CERTIFICATION AGENT'S RESPONSE TO THE P197 IMPACT ASSESSMENT

28 March 2006

Contents

Background

1. The Proposed Modification P197 seeks to create a new improved SVA Qualification Process to replace the existing Certification and Entry Processes. The new SVA Qualification Process is intended to be more efficient and relevant to the developing market than the current processes, as recommended by the SVA Qualification Review Group and the Supplier Volume Allocation Group following the review of the SVA Qualification Processes.

2. The Certification Agent has been asked by ELEXON to provide some initial feedback on the proposed changes to the SVA Qualification process based on the information contained in Requirements Specification for modification proposal 197 'SVA Qualifications Process Review', Version 1.0, 20-02-06 as published on the website as at 22-03-06 and based on a meeting held with ELEXON on 24 March 2006. The Requirements Specification sets out the new SVA Qualification Process, together with a number of alternative options.

3. The feedback provided is at a high level only and in order for us to make a more complete response we would require additional information in some areas (these have been set out in paragraph 29 of this response). As we have not been involved in the detailed discussions of the group we may have misinterpreted some elements of the Requirements Specification and as a result some of our comments may not be relevant or complete.

Summary of key issues noted

4. The following key issues have been identified and may require further consideration:
    - Level of assurance required;
    - Proposed scope of the process;
    - Risk assessment procedure;
    - Continuous assessment vs initial assessment;
    - Guidance notes for the SAD;
    - Potential impact of changes on costs; and
    - Other issues noted.

5. We would recommend that additional consideration is given to each of these areas, we have provided more detailed feedback on each in the following sections:

Level of assurance required

6. Under the current Certification process the Certification Agent provides PAB with a report that includes an opinion and a recommendation for all high risk applications. This recommendation will take account of any Entry Process testing that has taken place – the Certification Agent relies on this work without undertaking any additional procedures in these areas.

7. The proposed modification does not set out the level of assurance that will be sought nor does it indicate the type of reporting that will be envisaged. We would recommend that the nature of any reporting is considered in more detail. The group will also need to consider the impact if the level of testing performed and witnessed is reduced. This may result in a reduction in the assurance that can be provided by either ELEXON or their Agent in making their recommendation to PAB.

8. Our experience to date has indicated that the more 'at risk' areas of testing relate to communication between parties and the ability to operate at higher volumes with the same level of performance – particularly in dealing with exceptions.

9. The timing of reporting should also be considered. For many of the current applications testing is undertaken continuously running up to a deadline/ 'go-live' decision point – and one of the criteria for this 'go-live' decision will be the receipt of PAB approval. As a result, reporting to PAB with "subject to" conditions is currently common. If this was not the case then timescales for the process may need to be extended to accommodate complete resolution of all "subject to"

matters. There are currently some "subject to" matters that applicants have not been able to resolve until after go-live – eg. testing of the revised disaster recovery process on live servers as new servers/updated databases may not be populated until PAB approval is obtained.

10. The proposed changes appears to include a number of reporting stages – we would note that where additional reporting is required by ELEXON or their Agent then this is likely to lead to increased costs.

11. Alternative modification solution 6 proposes the removal of maximum volumes, we would note that this would have an impact on the type of reporting that ELEXON or their Agent could provide. Currently an applicant has to demonstrate that they are capable of operating in the market and can comply with BSC requirements to a specified volume. This is then considered in the review of their processes and controls. For example: An applicant entering the market with a 50,000 volume may have relatively manual and simplistic processes and controls which were never developed with the intention of operating at significant volumes.

12. Providing an open ended qualification with no volume limit may allow applicants to operate 'beyond their means' which could adversely impact data integrity in the market. Without a volume limit a more stringent review of systems and processes may be required with applicants having to demonstrate that they have the plans, processes and controls in place to operate well beyond their initial intended operational levels. Any report provided may have to be caveated to reflect the fact that the processes reviewed may not be able to operate at higher volume levels.

Scope of the process

13. DTN - The proposed changes indicate that the DTN service would be excluded from the Qualification process. We would note that although the current process may not be the most appropriate for ensuring that changes made to the DTN service do not impact on the industry as a whole, we would recommend that some other means of control and assessment be put in place if the requirement to recertify / certify is removed from this service.

14. LDSO/UMSO - Page 4 of the Requirement Specification confirms that the LDSO would be brought into the scope of the process, however this is subsequently confirmed as being UMSO only on page 6.

15. Supplier - Has the Modification Group considered the type of questions the Supplier should be subject to in the SAD?

Risk Assessment Procedure

16. Has the Risk Assessment Procedure to be carried out been defined? Currently there is no information in the proposal as to how this would operate in practice. Under the current process the risk assessment is carried out using a prescriptive methodology without the application of judgement. We consider this to be too restrictive and can lead to the 'wrong' assessment of risk. We would recommend a process that has some clear parameters to ensure transparency but that still allows for the application of judgement by PAB (or ELEXON/their Agent).

Continuous Assessment versus Initial Assessment (based on Risk Assessment output)

17. Based on our discussions with ELEXON we understand that a "continuous assessment" process has been proposed that would operate throughout the course of an application rather than performing an up front risk assessment process. We would note that a mix of these two approaches may be more appropriate.

18. Without an initial risk assessment and definition of the approach to be taken, scoping of the work and planning of time required would be difficult to manage. Factors such as scheduling of review

time for the SAD and on- site review need to be managed at the planning stage to ensure that both the Applicant and ELEXON or their Agent can deliver to the PAB dates proposed. Continuous assessment could then be performed going forward based on the quality of the responses in the SAD, the progress being made by the applicant and the quality and completeness of the evidence at the time of review.

Guidance Notes

19. The current SAD as drafted does not appear to include any guidance notes to assist the applicant in completing their self assessment. We would note that this might have an adverse impact on the efficiency of the process as it is likely to lead to additional iterations of the SAD and will require ELEXON or their Agent to spend additional time explaining the process to the Applicant and in reviewing and rejecting poorly completed SADs. Guidance notes were originally introduced to reduce the time spent in dealing with queries raised by Applicants.

20. Guidance Notes can provide key information on the standards and controls expected in certain key areas. These not only improve the completion of the SAD but lead to the implementation of improved controls which reduce the risk not only to the Applicant but to the market overall.

Potential impact of changes on costs

21. There is a risk that some of the changes proposed under the new process would lead to an increased cost:
    - site visits may / may not be required at both Phases 1 and Phases 2, instead of the current single visit;
    - provision of reports would be required for PAB at the end of both Phases (in the event that both are required) – currently only one report is made to PAB;
    - SAD section by section review has been proposed as an option, this may lead to additional costs and it may not be appropriate to review individual areas in isolation without considering the broader impact of proposed changes and may not identify inconsistencies in the information provided;
    - The Requirement Specification refers to an assumption that the number of re-iterations of the SAD is limited to two full reiterations – has the need for more been considered?
        - The number of reiterations currently varies (from one to five – with an average of three).
        - Removal of all guidance notes from the SAD is likely to exacerbate the number of re-iterations required.
    - Initial set up costs would need to include the development of revised SAD questions for parties currently subject to Certification and Entry Processes with new sections for:
        - UMSO and
        - Supplier
    - Some applicants will not release any data from their site and therefore remote review will not be possible in all circumstances.

Other issues noted

22. **Risk management for evidence sent off site** – our own internal procedures place restrictions on the level of evidence we can receive remotely and the actions we must take in response to that evidence. We would note that in some cases the volume of test evidence produced by an Applicant will be substantial.

23. **Supplier Hubs** – removal of the need to have a sponsor to get into the market. The proposal does not state the extent to which Suppliers will be required to demonstrate that they can communicate with other parties appropriately. Has this been considered and what is the extent of testing that will be required?

24. "**Material change**" – What is a Material Change and how will this be defined? Past experience has illustrated that some Agents have very different interpretations on what constitutes a material change and that this may need to be more clearly defined.

25. **TA checks and their interaction with the BSC Audit** – Based on our discussion with ELEXON, we understand that the intention of this paragraph (page 12) is to provide flexibility around the TA Checks. All new agents would be visited within six months and subject to either the BSC Audit or a TA check (depending on timing). We would note that not all new entrants are subject to a BSC Audit site visit initially – will depend on the number of MPANs they operate and the level of risk they are deemed to generate.

26. **Reference is made to SMRS Agents not having an upper volume limit** - this is not correct. SMRS Agents are currently subject to an upper volume limit in line with all other Agents. (Para. 3, Section 4, page 14)

27. **Initial Information pack** - Has the Modification Group considered what they would want to include in this pack? What level of detail would be required? As we have noted above we would recommend that guidance notes are provided – either within the SAD or as a separate, optional document for Applicants to consider.

28. **SAD questions** - Have these been considered in full? Are these deemed to be the full set of questions? At this stage we have carried out only a high level review of the questions proposed but would note the following:
    - DC Q.16 states that "if you wish to carry out GVC, how can you demonstrate that you can carry out this process?" This process is not optional but mandatory for the NHHDC to perform based on instruction from Supplier.
    - DA questions make no reference to the refresh process – we would recommend this is included for both the NHH and HH market?

29. **Additional information would be required before a full assessment of the proposed process can be carried out** – for example:
    - information on the MRA processes and the level of interaction that would be required
    - information on the current Entry process and the mandatory testing that is currently required
    - how would the level of testing that would be required under the new process be determined/assessed?
    - What level of witnessing of testing would be required under the new process?
    - How many 'story board' would be needed?