



Stage 04: Draft Modification Report

Self-Governance Modification: final decision to be made by the Panel on 13 June 2013

P293: Changes to BSC Section H 'Audit' and BSC Service Description for BSC Audit to reflect current Practice

This Modification Proposal seeks to align BSC Section H 'Audit' and the BSC Service Description for BSC Audit, to align them with current practice in time for the commencement of the new BSC Audit and Qualification Service Provider contract on 01 October 2013.



The Panel: initially recommends:
Approval of the Proposed Modification under the Self-Governance arrangements



Low Impact:
BSC Panel and ELEXON

What stage is this document in the process?

01 Initial Written Assessment

02 Definition Procedure

03 Assessment Procedure

► 04 Report Phase

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Any questions?

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About this document:

This document is the P293 Draft Modification Report, updated following the P293 Report Phase Consultation for presentation to the Panel on 13 June 2013. The Panel will consider the recommendations, and agree a final view on whether or not this change should be made.

P293 is being progressed under the Self-Governance arrangements. Unless the Authority decides to intervene, the Panel will determine whether or not P293 is approved for implementation. In accordance with Section F6.4 of the BSC, Parties will then have 15 Working Days to appeal the Panel's decision to the Authority.

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Why Change?

As part of the procurement project, ELEXON has reviewed BSC Section H5 'Audit' and the BSC Service Description for BSC Audit and identified minor changes which require updating to reflect current processes, services and terminology.

Solution

To reflect the current processes and services, the minor changes identified in the Code and Service Description need to be made.

Impacts & Costs

P293 only impacts the Code and the BSC Service Description for BSC Audit. It will not have any effect on ELEXON's activities, BSC Parties and Party Agents, BSC Systems and processor contractual arrangement with service providers.

Implementation

P293 requires only minimal changes to the Code and the BSC Service Description for BSC Audit, and if approved will be implemented on the same day the new BSC Audit and Qualification Service Provider contract commences on 01 October 2013.

The Case for Change

The Panel believes that this Modification better facilitates Applicable BSC Objective (d) in that it removes any inconsistencies between current practice and what is described in the BSC and BSC Service Description for BSC Audit. The Panel considers it to be self-evident that inconsistencies currently exist in both the BSC and the BSC Service Description for BSC Audit. These inconsistencies should be corrected so that they reflect current process and to ensure that this documentation is consistent with the new BSC Audit and Qualification Service Provider contract.

Recommendations

The Panel's initial unanimous view is that P293 Proposed Modification should be approved and that it should be progressed as a Self-Governance Modification Proposal.

2 Why Change?

A number of recommended changes have been identified in the Balancing and Settlement Code [\(BSC\) Section H5 'Audit'](#) and ['BSC Service Description for BSC Audit'](#), which require updating to ensure that the BSC and the Service Description align with current processes, services and terminology and the new BSC Audit contract commencing on 01 October 2013.

The Modification was raised by the Panel following a recommendation from the PAB to align the BSC and Service Description with current practice.

What is the Issue?

The current BSC Audit contract comes to an end on 30 September 2013, with the new contract for the BSC Audit and Qualification Service Provider commencing on 01 October 2013. ELEXON is currently undertaking a competitive tender process to appoint the new BSC Auditor and Qualification Service Provider. As part of this process, ELEXON has reviewed the current requirements in BSC Section H5 'Audit' and the 'BSC Service Description for BSC Audit'.

Following the review, a number of minor changes have been identified that will ensure that the BSC and Service Description reflects current processes and service. The minor changes address any inconsistencies in terminology, add clarity and ensure that the BSC and Service Description relate to the proposed changes to the Audit Contract. The proposed changes will not have an impact on the delivery of the BSC Audit or on Performance Assurance Parties subject to audit.

The proposed changes have undergone full internal and legal review to ensure that the Code and the Service Description align with the new contract. The proposed changes were considered and commented on by the PAB on 28 March 2013 ([PAB146/04](#)) where they agreed that a recommendation to raise a Modification should be brought to the Panel to take forward the changes.

It is worth noting that the final contract is yet to be negotiated so may change, however none of the proposed changes to the BSC or the BSC Service Description for BSC Audit will be affected by the contract negotiations.

Proposed solution

To reflect current processes and services and to ensure that the Code and Service Description aligns with the new BSC Audit and Qualification Service Provider contract commencement on 01 October 2013, the minor changes identified in BSC Section H5 'Audit' and the 'BSC Service Description for BSC Audit' need to be made. A summary of the proposed changes and the rationale for each change is provided as Attachment C.

In addition to the changes presented to the PAB in March, a number of minor Housekeeping Changes were identified. One has been included in the changes to BSC Section H, consisting of an amendment to paragraph 5.3.1(a) which should read 'Administration', rather than 'Administrative'. A number of minor Housekeeping Changes to the Service Description have been included which consist of corrections to section numbering, cross references and a typographical error.

Legal Text

The proposed legal text can be found in Attachment A.

Service Description

The proposed changes to the BSC Service Description for BSC Audit can be found in Attachment B. The proposed changes to the terms and definitions in the Service Description relate only to the Service Description, and do not require changes to the BSC.

4 Impacts & Costs

Costs

Implementation costs	
ELEXON effort	1 man day equating to £240
Total costs	Approximately £240

Impacts

The Proposed Solution involves changes to the Code and the BSC Service Description for BSC Audit only, and would amend the BSC as set out in the draft legal text in Attachment A and the Service Description as set out in Attachment B. The implementation of P293 would have no effect on BSC Parties and Party Agents, BSC Systems and Processes, Code Subsidiary Documents or the contractual arrangements with our service providers.

Impact on BSC Systems and process

None

Impact on BSC Agent/service provider contractual arrangements

None

Impact on BSC Parties and Party Agents

None - The Modification Proposal will have no impact on those subject to the BSC Audit as the changes will reflect current practice.

Impact on Transmission Company

None.

Impact on ELEXON

Minor impact to update the BSC Code section and the Service Description.

Impact on Code

Code section	Potential impact
BSC Section H	Change will be required to implement the solution. The proposed changes to the Code can be found in Attachment A.

Impact on Code Subsidiary Documents

BSC Service Description for BSC Audit. The proposed changes to the Service Description can be found in Attachment B.

Impact on Core Industry Documents and other documents

None

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5 Implementation

Implementation Approach

The Panel recommends that P293 is implemented on the same day the new BSC Audit and Qualification Service Provider contract commences. This would mean that the Modification would be implemented on **01 October 2013**.

Self-Governance

The Panel unanimously agreed that P293 meets the Self-Governance Criteria set out in Annex X-1 of the Code, and therefore agreed that it should progress as a Self-Governance Modification Proposal.

This Modification Proposal would only have a small impact on ELEXON. It has no impact on BSC Parties as the proposed change to the Code and Service Description will align both documents with existing practice.

6 The Case for Change

Justification against the Applicable BSC Objectives

The Panel believes that P293 better facilitates the achievement of BSC Objective (d), “promoting efficiency in the implementation of the Balancing and Settlement arrangements”.

The Panel believes it is self-evident that the Proposed Modification will address inconsistencies that exist in the BSC and Service Description. By addressing these inconsistencies they will reflect current process and ensure they are consistent with the new BSC Audit and Qualification Service Provider contract.

Panel's consideration of the Modification Proposal

The Panel noted that the legal text for the proposed Modification introduces a requirement in paragraph 5.4.1 of Section H of the BSC that the BSC Audit results will be reported at a time set out in the terms of reference for the BSC Auditor, in place of the existing requirement for reporting at specified dates. A Panel member queried who approves the terms of reference for the BSC Auditor, and ELEXON explained that the BSC Auditor's terms of reference¹ for each BSC Year (01 April – 31 March) are approved by the Panel in March each year prior to the commencement of the BSC Year to which they apply. Prior to the Panel's approval of the terms of reference in March, the draft terms of reference are presented to the PAB in February for comment and endorsement.

Another Panel member queried why it was proposed to remove the references to two audit reports from H5.4.1. ELEXON clarified that the current requirement stipulates that two reports, the Auditor's opinion and an interim report, had to be delivered to the Panel in April and October respectively, unless otherwise agreed by the Panel. However, for a number of years now, the Panel has agreed that only one report, the BSC Audit report (opinion), should be delivered in June. The proposed change to H5.4.1 removes the specific reference to April and October since it does not reflect the timing of reporting in practice, and reflects that the BSC Audit report will be delivered at a time agreed by the Panel and specified in the terms of reference for the BSC Audit. The proposed legal text does not prevent the Panel requesting additional reports when setting the terms of reference for a future BSC Year.

A Panel member requested that it be made clear that the changes to the terms and definitions in the Service Description related to terms and definitions only found in the Service Description, not the Code itself.

A Panel member noted that most of the proposed changes to the BSC Service Description for BSC Audit seem to streamline and tidy up the document, and therefore queried the removal of references to the annual testing of and the option for BSCCo to witness testing and Disaster Recovery Plans as currently set out in 4.4.4 and 4.4.5 of the Service Description. ELEXON clarified that the rationale for this was that testing of Disaster Recovery Plans and the option to witness test are covered by the Audit contract and are therefore not necessarily required in the Service Description. However, the Panel considered that there was no compelling rationale to remove the references, and no harm in retaining the two paragraphs, particularly if they act as a reminder that the option to witness testing of the Disaster Recovery Plans exists. The Panel therefore agreed to retain paragraphs 4.4.4 and 4.4.5 in the BSC Audit Service Description for BSC Audit, and this is reflected in the redlining in Attachment B.

In a similar vein to the comment on the Disaster Recovery Plan testing, the same Panel member queried the deletion of paragraph 3.5.6 of the BSC Service Description for BSC Audit, relating to the 'letter to the PAB on the Less Significant Control Issues Arising'. ELEXON explained that the PAB and Panel can request additional reports and information from the BSC Auditor if and when required, so a specific mention of the 'letter to the PAB on the Less Significant Control Issues Arising' was not required. The Panel member

¹ referred to as the 'BSC Audit Scope document' in the BSC Service Description for BSC Audit.

accepted the removal of this paragraph on the basis that the BSC Audit contract allows for additional reports and information to be provided by the BSC Auditor when required.

8 Report Phase Consultation Responses

We received 5 responses, as summarised in the table below. The full responses to the P293 Report Phase Consultation are available in Attachment D and on the P293 page of the ELEXON website.

Summary of P293 report Phase Consultation Responses			
Question	Yes	No	Neutral/ Other
Do you agree that the draft legal, in Attachment A, and the redlined changes to the BSC Service Description for BSC Audit in Attachment B, deliver the intention of P293?	5	0	0
Do you agree with the Panel's suggested Implementation Date?	5	0	0
Do you agree with the Panel's view that P293 should be progressed as a Self-Governance Modification Proposal?	5	0	0
Do you agree with the Panel's views that the Proposed Modification should be approved?	5	0	0
Do you have any further comments on P293?	2	3	0

Views on the Modification

All respondents were supportive of the Modification and agreed that the Modification should be made in order to address the identified inconsistencies that exist in both the Code and Service Description, to reflect current practice and to ensure that they are consistent with the new BSC Audit and Qualification Service Provider contract.

A couple of respondents, who are fully supportive of the Modification, noted that the Modification proposal appears to transfer responsibility for decisions on the timing and publication of the BSC Audit Reports from the text of the BSC itself to the discretion of the BSC Panel on behalf of BSC Parties and other stakeholders. The respondents highlighted that through terms of reference agreed annually by the BSC Panel for BSC Audit, the Panel should re-assure itself that it has and will retain the power to make these decisions.

Another respondent, who is also fully supportive of the Modification, commented that going forwards, it would also be encouraged to develop the risk-based approach for the BSC Audit in the future. This will ensure that there is more focus on issues that are currently posing a risk to the market.

Views on the Legal Text and BSC Service Description

All respondents agree that the proposed legal text and redlined changes to the BSC Service Description delivers the aim of the Modification.

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Views on Implementation approach

5 out of 5 respondents agreed with the proposed implementation approach for P293 for implementation on 01 October 2013 in line with the commencement of the new BSC Audit and Qualification Service Provider contract.

Views on Self-Governance

All respondents to the Report Phase Consultation agreed that P293 should be treated as a Self-Governance Modification.

9 Recommendations

ELEXON invites the Panel to:

- **NOTE** the P293 Draft Modification Report and the Report Phase consultation responses;
- **DETERMINE** (in the absence of any Authority direction) that P293 is a Self-Governance Modification Proposal;
- **APPROVE** P293 with an implementation date of 01 October 2013 in line with the commencement of the new BSC Audit and Qualification Service Provider contract; and
- **APPROVE** the text for modifying the Code and BSC Service Description for Proposed Modification P293.

10 Further Information

More information is available in:

Attachment **A**: Proposed Legal Text

Attachment **B**: Proposed changes to BSC Service Description for BSC Audit

Attachment **C**: Summary table of changes to BSC Section H and BSC Service Description for BSC Audit

Attachment **D**: Report Phase Consultation Responses

All P293 documentation can be found on the [P293](#) page of the ELEXON website.