

PUBLIC

# BSC Panel Strategy

Strategic Work Programme

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# BSC PANEL STRATEGY

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## BSC PANEL AND PANEL COMMITTEE MEMBER OBJECTIVES

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### 1. BSC Panel Objectives

- 1.1 The BSC places an obligation on the BSC Panel to conduct its business with a view to achieving a number of key objectives. These objectives, which can be found in BSC Section B1.2.1, can be summarised as:

Giving full and prompt effect to the BSC consistent with achieving the Applicable BSC Objectives in a transparent, economic, efficient and non-discriminatory way.

### 2. Applicable BSC Objectives

- 2.1.1 Condition C3 of the Electricity Transmission Licence establishes six Applicable BSC Objectives. These are set out in full in appendix 1 and can be summarised as:

- a) Efficient Discharge of Transmission Licence Obligations;**
- b) Efficient Operation of Transmission System;**
- c) Promoting Effective Competition;**
- d) Efficient Implementation of the Balancing and Settlement Arrangements;**
- e) Compliance with European Regulations; and**
- f) Facilitating Delivery of Electricity Market Reform.**

- 2.1.2 The BSC Panel must undertake work and make recommendations so as to better facilitate the delivery of these objectives.

### 3. Scope

- 3.1 The BSC governs balancing and settlement activities in Great Britain. Other aspects of the electricity trading arrangements are dealt with under different governance arrangements. For example issues relating to transmission system operation are contained within the Grid Code and the Connection and Use of System (CUSC) arrangements, whereas issues associated with settlement registration are dealt with under the provisions of the Master Registration Agreement (MRA) and the Distribution Use of System Code (DCUSA) governs issues around connection to and use of the various distribution systems.

- 3.2 The BSC Panel has a general responsibility to keep itself informed of issues that fall outside the direct governance of the BSC and assess (and take steps to address) any impact on it in a co-ordinated way.

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## STRATEGIC PRIORITIES

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The BSC Panel's overall focus and main priority continues to be the delivery of its BSC obligations and the ongoing provision of robust, effective BSC services. The Panel also remains mindful that the energy market is experiencing a period of substantial change and that it must take this into account when conducting its work. The Panel's priorities are therefore:

- 1) Protecting, maintaining and efficiently managing the balancing and settlement arrangements as they exist today; and
- 2) Looking ahead to the evolution of the market and how the current balancing and settlement arrangements need to adapt to facilitate such change.

To deliver these strategic priorities, the Panel has identified work to be progressed in the following areas.

### 1. Delivery of Core BSC Services

- 1.1 The Panel will continue to focus on the delivery of its responsibilities, powers and functions as set out in appendix 2.
- 1.2 Over the coming year, particular focus will be placed on:
  - **Best-practice change provisions:** The core provisions relating to Modifications under the BSC and those that set out the document architecture should be reviewed to ensure continued best practice in light of feedback from industry. Concerns have included:
    - clarity of governance provisions for Modification Workgroups;
    - consideration of how recommendations are put to the Panel, how the Panel makes decisions, and the recommendations it makes to the Authority;
    - concerns that BSC provisions limit the development of Alternative Modification Proposals; and
    - a desire to ensure there is clarity in the status of, and relationship between, BSC documents.
  - **BSC Website review and improvement:** Ongoing work to improve the ELEXON website focusing on making navigation more intuitive.
  - **Ofgem's review of Code Governance:** Ofgem reviewed industry code governance in 2010 and 2013. However, with the anticipated scale of change required in the coming years, Ofgem has concerns that the arrangements may not be operating in the best interests of consumers. Ofgem believes it is timely to review the reforms it previously implemented and potentially introduce further reforms. This review was announced in Spring 2015 and is likely to take around a year to complete, with the potential for subsequent Modifications to the BSC to implement any recommended solutions and revisions to the current arrangements.
  - **Review of market entry and exit arrangements:** The Panel has identified a need to review the current market entry and exit arrangements. The review should consider whether the current arrangements are fit for purpose, reflective of working practices and whether they encourage and enable competition within the market, particularly within the context of non-traditional business models.

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## 2. Resolution of Known BSC Issues

2.1 The BSC Panel and its Committees have identified particular concerns relating to:

- **Credit:** Work continues on changes to the existing credit provisions in order to offer greater flexibility and alternative methods for securing credit under the BSC.
- **Metering:** Key areas of concern raised in the most recent BSC Audit related to metering and data quality issues in the non half hourly market, including:
  - Errors in the capture of metered data: The health of metering systems, including commissioning, in the half hourly market appears to be decreasing, leading to energy allocation errors between BSC Parties.
  - Proving tests: Concerns have been raised over the proving test process (proving tests either not being performed, or results not being communicated to Data Collectors).
  - Change of Measurement Class (CoMC): The Auditor's assurance work has continued to highlight problems with the CoMC process, largely due to issues with provision of information between Party Agents.
  - Meter reads and meter technical details: This year's audit saw an increase in material audit issues related to inadequate provision of meter reads or meter technical details between Meter Operator Agents and Data Collectors.
  - Metering system faults: Issues have been identified with metering system faults not being corrected, leading to backlogs, or correct data flows not being sent to BSC Parties and Party Agents.
- **Dispensations and COPs:** The Imbalance Settlement Group continues to be concerned by the high volume of metering dispensations. This encompasses both new applications and requests to extend long-standing dispensations where corrective action has not been progressed. The Panel has suggested that it may be appropriate to address this issue via a review of the relevant Code of Practices to ensure that they are fit for purpose.

## 3. Efficient Working Practice and Communication between Panel Committees

- **Panel governance:** Panel has initiated a piece of work to consider its own governance to ensure that it remains fit for purpose and demonstrates best practice. This review, and implementation of agreed solutions, will continue into 2016/17, and includes consideration of working practices and policies, accountability and delegation of responsibilities.

3.1 The BSC Panel and its Committees have also endorsed work being undertaken by ELEXON in relation to:

- **Flexible, efficient reporting:** Delivery of an efficient, coherent and secure reporting suite that will allow BSC Parties and the Panel and its committees to have direct and timely access to their own and market-wide public data, with services such as trend based reporting and an easy to use secure online interface. Such a reporting suite will transform the way that ELEXON provides data, reports to industry and the support that can be provided to the Performance Assurance Board.
- **BSC systems and processes change programme:** Current systems' architecture is rooted in the last century; it is difficult and expensive to maintain and develop and its risk of failure is increasing. Given the high level of change forecast and in light of the rapidly evolving industry arrangements, improvements are needed to the BSC systems over the next five years.

## 4. Evaluation and Management of Evolving Risks

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- **Changing risks and risk management:** Changes in market design, including the introduction of Smart Metering and Electricity Market Reform, are likely to change the profile of risk across BSC Systems and Processes. It is important to ensure that appropriate assurance can be provided in relation to this changing risk profile. On behalf of the Panel, ELEXON should conduct regular, recurrent checks to review the impacts of Smart Metering and EMR on the PAF. The Panel has also requested that budgetary provision should be made to ensure that ELEXON has the capability to scale up activity to address any errors that may occur as a result of these changing risks (with a particular focus on risk-management post-Smart rollout).
- **Review of the main IT system underpinning the Performance Assurance Framework (PAF):** The main IT system underpinning the current PAF process is PARMS. It takes data submissions from ELEXON and BSC Agent systems and from Suppliers and Supplier Agents. ELEXON uses PARMS to analyse and compare Performance Assurance Parties' performance against a number of measures. PARMS calculates and generates the associated invoicing and reporting documentation for the Supplier Charges that are payable under the terms of the BSC. It also generates the reports used for Peer-Comparison of Supplier performance. The PAB has identified two business priorities for improvement of the PAF and performance reporting, with different timeframes:
  - in the short to medium term, improvements to the efficiency of the current performance reporting processes; and
  - in the longer term, a review of the whole PAF model to take account the roll-out of smart meters.

### 5. External Drivers for change that may impact the BSC

5.1 The Panel and its Committees have acknowledged that it is important to remain well informed and to provide support and input, where appropriate, in relation to the following drivers for change:

- **P305 monitoring:** P305 will implement the conclusions to the Electricity Balancing Significant Code Review, putting in place a single, marginal imbalance price, introduce Reserve Scarcity Pricing and introduce pricing for Demand Control actions. In addition to a post-implementation review of the impacts of P305, ongoing BAU monitoring should be introduced, supporting a wider, annual review in the lead up to the November 2018 reduction in PAR value.
- **Ofgem's Future Wholesale Market Work:** Ofgem is due to announce a way forward for its newly formed Future Wholesale Market work (replacing the Future Trading Arrangements work). The work is likely to take into account changes driven by, for example, the EU Network Code on Balancing, local balancing markets, demand side response and other smart grid driven market innovations.
- **Competition Markets Authority investigation into the energy industry:** The CMA has published its provisional findings and notice of possible remedies, to which the Panel has written a response. The CMA may hold subsequent hearings or request additional information ahead of publishing its final findings by the June 2016. Following this, the Panel and ELEXON will be in a position to assess the final remedies, prioritise actions and determine an appropriate set of work streams to progress the CMA's findings. Potential impacts include:
  - introduction of locational pricing for transmission losses
  - increased focus on introduction of a cost-effective HH settlement of domestic electricity meters; and
  - potential for code administration to become a licensable activity.
- **Development of Smarter Markets:** There are a wide range of implications arising from the move towards smart metering and smart grids. These include:

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- the practicalities and associated monitoring of mandated half hourly settlement for meters in Profile Classes 5-8;
- impacts on residual non-half hourly provisions such as profiling;
- impacts on settlement of increasing export spill volumes associated with Feed in Tariffs;
- data quality arrangements and swifter change of supplier process to enhance competition (and, in particular, changes arising from Ofgem's significant code review); and
- calls to reduce the Settlement timetable.

Work will continue to progress under the BSC and under Ofgem's Smarter Markets programme.

- **European Harmonisation:** Work continues to harmonise energy markets across Europe. It is important to insure that the Panel is made aware of European developments via ELEXON's monitoring and updates. More widely, the Panel has a role in ensuring that appropriate support is co-ordinated within GB and that the BSC is ready to accommodate changes arising from European developments which have the potential to fundamentally impact market design and the balancing and settlement provisions.

### 6. Other Considerations

- 6.1 **BSCCo Governance:** In 2015 the Board reviewed its governance arrangements and worked with the Panel to develop a proposal to improve accountability and ensure compliance with the UK corporate governance code. Two modifications to the BSC are being progressed to implement changes reflecting this review.

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## STRATEGIC WORK PROGRAMME

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### 1. Purpose

- 1.1 The Strategic Work Programme takes account of the strategic priorities noted above. It is a living document that presents a 3-year+ rolling view of the work programmes and activities arising from, and designed to address, the BSC Panel's strategic priorities.
- 1.2 The Strategic Work Programme will be used as **a key input to the development of the annual BSCCo business plan** prepared by ELEXON for each BSC Year. It will also be used to support:
  - Regular reviews of priorities by Panel Committee Chairs and Panel Sponsors
  - Co-ordination of Committee work programmes and actions by Committee Chairs and Panel Sponsors
  - Communication of activities across ELEXON, the BSC Panel and Panel Committees.

### 2. Ownership, Review and Maintenance

- 2.1 The Strategic Work Programme is owned by the BSC Panel. It is maintained by the BSC Panel Secretary and is updated periodically (no more than quarterly). The Strategic Work Programme will be reviewed by Panel Committee Chairs and Panel Sponsors on a quarterly basis and by the BSC Panel every six months.
- 2.2 Ad hoc reviews may take place should significant events create a need for review of the Strategic Work Programme.

### 3. Structure

- 3.1 The Strategic Work Programme is set out in three parts:
  - a) **Work-plan view:** This one-page view set outs the high level activities and work streams to be progressed over the next three years and beyond. It outlines the anticipated timing for the work and identifies key milestones both within the BSC and in relation to wider activities that could impact the balancing and settlement arrangements. The Work-plan view is split into seven sections covering:
    - *Planning Cycle:* The standard annual reviews and reports used to develop the overall strategy;
    - *PRIORITY 1: Delivery of Core BSC Services:* Those work streams and activities intended to ensure continued delivery of best practice BSC Services.
    - *PRIORITY 2: Addressing Known Settlement Issues:* Those work streams and activities intended to address known problems in the balancing and settlement arrangements.
    - *PRIORITY 3: Efficient Working Practice and Committee Communication:* Those streams and activities intended to improve efficiency and effectiveness of Panel and Panel Committee functions and delivery of BSC obligations.
    - *PRIORITY 4: Addressing Evolving Settlement Risks:* Those work streams and activities intended to improve the way in which evolving Settlement Risks are managed.
    - *PRIORITY 5: Future Settlement Design and Development - Drivers for Change:* Those work streams and activities intended to provide insight into the potential impacts on BSC Parties, BSC systems and BSC processes arising from external drivers for change. Work may encompass information gathering and the assessment of impacts and proposed changes.
    - *Other Considerations:* Activities that sit outside the BSC Panel's strategic priorities but which may impact it.



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The Work-plan view offers a broad indication of the governance under which each activity will be progressed (e.g. Panel/ELEXON, Panel Committee, Modification Workgroup etc). The majority of (but not all) work-streams follow a standard approach including:

- i) Initial scoping and development of a way forward or candidate options;
- ii) Development and assessment of proposed changes under the appropriate governance (e.g. Modifications or Change Proposals);
- iii) Implementation of approved changes where the case for change has been demonstrated.

**b) Highlights and Key Matters:** This one-page summary outlines the key elements of the work-plan arising in the last quarter and sets out the main elements that are anticipated to be delivered in the forthcoming quarter. Any major changes or adjustments in the timing or prioritisation of existing work, or the introduction of additional work streams, are highlighted in this section.

**c) Overview of Strategic Work Streams and Deliverables:** The final part of the Strategic Work Programme summarises each work stream and activity in the work programme showing the ELEXON lead and, where applicable, the Panel Sponsor. These descriptions are included for reference and it is not anticipated that they will change significantly throughout their lifespan. Since the Planning Cycle sets out standard reviews and reports, these are detailed at the end of this section which is otherwise structured to match the work-plan view.

### 4. Limitations and Exclusions

4.1 The Strategic Work Programme sets out the **non-business as usual activities** that address the strategic concerns highlighted above. It includes a selection of Modification work (either existing Modification or anticipated Modifications) which relate to the Panel's strategic concerns to provide context.

4.2 The Strategic Work Programme **does not contain:**

- An exhaustive list of all existing Modifications and Change Proposals in assessment or awaiting implementation (this can be found in the various change reports already published by ELEXON).
- Standard business required by the BSC, including, for example, the various scheduled parameter reviews considered by the Panel and Panel Committees (usually on an annual basis);
- Standard demand driven activities and services prescribed by the BSC such as Accession, Market Entry and Exit, SVA Qualification assessments, consideration of Balancing Mechanism Unit Registrations, Metering Dispensations and the investigation and assessment of Trading Disputes etc; and
- Work associated with the implementation and delivery of Electricity Market Reform which is delivered by the wholly owned ELEXON subsidiary, EMR Settlement Limited, under the government Grant (for implementation) and Low Carbon Contracts Company Ltd (LCCC) / Electricity Settlement Company Ltd (ESC) contract (for operation)<sup>1</sup>.

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<sup>1</sup> Work that is required to be undertaken within the BSC to facilitate the delivery of EMR would, however, be included in the Strategic Work Programme where applicable, consistent with the delivery of Applicable BSC Objective (f).

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## 5. Commentary on Delivery, Resourcing and Impacts

- 5.1 The amount of change across the industry is high and the volume of work under the BSC is likely to reflect this. While the BSC Panel and ELEXON remain committed to delivering services in an efficient and economic manner, it seems unlikely that it will be possible to deliver further reductions in operational costs as has been seen across the previous four years.
- 5.2 The Panel acknowledges that addressing its strategic priorities may require an increase in the cost of delivering the BSC.
- 5.3 Any additional activities beyond those currently set out on the Strategic Work Plan or significant increases in the volume of business as usual services will require a re-adjustment of priorities or consideration of alternative options for delivery.
- 5.4 The Panel further acknowledges that it is important for BSC Parties to be engaged across the range of activities noted in this strategy. In particular, the BSC Panel has reflected on the recent BSC Audit where it was concluded that greater efforts will be needed by all those involved to resolve long-standing issues and ensure appropriate controls are in place going forward. When combined with the current level of change (both within and out with the BSC), the BSC Panel recognises that this may contribute towards an upward pressure on cost. The Panel has highlighted the fact that this may be further exacerbated by the risk of errors arising from large industry change programmes, particularly the roll-out of smart metering. The Panel has made it clear that ELEXON should ensure it has the capacity to monitor and address these increased risks and associated errors, should they arise.

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## APPENDIX 1

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### Applicable BSC Objectives

[Condition C3 of the Electricity Transmission Licence](#) establishes six Applicable BSC Objectives:

- a) The efficient discharge by the Transmission Company of the obligations imposed under 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 and administration of the balancing and settlement arrangements;
- e) Compliance with the Electricity Regulation and any relevant legally binding decision of the European Commission and/or Agency; and
- f) Implementing and administrating the arrangements for the operation of contracts for difference and arrangements that facilitate the operation of a capacity market pursuant to EMR legislation.

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## APPENDIX 2

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### BSC Panel Powers and Functions

The BSC prescribes the powers and functions of the BSC Panel in Section B.3. The Panel has the power to:

- Decide any matter which, under any provision of the Code, is or may be referred to the Panel for decision;
- Establish Panel Committees and to delegate its powers, functions and responsibilities as provided for under the Code to any such Panel Committee. Panel Committees cannot further delegate their responsibilities or powers unless the BSC or the BSC Panel permits this.

Specific powers and functions are identified in BSC Section B3.1.2 and are detailed further in the relevant sections of the BSC and the Code Subsidiary Documents (BSC Procedures etc.). The Panel has delegated some of these functions and responsibilities to its Panel Committees as outlined below. In summary, the BSC Panel is responsible for:

- |   |  |
|---|--|
| <b>a)</b> Deciding (subject to a reference to or approval of the Authority, as provided in the Code) on the <b>expulsion or suspension of the rights of any Party</b> (see Section H for the Default provisions relating to Credit Default or breach of the BSC); | Not Delegated  |
| <b>b)</b> Implementing or supervising the implementation of the procedures for <b>modification of the BSC</b> (see BSC Section F for the procedures);   | Not Delegated  |
| <b>c)</b> Establishing arrangements for the <b>resolution of Trading Disputes</b> (see BSC Section W);  | Delegated (in part) to:<br><b>TDC</b>                                    |
| <b>d)</b> Determining values for <b>trading parameters</b> (to be applied in the BSC) as may be required of the Panel in accordance with any provision of the Code;   | Delegated (in part) to:<br><b>ISG, SVG and Credit Committee</b>          |
| <b>e)</b> Adopting and from time to time <b>revising Code Subsidiary Documents</b> (see BSC Section F3);  | Mainly delegated to:<br><b>ISG and SVG</b> but also <b>TDC &amp; PAB</b> |
| <b>f)</b> Taking steps to <b>ensure that the Code is given effect</b> in accordance with its terms, and (but only where expressly so provided in the Code) taking steps to <b>ensure compliance by Parties</b> with the provisions of the Code;                   | Mainly delegated to:<br><b>PAB</b>                                       |

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| <b>g)</b> Providing or arranging for the <b>provision of reports and other information to the Authority</b> in accordance with the further provisions of the Code;  | Delivered by Panel and across Panel Committees as appropriate |
| <b>h)</b> <b>Approving the Business Strategy</b> prepared by ELEXON for each BSC Year, and revisions to that plan;  | Not Delegated   |
| <b>i)</b> <b>Deciding matters which are referred to it</b> (pursuant to any provision of the Code providing for such referral) following any decision or determination of ELEXON or a BSC Agent;                                    | Not Delegated   |
| <b>j)</b> <b>Setting the terms of reference for the BSC Auditor</b> and considering the BSC Audit Report;   | Delegated (in part) to:<br><b>PAB</b>                         |
| <b>k)</b> If requested by the Authority, <b>conveying any direction or request of the Authority</b> to any Party, ELEXON, the BSC Auditor or any BSC Agent;   | Not Delegated   |
| <b>l)</b> Preparing, considering, recommending changes (if necessary) and <b>approving documents relating to performance assurance</b> (in accordance with BSC Section Z) and hearing and determining Risk Management Plan Appeals. | Mainly delegated to:<br><b>PAB</b>                            |

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## ATTACHMENT 1 – BSC PANEL AND PANEL COMMITTEE STRATEGIC WORK PROGRAMME

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