

4.7 Issue Form

Issue Form - BSCP40/04	Issue Number: 69 <i>(mandatory by BSCCo)</i>
Issue Title <i>(Mandatory by originator)</i> Performance Assurance Framework Review	
Issue Description <i>(Mandatory by originator)</i> <p>The current Performance Assurance Framework (PAF) provides for a flexible, integrated approach to the deployment of techniques. ELEXON and the Performance Assurance Board (PAB) have become aware of opportunities to further enhance the application of the risk-based PAF envisaged in P207 'Introduction of a new governance regime to allow a risk based Performance Assurance Framework (PAF) to be utilised and reinforce the effectiveness of the current PAF', to address the challenges of a changing industry. Subsequently, a review of the PAF was agreed as an element of the 2016/17 Panel Strategic Work Programme (SWP). ELEXON has since undertaken a stakeholder engagement exercise which has confirmed the following key themes of improvement for the PAF:</p> <p>Lack of Risk Focus Despite P207 introducing a risk-based PAF, in practice the PAF procedures, Performance Assurance Techniques (PATs) and the Performance Assurance Administrator (PAA) are still largely compliance-focussed. While some stakeholders believe compliance has a place in the PAF, many also believe that without a credible appraisal of risk, engagement will always be too weak for the PAF to be fully effective.</p> <p>Lack of understanding of PAF effectiveness Additionally, without a good understanding of the level of risk that exists in Settlement, it is impossible to know if there is a level playing field for all participants or that the PAF delivers good value for money. It is also difficult if not impossible to measure the desirability or effectiveness of specific changes to the PAF. The PAF should prevent or remedy a level of Settlement Error that makes the costs of its administration worthwhile to BSC Parties collectively. The PAF's cost effectiveness should include quantification of the cost of corrective action that its operation avoids.</p> <p>Poor Engagement Engagement with the PAF is in many cases poor. Stakeholders most frequently cite the lack of visibility of the materiality of Settlement Error, an inflexible, impenetrable and procedural way of operating the PAF, and certain individual, high visibility PATs being ineffective or inefficient.</p> <p>Neglect of CVA risk Central Volume Allocation (CVA) and central system risks, including the role of Distribution Network Operators (DNOs), are neglected under the current framework. Knowledge of CVA is increasingly limited across the market. Without proportionate focus from the PAF risks could go undetected and significant error could enter Settlement.</p> <p>Issues with some key PATs Some PATs are generally seen by stakeholders as operating effectively, e.g. Technical Assurance of Performance Assurance Parties (TAPAP), Trading Disputes and Education. Some are seen as somewhat effective or effective in isolation, but in need of some improvement, e.g. EFR and Peer Comparison. Others are seen as uneconomical and/or ineffective in their current state, e.g. Performance Monitoring and Reporting delivered through the Performance Assurance Reporting and Monitoring System (PARMS), Supplier Charges, Qualification, Re-Qualification and the BSC Audit.</p> <p>Data Provision Methods of data provision are seen to exacerbate the issues above by creating inaccuracy and inconsistency, undermining the PAF's credibility, limiting the PAA's capacity to assess and quickly act upon Settlement Risks and occasioning disproportionate cost for data providers and BSC Parties. Stakeholders believe accurate</p>	

monitoring data to be critical to the PAF's effectiveness and credibility.

Smart Metering

ELEXON's preparations for the smart metering rollout should be expedited and should involve ELEXON working closely with Performance Assurance Parties (PAPs) to develop effective monitoring of transitional and enduring areas of Settlement risk resulting from the Smart rollout. The monitoring will need to consider BSC interfaces with the Smart Energy Code (SEC) and the Data Communications Company (DCC). The lessons learnt from this activity should inform the outcomes for the remainder of the review.

At its March 2017 meeting, the Panel approved the scope and delivery approach of the PAF review ([264/07](#)), which has been divided into the following four work streams.

- Smart Metering;
- Risk Evaluation Methodology (REM) and other PAF procedures;
- Data Provision; and
- Performance Assurance Techniques.

The Panel approved for a PAF issue group to be formed to support the PAF review. This issue group will explore the issues with PAF stakeholders, identify possible solutions and to specify requirements.

Justification for Examining Issue *(Mandatory by originator)*

The electricity market is set to change significantly over the next decade. Smart metering will have profound impacts on wholesale electricity and the BSC, changing industry processes, providing unprecedented quantities and granularity of data, and presenting new assurance challenges.

The PAF through which the BSC provides risk management should evolve to meet the challenges of a changing market. Assurance under the BSC should remain robust, but must not act as an undue barrier to innovation or competition.

The engagement exercise has highlighted opportunity to enhance the operation of the PAF. Through the four work streams, the review should make recommendations for change to systems, processes and the BSC that will, if progressed, provide a PAF that:

- i. engages PAPs in identifying and, from time to time, re-appraising the things that do and don't matter to them (their risk appetite);
- ii. meets the current and future needs of the Panel, the PAB and the wider electricity industry for the delivery of efficient, effective and economic assurance on those things that matter; and
- iii. enables the PAA to deliver a valued and trusted assurance service to BSC Parties under the strategic and tactical guidance of the BSC Panel and the PAB.

Such a PAF should:

- i. be flexible enough to identify and address current and future settlement risks and issues;
- ii. be able to assess and communicate both aggregate and individual performance across key risk areas so as to enable strategic and tactical deployment of PATs, eliminating reliance on exhaustive enumeration of low-level Settlement Risks;
- iii. make use of data sources which BSC Parties trust, give accurate and actionable views of the materiality of non-compliance and that, as much as possible, minimise the reporting burden for BSC Parties and their agents; and
- iv. be supported by systems and processes which are:
 - legally robust;
 - scalable to meet changing assurance needs;
 - enable evidence-based decision making;
 - provide the functionality and content needed to support the delivery of a risk-based PAF;
 - facilitate the coordinated, problem-appropriate, application of PATs; and
 - as inexpensive as possible to maintain or change.

Potential Solution(s) <i>(Optional by originator)</i> n/a
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Date 30 March 2017

4.8. Issue Form Guidelines

These guidelines are to be used to assist in the completion of the Issue Form, contained in Appendix 4.7. The guidelines state who should complete each item on the form and whether it is mandatory or optional. They also give a brief description of the information that should be given for each item. For further guidance please contact your BCA / PACA. Once completed this form should be submitted to BSCCo for inclusion on the relevant Panel Committee agenda.

- **Issue Number** –mandatory to be completed by BSCCo once the proposed issue has been received. This is a unique number.
- **Issue Title** – mandatory and is completed by the originator at the time the issue is raised. This should be unique where possible.
- **Issue Description** – mandatory and is completed by the originator. The description should include as much detail as possible of the issue being encountered.
- **Potential Solution(s)** - optional by originator – This is to be completed where the originator has potential solutions that they want to be discussed as part of a potential solution to the issue.
- **Justification for Examining Issue** – mandatory by originator – details of the business case for examining the issue. This section should also include a brief assessment of the risk associated with leaving the problem/issue unresolved, in terms of materiality and probability of occurrence.
- **Proposer's Details** – mandatory completion by originator – the name, organisation, email address and telephone number of the proposer.