

July 2001

MODIFICATION REPORT
MODIFICATION PROPOSAL P29
Improve Efficiency of PARMS
Reporting

Prepared by ELEXON on behalf of the Balancing
and Settlement Code Panel

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a Authorities

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b Distribution

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1 SUMMARY AND RECOMMENDATIONS

Recommendation

On the basis of the analysis, consultation and assessment undertaken in respect of this Modification Proposal P29 during the Initial Written Assessment Phase, and the resultant findings of this report, the

BSC Panel recommends that:

Modification Proposal P29 should be rejected

Background

Modification Proposal P29 was submitted on 11 July 2001 by Utility Link Ltd. It proposes changes to the PARMS reporting by Suppliers. The proposal says that these changes would reduce Suppliers' costs, and hence would lead to a reduction in a barrier to competition.

ELEXON produced an Initial Written Assessment of the proposal which was presented at the Panel meeting on 26th July 2001.

Rationale for Recommendation

The Panel considered that:

- a. The Modification Proposal would be expected to lead to cost reductions for Suppliers; there would be implementation costs for Supplier Agents, Suppliers, and ELEXON, with ELEXON possibly experiencing some increase in operational costs.
- b. The proposed changes were significant. Their full impact on assurance could not be assessed within the scope of the proposal in isolation. This was because PARMS reporting was a significant component of the overall Performance Assurance Framework.
- c. To implement the proposal in isolation would, therefore, lead to an unquantified risk to the integrity of settlement.
- d. The risk to the integrity of settlement outweighed the possible cost benefits, and hence the proposal would not make for the better achievement of the Applicable BSC Objectives.
- e. The review of the Performance Assurance Framework (scheduled to begin on 1 September 2001 and to complete in January 2002) would allow the issues raised in the proposal to be considered in the appropriate context, and would allow full consideration of risks, costs, and benefits. Regarding the review, the Panel asked that:
 - The terms of reference should be agreed by the Panel.
 - The terms of reference should require consideration of industry costs as well as benefits.
 - The terms of reference should state explicitly that the cost impact on small Parties should be considered.
 - Arrangements should be made to allow the proposer of the Modification to contribute to the review.
 - The results of the review should be issued for consultation.

Panel Decisions

In the light of the rationale described above and the planned review of the Performance Assurance Framework, the Panel agreed the recommendations in the IWA. The Panel:

- a. **NOTED the results of the Initial Written Assessment on Modification Proposal P29 and associated identified issues;**
- b. **NOTED the views that:**
 - i) **the proposed modification P29 cannot be safely and effectively progressed before the review of the Performance Assurance Framework is complete, and**
 - ii) **to adopt the proposed modification without such a review would lead to an un-quantified risk to the integrity of settlement.**
- c. **AGREED to proceed to the Report Phase, with a recommendation to the Authority that Modification Proposal P29 be rejected.**

2 INTRODUCTION

This Report has been prepared by ELEXON Ltd., on behalf of the Balancing and Settlement Code Panel ('the Panel'), in accordance with the terms of the Balancing and Settlement Code ('BSC'). The BSC is the legal document containing the rules of the balancing mechanism and imbalance settlement process and related governance provisions. ELEXON is the company that performs the role and functions of the BSCCo, as defined in the BSC.

This Modification Report is addressed and furnished to the Gas and Electricity Markets Authority ('the Authority') and none of the facts, opinions or statements contained herein may be relied upon by any other person.

An electronic copy of this document can be found on the BSC website, at www.elexon.co.uk

3 PURPOSE AND SCOPE OF THE REPORT

BSC Section F sets out the procedures for progressing proposals to amend the BSC (known as 'Modification Proposals'. These include procedures for proposing, consulting on, developing, evaluating and reporting to the Authority on potential modifications.

The BSC Panel is charged with supervising and implementing the modification procedures. ELEXON provides the secretariat and other advice, support and resource required by the Panel for this purpose. In addition, if a modification to the Code is approved or directed by the Authority, ELEXON is responsible for overseeing the implementation of that amendment (including any consequential changes to systems, procedures and documentation).

A Modification Report must be prepared and submitted to the Authority in respect of each proposed modification and must contain:

- (a) The recommendation of the Panel as to whether or not the Proposed Modification or any Alternative Modification should be made;
- (b) The proposed Implementation Date for implementation of the Proposed Modification or any Alternative Modification;
- (c) The matters set out in Annex F-1 of the BSC. This will usually be in the form of the relevant Assessment Report where the Proposal has been submitted to a Modification Group prior to the Report Phase;
- (d) An explanation of the Panel's rationale should the Panel form a different view of any matters contained in the Modification Group Report; and
- (e) A summary of the representations made by Parties and interested third parties during the consultation undertaken in respect of the Proposed Modification and any Alternative Modification.

4 HISTORY OF PROPOSED MODIFICATION

Modification Proposal P29 was submitted on 11 July 2001 by Utility Link Ltd. ELEXON conducted an initial assessment of the proposal, and produced the Initial Written Assessment Report (IWA). The IWA Report can be found at www.elexon.co.uk

The Panel considered the IWA at its meeting on 26 July 2001. The Panel's deliberations are reflected in this draft Report, which is being issued for consultation.

The draft report, with the addition of any consultation responses, will then be considered by the Panel before the final version is submitted to the Authority.

5 DESCRIPTION OF PROPOSED MODIFICATION

The Modification Proposal says that the efficiency of PARMS reporting should be improved by: removing the obligation on Suppliers to report separately for each GSP Group; and by removing any serials (that is standards against which Suppliers report) that do not provide any value to the performance assurance process.

The Proposal says that since PARMS was originally devised in 1998, the emphasis on performance monitoring has shifted from peer comparison between GSP Groups, to the performance of individual suppliers and their agents.

Suppliers, however, are still obliged to report by individual GSP Group, and, the proposal says, as the number of Supplier Hub increases, this imposes an unnecessary and increasing burden on Suppliers.

The proposal says that this requirement is particularly significant for Supplier Suppliers, and could constitute a barrier to competition.

The proposal further says that the reporting requirement should be further reduced by removing any serials where historical data suggests that performance is not an issue.

The proposal states that it relates only to the removal of serials, and that any proposals to introduce new PARMS serials should be the subject of separate Modification Proposals.

6 RATIONALE FOR PANEL RECOMMENDATIONS

The Proposal and the Initial Written Assessment

At its meeting, the Panel heard a presentation from the proposer of the Modification, and a presentation from ELEXON reflecting the Initial Written Assessment (IWA).

Subsequent to this the proposer offered to withdraw the Modification, if assurances could be given on certain specific issues; however, as the proposal had been presented to the Panel, the BSC did not allow for withdrawal.

The Panel heard from ELEXON that it might be anticipated that the proposal would lead to some operational benefits, principally to Suppliers: these would need to be considered in the light of implementation costs to Suppliers and their Agents, and centrally to ELEXON, and, possibly, operational costs to ELEXON.

In presenting the IWA, ELEXON highlighted two matters of principle:

- Changes to GSP Group level reporting, recognising that GSP Groups constituted a fundamental building block of the trading arrangements
- Changes to reporting without assessing any wider impact on assurance.

ELEXON put the view that these two issues would lead to an un-quantified risk to the integrity of settlement, were the proposal to be implemented in isolation. Further definition and assessment work on the proposal in isolation would not adequately mitigate this risk.

It was noted that a full review of the Performance Assurance Framework was scheduled to begin on 1 September 2001 and to be completed in January 2002. This review would allow full assessment of the risks to settlement and would form the appropriate context for considering the issues raised in the proposal.

The Review of the Performance Assurance Framework

Regarding the review of the Performance Assurance Framework, the Panel concluded that:

- a. The terms of reference should be agreed by the Panel.
- b. The terms of reference should require consideration of industry costs as well as benefits.
- c. The terms of reference should state explicitly that the cost impact on small Parties should be considered.
- d. Arrangements should be made to allow the proposer of the Modification to contribute to the review.
- e. The results of the review should be issued for consultation.

Achievement of the BSC Objectives

The Panel noted that were the proposal to be progressed it would be necessary to further consider the costs and benefits that would accrue.

However, the Panel agreed that the principal issue was the unquantified risk to the integrity of settlement which would arise from pursuing this modification proposal in isolation. The Panel considered that this uncertainty meant that the proposal:

- Would not better promote “effective competition in the generation and supply of electricity, andcompetition in the sale and purchase of electricity”.
- Would not better promote “efficiency in the implementation and administration of the balancing and settlement arrangements”.

Panel Decisions

In the light of the rationale described above and the planned review of the Performance Assurance Framework, the Panel agreed the recommendations in the IWA. The Panel:

- a. **NOTED the results of the Initial Written Assessment on Modification Proposal P29 and associated identified issues;**
- b. **NOTED the views that:**
 - i. **the proposed modification P29 cannot be safely and effectively progressed before the review of the Performance Assurance Framework is complete, and**
 - ii. **to adopt the proposed modification without such a review would lead to an unquantified risk to the integrity of settlement.**
- c. **AGREED to proceed to the Report Phase, with a recommendation to the Authority that Modification Proposal P29 be rejected.**

7 LEGAL TEXT TO GIVE EFFECT TO THE PROPOSED MODIFICATION

The Authority have been asked to confirm that this Report need not include proposed legal text to give effect to the proposed modification.

8 ASSESSMENT

The full text of the IWA is published on the ELEXON website www.elexon.co.uk. The following text is reproduced from the summary of that report:

Matters of Principle

- The removal of GSP Group level reporting appears to be at odds with the fundamental structure of the SVA element of the trading arrangements. All SVA settlement calculations and Supplier Agent activities to support settlement are based on GSP Groups. Elimination of an element of assurance at this level would be a significant step.
- It is not clear that the risks and benefits to settlement of changes to GSP Group level reporting and the elimination of reporting against specific serials can be identified and assessed in isolation. Making such changes without consideration of the overall Performance Assurance Framework (PAF) and the consequential impact on assurance would introduce an unquantifiable risk to the integrity of settlement. A review of the PAF (which would mitigate this risk) is scheduled to begin in September 2001.

Other Issues for Consideration

- Operational value of the Performance Data to Suppliers in the management of Supplier Hubs
- Impact on the ability to identify performance issues localised in one GSP Group (possibly related to SMRS, incumbent agents)
- Balance of costs and benefits (to reflect initial costs to Suppliers, Agents, ELEXON, any risks to the integrity of settlement, and operational benefits to Suppliers)
- Likely Modification Timescales
- Continuity and consistency of reporting and value of historical performance data
- Ability to apply other performance assurance techniques (Liquidated damages cap, liquidated damages redistribution, Removal of Accreditation, and Peer Comparison rely GSP Group level reporting)
- Code Compliance (the BSC says that PAB may ask for ad hoc performance reporting, which could include GSP Group level reporting)
- Identification of candidate serials for removal (criteria would need to be defined; the suggested criterion in the proposal - a lack of performance issues in an area - is not likely to be adequate by itself)
- Review only to consider removal of serials, not optimisation
- Performance of the SVA elements of the trading arrangements (this is not seen as allowing for any complacency)
- Timing (A full review of the PAF has already been scheduled; it was envisaged that this would be followed by a review of standards and serials)

Specific Areas of Impact

- **BSC Systems and Process**

Changes to the PARMS reporting from the SVAA

- **Other Systems and Processes used by Parties**

Suppliers' reporting interface with Supplier Agents

PARMS reporting software

Liquidated damages models

- **Balancing and Settlement Code**

Section S Annex S-1

- **BSC Procedures**

BSCP33, BSCP533 and MIRT Appendix, BSCP534, BSCP536

- **Party Service Lines**

SL130, SL140, SL150

- **Other Configurable Items and ELEXON**

PARMS techniques and local work instructions

PARMS requirements, system and systems documentation, local work instructions

Liquidated damages LWIs and Guidance Notes

Conclusions

In the light of the matters of principle identified above, ELEXON concludes that it would not be safe and effective to progress this Modification Proposal before the completion of the review of the PAF.

Were it decided to progress the proposal now, there are sufficient issues to be considered to warrant a Definition phase of two months. In that event, a Modifications Group should be established, formed by members of the SVG augmented by members of PAB.

9 SUMMARY OF REPRESENTATIONS

[A summary of responses to consultation on the Draft Modification Report will be included here. Copies of the responses themselves will be included as Annex 1]

ANNEX 1 – REPRESENTATIONS

[Copies of representations on the Draft Modification Report will be included here]