

**Stage 01: Recommendation to raise a Modification Proposal and Initial Written Assessment**

What stage is this document in the process?

- 01** Initial Written Assessment
- 02 Definition Procedure
- 03 Assessment Procedure
- 04 Report Phase

# Aligning Supplier Charge SP08a calculation with current practice

This Modification Proposal seeks to align a minor inconsistency between the BSC and the current Supplier Charge calculation for PARMS Serial SP08a, so that the BSC reflects that SP08a is rounded to 1 decimal place instead of 2 d.p.

ELEXON recommends that the Panel:



- Raise the attached Modification Proposal;
- Progress directly to the Report Phase with a provisional view that it should be approved; and
- Progress as a Self-Governance Modification Proposal.



Low Impact:  
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## About This Document:

This is a recommendation from the Performance Assurance Board (PAB) to the Panel to raise a Modification Proposal.

We will present this recommendation to the Panel on 8 November 2012. If the Panel agrees to raise the Modification Proposal, this document also forms the Initial Written Assessment and sets out how we believe the change should be progressed.

The Panel will consider the recommendations and agree whether to raise the Modification Proposal and, if so, how to progress it.

You can find further information in the attached Modification Proposal (Attachment A) and draft BSC legal text (Attachment B).



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### Any questions?

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# 1 Why Change?



Supplier Charges applicable to PARMS Serial SP08a - "Percentage of Non-Half Hourly (NHH) Energy Settled on Annual Advances" are currently, and have always been, calculated using underperformance values rounded to 1 decimal place (d.p.). However, the BSC requires underperformance against SP08a should be rounded to 2 d.p for the Supplier Charge calculation.

The PAB recommends this Modification is raised to align the BSC with the current practice..

## What are Supplier Charges?

Supplier Charges is a remedial technique within the Performance Assurance Framework (PAF). They are liquidated damages that Suppliers incur if they fail to meet certain performance levels and compensate Parties disadvantaged by those who aren't meeting defined Standards. They are a form of genuine pre-estimate of loss.

The Performance Assurance Reporting and Monitoring System (PARMS) has 11 Supplier 'Serials', of which 4 have associated Supplier charges. A Supplier' performance is measured against these serials, with PARMS calculating the Supplier Charges due each month based on any underperformance of the Supplier against the relevant PARMS Serials.

PARMS Serial SP08 monitors the percentage of energy settled on Annual Advances (AA) and Actual Readings. The Supplier Charge values for SP08 and the associated performance levels for the 2012/2013 are:

PARMS Serial	Description	Volume Allocation Run	Performance Level (%AAs)	Supplier Charge (£) per MWh of Underperformance
SP08a	% Energy Settled on Actual (NHH)	R3	80	0.19
SP08a		RF	97	2.04
SP08b	% Energy Settled on Actual (HH)	SF	99	0.19
SP08b		R1	99	2.04
SP08c	% Energy Settled on Actual (HH non-100kW)	RF	99	2.04

## What is the Issue?

PARMS Serial SP08a relates to the percentage of NHH Energy Settled on Annual Advances (%AA). The %AA values are submitted by SVAA each month in the SP08a file, which only allows %AA values to be stored to 1 d.p. Therefore the underperformance can only ever be calculated to 1 d.p.

For example, if a NHH Supplier was settling 96.44%AA at RF it would be underperforming by 0.56%. However the SP08a file stores the %AA value as 96.4% which would equate to an underperformance of 0.6%. However, BSC Annex S-1 section 3.2.2 requires that the Supplier Charges for PARMS Serial SP08a should be calculated on underperformance values rounded to 2 d.p. This has been the case since Supplier Charges for SP08a were introduced.

Note: This issue does not impact SP08b or SP08c as PARMS aggregates the energy volumes for each Settlement Day in SP08b and SP08c for each reporting period to

### What is the defect?

Supplier Charges applicable to PARMS Serial SP08a are calculated based on underperformance values to 1 decimal place. The Code currently states it should be calculated to 2 decimal places.

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calculate the %AA values to 2 d.p and are currently aligned with the BSC requirements.  
Whereas for SP08a PARMS uses the submitted %AA values to calculate underperformance.

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### Proposed solution

A one word change to Section S Annex S-1 Section 3.2.2 will be made to reflect that underperformance calculated for SP08a is rounded to 1d.p. and not 2d.p.

The proposed solution has no material impact on Parties as it would align the Code with the longstanding practice.

### Applicable BSC Objectives

We believe that this Modification Proposal better facilitates Applicable BSC Objective (d) 'promoting efficiency in the implementation of the Balancing and Settlement arrangements'; as it removes a potentially confusing inconsistency from the Code. Equally, this change ensures that the alternative costly system changes, and material impact on Parties, are avoided by aligning the Code with existing practice.

### Why not change the system?

This issue was first identified in August 2004, when a paper explaining the situation was presented to the Supplier Volume Allocation Group (SVG). The SVG considered the inconsistency and decided to raise a Change Proposal (CP) to amend PARMS such that Supplier Charges for SP08a would be calculated to 2 d.p.

CP1071 'Amendment of SVAA and PARMS to correct decimal place issue' was subsequently raised and impact assessed. The estimated cost of implementing this change to the PARMS systems was around £16K.

In November 2004 the SVG considered CP1071 and debated whether or not the materiality of the issue outweighed the implementation costs. The SVG concluded that materiality of the issue did not outweigh the implementation costs and rejected the change, requesting that ELEXON log the issue in case an opportunity to address the issue in a cost-effective manner arose. Since that time, a suitable opportunity to amend PARMS in a cost effective way has not presented itself.

In early 2012 this issue was revisited following a query from a Party. In order to see if the materiality had changed since 2004 ELEXON undertook some analysis to find out the net impact on Parties by comparing the existing net impact with a re-calculated net impact where the SP08a had been calculated to 2 d.p.

The analysis showed that across the 2011 Supplier charge year the net difference was £76. For the Supplier charge year, there were 25 (4.66%) occurrences where a Supplier MPID had an impact of more than £1,000, either positively or negatively. On a Trading Party level, the analysis showed that only five Party IDs (5 of the big 6) were impacted by more than £1000 (either positively or negatively). With the biggest underpayment in a reporting period during 2011 was £2,495 and the biggest overpayment was £2,503.

Having reviewed the materiality, ELEXON believed the issue should be considered by the Performance Assurance Board (PAB), which is responsible for the Performance Assurance Framework including the deployment of each of the Performance Assurance Techniques (including PARMS and Supplier Charges), and a decision made as to whether the inconsistency should be removed by amending PARMS or the Code.



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#### Supplier Charge dates

The **Supplier charge year** is 1 April to 31 March

The **Supplier charge month** is each calendar month.

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The issue was presented to the PAB at its July meeting (PAB138/05), with the option of either a:

- CP with an estimated implementation cost of at least £16,000 (likely more having not taken into account 8 years of inflation, although no formal new IA has been carried out) to change PARMS; or
- Modification to change the Code to reflect the current practice (only involving the cost of one man day to amend Section S Annex S1).

On consideration of the issue, the PAB decided that a recommendation to raise a Modification to the Panel should be made, such that the Code should reflect the existing practice. This results in avoiding the cost in changing PARMS, any resultant impact on parties and maintains the current status quo.

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### 3 Likely Impacts

#### Implementation Costs

Implementation costs	
ELEXON effort	One man day equating to £240, to apply the changes to the Code, update the Baseline and publish the updates.
<b>Total costs</b>	<b>Approximately £240</b>

#### Impacts

Impact on BSC Systems and process
None.

Impact on BSC Agent/Service Provider contractual arrangements
None.

Impact on BSC Parties and Party Agents
None. The Modification Proposal will not cause any changes to Parties' Supplier Charges as the change reflects current practice.

Impact on Transmission Company
None.

Impact on ELEXON
Minor impact to update the BSC Code section.

Impact on Code	
Code section	Potential impact
Section S – Annex S-1 Section 3.2.2	Changes will be required to implement the solution. Involving the replacement of the reference to the SP08a calculation being carried out to 2 d.p. being replaced with 1 d.p.

Impact on Code Subsidiary Documents
None.

Impact on Core Industry Documents and other documents
None.

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## 4 Proposed Progression

We recommend that, if the Panel raise this Modification, it progress as a Self-Governance Modification and proceed directly to the Report Phase.

### Why directly to Report Phase?

The Panel has the ability to progress a Modification straight to the Report Phase where it considers it self-evident that the Modification Proposal better facilitates the Applicable BSC Objectives (BSC paragraph F2.2.4).

There currently exists an inconsistency between the Code and the current PARMS. We believe that it is self-evident the inconsistency should be corrected and that the most efficient method of doing so is to amend the Code to reflect current process.

### Why Self-Governance?

A Modification Proposal can be progressed as Self-Governance if:

- The Panel believes that it satisfies the Self-Governance Criteria, and the Authority does not issue a contrary direction; and/or
- The Authority believes that it satisfies the Self-Governance Criteria and issues a notice to that effect.

The Modification Proposal has no material impact on consumers, competition, the Transmission System and/or BSC governance. It corrects a known inconsistency. The Modification Proposal itself has no impact on Parties as it will not alter the Supplier Charge calculations, instead it will reflect the existing calculations. We believe therefore believe this Modification Proposal meets the Self-Governance Criteria.

## Implementation Approach

If the Panel agree to raise and approve the Modification Proposal, we recommend that it is implemented 1 working day after the Self –Governance appeal window has closed. This window would close on 07 January 2013 (allowing for the Christmas, Boxing Day and New Year holidays). This would mean that the Modification would be implemented on 08 January 2013.

## Estimated progression costs

Estimated progression costs based on proposed timetable

ELEXON effort	2 man days, equating to approximately £480
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The ELEXON resource cost is an estimate of how much time and effort it will take us to progress this Modification through the Report Phase.

Estimate of total industry assessment costs

Consultation response support	Est #con	Est #resp	Est effort	Est rate	Sub-total
	1	5	0.5	£605	£1513
<b>Total costs</b>					<b>£1513</b>

Consultation costs are an estimation of the anticipated industry response to the Report Phase consultation and the approximate time and effort spent on responses.



### Self-Governance Criteria

(a) it is unlikely to have a material effect on:

(i) existing or future consumers;

(ii) competition in the generation, distribution, or supply of electricity or any commercial activities connected with the generation, distribution, or supply of electricity;

(iii) the operation of the national electricity transmission system;

(iv) matters relating to sustainable development, safety or security of supply, or the management of market or network emergencies; and

(v) the BSC's governance procedures or modification procedures; and

(b) it is unlikely to discriminate between different classes of BSC parties.

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## 5 Recommendations



We invite the Panel to:

- **RAISE** the Modification Proposal in Attachment A.
- **SUBMIT** the Modification Proposal directly to the Report Phase;
- **AGREE** a provisional view that the Modification should be made;
- **AGREE** a provisional Implementation Date of 08 January 2013;
- **AGREE** the draft legal text in Attachment B;
- **AGREE** a provisional view that the Modification Proposal meets the Self-Governance Criteria; and
- **AGREE** that the Draft Modification Report should be issued for consultation and submitted to the Panel at its meeting on 13 December 2012.

### Report Phase

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We recommend that the Panel raises the Modification Proposal, sends it straight to the Report Phase with a view that it should be approved, and progresses it as a Self-Governance Modification Proposal.

## 6 Further Information

You can find more information in:

Attachment **A** – Modification Proposal form

Attachment **B** – Proposed legal text

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