role. Under the P330 proposed solution the total cost for the bid has been capped at £100k.

Assessment Consultation Question

Will the implementation of P330 impact your organisation?

If 'Yes', please provide a description of the impact(s) and any activities which you will need to undertake between Ofgem's approval of P330 and the P330 Implementation Date (including any necessary changes to your systems, documents and processes).

The Workgroup invites you to give your views using the response form in Attachment B.

Assessment Consultation Question

Will your organisation incur any costs in implementing P330?

If 'Yes', please provide details of these costs, how they arise and whether they are one-off or on-going costs. Please also state whether it makes any difference to these costs whether P330 is implemented as part of or outside of a normal BSC Systems Release.

The Workgroup invites you to give your views using the response form in Attachment B.

Impact on BSC Parties and Party Agents

| Party/Party Agent | Potential Impact |
|-------------------|--|
| All BSC Parties | No anticipated implementation impacts. However, Parties will be asked to fund a bid submitted for the Gas PAFA role. |

Impact on Transmission Company

There is no direct impact however the Transmission Company may have an interest as a BSC Party.

Impact on BSCCo

| Area of ELEXON | Potential Impact |
|----------------|------------------|
|----------------|------------------|

Though it is not a direct implementation impact, if the Modification is approved, ELEXON will need to determine whether to bid for the PAFA role (following the process introduced) and, if it does bid, participate in the tender process as part of 'PAFACo'.

Impact on Code

| Code Section | Potential Impact |
|--------------|------------------|
|--------------|------------------|

| | |
|---------------------|--|
| Section C | Changes will be required to implement this Modification. |
| Section X Annex X-1 | |

5 Implementation

Recommended Implementation Date

The Workgroup recommends an Implementation Date for P330 of **5 Working Days following Authority approval.**

The Workgroup believe that this is the most pragmatic implementation approach and will allow for the Modification to be implemented without restricting ELEXON's ability to tender if it's approved.

Assessment Consultation Question

Do you agree with the Workgroup's recommended Implementation Date?

Please provide your rationale.

The Workgroup invites you to give your views using the response form in Attachment B.

What is the scope of the PAFA role?

In order to assist the Workgroup in discharging its terms of reference, ELEXON summarised the scope of the PAFA role. This summary has been drawn from the UNC MOD506 Modification report.

Background

A Performance Assurance Framework (PAF) is to be introduced into the gas market arrangements to facilitate the monitoring and reporting of Transporter, Shipper and Transporter Agency performance and incentivise parties to reduce settlement risk and improve accuracy. The Performance Assurance Committee (PAC) (UNCC¹ sub-committee) will be created to oversee the PAF and the PAFA will be appointed for the purposes of:

- producing, publishing and maintaining a Performance Report Register
- creation, management and maintenance of the PAF Risk Register; and
- determining performance levels attained by those subject to the Performance Assurance regime.

The PAFA will be required to act with all due skill, care and diligence when performing its duties and shall be impartial, ensuring that any consideration of risks is equitable in their treatment of Shippers, Transporters and the Transporter Agency.

Criteria

The PAC shall produce a clear set of criteria for the appointment of the PAFA. Whilst this has not yet been drafted, the current view is that the criteria will include:

- The ability of the PAFA to produce, publish and maintain a Performance Report Register and the creation, management and maintenance of the PAF Risk Register
- Changes to services are expected to be made in the future, therefore the PAFA should indicate its ability to deliver new services;
- Consideration of the relevant knowledge and expertise of the candidates.

PAFA Services

A draft of the services to be provided by the PAFA indicates the role can be broadly broken down into two main functions.

1. Administration services to the PAC; this includes:

- Maintenance and publication of the Performance Reports Register (including publication of required reports to industry)
- Review of Performance Reports and consideration of effectiveness, providing recommendations to the PAC as required

¹ Uniform Network Code Committee (UNCC)

- Maintenance of each Report Specification
- Attend meetings of the PAC as required
- Provide Cost Estimate and track budget for the PAFA Scope

2. PAF Risk Register; this includes:

- Create, manage and maintain the PAF Risk Register
- Publication of the PAF Risk Register and any necessary reports
- Operate the PAF Risk Register process.

What are the timescales for the PAFA tender?

The Workgroup asked if the timescales for the PAFA tender process have been made public yet. The Proposer responded that the Gas Distribution Companies have advised that they will use Xoserve to run the PAFA tender and expects the Transporters to set up the PAC and ratify its terms of reference (ToR). They added that the ToR was discussed and set in interim by the UNC MOD506 Workgroup. However, the exact timescale for the tender process are still unknown.

ELEXON advised the Workgroup that it will update members once it receives further information on the timescales.

What are ELEXON's skills in the area of Performance Assurance and what are the key attributes of these skills?

ELEXON currently delivers the PAF under the BSC. ELEXON also provides support to the Performance Assurance Board (PAB) who oversees the PAF. It is anticipated that the PAC will have a similar role to that of the PAB.

ELEXON provided the Workgroup with a high-level summary of their experience in this area:

- Operating a risk-based assurance regime (including experience in assessing risks and determining how performance in relation to specific risks can be monitored).
- Defining, collecting, storing and reporting KPIs.
- Creating and maintaining of a Risk Register.
- Experience developing audit terms of reference and delivering and overseeing audit work (including setting and tracking budgets for the scope).
- Operating a process to monitor and change the scope of the service

ELEXON asked whether the Workgroup disagreed with these skills or believed they needed further clarification.

The Proposer noted that ELEXON have not just operated a risk-based assurance regime, but also helped design that regime. They believed that the experience of designing a risk-based assurance regime from the ground up and the skill of developing this regime over time should be reflected. They noted that this skill can be applied to the growth and

development of the gas PAF and ELEXON's ability to deal with changes to the regime, both from the wider industry and improvements that ELEXON has suggested and made. The Workgroup agreed with this view and that this should be added to ELEXON's skill set.

The Proposer advised that the number of years ELEXON has had experience with designing, operating and running a risk-based assurance regime should be reflected in its skill set. The Workgroup agreed with this view.

The Group also believed that ELEXON engages effectively with the industry throughout its PAF processes and it manages to work with multiple industry participants for better performance. The Group felt that this should be highlighted as the ability to work with the industry on performance is an important part of the PAF.

The Group also noted that ELEXON works with an independent auditor under the BSC PAF and that its experiences in this area could be applied to the gas PAF in the future, as such this should be added to ELEXON's skill set list.

Conclusion

In conclusion the Proposer and the Workgroup agreed the following skills in the area of Performance Assurance:

- Designing, operating and developing a risk-based assurance regime (including experience in assessing risks and determining how performance in relation to specific risks can be monitored) since 1998.
- Defining, collecting, storing and reporting KPIs;
- Creating and maintaining of a Risk Register;
- Working with industry participants to drive better performance and improve processes;
- Experience developing audit terms of reference and delivering and overseeing audit work (including setting and tracking budgets for the scope); Experience working in an external independent auditor; and
- Operating a process to monitor and change the scope of the service.

ELEXON recommended to the Workgroup that these skills be presented to the PAB, who are ultimately far more involved in the PAF under the BSC. This will enable its members to provide feedback to the Workgroup on its discussions. The Proposer and the Workgroup agreed that this should be done.

What are the potential benefits (and synergies) associated with ELEXON providing settlement assurance services for both gas and electricity?

ELEXON advised the Workgroup that any benefit under P330 is a *potential* benefit, as this Modification will only allow the BSCCo Board the option of submitting a bid for the PAFA role. It does not automatically mean that a bid will be submitted. Any potential benefits or drawbacks under the BSC will only become certain if a bid is submitted.

ELEXON noted the following potential benefits and drawbacks to the Workgroup:



Development of the PAF

The PAF was established in 1998 on the recommendation of the Pool Auditor. ELEXON worked with the industry to grow and develop the PAF arrangements.

In 2007, BSC Modification [P207](#) introduced the new PAF Governance regime, adding flexibility and transparency into the processes.



What are funding shares?

About a third of the overall BSC Costs are collected on a tariff-style basis. The remainder is left as a sum of money that needs to be paid.

Funding Shares are ratios calculated for each BSC Party based on their generation or supply in the last month, and these determine what share (percentage) of that remaining money they will have to pay. Parties that generate or supply more will ultimately pay a larger share of the costs.

P330
Assessment Procedure
Consultation

19 February 2016

Version 1.0

Page 15 of 28

© ELEXON Limited 2016

- Should the bid be successful, there is a benefit of defrayed costs to BSC Parties. For example, defrayed overhead costs leading to a reduction in BSC Costs payable under the funding shares calculations
- Should the bid be unsuccessful, there is a disbenefit of the costs provided by BSC Parties to fund the bid being lost.

ELEXON also noted a potential benefit to the wider industry if ELEXON bid for the role, as there will be increased competition in the bidding process; ultimately providing the best candidate in a robust process. However, it was not clear that this was something that could necessarily be considered under the BSC Objectives. Equally, if ELEXON were to be successful, there is a potential benefit that best practice from both the gas and electricity can be applied to create a consistent assurance regime across both markets.

The Workgroup agreed with the summarised benefits and drawbacks provided.

Any other benefits or drawbacks?

The Workgroup also identified the following potential benefits under P330:

- There is potential for BSC Parties to better scrutinise ELEXON's performance. If ELEXON were to bid for the PAFA role and not be successful then Parties should question why that is. Equally, better reporting to the Panel on ELEXON's services delivered under the BSC (in order to ensure delivery of core BSC Activities are not impacted by PAPFA bid/work) would ensure that ELEXON strive for efficiency and excellence.
- The energy industry is making moves towards a dual fuel market with dual arrangements. Having ELEXON running PAF for both Gas and electricity is a further step in that direction and would allow synergies to be realised. It is beneficial to BSC Parties to have a single point of contact for gas and electricity assurance. Although, not all BSC Parties operate as dual fuel.
- There is an opportunity to look at what does and does not work in the gas and electricity markets if ELEXON were to be awarded the Gas PAFA role. ELEXON have the opportunity to better both sides using lessons learned and processes from both the electricity market to share knowledge and create best practice.

The Group also identified a further potential drawback. The Group noted that although the risk has been identified that the delivery of core BSC activities may drop if the PAFA role was won (see section below for more detail), it was highlighted that this should be expanded to include the bidding for the PAFA role; not just in its delivery. ELEXON advised the Workgroup that the Panel can request additional KPIs and reporting to be provided if they feel it necessary.

Competition for PAFA role

A Workgroup member asked whether ELEXON will consider what types of organisation may also be bidding for the Gas PAFA role. They believe that this will help ELEXON assess whether it should submit a bid. They added that it would be useful for the industry to know how ELEXON would hold up next to potential tender competition.

Another member noted that there is a timing issue with trying to assess potential competition. It is likely that the bidders will remain confidential until the end of the bidding

process. P330 needs to be progressed ahead of this tender process kicking off and therefore it's quite difficult to provide the industry with the information. The previous member responded that any speculative views could help.

The Proposer advised that ELEXON could look at the major types of consultancies and service providers that may go for the role and determine the pros and cons for each type. A member advised that if the Workgroup really want answers and considerations of the potential competition before the Modification goes to Ofgem, it might as well be withdrawn due to the timeline and potential confidentiality of the tender processes. They added that the Workgroup should have confidence in the ELEXON Board to make the right decision.

ELEXON advised that it may be able to allude to the kinds of companies that might get involved, keeping specific company details out of the information. A member noted that there is not going to be much transparency around who is going in for a bid until the end and therefore there is no value in doing this.

Conclusion

The Workgroup agreed the following benefits and drawbacks under P330:

Benefits

- Should the bid be successful, there is a benefit of defrayed costs to BSC Parties.
- There is potential for BSC Parties to better scrutinise ELEXON's performance (e.g. a bid is submitted and its lost or the bid is won and the service is not delivered appropriately).
- Having ELEXON running PAF for both Gas and electricity is a further step in the direction of dual fuel arrangements, will allow for synergies to be realised and provide BSC Parties with a single point of contact for gas and electricity assurance.
- There is an opportunity to look at what does and does not work in the gas and electricity markets if ELEXON were to be awarded the Gas PAFA role (using lessons learned from both gas and electricity).

Drawbacks

- Should the bid be unsuccessful, there is a disbenefit of the costs provided by BSC Parties to fund the bid being lost.
- There is a potential risk that the delivery of core BSC activities may drop if ELEXON resource is used to work on a bid for the Gas PAFA role.

What risks are there to current services should ELEXON take on the Gas PAFA role? What can be done (for example, through reporting) to mitigate these risks?

ELEXON highlighted the potential risks to current services and the action ELEXON can take to mitigate these risks, as detailed in the table below.

| Risk | Mitigating Action |
|---|--|
| Financial risk to BSC Parties of ELEXON undertaking additional work | Ring fence costs and responsibilities of PAFA work. Similar to EMR provisions in the BSC. |
| Financial risk to BSC Parties of cross subsidies | Introduce ring fence provisions, similar to EMR, which are monitored as part of the company audit. Equally the calculation of BSC funding shares mechanism is subject to BSC Audit so no cross subsidy of funding should occur. |
| Delivery of core BSC activities impacted | It will fall to the BSCCo Board and the senior management team to ensure delivery of BSC obligations and continued good service. Additional KPI reporting to the Panel could incentivise continued deliver to clearly defined BSC standards. However, this will be at the Panel's discretion. |

Workgroup members agreed with the potential risks and mitigating actions put forward. The Proposer noted the potential risk of ELEXON diluting its ability to deliver its core services if it's awarded the Gas PAFA role. They added that the Panel raised some concerns about this when considering the Initial Written Assessment (IWA).

A member asked whether ELEXON intend on getting additional resource in to prepare the bid or whether it would use existing employees. ELEXON advised that they would look to use existing knowledge and staff to prepare the bid and then get resource in to ensure that the core BSC activities are delivered. However, ELEXON are likely to require some bid support.

The Proposer advised that there may be a risk to ELEXON's reputation. If the Panel and Ofgem approve P330 and then the Board ultimately choose not to bid it may send certain messages to the industry. Equally, if the Board choose to bid and are not successful, or are successful in the bid but fail to deliver; it may ultimately show that ELEXON cannot operate an efficient assurance regime. Other workgroup members agreed with this view and believed that the Board will need to consider providing rationale to the Panel and the industry on its decisions and performance in this matter. One member added that, understanding 'why' is quite important here. Meaning that, if ELEXON failed to win the bid, this might not be a reflection of the quality or efficiency of service delivered under the BSC.

A member asked whether the cost of the BSC PAF is broken down and published, as it would be useful to know the costs of operating that service. We advised that ELEXON publishes this information in the Annual Performance Assurance Report (APAR) on the [Performance Assurance Processes webpage](#). The actual cost of delivering the assurance service in 2014/15 was £2.8m (against a forecast of £3.3m). The forecast cost for the forthcoming period (2016/17) is £3.5m as published on the [Performance Assurance Processes webpage](#) in the Risk Operating Plan (ROP). We added that this figure is associated with the BSC PAF, which is a more complicated and wider service than that proposed under the gas PAF. The Proposer highlighted that this cost also included external audit of all parties and that this was not a feature of the gas PAF arrangements.

Conclusion

The Workgroup agreed the following risks under P330:

| Risk | Mitigating Action |
|---|---|
| Financial risk to BSC Parties of ELEXON undertaking additional work | Ring fence costs and responsibilities of PAFA work. Similar to EMR provisions in the BSC. |
| Financial risk to BSC Parties of cross subsidies | Introduce ring fence provisions, similar to EMR, which are monitored as part of the company audit. Equally the calculation of BSC funding shares mechanism is subject to BSC Audit so no cross subsidy of funding should occur. |
| Delivery of core BSC activities impacted | It will fall to the BSCCo Board and the senior management team to ensure delivery of BSC obligations and continued good service. Additional KPI reporting to the Panel could incentivise continued deliver to clearly defined BSC standards. However, this will be at the Panel's discretion. |
| ELEXON's reputation | If the Panel and Ofgem approve P330 and then the Board ultimately choose not to bid it may send certain messages to the industry. Equally, if the Board choose to bid and are not successful, or are successful in the bid but fail to deliver; it may ultimately show that ELEXON cannot operate an efficient assurance regime. The Board may want to consider providing rationale to the Panel and the industry on its decisions and performance in this matter. |

Should the cost of bidding be capped? Alternatively, should the Panel be required to approve the cost of bidding separately to this Modification?

The Workgroup discussed two options for approaching the approval of tender costs:

- **Option 1:** Tender value is capped by having a specific value added in the BSC via P330, with an additional requirement for Panel to agree that work may continue on any tender in the event that costs exceed the capped amount.
- **Option 2:** Tender value is uncapped in the BSC. However, specific requirement added for the Panel to approve any tender budget, and variation to that budget put to it by BSCCo. As above, the Panel would also be required to agree that work may continue on any tender in the event that additional costs over the budgeted amount would be otherwise incurred.

The Workgroup questioned how much it will cost to tender for the Gas PAFA role. ELEXON advised the Workgroup that the estimated costs associated with tendering for the SEC (under Modification P290) were quoted at 'up to' £110k.

The Proposer noted that the size of the role for the Gas PAFA is smaller than that of the SEC and believes that the estimated costs to tender should also be less.

A Workgroup member advised that they cannot see how it could cost more than tens of thousands to bid.

A member wished to clarify that the Workgroup should focus on the cost of the tender and not the value of the enduring service. They added that ELEXON should not need to buy in a lot of expertise as the Gas PAFA role will be building on work that's already being done. They asked ELEXON to provide an estimate of its bidding costs for the Workgroup to consider as a cap to be specified in the draft legal text.

A member questioned whether an agreed '£' figure in the legal test would be arbitrary and noted that Panel oversight/approval of funds might allow for more flexibility. The Proposer responded that what matters is that the estimated figure and level of risk is accepted by the industry. The higher the figure the greater the risk. Therefore, it's important to ensure there is an agreed capped amount. Another member believed it is important to look at the BSCCo Board for discretion rather than trying to figure out an appropriate capped figure.

A member asked whether the legal text could be written so that it's the Board that makes the decision on the tender budget. ELEXON advised that the industry may feel it is more appropriate to have a capped value as it will provide more transparency and certainty. We added that the Board could report the actual cost to tender to the Panel after the fact, which will help to ensure transparency. The Workgroup agree with this view.

A member questioned whether there is a third option, where by the tender costs are capped and there is no option for the Panel to approve additional expenditure. A member reiterated that, from an external perspective, 'capping only' will give the industry some certainty around how much is going to be spent. The Proposer agreed with this view noting that the industry may be more comfortable with a 'capped only' approach and it will build trust with BSC Parties, which is of benefit.

Conclusion

The Proposer and the Workgroup agreed that capping a specific maximum value for tender costs in the P330 legal text is the most suitable approach.

Following the Workgroup meeting, ELEXON worked on providing an estimate on the potential maximum costs to submit a bid for the Gas PAFA role. ELEXON advised the Workgroup that the total cost required (comprising of both internal and external) to bid are estimated at £100k. Further information on the bidding activities can be found in Section 2.

Assessment Consultation Question

Do you agree with the Workgroups view that capping a specific maximum value for tender costs in the P330 legal text is the best approach?

Please provide your rationale.

The Workgroup invites you to give your views using the response form in Attachment B.

What is the most appropriate Implementation Date, taking into account the tender timescales and implementation of Project Nexus?

ELEXON recommended an Implementation Date of five or ten Working Days following Authority approval. They believe that this will allow for the Modification to be implemented without restricting ELEXON's ability to tender if it's approved.

The Proposer and the Workgroup agree with a recommended Implementation Date of 5 Working Days following Authority approval.

What is the benefit of setting up a subsidiary to tender for the PAFA role?

The Workgroup questioned why ELEXON feel it is necessary to set up a subsidiary to tender for the role as well as operate the role if the bid is won. ELEXON advised that this is the neatest way to ring-fence costs from the outset. Additionally, if the ELEXON subsidiary is going to be the enduring provider it's much cleaner and easier for the subsidiary to also tender for the role (i.e. the company that puts forward the tender should be the company that will be the enduring service provider if it wins the business).

A member questioned when the subsidiary would be set up. ELEXON advised that, the way the legal text is structured, it would be set up if a bid is imminent.

ELEXON clarified that P330 legal text is drafted so that it is the BSCCo that will make the decision to raise the subsidiary.

The Workgroup asked whether the 'PAFACo' Board will be the same as the BSCCo Board. ELEXON advised that it is anticipated that the 'PAFACo' Board will be smaller but it is not known at the moment who would be on that Board, though it will likely be constituted in a similar fashion to that of the EMRS Ltd Board, i.e. comprising a subset of ELEXON Ltd Board members and Executive Directors.

The Proposer wished to clarify what will happen with the loan provided by BSCCo to 'PAFACo'. ELEXON advised that under the proposed solution BSCCo's loan to 'PAFACo' will only be repayable if a tender bid is successful. If a bid for the PAFA role is lost there would be no liability on 'PAFACo' to repay the loan.

Does P330 better facilitate the Applicable BSC Objectives than the current baseline?

The Proposer believes that there are potential benefits to the energy industry and BSC Parties if ELEXON were able to bid for the role of the Gas PAFA. In particular it would be a step in moving to dual fuel arrangements in the energy market, where common processes are placed with a single entity to derive a common understanding, practices, synergies, cost efficiencies and ultimately consumer benefit.

The Proposer believes that P330 will better facilitate **Applicable BSC Objective (d)** as:

- sharing the fixed costs of ELEXON across the Gas PAFA service allows costs to the BSC Parties to be defrayed;
- some parties cite the simplicity of the gas market arrangements, when compared to electricity arrangements. Therefore, ELEXON getting first-hand experience may enable it to identify and implement changes to better the electricity arrangements in the future; and
- bidding for the Gas PAFA work may be able to give a view to BSC Parties of the competitiveness of ELEXON in delivering their existing obligations and be used to consider efficiencies.

The Workgroup unanimously agreed with the Proposer's views against the Applicable BSC Objectives.

Assessment Consultation Question

Do you agree with the Workgroup's initial unanimous view that P330 does better facilitate the Applicable BSC Objectives than the current baseline?

Please provide your rationale with reference to the Applicable BSC Objectives.

The Workgroup invites you to give your views using the response form in Attachment B.



What are the Applicable BSC Objectives?

(a) The efficient discharge by the Transmission Company of the obligations imposed upon it by the Transmission Licence

(b) The efficient, economic and co-ordinated operation of the National Electricity Transmission System

(c) Promoting 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

(d) Promoting efficiency in the implementation of the balancing and settlement arrangements

(e) Compliance with the Electricity Regulation and any relevant legally binding decision of the European Commission and/or the Agency [for the Co-operation of Energy Regulators]

(f) Implementing and administering the arrangements for the operation of contracts for difference and arrangements that facilitate the operation of a capacity market pursuant to EMR legislation

P330

Assessment Procedure Consultation

19 February 2016

Version 1.0

Page 22 of 28

© ELEXON Limited 2016

Appendix 1: Business Rules for UNC MOD506

The purpose of the UNC Modification 506 is to introduce a framework for a gas performance assurance regime and require the Gas Transporters to appoint a PAFA by a competitive tender process.

The PAFA will run the scheme, under the oversight of UNCC or any relevant sub-committee. Modification of the UNC is required to recognise the role of the PAF, the Performance Assurance Scheme and the PAFA and incorporate appropriate arrangements to monitor performance of Shippers, Transporters and the Transporter Agency and allow an incentive regime to develop.

The PAF is limited to energy once it has entered the Local Distribution Zone (including Connected System Exit Point (CSEP) Supply Points). Gas transported through the National Transmission System (NTS) and supply points connected to the NTS are excluded from the arrangements created by this modification.

The PAF is to include CSEP Supply Points and CSEP Supply Meter Points following implementation of Modification 0440 Project Nexus – iGT Single Service Provisions.

Business Rules

1. A person, the PAFA, shall be appointed and engaged by the Gas Transporters through a PAFA Contract for the purposes of:
 - a) producing, publishing and maintaining a Performance Report Register and the creation, management and maintenance of the PAF Risk Register; and
 - b) determining performance levels attained by those subject to the Performance Assurance regime.
2. The Transporters will be required to publish a Framework Document “Guidelines for Energy Settlement Performance Assurance Regime”. The initial content of the Framework Document be that which is provided in Appendix 1 of the Final Modification Report for MOD506.
3. The Gas Transporters will use reasonable endeavours to:
 - a) Undertake a competitive tender for the appointment of the PAFA;
 - b) Use the criteria developed by the Performance Assurance Committee (PAC) to assess each tender bid as part of their assessment to select the preferred bidder;
 - c) Select, agree terms and appoint the PAFA. Where the selected PAFA does not accept the appointment, invite the next most favoured PAFA in turn; and
 - d) Upon acceptance of appointment, establish the contract with the Prospective PAFA.
4. The PAC shall provide the final versions of the document as set out in 8 of the Guidelines document to the Gas Transporters.
5. On receipt the Gas Transporters shall commence the tender process using reasonable endeavours to:
 - a) Organise any meetings held in relation to the PAFA appointment;
 - b) Provide legal resource to prepare a tender document;
 - c) Organise the advertisement of the tender to all interested parties, in accordance with national and European legislation; and

- d) communicate to Shipper Users the outcome of the tender process; invite the prospective PAFA to take up the appointment.
- 6. The start date of the PAFA Contract will be as soon as reasonably practical.
 - 7. The Gas Transporters will require that the PAFA:
 - a) Acts with all due skill, care and diligence when performing of its duties as the PAFA and shall be impartial when undertaking the function of the PAF, ensuring that any consideration of risks is equitable in their treatment of Shippers, Transporters and the Transporter Agency; and
 - b) Compiles the Performance Report Register and Risk Register in accordance with the Guidelines Document.
 - 8. The Guidelines Document may be modified if UNCC votes by majority vote in favour of a proposed change.
 - 9. The Transporters will be required to provide data and information to the PAFA and assist in interpretation of information.
 - 10. For the avoidance of doubt, it is intended that this procurement and appointment for the PAFA process can be introduced ahead of the implementation of Project Nexus.

Appendix 2: Workgroup Details

Workgroup's Terms of Reference

Specific areas set by the BSC Panel in the P330 Terms of Reference

What are the potential benefits (and synergies) associated with ELEXON providing settlement assurance services for both gas and electricity?

What risks are there to current services should ELEXON take on the Gas PAFA role? What can be done (for example, through reporting) to mitigate these risks?

Should the cost of bidding be capped? Alternatively, should the Panel be required to approve the cost of bidding separately to this Modification?

What is the most appropriate Implementation Date, taking into account the tender timescales and implementation of Project Nexus?

What changes are needed to BSC documents, systems and processes to support P330 and what are the related costs and lead times?

Are there any Alternative Modifications?

Does P330 better facilitate the Applicable BSC Objectives than the current baseline?

Assessment Procedure timetable

Assessment Procedure Timetable for P330

| Event | Date |
|--|--------------------|
| Present Initial Written Assessment to Panel | 10 Dec 15 |
| Workgroup Meeting | 8 Feb 16 |
| Assessment Procedure Consultation | 19 Feb – 11 Mar 16 |
| Workgroup Meeting | W/B 14 Mar 16 |
| Present Assessment Report to Panel | 14 Apr 16 |
| Report Phase Consultation | 14 – 29 Apr 16 |
| Present Draft Modification Report to Panel | 12 May 16 |
| Issue Final Modification Report to Authority | 13 May 16 |

Workgroup membership and attendance

| P330 Workgroup Attendance | | |
|---------------------------|------------------------------------|------------|
| Name | Organisation | 8 Feb 2016 |
| Members | | |
| Adam Lattimore | ELEXON (<i>Chair</i>) | ✓ |
| Talia Addy | ELEXON (<i>Lead Analyst</i>) | ✓ |
| Angela Love | Scottish Power (<i>Proposer</i>) | ☎ |
| Emma Piercy | First Utility | ☎ |
| Gregory Mackenzie | British Gas | ✗ |
| Andrew Colley | SSE | ✗ |
| Ravi Matharu | Npower | ☎ |
| Phil Russell | Independent | ☎ |
| Tim Newton | E.ON | ☎ |
| Attendees | | |
| Adam Richardson | ELEXON (<i>Design Authority</i>) | ✓ |
| Geoff Norman | ELEXON (<i>Lead Lawyer</i>) | ✓ |
| Jonathan Dixon | Ofgem | ☎ |
| Naomi Anderson | Engage Consulting | ✗ |
| Michael Houston | ScottishPower | ☎ |
| Paul Carman | ScottishPower | ✗ |
| Kevin Woollard | British Gas | ☎ |

Appendix 3: Glossary & References

Acronyms

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

| Acronym | |
|---------|---|
| Acronym | Definition |
| BSC | Balancing and Settlement Code |
| CSD | Code Subsidiary Document |
| CSEP | Connected System Exit Point |
| DCC | Data and Communications Company |
| EMR | Electricity Market Reform |
| NTS | National Transmission System |
| OJEU | Official Journal of the European Union |
| PAB | Performance Assurance Board |
| PAC | Performance Assurance Committee |
| PAF | Performance Assurance Framework |
| PAFA | Performance Assurance Framework Administrator |
| ToR | Terms of Reference |
| 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 |
| 3 | UNC Guidelines for Energy Performance Assurance Regime | http://www.gasgovernance.co.uk/0506 |
| 3 | UNC Modification 440 webpage | http://www.gasgovernance.co.uk/0440 |
| 3 | UNC Modifications 506 and 506A webpage | http://www.gasgovernance.co.uk/0506 |
| 3 | Issue 62 webpage | https://www.elexon.co.uk/smg-issue/issue-62/ |
| 5 | P330 webpage | https://www.elexon.co.uk/mod-proposal/p330/ |
| 5 | P284 webpage | https://www.elexon.co.uk/mod-proposal/p284/ |

| External Links | | |
|----------------|---|---|
| Page(s) | Description | URL |
| 5 | Official Journal of the European Union webpage | http://www.ojec.com/ |
| 5 | Official Journal of the European Union procurement thresholds | http://www.ojec.com/thresholds.aspx |
| 18 | Performance Assurance Processes page of ELEXON website | https://www.elexon.co.uk/reference/market-compliance/performance-assurance/performance-assurance-processes/ |