

CP1454 'Amendment to the category 1 materiality calculation'



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About This Document

This document is the Change Proposal (CP) 1454 Final CP Report which ELEXON has published following the final decision from the Imbalance Settlement Group (ISG) and the Supplier Volume Allocation Group (SVG) to approve CP1454.

There are three parts to this document:

- This is the main document. It provides details of the solution, impacts, costs, and proposed implementation approach. It also summarises the ISG's and SVG's views on the proposed changes and the views of respondents to the CP Consultation, along with the final decision on whether to approve this change.
- Attachment A contains the approved redlined changes to deliver the CP1454 solution.
- Attachment B contains the full responses received to the CP Consultation.

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Final CP Report

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Current process for non-compliances

During a site visit, the Technical Assurance Agent (TAA) might identify a Category 1 Non-Compliance¹ and then perform an estimated materiality calculation of the impact on Settlement accuracy. At the end of each Audit Year, the TAA reports the number of non-compliances identified and the combined materiality in the TAA Annual Report. The TAA presents its Annual Report to the Performance Assurance Board (PAB) and to the Balancing and Settlement Code (BSC) Panel in May and June. The most recent TAA Annual Report ([2014/2015](#)) reported that the TAA estimated materiality of non-compliances identified during the Audit Year was:

- 17,390 MWh in the Supplier Volume Allocation (SVA) market; and
- 1,173.8 MWh in the Central Volume Allocation (CVA) market.

The TAA provides both the SVA and CVA estimated materiality figures to the BSC Auditor who, by extrapolation, estimates the materiality of Settlement Error over the industry as a whole.

How does the TAA currently calculate materiality?

The TAA currently uses the following process to calculate the materiality of a Category 1 Non-Compliance:

- Identify the applicable Code of Practice (CoP) against which the Category 1 Non-Compliance has been identified, e.g. CoP4;
- Select a value at the midpoint of the range dictated by the specific requirement of the CoP;
- Identify the likely load factor the TAA should apply. It is recognised that in many cases this will be dependent on the nature of the site's operation; and
- Derive the potential materiality for over the course of a whole year, based on 8,760 hours in a year.

The above four steps form the following calculation for materiality of a Category 1 Non-Compliance:

$$\text{CoP midpoint} * \text{percentage error detected} * \text{assumed average load} * \text{annual hours} \\ = \text{materiality (MWh)}$$

When applying the calculation to a Category 1 Non-Compliance, the materiality figure (in MWh) is an estimate for the following reasons:

- The TAA is not aware of how long an error has been outstanding; and
- The TAA estimates the assumed average load using only one Half Hourly (HH) period.

¹ Currently affecting the quality of data for Settlement purposes.

What is the issue?

The Technical Assurance of Metering Expert Group (TAMEG) asked ELEXON to consider an alternative method for calculating the materiality of Category 1 non-compliances that would provide a more accurate value than the current estimate.

Whilst investigating an alternative method, ELEXON identified that the current calculation had been removed from [Balancing and Settlement Code Procedure \(BSCP\) 27 'Technical Assurance of Half Hourly Metering Systems for Settlement Purposes'](#). However, ELEXON did not update the Working Instruction used by the TAA and we have been unable to locate any communication advising the TAA of a change, so the TAA continued to use the current calculation.

ELEXON reported back to the TAMEG that the calculation had previously been removed from BSCP27 and suggested an alternative calculation which would be performed by ELEXON rather than the TAA.

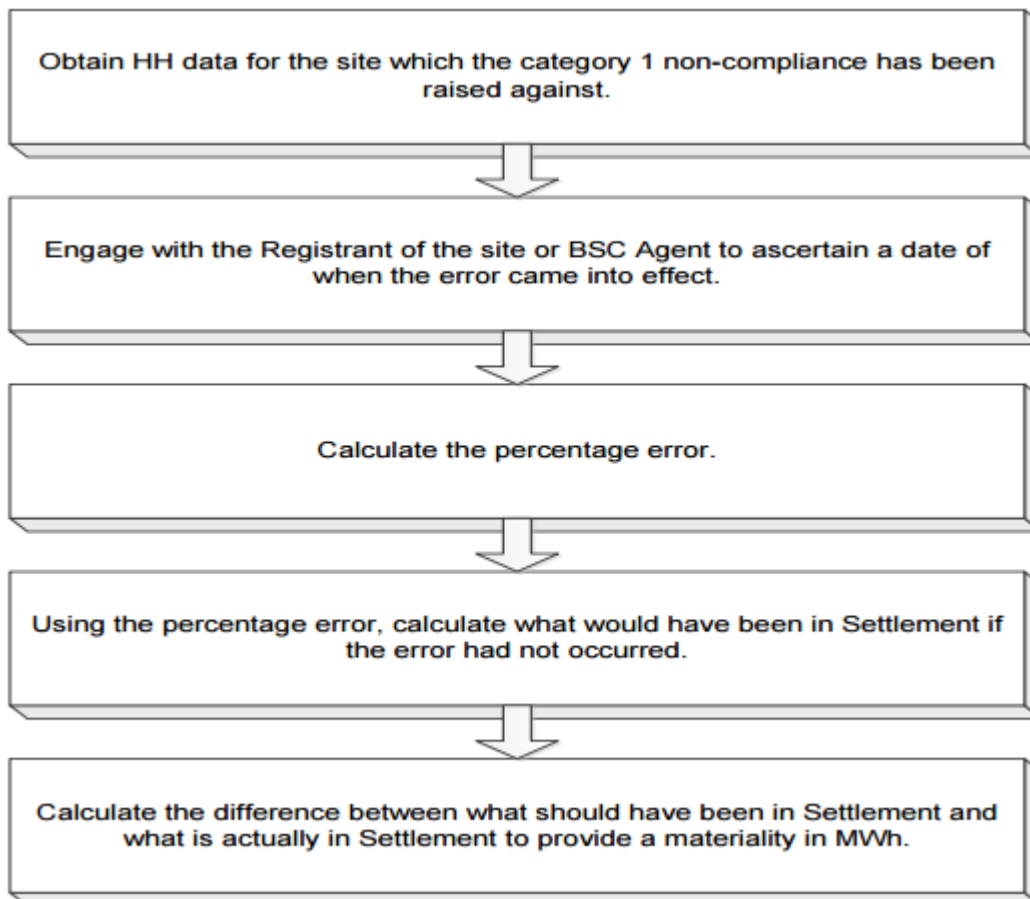
ELEXON took an action from the TAMEG meeting in May 2015 ([TAMEG 22](#)) to present the proposed alternative method for calculating category 1 materiality to the PAB.

Proposed solution

ELEXON raised [CP1454 'Amendment to the category 1 materiality calculation'](#) on 11 January 2016.

It proposes that, in order to provide a more accurate materiality of each Category 1 Non-Compliance, a calculation is performed by ELEXON in the same way that the materiality of a Trading Dispute is calculated.

ELEXON would complete the following steps:



Proposer's rationale

At its meeting on 30 July 2015, the PAB [\(174/07\)](#) considered the proposed method and analysis that demonstrated its accuracy compared to the original method. It agreed that ELEXON's proposed method should provide a more accurate materiality of each Category 1 Non-Compliance. This is because it will use actual data and the correct error period. It therefore recommended that ELEXON should raise a CP in line with the above proposed method.

Proposed redlining

Attachment A contains the proposed changes to BSCP27 to deliver CP1454.

3 Impacts and Costs

Central impacts and costs

CP1454 will require changes to BSCP27. No system changes are required and there will be no impact on BSC Agents.

The central implementation costs for CP1454 will be approximately £240 (one ELEXON man day) to implement the relevant document changes.

Central Impacts	
Document Impacts	System Impacts
<ul style="list-style-type: none">BSCP27	<i>None</i>

BSC Party & Party Agent impacts and costs

CP1454 is expected to impact the TAA and ELEXON. We believe that minor process changes will be required to implement the solution, however it will not require any additional resource from ELEXON. ELEXON will raise a Trading Dispute for each Category 1 Non-Compliance as Business as Usual (BAU) and ELEXON would calculate the materiality as part of the Trading Dispute investigation.

BSC Party & Party Agent Impacts	
BSC Party/Party Agent	Impact
TAA	Changes will be required to implement the solution
ELEXON	

All five respondents to the CP Consultation indicated that this CP will not impact them. Therefore there will not be any costs associated with implementing CP1454.

4 Implementation Approach

Recommended Implementation Date

ELEXON proposes to implement CP1454 is on **30 June 2016** as part of the June 2016 BSC Systems Release.

The June 2016 Release is the next available Release that can include this CP.

All five respondents to the CP Consultation agreed with the proposed Implementation Date.

ISG's initial views

The ISG considered CP1454 at its meeting on 26 January 2016 ([ISG/177](#)).

An ISG Member queried whether Category 1 Non-Compliances will result in ELEXON raising Trading Disputes. ELEXON advised that it would for all Category 1 Non-Compliances but noted that many are unlikely to meet the three Trading Disputes criteria.

An ISG Member requested clarification as to whether ELEXON would complete the materiality calculation for all Category 1 Non-Compliances regardless as there is a small cost to having this done. ELEXON advised that the Trading Disputes process has recently changed. This is because Category 1 Non-Compliances mean there is an error in Settlement which must be investigated according to the Disputes process. Therefore, the new process means we calculate the materiality for all Category 1 Non-Compliances to see if they are over the £3,000 threshold and record the materiality for reporting purposes.

An ISG Member queried whether the calculated materiality is a gross or net value. ELEXON advised that in this case it is the net materiality.

The ISG considered whether the proposed calculation method was appropriate when it comes to Meter Technical Details (MTDs) as they did not see how the process could pick up small errors like calibration or fine detail errors. ELEXON noted that when it calculated the materiality of clock time errors, and compared the results to the TAA's calculation, it was discovered that the TAA previously over calculated. ELEXON noted that its proposed method provides a more accurate calculation of materiality of tens rather than thousands of pounds.

The ISG did not ask ELEXON to add any additional questions to the CP Consultation.

SVG's initial views

The SVG considered CP1454 at its meeting on 2 February 2016 ([SVG180/06](#)).

The SVG did not ask ELEXON to add any additional questions to the CP Consultation.

6 Industry Views

This section summarises the responses received to the CP Consultation. You can find the full responses in Attachment B.

Summary of CP1454 CP Consultation Responses				
Question	Yes	No	Neutral/ No Comment	Other
Do you agree with the CP1454 proposed solution?	5	0	0	0
Do you agree that the draft redlining delivers the intent of CP1454?	2	3	0	0
Will CP1454 impact your organisation?	0	5	0	0
Will your organisation incur any costs in implementing CP1454?	0	5	0	0
Do you agree with the proposed implementation approach for CP1454?	5	0	0	0
Do you have any further comments on CP1454?	0	5	0	0

Comments on the CP

The five respondents to the CP Consultation agreed with the proposed changes for CP1454. One respondent commented that the proposed solution is efficient and pragmatic and it reflects more accurately the Settlement impact of Category 1 Non-Compliances. Another respondent commented that it is essential that the estimation of materiality is as accurate as possible, using data from the site itself rather than CoP information. This will be more reflective of the actual impact on Settlement and the industry.

Comments on the proposed redlining

Two of the five respondents to the CP Consultation agreed that the proposed redlined changes to BSCP27 deliver the intention of CP1454. However, three respondents considered that the method, which ELEXON will use to perform a materiality calculation, should be provided in further details in the redlined text.

One respondent suggested that there is a benefit in the calculation either being added or referenced in some way in the redlined text. This would support transparency of the arrangements and ensure that if the calculation is amended in future, it is subject to BSC CP governance procedures. ELEXON notes the respondent's suggestion. However, the intention of CP1454 is to highlight that the materiality calculation should be performed by ELEXON rather than the TAA. We advised that by the end of Q2 2016, a follow-up CP will be raised to facilitate further amendments to BSCP27. This will include the calculation method within section 4.1.8 of BSCP27. In addition, process steps and timescales for ELEXON liaising with the Parties in relation to data required for the calculations will also be included in the follow-up CP.

Another respondent also suggested that, in order to aid visibility of the process, it would be beneficial if BSCP27 clearly stated that ELEXON will be responsible for calculating the materiality of Category 1 Non-Compliances. They believed that ELEXON should raise a Trading Dispute for each Category 1 Non-Compliance and calculate the materiality as part of the Trading Dispute investigation. In addition, they suggested that the proposed method of calculating the materiality of Category 1 Non-Compliances should be included in BSCP27 to reflect the new method of calculation. ELEXON intends to raise a new CP as detailed above) to further the provisions under CP1454.

Comments on the CP1454 Proposed Redlining		
Document & Location	Comment	ELEXON's Response
BSCP27 4.1.8	ELEXON will raise a Trading Dispute for each Category 1 Non-Compliance as Business as usual (BAU) and calculate the materiality as part of the Trading Dispute investigation.	Please see ELEXON's response above.
BSCP27 4.1.9	<p>Calculation method: The following steps to be taken by ELEXON</p> <ul style="list-style-type: none"> • Obtain HH data for the site which the category 1 non-compliance has been raised against. • Engage with the Registrant of the site or BSC Agent to ascertain a date of when the error came into effect. • Calculate the percentage error. • Using the percentage error, calculate what would have been in Settlement if the error had not occurred. • Calculate the difference between what should have been in Settlement and what is actually in Settlement to provide a materiality in MWh. 	Please see ELEXON's response above.

ISG's final views

The ISG considered CP1454 at its meeting on 22 March 2016 ([ISG179/01](#)).

An ISG Member observed that the proposed document changes are very small and simply say that ELEXON will perform the Category 1 materiality calculation instead of the TAA. ELEXON advised that, as explained in the paper, this CP seeks to clarify who performs the materiality calculation. It noted that it would raise a separate CP to document the more detailed process steps, timescales and calculation method, in order to provide more transparency in the arrangements.

An ISG Member also highlighted that the introduction on page two talks about the SVA and CVA 'markets'. However, they feel it is more accurate to note SVA and CVA metering systems and not markets. This is because the terms SVA and CVA relate to differences in arrangements not markets. ELEXON advised that it will ensure this point is clear in the additional CP.

A Member asked for clarification around the calculation process. ELEXON advised that it will expect BSC Parties to supply data to ELEXON in MWh for Category 1 non-compliances which it will then multiply by the relevant System Price. This is because the calculation that the TAA currently uses is inaccurate and leads to ambiguity whereas ELEXON can ensure that the calculation is more accurate by using HH metered data for the entire affected period(s). In order for the calculation to be performed accurately you need to know when the affected period starts and ends. Each HH period will then have the calculation applied to it rather than just looking at one HH period, which is what the TAA currently does.

An ISG Member wished to clarify whether the proposed solution only relates to HH. ELEXON confirmed that the calculation only refers to Category 1 non-compliances for HH sites as the TAA currently only targets HH sites.

SVG's final views

The SVG considered CP1454 at its meeting on 5 April 2016 ([SVG182/02](#)).

The SVG had no comments on CP1454.

Final decision

The ISG and SVG have **APPROVED** CP1454 for implementation on 30 June 2016 [as part of the June 2016 BSC Systems Release].

Appendix 1: Glossary & References

Acronyms

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

Acronyms	
Acronym	Definition
APAR	Annual Performance Assurance Report
BAU	Business as Usual
BSC	Balancing and Settlement Code (<i>industry Code</i>)
BSCP	Balancing and Settlement Code Procedure
CoP	Code of Practice (<i>Code Subsidiary Document</i>)
CP	Change Proposal
CPC	Change Proposal Circular
CVA	Central Volume Allocation
HH	Half Hourly
ISG	Imbalance Settlement Group (<i>Panel Committee</i>)
MTD	Meter Technical Details
PAB	Performance Assurance Board (<i>Panel Committee</i>)
SVA	Supplier Volume Allocation
SVG	Supplier Volume Allocation Group (<i>Panel Committee</i>)
TAA	Technical Assurance Agent
TAMEG	Technical Assurance of Metering Expert Group

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
2	Performance Assurance Reports on the ELEXON website	https://www.elexon.co.uk/reference/market-compliance/performance-assurance/performance-assurance-reports/
3	BSCP page on the ELEXON website	https://www.elexon.co.uk/bsc-related-documents/related-documents/bscps/
3	TAMEG 22 page on the ELEXON website	https://www.elexon.co.uk/meeting/tameg-22-2/
4	CP1454 page on the ELEXON website	https://www.elexon.co.uk/change-proposal/cp1454/
4	PAB 174 page on the ELEXON website	https://www.elexon.co.uk/meeting/pab-174/

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External Links		
Page(s)	Description	URL
7	ISG177 page on the ELEXON website	https://www.elexon.co.uk/meeting/isg-177/
7	ISG177 page on the ELEXON website	https://www.elexon.co.uk/meeting/isg-177/
7	SVG180 page on the ELEXON website	https://www.elexon.co.uk/meeting/svg-180/