

PAB205/04 – PAF PROCEDURES HIGH LEVEL DESIGN

MEETING NAME Performance Assurance Board

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Purpose of paper For Decision

Classification Public

Summary This paper presents a proposed revised high level design of the Performance Assurance Framework (PAF) for the PAB's approval.

1. Introduction

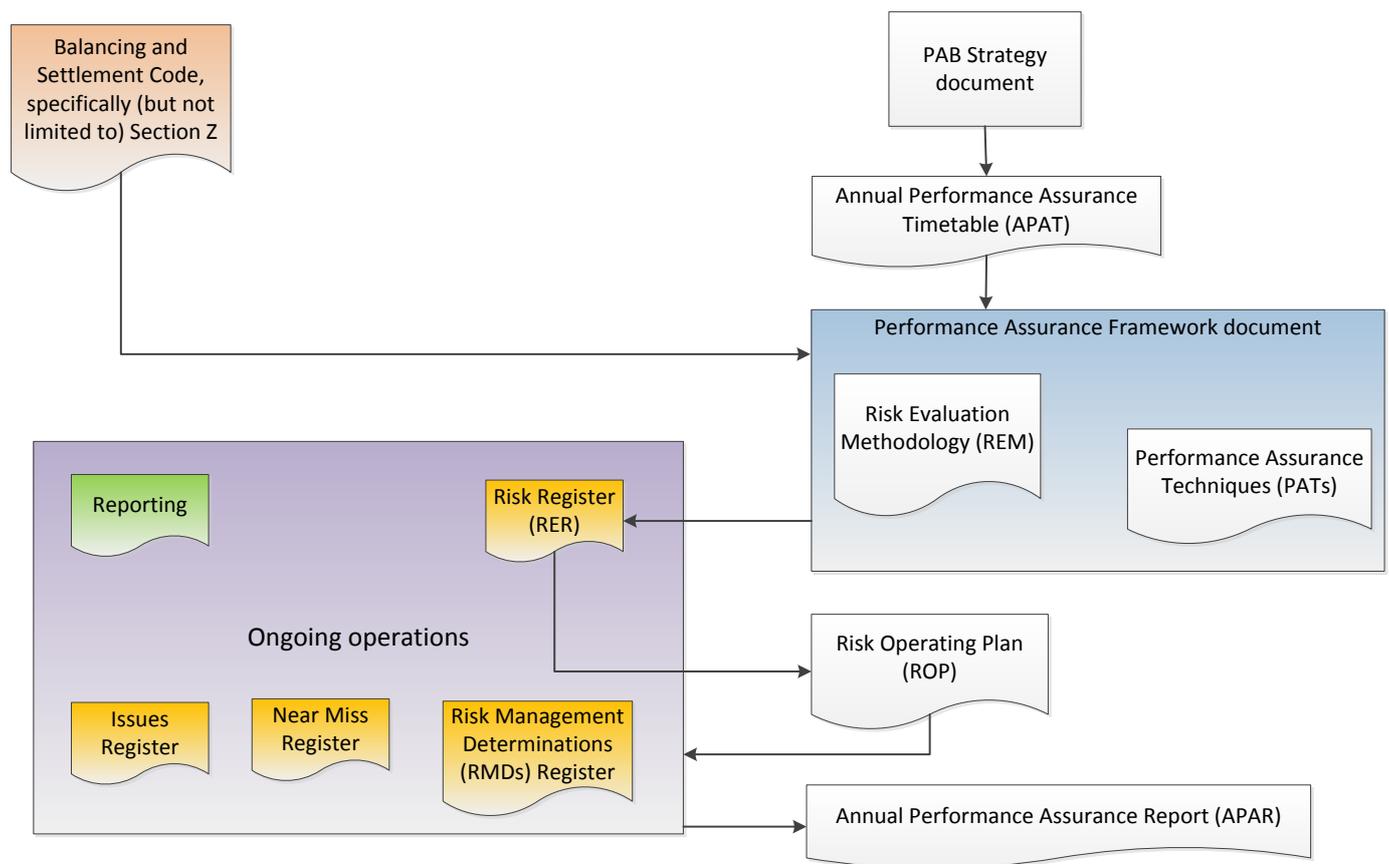
- 1.1 The scope and approach of the Performance Assurance Framework (PAF) Review was approved by the BSC Panel in March 2017. ELEXON has been progressing the review in four workstreams, one of which is the 'PAF Procedures'. The PAF Procedures are the documents and activities that underpin the assurance framework, primarily consisting of the annual cycle of identifying and evaluating Settlement Risks, determining how to mitigate them in an operating plan, managing the mitigating actions during the year and reporting on results / progress at the end of the year.
- 1.2 Steps one and two of the workstream looked at how the PAF Procedures operate now, and what other approaches could be suitable for the Balancing and Settlement Code (BSC) PAF. Papers from these two steps were presented to the November Performance Assurance Board (PAB)¹ and contained a number of recommendations to retain / change from the current PAF.
- 1.3 Since November, we have been developing a high level design for a revised PAF. The design we are proposing has been presented to and discussed with:
 - An internal ELEXON expert group;
 - The [Issue 69 working group](#); and
 - A sub-group of the PAB convened for the PAF review.
- 1.4 These groups were supportive of the high level design and provided feedback that will help us develop the component parts of the PAF in more detail during the coming months.

2. High Level Design

- 2.1 The high level design below is presented as a series of documents that are markers for, and in support of, the process.

¹ [PAB202/10 - PAF Review – PAF Procedures Workstream Reports](#)

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- 2.2 Section Z of the BSC provides a framework in terms of documentary output², which, with a few exceptions (see below), we can work with in the new design. The intention is to use this existing document framework to deliver our revised requirements but to make the documents themselves sharper and more focused on their purpose. However, we will also highlight where behavioural change (e.g. how we think about risk as opposed to focusing on issues) and different ways of working (for instance how to more effectively engage Performance Assurance Parties (PAP) and other stakeholders) will be required to make this implementation effective.
- 2.3 There are two areas of Section Z that we have identified could be amended to provide a more flexible and effective framework. Firstly to allow within-period revisions to the REM, and secondly to remove the requirement to consecutively consult on the REM/RER/ROP. The provisions require us to consult on and approve one document before reviewing the next. This lengthens the process unnecessarily, and results in a disconnect in the operation of the PAF. Appendix 2 contains the relevant BSC provisions. A Modification would be required to introduce more flexibility for production of these documents; we are working with the legal and change teams in ELEXON to evaluate the options.

² Primarily, the Annual Performance Assurance Timetable; Risk Evaluation Methodology; Risk Evaluation Register; Risk Operating Plan; and Annual Performance Assurance Report.

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- 2.4 In addition, there is an intention to appoint a new Risk Manager role³ within the Performance Assurance Administrator (PAA) at ELEXON, to support this work and to provide a better focus for risk conversations within ELEXON, with PAFs and to support the work of the PAB (including attending PAB meetings). The requirement to more effectively engage stakeholders in risk was a strong theme of the feedback we have received when discussing with stakeholders.
- 2.5 The following sections describe the elements of the proposed PAF design in more detail.

3. PAB Strategy

- 3.1 This document/process is not mentioned in Section Z, so there are no BSC provisions to consider. The point of this process is, once a year, to document the purpose or the focus of the BSC Settlement Risk management process for the coming year (or a longer period). This is similar in approach to business planning. The strategy will be drafted by the new Risk Manager in discussion with the PAB Chair, and brought to the PAB for discussion, amendment and agreement.
- 3.2 The document may set out that the PAB wishes to prioritise risk mitigation on, for example, all 'red risks' (e.g. those currently rated 12 or above in significance) and those 'amber risks' (rated 4 to 10) where we are => 3 away from our Target Risk Rating⁴. Or we may focus on costs, for example, reduce the budget by 10%, or increase the budget by 10% where we feel we can make an effective reduction to risk impact or likelihood ratings as a result.
- 3.3 The aim is to set the high level objective for the framework in terms of risk mitigation, cost or other metric that the PAB determines so that there is a clear purpose for the relevant Performance Assurance Operating Period.

4. Performance Assurance Framework Document

- 4.1 This document is new and not mentioned in Section Z, so there are no BSC provisions to consider. The intention is to create a document that can provide useful operational information about how the process works. This will include stating the roles and responsibilities of the Panel, the PAB, Ofgem, the PAA, the Risk Manager and other bodies that have a role in performance assurance/risk management. This will also document the purpose of the key outputs e.g. the PAB strategy, the Risk Evaluation Methodology (REM), the Risk Operating Plan (ROP) etc.
- 4.2 The PAF document would contain two key outputs that are described in Section Z – the REM and the Performance Assurance Technique (PAT) list.
- The REM will set out how to capture risk in the Risk Evaluation Register (RER), including but not limited to, how we score risk (impact and likelihood scales).
 - The PAT list will set out the current approved list of PATs⁵.
- 4.3 Both of the above documents would be 'live' and applicable until superseded rather than drafted to apply to a particular Performance Assurance Operating Period (as they are currently). As noted before there are requirements in terms of timing of REM consultation we propose to seek to change or remove.
- 4.4 We are considering whether there would be benefit in the PAF document having a status such as a Code Subsidiary Document.

³ Draft role description is set out in Appendix 1.

⁴ See section 5.1 of this paper

⁵ Z5.3 provides that the Panel prepares a list of PATs and publishes it on the ELEXON website

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5. Risk Register

- 5.1 This document is mentioned in Section Z, as noted before there are requirements in terms of timing of RER consultation we propose to seek to change or remove. The Risk Register is a key output for a risk management process. We would like to make the following improvements to the Register:-
- Change the risk register scales (impact and likelihood)⁶ to include some quantification. For example, impact to be measured in £ and likelihood to reflect a % probability of occurrence.
 - Add a Target Risk Rating reflective of the PAB Strategy and the ROP, that sets the risk rating we will aim to achieve in the period, depending on risk appetite, the cost and likely mitigating impact of the PATs we propose to apply.
 - Assign a Risk Owner⁷ to each risk, to give additional focus and ownership to that risk. The Risk Owner would be an ELEXON staff member, who will advise on what techniques would be suitable to use to better understand the risk, review reporting, data etc. to assess whether the risk rating could be changed to reflect new information. The new Risk Manager will support this work.
 - Remove 'gross risk significance' as a measure and focus on 'net risk significance'. The latter will be renamed Current Risk Rating. The gross risk rating is not currently used; it is a further level of estimation, reflecting what the risk rating would be without the controls in place. We will continue to rate the controls separately.
- 5.2 There is an intention to make the RER a 'live' process which is regularly reviewed both by the PAA and the PAB. We will need to review the PAB agenda and delegations to the PAA to facilitate this.
- 5.3 To support this conversation about risk, we also want to keep an issues register (which clearly links issues to a risk), to introduce a near miss register (again which links to a risk), keep a register of reports (to build visibility of a risk) and document Risk Management Determinations⁸ more explicitly. The intention here is to build information around a risk which can support the decision to deploy additional mitigations, or review the risk rating etc.

6. Risk Operating Plan

- 6.1 This document is mentioned in Section Z, and as noted before there are requirements in terms of timing of ROP consultation we propose to seek to change or remove. The ROP should build on the PAB Strategy to provide more detail for PAF activities in the year, in particular deploying mitigations, including costings of mitigations (e.g. PATs), investment in new systems or new reporting, additional resource etc. The aim is to use the ROP as an approval for budget process, similar to that of a business planning process. The document should be more focused on this objective than previously.

7. Annual Performance Assurance Report

- 7.1 This document is mentioned in Section Z, but there is sufficient flexibility in the drafting to enable us to make the changes we propose. This process should be an annual review of the effectiveness of the risk process. For example, it will reflect on the relevant PAB Strategy and the ROP and make an assessment of how successful we were in delivering what we intended to achieve, including actual costs vs budget. It will also comment on the risk landscape and how that has changed over the period, and what adjustments we have had to make, or should make, to deal with this.

⁶ These scales are described in the REM

⁷ A draft role description is set out in Appendix 1

⁸ RMDs are decisions made by the PAB to deploy a technique(s) to a party(s)

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7.2 We should also make recommendations in this report to introduce/amend PATs etc. The intention is for this document to be produced as soon as possible after the end of the PAOP, so that any learning can be fed back into the next PAB Strategy and/or within-period revisions of the ROP. The document should be more focused on this objective than previously.

8. Other Changes

8.1 The appointment of a Risk Manager is key to implementing a number of behavioural changes to support this approach to performance assurance. We need to be clear on the difference between risks and issues (risks that have materialised) and we need to structure the conversation, reporting etc. around the risks as described on the risk register.

8.2 We have received feedback from PAPs that they would like to more actively engage on the subject of risk. We have a number of ideas about how this could be effected e.g. using a portion of BSC Audit feedback meetings to discuss risk with the PAP organisation, via direct contact with the Risk Manager, better briefing of Operational Support Managers (OSM) to discuss risk etc. PAPs have also indicated that their own organisation Risk Managers may not have settlement risk on their register or as a focus, which we would seek to influence perhaps initially by communicating a quantification of Settlement Risk.

8.3 We intend to review the PAB Agenda so that the focus is on 'risk' and the PAB is a 'senior manager' reviewer and decision-maker on risk. This includes ideas such as:

- Including a risk register review timetable. This assumes that the RER is reformed to facilitate this (e.g. reduce the number of risks or present differently to the PAB to facilitate review). This would also include some new management reporting to show risks;
- Review of performance reporting in the PAB meeting should be limited to review of key messages and consideration of the impact that reporting has on Current Risk Ratings, Target Risk Ratings or mitigations;
- Delegation to the PAA and/or PAB Chair review of PAP Error and Failure Resolution (EFR) Plans, with a report to be sent to the PAB for sign-off. This implies some guidance/structure is handed down from the PAB to enable consistency of treatment.

8.4 We need to allocate document owners to key documents, to ensure reviews take place. For example, it is not currently clear who is responsible for updating the PAB ToR, who should keep the delegation records up to date, nor who should document the RMDs.

9. Next Steps

PAF design

9.1.1 When the high level PAF design presented here is approved by the PAB, we will progress to the next steps in the workstream, which are:

- Develop the detailed REM
- Test out approaches to revising the RER to better present Settlement Risks

9.1.2 For both of these activities will be using the Issue 69 working group and the PAB sub-group to review our proposals. We aim to present a recommended approach to the RER and the REM to the PAB in April.

9.1.3 We are considering the requirement for a Modification as set out in section 2.3 above.

9.1.4 Later steps will include:

- Draft a template ROP (planned May-June 2018)

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- Draft a template APAR and prepare a proposed reporting suite (planned May – July 2018)
- Develop a full RER based on the approach agreed above and perform an evaluation of the risks based on existing information (planned May – July 2018)
- Draft working procedures that set out the activities of the PAB, PAA and PAFs required to facilitate the PAF design

9.1.5 We aim to present a final report on the PAF Procedures workstream to the PAB at its September meeting for approval to implement, depending on progression of the steps described above.

Implementation

9.1.6 There are many elements that will have to be in place to begin using the new documents, risk register and supporting processes. We have started planning out the implementation requirements and this will be presented to the PAB in due course.

10. Recommendations

10.1 We invite you to:

- a) **COMMENT** on the PAF design;
- b) **APPROVE** the design for development of its component parts;
- c) **COMMENT** on the proposal to seek a change to Section Z for adding flexibility to the production of the REM, RER and ROP; and
- d) **NOTE** that we are developing an implementation plan for the PAF Procedures.

Appendices

Appendix 1 - Draft Role Descriptions to be set out in the Performance Assurance Framework Document

Appendix 2 – Section Z references to approval of REM, RER and ROP

For more information, please contact:

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Appendix 1 - Draft Role Descriptions to be set out in the Performance Assurance Framework Document

Risk Manager

The Risk Manager ("RM") provides the second line of defence⁹. RM is responsible for the design, maintenance and ongoing development of the Performance Assurance Framework within the PAA. A key function of the RM is to challenge and support the PAA's operational teams' inputs to, and outputs from, risk management, risk measurement and reporting systems and to provide functional contact with other risk managers in PAP organisations.

The RM will have the following responsibilities:-

- Support the work of the PAB, including attendance at PAB meetings.
- Propose strategy for Settlement Risk to meet regulatory and industry drivers.
- Design and maintain a Performance Assurance Framework, enshrined in a document(s).
- Co-ordinate the design and collection of key risk indicators and consolidated reporting to PAB.
- Validate risk data collected for use in risk processes.
- Analyse Settlement Risk and present regular reporting on risk profile to PAB.
- Co-ordinate collection and reporting of data that assists in risk management and track resolution of mitigating actions.
- Provide PAF training and awareness activities to PAA and external stakeholders
- Provide a Risk function point of contact to PAA and external stakeholders.
- Support operational teams and the PAB in relation to issue management and reporting.

Risk Owners

The business line is the first line of defence. Risk Owners have the following responsibilities. To:-

- Provide the communication point of contact for the RM
- Ensure complete and timely reporting of data used in risk processes.
- Manage process and documentation supporting quantification of risks.
- Co-ordinate any key risk indicators.
- Track progress on delivering agreed actions.
- Produce appropriate reporting
- Provide the PAA's senior managers with appropriate reporting required for consideration in decision making.

⁹ **First line of defence** is the 'business line' or those who manage the risk as it arises. These operational teams can be supported by risk managers, who work directly for the business line.

Second line of defence is responsible for development of a risk framework and reporting to senior management – these functions need to have 'independence, importance and relevance'. This can include typical risk management teams as well as compliance roles.

Third line of defence provides internal checks and balances for the operational risk framework – usually an internal audit function. It is expected that internal audit does not have direct responsibility for second line of defence.

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Appendix 2 – Section Z references to approval of REM, RER and ROP

Risk Evaluation Methodology:

5.4.3 The Performance Assurance Board shall, in accordance with the Annual Performance Assurance Timetable:

- (a) submit a draft of the proposed Risk Evaluation Methodology to all Performance Assurance Parties and other interested persons;
- (b) after considering comments received from Performance Assurance Parties and other interested persons, make such changes (if any) to the proposed Risk Evaluation Methodology which are (in its opinion) appropriate; and
- (c) approve and adopt the Risk Evaluation Methodology

Risk Evaluation Register:

5.5.4 The Performance Assurance Board shall, after the approval and adoption of the Risk Evaluation Methodology, in accordance with the Annual Performance Assurance Timetable:

- (a) submit a draft of the proposed Risk Evaluation Register to all Performance Assurance Parties and other interested persons;
- (b) after considering any comments (including suggestions as to what may constitute a Settlement Risk) received from any Performance Assurance Parties and other interested persons, prepare and submit to the Panel for its approval a final proposed Risk Evaluation Register;
- (c) make such changes (if any) to the proposed Risk Evaluation Register as the Panel may direct; and
- (d) adopt the Risk Evaluation Register as so changed and approved by the Panel,

5.5.5 The Performance Assurance Board may on an ad-hoc basis propose a within-period revision of the Risk Evaluation Register in relation to a Performance Assurance Operating Period, after it has been adopted under paragraph 5.5.4, where the Performance Assurance Board identifies a further Settlement Risk or changes its definition or evaluation of an existing Settlement Risk.

5.5.6 The procedures in paragraph 5.5.4 shall apply in relation to a proposed within-period revision of the Risk Evaluation Register, except that if the Performance Assurance Board considers that the revision is not significant it need not provide a draft of the proposed revised Risk Evaluation Register to Performance Assurance Parties and other interested persons.

Risk Operating Plan:

5.6.3 The Performance Assurance Board shall, after the approval and adoption of the Risk Evaluation Register, in accordance with the Annual Performance Assurance Timetable:

- (a) publish the proposed Risk Operating Plan on the BSCCo website so that any Performance Assurance Parties and other interested persons may comment on it;
- (b) submit the proposed Risk Operating Plan to the Panel for its approval together with any comments received from Performance Assurance Parties and other interested persons;
- (c) make such changes (if any) to the proposed Risk Operating Plan as the Panel may direct; and
- (d) adopt the Risk Operating Plan as so changed and approved by the Panel,

5.6.4 Where the Performance Assurance Board makes a within-period revision of the Risk Evaluation Register, the Performance Assurance Board shall determine and make such corresponding revisions (if any) of the Risk Operating Plan as it considers appropriate, and the approval of the Panel shall not be required for such within-period revisions.