

4.5. MP Form

Modification Proposal – BSCP40/03	MP No: P275 <i>(mandatory by BSCCo)</i>
Title of Modification Proposal: Extending BSC Performance Assurance	
Submission Date <i>(mandatory by originator):</i> 29 September 2011	
<p>Description of Proposed Modification <i>(mandatory by originator)</i></p> <p>This Modification seeks to broaden the responsibilities and scope of Performance Assurance under the Balancing and Settlement Code (BSC) to include all BSC Parties, rather than just Trading Parties, and to consider the risks that Settlement data issues may present to BSC Parties that make use of this data for purposes other than the determination and settlement of Trading Charges.</p> <p>The Modification would:</p> <ul style="list-style-type: none"> • Extend the responsibilities of the Performance Assurance Board (PAB) from Trading Parties only to all BSC Parties, e.g. Licensed Distribution System Operators (LDSOs) Interconnector Administrators and the Transmission Company; and • Broaden the scope of Performance Assurance such that it includes issues with Settlement data that do not directly impact Settlement and are therefore not covered by the current definition of Settlement Risks. <p>These changes will enable Performance Assurance obligations and activities to be applied where issues may affect Settlement data used by Parties but do not directly impact Settlement.</p> <p>The Modification will amend Section Z 1.6.1 of the BSC, and any other appropriate references within Section Z, to replace ‘Trading Parties’ with ‘all BSC Parties’ and will impact other parts of Section Z which determine the scope of Performance Assurance under the BSC.</p>	
<p>Description of Issue or Defect that Modification Proposal Seeks to Address <i>(mandatory by originator)</i></p> <p>Performance Assurance under the BSC does not consider performance matters that impact BSC Parties, regardless of the scale of the impact, unless Trading Parties are impacted and there is a direct risk to Settlement. Some Parties use Settlement data for purposes not directly related to Settlement, and can be impacted by data issues which may not affect Settlement directly. This Modification contends that this means that Performance Assurance under the BSC does not provide adequate assurance to all Parties in relation to the risk of Settlement data issues.</p> <p><u>Background:</u></p> <p>LDSOs are required, through Standard Licence Condition 44B (Distribution Losses Reporting Regime), to use Settlement data to determine and report energy entering and energy exiting their networks in accordance with Regulatory Instruction and Guidance (RIGs). This information is the</p>	

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<p>primary input into the Distribution Loss Incentive Mechanism (DLIM), which is effected through Special Condition CRC¹ 7 (Adjustment of licensee's revenues to reflect distribution losses performance).</p> <p>LDSOs are required to report this information for the Distribution Price Control Review 5² (DPCR5) so that the DLIM for this period can operate; and for the DPCR4³ period so that the DLIM for this period can be closed down and so that the DLIM targets for the DPCR5 period can be set.</p> <p>The incentive / penalty was £48/MWh for the DPCR4 period and is £60/MWh for the DPCR5 period. As a consequence, the financial implications of the DLIM for each LDSO can run into many £100s millions for each 5 year price control period.</p> <p>Determination of the inputs to the DLIM – both in terms of target setting and of performance measurement – is based on Settlement data. As a consequence, the mechanism is reliant on the quality of this data. More specifically, effective operation of the mechanism is reliant on the Settlement data used to set the targets being consistent with the Settlement data used to measure the performance.</p> <p>However, the scale of Supplier adjustments to Settlement data in the 14 months reconciliation window increased significantly in the five year DPCR4 period. The principal reason for this was an increased focus by Suppliers in addressing Settlement data quality issues – using a variety of techniques currently permitted under the BSC. This has created an inconsistency between the basis of the target setting and performance measurement components of the DLIM. For DPCR4, this is having a very material impact on LDSOs – running into £10s millions for most; and greater than £100 million for some. Ofgem is soon to consult on the most appropriate means of addressing this.</p> <p>LDSOs are very concerned that such issues could impact the operation of the DLIM in DPCR5 in a similar manner – with comparable financial implications. This creates uncertainty for LDSOs in their regulated allowable revenue; uncertainty for Suppliers in the Distribution Use of System (DUoS) costs they will incur. Impacts such as more volatile energy prices and / or increased energy prices could also affect for consumers, though this is outside the scope of the BSC.</p> <p>LDSOs and Suppliers set up an industry working group under the Distribution Charging Methodology Forum (DCMF) to consider these issues. These ran over an 11 week period from June to August. This group concluded that the primary issue lies with the design of the DLIM. However, Ofgem has indicated that there is no scope for making any fundamental changes to the DLIM effective in DPCR5. Consequently, LDSOs want to ensure, to the extent that it is possible, that Settlement data better supports its operation.</p> <p><u>Issue:</u> Along with other BSC Parties, LDSOs rely on Settlement data and processes for various business purposes. In the case of LDSOs, this includes billing Suppliers DUoS charges (which amount to</p>	

¹ Charge Restriction Condition.

² Running for the 5 year period starting on 1st April 2010.

³ Running for the 5 year period ending on 31st March 2010.

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<p>approximately £4 billion per annum); operation of the DLIM described above (with financial implications of many £100 million per annum); and setting Line Loss Factors for use in Settlements. However, the Performance Assurance Framework within the BSC only considers performance matters that relate to Trading Parties and can directly impact Settlement. This means that a performance / compliance issue that gives rise to erroneous Settlement data but does not impact Trading Parties and Settlement directly is not considered at all; even though the issues with that Settlement data could have very material financial implications for other BSC Parties.</p>	
<p>Impact on Code <i>(optional by originator)</i> Section Z.</p>	
<p>Impact on Core Industry Documents or System Operator-Transmission Owner Code <i>(optional by originator)</i> None.</p>	
<p>Impact on BSC Systems and Other Relevant Systems and Processes Used by Parties <i>(optional by originator)</i> None.</p>	
<p>Impact on other Configurable Items <i>(optional by originator)</i> None.</p>	
<p>Justification for Proposed Modification with Reference to Applicable BSC Objectives <i>(mandatory by originator)</i></p> <p>The proposed modification better facilitates Applicable BSC Objective (c) (the promotion of effective competition in the generation and supply of electricity, and (so far as consistent therewith) promoting such competition in the sale and purchase of electricity). It does this by enabling the PAF to address BSC performance / compliance issues that impact BSC Parties - even if they do not impact Trading Parties directly to the same extent. This would help reduce unnecessary costs and risks to these BSC Parties; and help to provide more certainty in costs throughout the supply chain. This in turn would allow members of the supply chain, including Suppliers, to compete more effectively.</p> <p>The proposed modification also better facilitates Applicable BSC Objective (d) (the promotion of efficiency in the implementation and administration of the balancing and settlement arrangements). It does this by enabling the Performance Assurance Framework (PAF) to address BSC performance / compliance issues that impact BSC Parties - even if they do not impact Trading Parties directly to the same extent. This would reduce the need for ELEXON to undertake specific initiatives outside of the PAF, and address such matters without the benefit of the PAF techniques.</p>	
<p>Is there a likely material environmental impact? <i>(mandatory by originator)</i> No.</p>	
<p>Urgency Recommended: Yes / No <i>(delete as appropriate) (optional by originator)</i> No.</p>	

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Justification for Urgency Recommendation <i>(mandatory by originator if recommending progression as an Urgent Modification Proposal)</i>	
Self-Governance Recommended: Yes / No <i>(delete as appropriate) (mandatory by originator)</i> No.	
Justification for Self-Governance Recommendation <i>(mandatory by originator if recommending progression as Self-Governance Modification Proposal)</i>	
Should this Modification Proposal be considered exempt from any ongoing Significant Code Reviews? <i>(mandatory by originator in order to assist the Panel decide whether a Modification Proposal should undergo a SCR Suitability Assessment)</i> Yes; there is no ongoing SCR relevant to this Modification Proposal.	
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Attachments: Yes / No <i>(delete as appropriate) (mandatory by originator)</i> No. If Yes, Title and No. of Pages of Each Attachment:	