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<b>Meeting name</b>	BSC Panel
<b>Date of meeting</b>	14 June 2007
<b>Paper title</b>	Report on Issue 26
<b>Purpose of paper</b>	For Information
<b>Synopsis</b>	Issue 26 was raised to investigate concerns around the application of Supplier Charges in Supplier of Last Resort situations. The Issue 26 Group concluded that a Modification should be raised to amend the Code to clarify the assignment of Party liability for Supplier Charges when transfers of Supplier ID occur.

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## **1 Introduction**

- 1.1 Issue 26 'Issues arising from ELEXON/PAB interpretation concerning the application of Supplier Charges to Replacement Suppliers' ([Issue 26](#)) was raised to investigate the application of Supplier Charges<sup>1</sup> (SCs) to Suppliers of Last Resort (SoLR). The proposer considered that there are inconsistencies, or improvements which could be made, regarding the treatment of SoLRs, clauses in the Code and Code Subsidiary Documents that define the allocation of responsibilities, the formula for the calculation of the charges in Annex S-1 and the functionality of the PARMS (Performance Assurance Reporting Monitoring System) process. The aim of the Issue 26 Group was to consider the issues involved and advise whether a Modification was required to clarify the Code, resolve inconsistencies or make improvements.

## **2 Background**

- 2.1 Modification P106 was raised to address concerns that robust and clearer rules were required under the BSC to govern the registration by Parties of multiple Supplier IDs, the assignment of responsibility for breaches and the apportionment of liabilities between failed Parties and replacement Parties, and to recognise that there are other situations where a Supplier might wish to take over processes under the Supplier ID of another Supplier or segregate its business by establishing an additional Supplier ID. P106 was approved with an Implementation Date of 24 June 2003. However, there were difficulties implementing the P106 changes in the PARMS system, including applying the PARMS Serials in Annex S-1 on a Party rather than Supplier ID basis. Modification P141 was raised to clarify which obligations in the Code referring to 'Supplier' were to be applied 'on a Supplier ID basis,' and what this meant. Ofgem approved P141 with retrospective effect from the P106 Implementation Date.
- 2.2 In August 2003 the PAB agreed a set of principles, intended to reflect the requirements of the Code, for a "workaround" to apportion Supplier Charges (SCs) between Parties where a Supplier ID was transferred between them. ELEXON developed a practical solution based on an interpretation of these principles.
- 2.3 Following appointment as SoLR for Eledor Ltd in December 2005, npower was informed by ELEXON that it was to be invoiced for Serial SP08a (Non Half-Hourly energy settled on Annualised Advances) Supplier Charges for the ELED Supplier ID for Settlement Days prior to its appointment

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<sup>1</sup> SCs are applied for four performance Serials SP01 (submission of Routine Performance Report), SP02 (submission of Routine Performance Logs), SP04 (Installation of HH Metering) and SP08 (Energy on Actuals).

as SoLR. Though these charges were small, npower was concerned because they related to performance for Settlement Days prior to its appointment as SoLR, i.e. to consumption for which npower was not the Supplier, and potentially including Metering Systems for which npower had never been the Supplier. This is because the charge was being applied to the Party who was 'responsible' for the Supplier ID on the date that the Volume Allocation Run relating to the relevant energy volume (i.e. the relevant trigger point for the non-compliance with Serial SP08a) took place.

- 2.4 Issue 26 hinges upon whether responsibility for certain SCs should be assigned on a Calendar Day basis, as in the PARMS system at present, or on a Settlement Day basis, in the same way as Trading Charges. The Issue 26 Group set out to investigate two aspects of the issue; what the Code obliges regarding this matter (and consequently the interpretation of the Code), and the actual processes and systems in place to implement this in practice (and whether this reflects the Code requirements). These aspects were assessed in the context of the Group's consideration of what would be the optimal arrangements for SCs in relation to Parties affected by the transfer of a Supplier ID.

### **3 Group Discussion**

- 3.1 The Group considered that while the impact of Replacement Suppliers' liability to SCs may be small in terms of the sums involved to date, if a large Supplier were to fail the financial impact could be much greater (though it would be subject to the application of capping processes).
- 3.2 The Group agreed the following principles that an Issue 26 solution should seek to adhere to:
- a. The SoLR and Trade Sale Processes should seek to, as far as practicable, have the same effect as a Change of Supplier (CoS) process for all Metering Systems for the purposes of Party obligations, Trading Charges, BSC Charges and Supplier Charges; and
  - b. The Failing Supplier should be expected to comply with all obligations relating to apparatus associated with the Affected BM Units (and not the Replacement Supplier BM Units). The apparatus should be considered to transfer from the Affected BM Units to the Replacement Supplier BM Units on the transfer date, and from that time to no longer be associated with the Affected BMUs. The Failing Supplier should have no further obligations in respect of this apparatus for periods post the transfer (The Failing Supplier would, however, be liable for all obligations relating to this apparatus in respect of Settlement Days prior to the transfer). For clarity, the aim is that the Supplier (i.e. Party) responsibility should relate to the Party associated with the Supplier ID on a Settlement Day basis, therefore a Failing Supplier is to be liable after the transfer date for the proportion of the charges which are calculated as relating to the Settlement Days before the transfer; and
  - c. The Replacement Supplier should be expected to make all reasonable endeavours to comply with all obligations relating to apparatus associated with the Replacement Supplier BM Units (and not the Affected BM Units). As the apparatus transfers from the Affected BM Units to the Replacement Supplier BM Units on the transfer date, this means the Replacement Supplier has no obligations in respect of this apparatus for periods prior to the transfer. (Note that it is suggested that there be a backstop on this reasonable endeavours period, after which the Replacement Supplier's obligations revert to the absolute obligations as normally applicable; 3 months is suggested as a reasonable length of time.) It is envisaged that the question of whether a Replacement Supplier has exercised reasonable endeavours would be decided by the PAB, who would consider the position of the Supplier and all the

relevant circumstances. The Proposer has noted that a Modification could include not applying SCs where the criteria were met; i.e. because the Replacement Supplier would not be in breach, and would therefore not be liable for SCs in these circumstances. In practice this might be implemented by calculating the charges as normal but disapplying them by means of the Supplier Force Majeure functionality.

The Group recognises that the application of a reasonable endeavours period will need to be considered, i.e. whether it applies to:

- all performance Serials and Standards;
  - only to performance Serials to which Supplier Charges are attached;
  - to all obligations under the Code in relation to affected Metering Systems and Replacement Supplier BM Units; or
  - to all obligations relating to Metering Systems served by systems and processes over which the Replacement Supplier does not have effective control (e.g. due to being made responsible without having the appropriate contractual relationships); and
- d. For the reasonable endeavours period following transfer (3 months suggested), and at the discretion of the Panel up to a further additional amount of time (3 months suggested), the Panel and Panel committees should give due consideration to the circumstances associated with the SoLR/Trade Sale and to the ability and efforts of the Replacement Supplier to comply with its obligations relating to apparatus associated with Replacement Supplier BM Units when managing any related non compliance (i.e. in judging whether reasonable endeavours have been made, and in determining appropriate liability and suitable remedial actions); and
- e. With regard to Supplier Charges, it is desirable to have a pre-determined cut off associated with any costs accruing post the transfer in respect of failed obligations for periods prior to the transfer. This will mean that costs do not accrue ad infinitum in relation to the Failing Supplier as these costs are unlikely to be recovered, save through other BSC Parties, in the event of non-payment; and
- f. A clearer description of the process is required so that the processes and the implications of the processes are more readily understandable. It is suggested that this should take the form of Affected BM Units being registered to the Failing Supplier throughout; the Replacement Supplier BM Units being registered to the Replacement Supplier from the transfer date; and these respective BM Units being treated as different BM Units for all aspects of the Code even though they have the same identifiers. This is to remove any confusion that the Affected BM Units are in any way related to the Replacement Supplier and to clarify that the Replacement Supplier is not responsible for the Affected BM Units; and
- g. In the event of a single Replacement Supplier taking all of a Failing Supplier's BM Units (associated with a single Supplier ID) - the Replacement Supplier BM Units can become normal BM Units when the transfer completes as there is no practical difference between the Replacement Supplier BM Units and normal Supplier BM Units; and
- h. In the event that multiple Replacement Suppliers take the Failing Supplier's BM Units (associated with a single Supplier ID) the BM Units should retain their Replacement status and, because the Supplier ID is fragmented across multiple Replacement Suppliers, each

Replacement Supplier must move away from the ID within 3 months, or at the discretion of the Panel up to a further additional amount of time (three months suggested), subject to appropriate provisions to enable closedown of the Supplier ID and/or to enable takeover of the processes in the situation of a major Supplier failure; and

- i. Following the transfer, data in respect of the Supplier ID should, in as far as is practically possible, be sent to the Failing Supplier so that accounts can be closed down in a controlled manner and to all Replacement Suppliers so that accounts can be opened and hubs managed (it is recognised that in practice this is unlikely to be possible and so a compromise to some extent is required).

- 3.3 Attachment A is a list of the paragraphs of the BSC that are likely to require change, or at least examination, in the process of implementing a solution to Issue 26. This list was compiled by ELEXON on behalf of the Issue 26 Group.

## **4 Supplier Charges and Apportionment**

- 4.1 The current PARMS process for apportionment of SCs in the case of a transfer of Supplier ID is such that the Replacement Supplier becomes responsible for any breach which occurs in the period after the transfer and thus for SCs that fall due, even if the breach arises in respect of periods before the transfer of the Supplier ID. The Replacement Supplier is liable (from the transfer date) for any SP01/02/04 charges that accrue in respect of breaches or non-compliances which arise or continue after the transfer date, and is liable to SP08 charges as they fall due, though they may relate to Settlement Periods before the transfer. Therefore the current apportionment rules deal with apportionment in a single PARMS reporting period, that period being the month during which the SoLR occurs.
- 4.2 SP01 is charged for failure to provide PARMS Reports for a Supplier ID. If any data item remains outstanding after 20 Working Days from the period end (reporting month) an SP01 charge is accrued for each working day thereafter. This continues to accrue ad infinitum. Therefore each month a total SP01 charge is calculated based on the number of Working Days that data was outstanding after the month when it should have been reported by the relevant Supplier. Please note that the Replacement Supplier is not responsible for data that should have been reported up to the transfer date (breaches or non-compliances before that date are solely the responsibility of the Failing Supplier). In the case of a transfer of Supplier ID the apportionment system calculates the charges for each Party based on the sum of the daily SP01 charges for each Working Day that that Party was responsible for the Supplier ID. As a result the Replacement Supplier will accrue SP01 charges in respect of the month of transfer even though these could be said to relate to a failure of the previous Party to provide the PARMS data in the previous reporting periods or during the part of the transfer month for which the Failing Supplier was responsible. It was noted that this does not seem very reasonable if there is no means for the Replacement Supplier to, or as a practical matter it cannot, provide the relevant data for a period of time after the transfer date. It should also be noted that the PARMS system cannot process two PARMS submissions for the same Supplier ID from two Parties (it would treat the latter submission as an overwrite of the first, assuming the new Supplier had registered themselves as the Party responsible for that Supplier ID), therefore all outstanding submissions, irrespective of which month they relate to, must be made by the new Supplier.<sup>2</sup>

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<sup>2</sup> Most PARMS data is submitted by the Supplier Agents; in this case the new Supplier would have to ensure that historic data has been submitted or correct the Data Provider Information file.

4.3 The diagram below (Figure 1) illustrates when the Replacement Supplier in a SoLR situation would become liable for SCs under the proposed Issue 26 solution, following the transfer date related to SoLR appointment. The solution would bring the SP08 Serial SCs in line with the way Trading Charges are charged, as the SoLR would no longer be liable for any SP08 charges that relate to Settlement Periods which occurred before its appointment. It is envisaged that the SP01/02 Serials could be apportioned such that the SoLR is not liable for charges relating to Reporting Periods before the transfer. It should be noted that, as presently stated in the Code, there is no breach (and the Replacement Supplier is not charged) until 20 Working Days after the reporting period in which transfer occurred. Application of the SP04 Serial for failure to install Half Hourly metering equipment would continue to be immediately effective following the Transfer Date.

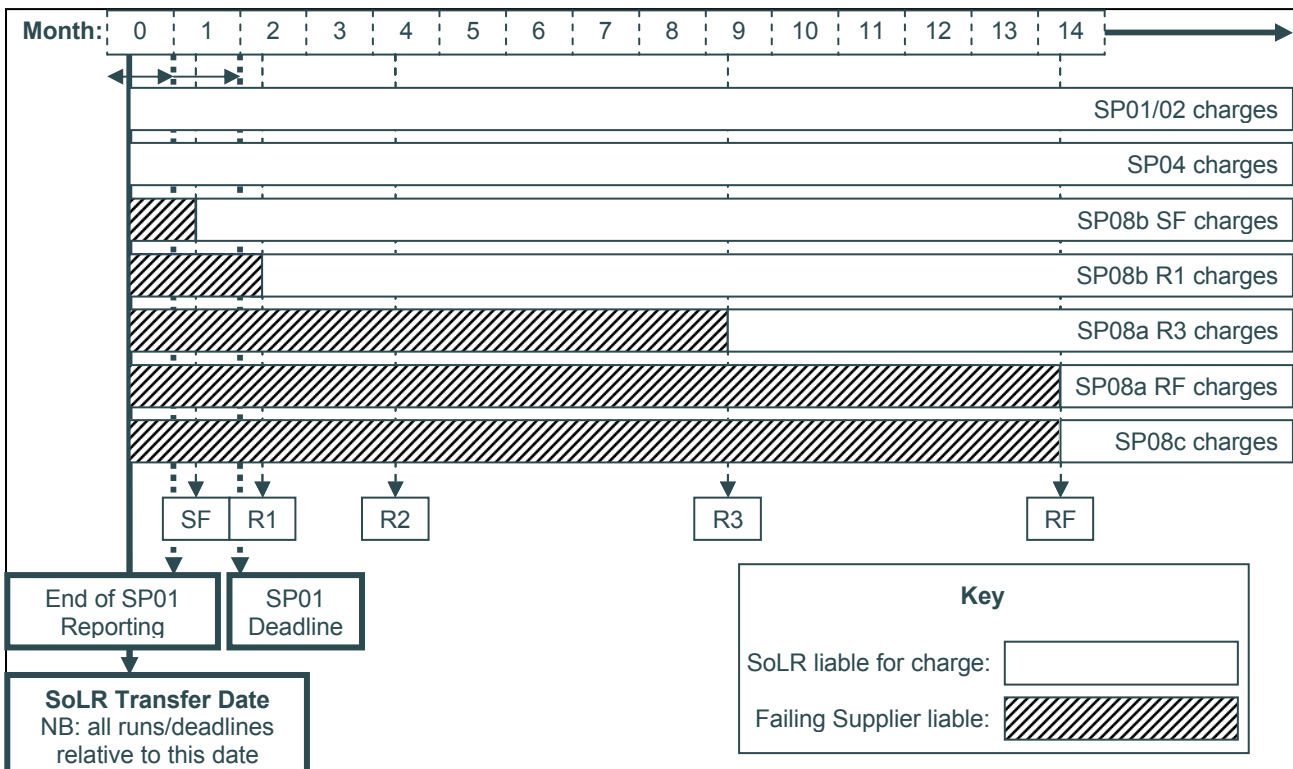


Figure 1. Potential liability of SoLR to Supplier Charges

- 4.4 It was agreed that capping and redistribution of charges should be dealt with the same way as it is in the current apportionment module.
- 4.5 Currently the cap is apportioned on the basis of the total uncapped charges for the 'Supplier ID' in the apportioned reporting period (i.e. the Party share of the combined charges incurred by both Failing Supplier and SoLR in the month of the transfer). There is a cap for each GSP Group in which a Supplier ID operates. The Cap for the Supplier ID is calculated for the Supplier ID within the PARS system. In the case of a transfer of Supplier ID, this cap value is then transferred to the apportionment system which apportioned the cap based on the sum of the uncapped charges for all Serials accrued by the Parties for those days which they were responsible for the Supplier ID. Therefore if all the charges were accrued on those days the Failing Supplier was responsible for the Supplier ID and no charges were accrued on those Days the Replacement Supplier was responsible, the Replacement Supplier would have a Cap of £0 and would accrue no charges. Under the Issue 26 solution this capping apportionment would need to

be carried out for up to 14 months, instead of just the affected month. A Modification Proposal could explore whether this is the most appropriate way of dealing with capping.

- 4.6 Supplier Receipts for each Supplier ID are calculated, per GSP Group, based on that Supplier ID's share of the total NHH energy traded (as recorded at SF). In the event of a transfer of Supplier ID the apportionment system takes the SF NHH volumes for the Supplier ID for the affected month and apportions the Supplier Receipts between the Failing Supplier and the SoLR on the basis of their share of the NHH energy. NHH volumes for each Party associated with Settlement Dates in the month that each of these Suppliers is Registrant of the Supplier ID. Under the Issue 26 solution, apportionment continues to occur for several months following the SoLR event, therefore the Failing Supplier would not be entitled to any receipts after the second month as they would not have any NHH energy associated with them at SF. Under the Issue 26 solution this apportionment of receipts would need to be carried out for up to 14 months, instead of just the affected month. It might be argued that this is not necessary after two months from the date of transfer as the Failing Supplier would have no energy and therefore no entitlement to the share. A Modification Proposal could explore whether this is the most appropriate way of dealing with redistribution.
- 4.7 The solution would not seek to impact re-distribution of Trading Party shares.
- 4.8 ELEXON commissioned impact assessments for the costs of amending PARMs and/or the Supplier Charges Apportionment (SCA) module (which carries out the apportionment outside of the PARMs system) to deliver this solution. The impact assessments are summarised below and are included as attachments to this report (Attachments B and C).

## 5 Impact Assessments

- 5.1 Preliminary high-level impact assessments were requested from the PARMs software provider, and from the provider of the separate Supplier Charge Apportionment (SCA) module. The assessments were carried out on the basis of the Group's solution principles, the possible changes required to Section S-1 of the Code and the liability of the Parties involved for the various SC Serials as suggested by the aim of moving to assignment of responsibility on a Settlement Day basis. No limits were imposed in terms of cost and the assessors worked on the assumption that solutions implemented must meet all the requirements specified by the Group.
- 5.2 It was estimated that the changes necessary to PARMs would have a total associated cost of £165,919.00 (£148,296.00 change specific, £17,623.00 release costs) with no annual maintenance costs. The two main functional areas impacted are Supplier Charges (Initial Charges, Force Majeure, Serial Totals, Uncapped Charges, Calculation of Monthly Caps, Supplier Charges, Interest, Distribution and Party Allocation, and Back Population) and Reporting (PARMs Client and Supplier Charge Report). Details of the changes required in these areas are described in Attachment B.
- 5.3 It was noted that currently the output of the PARMs calculations are capped, have interest applied, and summed to a Party level before being made available to the SC Apportionment module. Based on the Issue 26 requirements, apportionment would need to be an integral part of the overall calculations at an early stage (i.e. before any charge capping, interest calculation, or Party summation). If the SC Apportionment module were to meet the requirements, PARMs could be left unchanged, but most of the PARMs calculations (charge capping, interest calculation, Party summation, and reports) would effectively be incorrect. To overcome this, the

SC Apportionment module would need to replicate the remainder of the PARMS calculations and reporting to complete the charges.

- 5.4 Another option for implementation was suggested by the PARMS software provider that would allow the SC Apportionment module to complete the apportionment calculations whilst retaining valid PARMS Supplier Charge results. This would require the suspension of the PARMS calculations at the point of apportionment, allow the SC Apportionment module to complete the Issue 26 calculations, and then resume the PARMS calculations by inputting the apportionment results. This would require new interfaces and a "breaking up" of PARMS processes. However, this option was not fully assessed because a fairly significant amount of research of both the PARMS and SC Apportionment module aspects would be required to determine if this option is viable in practice.
- 5.5 The apportionment software provider estimated that the costs involved in making the changes to SCA would be around £45,000, and a project to deliver the changes would take several months once commissioned. It was noted that the option that formed the basis of the assessment (Attachment C) involving the entire SC calculation in the SCA module (thus avoiding impact on PARMS) would be a very significant development, though it would have the benefit that any similar changes would be less likely to impact both SCA and PARMS.

## 6 Conclusions

- 6.1 The Group concluded that it would be prudent to revise Section K of the Code to clearly reflect the principles agreed in section 3.2 of this report. It was also suggested that a Modification could correct references in Section D-3 to the calculation of charges for Replacement Supplier BM Units. The Group also agreed that Section S would require revision to explain in more detail how apportionment would work. The Group did not consider whether any other solutions could be utilised to deal with the liabilities arising from Supplier Charges after a transfer of Supplier ID.
- 6.2 As noted above, a list of the paragraphs of the BSC that are likely to require change, or at least examination, as part of implementation of a solution to Issue 26, is provided in Attachment A.

## 7 Recommendations

- 7.1 The Panel is invited to:
- a) **NOTE** the information contained in this report; and
  - b) **NOTE** that the Group concluded that a Modification should be raised to resolve Issue 26.

**Dean Riddell**

**Change Assessment Analyst, ELEXON Change Delivery**

### ***List of attachments***

Attachment A – Issue 26 BSC changes  
Attachment B – LogicaCMG PARMS IA  
Attachment C – Engage SCA IA

### ***List of appendices***

Appendix 1: Issue Group Details

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<b>Member</b>	<b>Organisation</b>	<b>06/12/06</b>	<b>31/01/07</b>
David Jones	ELEXON (Chairman)	Y	Y
Dean Riddell	ELEXON (Lead Analyst)	Y	Y
Richard Harrison	Proposer	Y	Y
Rosie McGlynn	E.ON	Y	Y
Andrew Colley	Scottish and Southern	Y	Y
Eddie Wall	Centrica	Y	Y

<b>Attendee</b>	<b>Organisation</b>	<b>06/12/06</b>	<b>31/01/07</b>
Richard Cullen	ELEXON	Y	Y
Nicholas Rubin	Ofgem	Y	Y