

# 264/07 – PAF REVIEW SCOPE & APPROACH APPROVAL

---

**MEETING NAME** BSC Panel Meeting

---

**Date of meeting** 9 March 2017

**Owner/author** Max O'Connor

**Purpose of paper** Decision

**Classification** Public

**Summary** This paper sets out the conclusions of the planning phase of the Performance Assurance Framework (PAF) review, and invites the Panel to approve the scope and approach for the design phase of the review.

---

## 1. Background

- 1.1 The Panel approved a preliminary scope and approach for the Performance Assurance Framework (PAF) review at Panel 255 in July 2016<sup>1</sup>. The first phase of the review (planning) was intended to validate the scope and approach for the main phase of the review (design) by ELEXON carrying out detailed stakeholder engagement.
- 1.2 We have carried out the engagement, validated the original scope against it, gained the Performance Assurance Board's (PAB's) endorsement for our proposed final scope and approach for the review, and are consequently asking the Panel to approve it.
- 1.3 Detailed stakeholder views and rationale for scope can be found in Appendix 1.

## 2. Approach to stakeholder engagement

- 2.1 We invited stakeholders to provide their views through face-to-face interviews, phone calls, email and a formal consultation<sup>2</sup> issued to all Performance Assurance Parties (PAPs). The engagement sought views on the following:
  - The PAF objectives that the Panel approved in the original scope proposal in July
  - The PAF's readiness for the smart metering rollout and Non-Traditional Business Models (NTBMs)
  - The formal PAF procedures through which the PAB and ELEXON operate the PAF
  - Governance of the PAF
  - Industry engagement with the PAF
  - Each of the 16 Performance Assurance Techniques (PATs)
  - Current methods of data provision

## 3. Response rate

- 3.1 The following table summarises response rates by stakeholder type:
- 

<sup>1</sup> [https://www.elexon.co.uk/wp-content/uploads/2015/10/36\\_255\\_12\\_Scope\\_of\\_PAF\\_Framework\\_Review\\_PUBLIC.pdf](https://www.elexon.co.uk/wp-content/uploads/2015/10/36_255_12_Scope_of_PAF_Framework_Review_PUBLIC.pdf)

<sup>2</sup> <https://www.elexon.co.uk/wp-content/uploads/2016/10/Performance-Assurance-Framework-review-consultation.pdf>

## 264/07 – PAF REVIEW SCOPE & APPROACH APPROVAL

Stakeholder Type	Number of responses/potential respondents	Percentage Response Rate
PAB Members	7/11	63%
Suppliers	9/70 <sup>3</sup>	13%
Supplier Agents	8/32	25%
Distribution Network Operators (including IDNOs)	4/16	25%

### 4. Key themes of feedback

#### Lack of Risk Focus

- 4.1 Despite P207 introducing a risk-based PAF, in practice the PAF procedures, 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.

#### Lack of understanding of PAF effectiveness

- 4.2 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.

#### Poor Engagement

- 4.3 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.

#### Neglect of CVA risk

- 4.4 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.

#### Issues with some key PATs

- 4.5 Some PATs are generally seen by stakeholders as operating effectively, e.g. TAPAP, Trading Disputes and Education. Some are seen as somewhat effective or effective in isolation, but in need of some improvement,

---

<sup>3</sup> We have only counted active Suppliers toward the total.

## 264/07 – PAF REVIEW SCOPE & APPROACH APPROVAL

---

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 PARMS, Supplier Charges, Qualification, Re-Qualification and the BSC Audit.

### Data Provision

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

### Smart Metering

- 4.7 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.

## 5. Scope of review

- 5.1 The scope proposed to the Panel in July has been confirmed by stakeholder engagement. In light of the views expressed, we believe it is appropriate for the review to encompass the entire framework. Further detail on scope can be found in Appendix 1 in Attachment A.
- 5.2 The only proposed exclusion from the original scope relates to a request from the Panel to consider the BSC's provisions for permitted BSC Party director appointments. The request was made in light of an issue with an insolvent company exiting the BSC and one of its directors then becoming director of an aspiring entrant. The Panel was concerned that a lack of control in the BSC may enable directors to leave any bad debts in failed (or failing) companies and take assets with them to a new company.
- 5.3 ELEXON's legal team believes that imposing stricter conditions on company directors for market entrants would be a very significant alteration to the BSC and would (based on precedent in other industries) be more appropriate for the regulator to address.

## 6. Prioritisation

- 6.1 As part of the planning exercise, we assessed the priority of each activity based on the objectives of the review, stakeholder feedback, upcoming industry developments and dependencies on other activities. We used this prioritisation to determine the sequence of activities proposed in Attachment A.
- 6.2 We have identified four areas of the PAF which have no dependencies on other activities and are, due to limited or no stakeholder feedback, not critical to meeting the objectives of the review. The areas are Market Exit, Trading Disputes, BSC Change and Education. There is no need to wait for the outcomes of the review to make improvements in these areas. We propose they are dealt with outside of the review as part of the routine work of the relevant operational teams.
- 6.3 We will revisit our assessment of the priority of each activity as the PAF review progresses, and will propose amendments to the current prioritisation if it becomes appropriate to do so.

## 7. Approach to delivery phase

## 264/07 – PAF REVIEW SCOPE & APPROACH APPROVAL

---

- 7.1 The diagram in Attachment A summarises the approach we propose to adopt during the delivery phase. In summary, the review should be divided into four work streams: smart metering, the Risk Evaluation Methodology (REM) and other PAF procedures<sup>4</sup>, data provision, and Performance Assurance Techniques. Detailed explanations of each work stream can be found in Appendix 2.
- 7.2 The work will be sequenced so that work streams on smart metering, the REM & other procedures, and data provision are delivered first. Technique specific recommendations for improvement will be delivered once the other three work streams are approved by the PAB and Panel, to ensure that any changes we propose to them reflect changes made to the PAF procedures and the findings of the data provision work stream.
- 7.3 The design phase will be carried out over a period of 19 months, completing in October 2018. The resource profile varies across the 19 months, but an average of 5.4 ELEXON Full Time Equivalent (FTE) is required across the phase.
- 7.4 Two BSC Issue Groups will be used to explore the issues with PAF stakeholders, identify possible solutions and to specify requirements. The BSC Issue Groups will have a rotating membership, to reflect the diversity of topics for consideration. Following completion of each activity on the approach diagram in Attachment A, there is a decision gate for PAB approval of the outcomes and next steps.
- 7.5 The review has been structured so that any proposed amendments to the existing framework are developed in collaboration with the PAF Issue Group. Where formal BSC Change is required to implement an improvement, we intend to raise it immediately, rather than waiting for the end of the review, subject to PAB and/or Panel's approval.
- 7.6 The final decision gate in October 2018 will be used to authorise raising any BSC Changes not already raised during the review.

### 8. Resource

- 8.1 We anticipate the work requiring an average 5.4 FTE of ELEXON resource across the remainder of the project. A project manager and a technical architect will work on the review on a full-time basis. Advisors in Design Authority will provide roughly an FTE of support. A junior analyst from BSC Ops will support the work full-time. Relevant SMEs will be involved in specific areas of work at various points during the review, totalling approximately 1.5 of the average FTE across the project.

### 9. Next Steps

- 9.1 The review requires a Panel Sponsor. Since Mitch Donnelly is already the PAB Sponsor, has expressed interest in sponsoring the work, and has extensive experience with and expertise in both the PAF and the processes it seeks to assure, we recommend that he be appointed.
- 9.2 If the Panel approves the proposed scope and approach, we will begin work immediately (as set out in Attachment A).
- 9.3 We recommend that the PAB continues to manage the review on the Panel's behalf, with decisions on specific deliverables for the project being presented to the Panel as and when required. Attachment A sets out the various decision gates and the approval required at each (PAB and/or Panel).

### 10. Recommendations

- 10.1 We invite you to:
- 

<sup>4</sup> 'Other PAF procedures' is used to mean the Risk Evaluation Register (RER), Risk Operating Plan (ROP) and Annual Performance Assurance Report (APAR) collectively.

## 264/07 – PAF REVIEW SCOPE & APPROACH APPROVAL

---

- a) **APPROVE** the scope and approach for the Performance Assurance Framework review;
- b) **AGREE** that Mitch Donnelly should be appointed as Panel Sponsor for the review; and
- c) **AGREE** that the PAB should continue to manage the review on the Panel's behalf.

### Appendices

Appendix 1 – Detailed stakeholder views and scope

Appendix 2 – Detailed explanations of work streams

### Attachments

Attachment A – Diagram of proposed approach

### For more information, please contact:

Max O'Connor, IS Strategy/Data Architect, Design Authority

[max.oconnor@elexon.co.uk](mailto:max.oconnor@elexon.co.uk)

020 7380 4041

Nick Groves, PAF Technical Architect, BSC Operations

[nick.groves@elexon.co.uk](mailto:nick.groves@elexon.co.uk)

020 7380 4342

## 264/07 – PAF REVIEW SCOPE & APPROACH APPROVAL

### 11. Appendix 1 – Detailed stakeholder views and scope

11.1 We have summarised the detailed views of stakeholders in the table below. The table contains a row for each area of the PAF which we discussed with stakeholders. Intended scope of review activity for each area is also included.

Area of PAF	Stakeholder views	Scope
Objectives in Panel paper 255/12	Stakeholders unanimously agreed with the objectives for the PAF.	
Smart Metering	<p>Lessons learnt from P272 and AMR rollouts should inform risk appraisal for Smart.</p> <p>Transfer and quality of Meter Technical Details will be key as smart installs ramp up.</p> <p>Smart will trigger further significant changes (HH Settlement) for which the PAF must be ready.</p> <p>There will be a small but significant residue of enduring and potentially high risk dumb NHH meters.</p>	<p>Develop robust smart monitoring in time for the smart metering rollout starting in earnest, including a PoC. Note that we do not envisage this monitoring duplicating the monitoring that Ofgem are undertaking on the speed of the rollout through Supplier-submitted Smart Metering Rollout Plans.</p> <p>Full review of Settlement Risks for Smart Metering processes (including interfaces with DCC and SEC).</p> <p>Assess risks posed by legacy metering and propose appropriate mitigation.</p>
Non-Traditional Business Models (NTBMs)	<p>Mixed views on risk off-the-shelf suppliers pose to Settlement, with majority view being that risks are no greater than for any other entrant.</p> <p>PAF was designed with large, traditional participants in mind. It is often impenetrable to smaller parties and unreflective of the risks they can pose.</p>	<p>Recommendations for future risk appraisal approach for PAF which is flexible and robust enough to handle disruptive business models and engage small participants.</p> <p>Qualification and Requalification redesign needed to ensure that assurance is given on the right people and processes, and at the right time.</p>
PAF Engagement	<p>PAF engagement was almost unanimously seen as poor. Common reasons cited include the inflexible and impenetrable way we communicate with participants, a lack of measurable usefulness for the PAF, a lack of understanding of the business drivers and priorities of participants, a lack of strategic purpose in the PAF and a consequent lack of necessary change, and a heavily procedural focus which frustrates regular, robust</p>	<p>Full review of methods used to engage participants in the PAF, including the PAF procedures, techniques, approach to delivery from the PAB/PAA and associated working practices.</p> <p>Specific work stream on measuring risks more accurately, presenting more compelling cost-benefit appraisals for PAF activities, and</p>

## 264/07 – PAF REVIEW SCOPE & APPROACH APPROVAL

Area of PAF	Stakeholder views	Scope
	<p>reappraisal of risk.</p> <p>The PAF lacks genuinely preventative techniques, which makes it more reactive than it should be.</p>	<p>redesigning techniques and key performance indicators to focus on areas that deserve attention.</p> <p>Recommendations on improving PAB strategic output and how it translates into formal procedures.</p>
<p>Risk Evaluation Methodology (REM)</p>	<p>The criteria for measuring risk are not empirical, i.e. do not show Pound signs, and do not give participants confidence that they are genuinely material. Without empirical grounding elements of the PAF do not work together efficiently or effectively.</p> <p>Risks are too diffuse. This makes it difficult to measure them accurately, decide what matters and persuasively communicate that to participants.</p> <p>The risks and KPIs have remained largely the same for a very long time, but the market has changed significantly. The current methodology is very focussed on core, static processes, and seems to lack a place for emergent and transient risk.</p> <p>Some stakeholders also noted that the existing set of Performance Assurance Parties (PAPs) will be unreflective of the dependencies Settlement will have under Smart metering. In particular, data retrievers (including the DCC) will have the capacity to affect Settlement far more than currently.</p>	<p>Full redesign of the Risk Evaluation Methodology, including simplification of risk set, focussing it on end-to-end Settlement processes rather than isolated Settlement events, and improved risk assessment methods (impact/probability).</p> <p>Recommendations for reducing the focus on formal cataloguing of risk and instead addressing observations made about PAF engagement generally through better communication with participants, and more proactive and compelling uses of data and other insights available to PAB and PAA.</p> <p>Full review of the current KPIs (BUSRRs) to identify which remain trusted and relevant, which do not and what alternative metrics could be preferable.</p> <p>We will also explore if the current set of PAPs is appropriate in light of the changes to the methodology and risk catalogue that we recommend, as well as if the current way in which we review PAPs on changes to the market will be fit for purpose as industry roles develop and the pace of change quickens in the next few years.</p>
<p>Risk Operating Plan (ROP)</p>	<p>If the ROP is a project plan for the PAF in any given period, it is not currently clear who has overall responsibility for aligning it with PAF strategy, reviewing it regularly,</p>	<p>Review of PAA responsibilities in relation to delivering the PAF.</p> <p>Recommendations to improve end-to-</p>

## 264/07 – PAF REVIEW SCOPE & APPROACH APPROVAL

Area of PAF	Stakeholder views	Scope
	<p>managing its delivery and ensuring its objectives are met.</p> <p>The PAB and participants lack a credible, empirical view of market-wide risk against which to validate the contents of the plan.</p> <p>The ROP does not change year-on-year or inside years to reflect what is happening in the market, and what is written in the ROP and what happens in practice are often not the same.</p>	<p>end coordination and ownership.</p> <p>Previously mentioned review of Risk Evaluation Methodology to ensure risks are measured as accurately as possible, emergent/transient issues are identified and incorporated as soon as possible and participants understand the rationale for the PAF's focus.</p>
Annual Performance Assurance Report (APAR)	<p>Disconnected from what has actually happened in the period to which it relates.</p> <p>Very difficult for participants to engage with due to its complexity and the complexity of its subject matter.</p> <p>Not a true review of the operation of the PAF in its current form. It should provide the appraisal of how effectively the PAF managed risk, which areas worked well and which didn't, and what we should consequently do differently in future operating periods.</p>	Included in full review of procedures described elsewhere.
PAF Governance	<p>The PAB has a lot of business to consider each month. There is consequently a risk that individual issues do not get the attention required.</p> <p>Work the PAB does on strategy does not always translate into formal PAF procedures. It is also seen by many participants as lacking visibility or being decided behind closed doors.</p> <p>The PAB requires an objective, empirical view of issues to inform and expedite its decision making. This can be elusive currently.</p> <p>The PAA does not always support the PAB's decision making with well-reasoned and clearly communicated recommendations. The PAB is, as the name suggests, a board, and should be given the information and expert insight required for it to act as such.</p>	<p>Full review of risk appraisal, its communication to PAB and participants and the interface between strategy and formal procedures noted elsewhere.</p> <p>Issues of workload could be addressed in a variety of ways, depending on the root cause. The business of the PAB or its audit and PAF delivery accountabilities could be divided, to create bandwidth for decision making, or if the issue of workload is being exacerbated by PAA support, the intention to make recommendations on how the PAA support the PAF noted elsewhere applies.</p> <p>We will also consider the recommendations already made in the</p>



## 264/07 – PAF REVIEW SCOPE & APPROACH APPROVAL

Area of PAF	Stakeholder views	Scope
	<p>Where issues have been outstanding for a long time, concern exists that defeatism has set in and the PAB and PAA might have become complacent.</p>	<p>Panel Governance Review that are relevant to the PAB. These include the defined roles of the PAB Chair, Tech Sec and the PAA. See <a href="https://www.elexon.co.uk/wp-content/uploads/2015/09/Initial-thought-piece-delegation.pdf">https://www.elexon.co.uk/wp-content/uploads/2015/09/Initial-thought-piece-delegation.pdf</a> for further information.</p>
<p>BSC Audit</p>	<p>Scoping of audit is frustrated by a lack of sufficiently detailed and robust data on which to determine where audit-worthy risk lies. Scoping (both of process and participant) should be based on an assessment of risk.</p> <p>Stakeholders almost unanimously recognised the importance of some form of independent assessment of the risk individual participants pose to Settlement. However, the current audit is not widely seen as providing that assurance in a robust or cost effective manner.</p> <p>Participants acknowledged that due to the highly technical nature of the BSC Audit, a good level of industry knowledge on the part of the auditor is essential. Feelings on the effectiveness of the audit in its current format were mixed, but the majority noted issues around industry knowledge and therefore the robustness of the audit.</p> <p>Stakeholders had varied views on what they value about the BSC Audit, which will require further exploration in the next phase of the review. For example, there was no consistent view on if the audit is intended to 1) provide an entirely impartial audit opinion on the effectiveness and consistency of Settlement processes, 2) provide an opinion on the effectiveness of the PAF in relation to such processes, or 3) purely provide an opinion on the compliance of Performance Assurance Parties with the processes.</p> <p>Many stakeholders were unconvinced that a</p>	<p>The work on risk appraisal and supporting data will specifically consider the extent to which audit scoping could make use of it. Similarly, we will make recommendations on how different approaches to data and its use could make the sampling process for site visits quicker, more reflective of risk and less dependent on purely random sampling.</p> <p>We will make recommendations on alternative approaches that could be adopted to resourcing, planning and executing a BSC Audit. This will include recommendations on how the current set of audit techniques (BSC, TAPAP and TAM) interact and if a different configuration of the different forms of assurance they offer is required.</p>

## 264/07 – PAF REVIEW SCOPE & APPROACH APPROVAL

Area of PAF	Stakeholder views	Scope
	<p>financial auditor or audit methodology is appropriate for a deep technical audit(point 3 in the above paragraph).</p> <p>The scope of the audit has not changed drastically for years and is still very compliance-focussed. The conclusions of the audit are therefore hard to use in assessing areas of risk and levels of error in the market.</p>	
<p>Technical Assurance of Performance Assurance Parties (TAPAP)</p>	<p>Stakeholders who responded on TAPAP all believed that it is a useful technique that provides concrete outcomes that help in mitigating Settlement Risk.</p> <p>However, some stakeholders felt that the outcomes of some recent TAPAP checks (P283) and the subsequent Change Proposals to clarify processes suggest that the approach taken to changing processes on ELEXON/the PAB's part might not have been as effective or persuasive as it could have been.</p> <p>Many stakeholders noted that the recent AMR TAPAP check, which focussed on practices around auxiliary meter technical details, was particularly effective. It utilised data from the DTN to target the sample for the check onto MSIDs where non-compliance seemed to have occurred.</p> <p>The lessons learnt and best practices emerging from TAPAP are not communicated openly or clearly enough to industry.</p>	<p>We will make recommendations on how the strengths of TAPAP could be made to better compliment the overall delivery of the PAF. This will include considering if TAPAP should be used more extensively, how it can be made more effective and efficient through better access to and use of data and if the current divisions between it and the BSC Audit and TAM are appropriate.</p> <p>We will also assess the feasibility of a process whereby the PAA/PAB collates best practices or 'lessons learnt' from each check and publishes them in an appropriate medium for participants to access. Any such process will have to balance the benefits of visibility of best practice with the need to maintain confidentiality and respect any commercial advantage participants have gained through legitimate innovation.</p>
<p>Technical Assurance of Metering (TAM)</p>	<p>Many stakeholders believe that purely random sampling doesn't get the best out of the technique.</p> <p>The sample size used was also seen by some as being too small to provide a clear view of sources of risk or to act as an incentive for participants to follow best practice.</p> <p>The TAM report from the TAA was very poor this year. Stakeholders were concerned that</p>	<p>We will review the sampling methodology and sample size currently used for the TAM.</p> <p>The way in which we scope, resource and deliver the TAM will also be considered.</p> <p>As noted elsewhere, we will review the relationship between the three audit techniques to determine if they</p>

## 264/07 – PAF REVIEW SCOPE & APPROACH APPROVAL

Area of PAF	Stakeholder views	Scope
	it suggested the provider's focus might not be as fully on the work of the TAA as they would expect.	collectively continue to provide efficient and cost-effective assurance.
Central Volume Allocation (CVA) and BSC Agent systems	Stakeholders feel that the current PAF is very focussed on SVA Settlement processes. While it is appropriate for the complexities of SVA to be monitored, concern exists that CVA processes are poorly understood in the industry, less visible to participants than SVA due to a lot of them involving BSC Agents, not given the priority they perhaps deserve in the current REM and other procedures, and extremely material when they fail (as illustrated by recent Trading Disputes).	The review of the REM noted elsewhere will include work to quantify the materiality of CVA risks and handle them accordingly inside of the PAF.
Distribution Network Operators (DNOs)	Many stakeholders believe that Distribution Network Operators are not given the attention that they deserve in the PAF. They are pivotal to certain high risk Settlement processes (CVA sites and high consumption HH SVA sites), were noted as being the cause of potentially material problems with Settlement processes, but seem to receive less PAF scrutiny than Suppliers and Supplier agents do currently.	The review of the REM will include consideration of the role that distribution network operators play in key SVA and CVA processes and if current assurance of their activities is proportionate.  Recommendations regarding escalation (EFR and Breach & Default) will include specific recommendations on how any DNO created risks can be addressed in future.
Error and Failure Resolution (EFR)	Some stakeholders note that the PAB and ELEXON have done a good job of late clearing long running non-compliances and audit issues.  Many stakeholders feel that EFR isn't currently fully effective, but noted that this is in large part due to its reliance on PARMS, MEM and the BSC Audit.  Issues cited include that the escalation continuum (starting with EFR and culminating in Removal of Qualification/Breach & Default) lacks teeth, that evidencing the materiality of issues is challenging, that participants often remained in EFR for far longer than one	We will review the current methods for evidencing EFR (including PARMS and MEM), the entire escalation path and the working practices surrounding its use. Similar to the points raised regarding the operation of PAF procedures, specific focus will be given to how we engage with participants, i.e. purpose over process.

## 264/07 – PAF REVIEW SCOPE & APPROACH APPROVAL

Area of PAF	Stakeholder views	Scope
	<p>would expect if the issues are material to Settlement, that it is too procedural in the way it is executed, and that where participants comply with it they do so to avoid hassle rather than because they have bought into the criteria used.</p>	
Breach and Default/Removal of Qualification	<p>Stakeholders who commented unanimously felt that the two techniques are seen as ineffective and under-utilised in their current forms. Reasons for this include that evidencing the materiality of persistent non-compliances is difficult due to issues with other techniques (PARMS and MEM, mainly), and that there is a perceived lack of appetite (PAB, PAA, Panel) for escalating participants even when clear evidence of the materiality of issues caused is available.</p> <p>Some stakeholders also felt that the BSC underpinnings for use of the techniques were unclear and inefficient, which further complicates any attempt to use them.</p>	<p>As noted elsewhere, the techniques that provide evidence for escalation are subject to full review, with the aim of putting them on a firmer risk-based footing.</p> <p>The working practices around escalation will also be considered. Much like the observations made in relation to PAF procedures, this includes the relationship between the PAA and the PAB, and the extent to which PAB decision making is appropriately directed by PAA input.</p> <p>The wording of the BSC provisions will be reviewed, and if changes are needed to give effect to the recommendations made on the above two points, Mods/CPs can be raised.</p>
Performance Reporting and Monitoring (PRM)	<p>Stakeholders unanimously feel that PARMS does not give a credible view of risk. The view of compliance that it gives is often unclear, inaccurate, incomplete or inconsistent.</p> <p>Stakeholders cited multiple causes, including the extent to which its focus reflects the current REM (monitoring narrow process steps rather than end-to-end processes), the decentralised way in which much key PARMS data is provisioned (which results in inconsistent interpretations of reporting requirements), its complexity and consequent lack of understanding/engagement in industry, and the lag in the reporting, which is often 2 months out of date when</p>	<p>PARMS requires a full review to both reflect any changes to the risk evaluation methodology and BUSRRs, and to attempt to improve the way in which we provision its data. We will examine the cost effectiveness of any alternatives with the aim of establishing if there is a better way of providing reporting for the PAF.</p>

## 264/07 – PAF REVIEW SCOPE & APPROACH APPROVAL

Area of PAF	Stakeholder views	Scope
	<p>participants receive it.</p> <p>PARMS is extremely expensive for participants to support, given the issues noted with its effectiveness. Since its inception participants have spent considerable time, effort and money on maintaining and changing it.</p> <p>Stakeholders are concerned that PARMS is not fit for purpose for smart metering, and that it will have to be changed to reflect Smart processes. The money spent doing that will be wasted if PARMS remains in its current state.</p>	
Supplier Charges	<p>Much like PARMS, stakeholders unanimously believe Supplier Charges to be ineffective in its current form. The data on which they are based isn't seen as robust, the capping of charges means they are a weak incentive for larger Suppliers to comply, and they are billed in a way that hides any impact they do have on Supplier finances from senior decision makers.</p> <p>Many stakeholders questioned if Supplier Charges are really a genuine pre-estimate of loss. SP01, which charges participants for non-submission of key PARMS data, was frequently cited as an example, i.e. what genuine loss arises from not submitting PARMS data?</p>	<p>Supplier Charges share a system with PARMS and also require a full review. The review will focus on if it is feasible to improve the areas of focus for Supplier Charges using a more accurate risk appraisal and improving the methodology for pre-estimate of loss. If it is not feasible, the review will consider what alternatives might exist and if the technique should be entirely discontinued.</p>
Material Error Monitoring (MEM)	<p>While some stakeholders find large EAC/AA and UMS reporting useful, or believe it can give a better view of risk than PARMS, many stakeholders noted that the scope of MEM has not been changed for many years. The issues it focuses on have either been considered low materiality for many years (energisation and UMS) or are likely to be subject to significant change due to market changes (large EAC/AA following P272 migration).</p>	<p>We will review MEM along with Supplier Charges and PARMS, to establish if a single approach to data provision is capable of providing credible assurance. Each of the individual areas of monitoring will be reviewed to establish if they remain worthwhile and how they might need to change to reflect changes in the market.</p> <p>The smart metering work stream will</p>

## 264/07 – PAF REVIEW SCOPE & APPROACH APPROVAL

Area of PAF	Stakeholder views	Scope
	<p>In the case of large EAC/AA, stakeholders made similar observations to those made on PARMS. Understanding the root causes of large EAC/AA would help with addressing any material impact they have on Settlement.</p>	<p>also examine if monitoring should be added to provide assurance against the smart rollout.</p>
Peer Comparison	<p>Stakeholders were all in favour of Peer Comparison in principle. However, they noted that the current implementation of the technique was too dependent on certain problematic PARMS Serials, which undermines its credibility. Any comparison has to be based on credible data in order for it to be effective in encouraging improvement.</p> <p>Stakeholders had mixed views on the effectiveness of public Peer Comparison and the desirability of extending its use. Some believe that the metrics have to mean something outside of the compliance or Settlement functions inside of a supply business, i.e. must have broader relevance to the business. This could be challenging to accomplish with Settlement data, but not all stakeholders felt it was impossible. Other participants felt that comparisons encouraged improvements through competition, even in supply businesses, but that they would do that better if the data used was credible.</p> <p>Support for Supplier agent Peer Comparison was broader, in that Supplier agents have clear business drivers which relate to their Settlement performance.</p> <p>Comparing participants on an MPID-level can also make the technique less compelling, because not all participants have meaningful business distinctions between their MPIDs.</p>	<p>Peer Comparison will be redesigned to work with new Settlement Risks and KPIs. If the techniques on which it is based are significantly altered through the review, it may have to focus on a much smaller set of key metrics than it does currently.</p>
Qualification	<p>Some stakeholders felt that Qualification does not provide sufficient assurance on market entry, particularly where NTBMs are concerned. The process doesn't always align</p>	<p>We will investigate and assess alternatives to the current Qualification process that are capable of being deployed more flexibly as</p>

## 264/07 – PAF REVIEW SCOPE & APPROACH APPROVAL

Area of PAF	Stakeholder views	Scope
	<p>with when risks to Settlement manifest.</p> <p>Some stakeholders also noted that the Qualification service is expensive given the level of assurance provided and subsidises business models that rely on qualifying MPIDs and then selling them to third parties.</p> <p>The Panel noted in early discussions on Qualification that the robustness of the process of allocating supply licences was questionable.</p>	<p>and when risks to Settlement arise.</p> <p>We will also consider if the current approach to resourcing the Qualification process is proportionate to the benefits it provides.</p>
Market Exit	<p>Some stakeholders also noted that the current provisions for market exit are not always proportionate to the risk that the party presents to the market.</p>	<p>We will review the market exit arrangements to ensure that they are proportionate to the risks posed to the market.</p>
Requalification	<p>Many stakeholders felt that the current Requalification process provided limited assurance but creates significant pain for participants who are required to go through it.</p> <p>Examples were cited of repeated Requalification of significant changes taking months and failing to detect any of the issues that eventually materialised, as well as examples of changes that participants believed to be material but that weren't subject to Requalification at all, e.g. offshoring of significant areas of Settlement activity.</p> <p>Currently, the trigger for the process is dependent on subjective assessments of what a material change is, and the process itself has to be driven by the participant subject to it. This creates discrepancies in judgement of what is material, makes the process very time consuming for participants, and on the evidence given, has failed to predict or prevent Settlement impacts resulting from certain high profile changes in recent times.</p>	<p>As for Qualification, we will assess alternative approaches to Requalification that could provide greater flexibility in when and how the technique is applied, in order to provide more effective assurance of material changes to participant business activities.</p>



## 264/07 – PAF REVIEW SCOPE & APPROACH APPROVAL

Area of PAF	Stakeholder views	Scope
Bulk Change of Agent	<p>The stakeholders who commented on the technique noted that it is subject to the same limitations as requalification. It is generally avoided by participants. The threshold for it being invoked is seen as arbitrary and unreflective of the real risk of a specific mass migration. The fact that it is not required when more than 20,000 MSIDs change agent coincident with a Change of Supply event illustrates the arbitrary way in which it is currently defined.</p>	<p>Much like Qualification and Requalification, we will assess alternatives to the current focus on an arbitrary threshold, which could allow a more risk-driven deployment of the technique in future. We will also assess if the technique is distinct enough from others to warrant existing, i.e. it could be considered a proactive form of TAPAP.</p>
Trading Disputes	<p>Stakeholders noted that Trading Disputes could be used more widely than they are currently, where a Settlement Error becomes apparent. The analytical knowledge and methods of quantification on which the technique depend could be used in appraising risk for the remainder of the PAF. Consistency around the use of exceptional circumstances and the communicating of lessons learnt/best practice from disputes heard were cited as areas of possible improvement.</p>	<p>We will examine the points raised regarding the clarity and transparency of the TDC's decision making process and make appropriate recommendations. We will also incorporate Trading Disputes' quantification methods into the REM and data provision work streams.</p>
BSC Change	<p>Many stakeholders note the poor quality of the solution for P272 and need for multiple follow-up Mods to partially correct it. Some believe this suggests a disjoint between the formal BSC Change process and the PAF which should be addressed for future significant changes with assurance implications (including the smart rollout and any eventual mandating of HH metering).</p>	<p>We will investigate if the BSC Change process is being used to correct issues with the BSC's operation that are detected through PAF processes and techniques. If we believe it is not, we will make recommendations for how that could be better enabled in future, including through the operation of the PAA, PAF Procedures or PAF Governance</p> <p>The Competition and Markets Authority (CMA) review and Ofgem's Code Governance Review (CGR) 3 have considered P272 extensively and actions are in place as a result. We do not propose to duplicate that work through the PAF review.</p>



## 264/07 – PAF REVIEW SCOPE & APPROACH APPROVAL

Area of PAF	Stakeholder views	Scope
Education	<p>Many stakeholders felt that education is something that works very well under the BSC and currently provides value to participants.</p> <p>Some stakeholders feel that the definition of education is problematic. Using education as a corrective method following a performance issue is inconsistent with it being defined as a preventative technique. Examples given elsewhere of publicising lessons learnt and best practices should feature more prominently than it does.</p> <p>Some questioned if it is really a technique at all.</p>	<p>We will examine how we can publicise the findings of relevant techniques more publically, compellingly and regularly and make appropriate recommendations.</p>
Data Provision	<p>Almost all stakeholders recognised that data provision is critical to the effectiveness of the PAF, and that many of the issues cited elsewhere are at least partly due to issues with current methods of provisioning data.</p> <p>Stakeholders support a centralised approach to data provision, with an emphasis on a better understanding of end-to-end Settlement processes, more accurate risk appraisal and less reporting burden on participants.</p> <p>There may be significant costs to some organisations in supporting alternative methods. However, if better data provision enables a clearer view of the cost effectiveness of the PAF, it will be easier to determine if any additional costs are proportionate to the risk mitigated.</p> <p>Stakeholders noted the importance of demonstrating viable and useful alternatives to the current regime as early as possible, in order for an informed decision to be made later.</p>	<p>We will explore all of the issues raised relating to data provision through the relevant work stream. A key part of the work stream is to establish the viability of alternative approaches as early on in the project as possible. When decisions are made later on regarding which approaches are feasible, it is important that we are confident in the feasibility of alternative approaches to data provision.</p> <p>We will also prototype possible approaches as early on in the process as possible, to give stakeholders a concrete basis for feedback and to get buy-in for alternatives.</p>
ELEXON and the Performance Assurance Administrator (PAA)	<p>Some stakeholders believe that ELEXON is broadly effective as the PAA and are advocates for its capabilities, but nonetheless noted issues with specific areas of the PAF</p>	<p>The part that ELEXON plays in delivering the PAF and the working practices of the PAA are incorporated into all four work flows. We will</p>

## 264/07 – PAF REVIEW SCOPE & APPROACH APPROVAL

Area of PAF	Stakeholder views	Scope
	<p>which they believed required attention.</p> <p>Some stakeholders also believe that the success of any review of the PAF is dependent on the PAA having the skills and culture necessary to make revisions fully effective, realise the benefits defined for change and rapidly address emergent issues.</p> <p>ELEXON should not neglect these considerations during the course of the review and afterwards, because the viability of the PAF is ultimately dependent on how it is delivered and the PAF is a highly visible component of ELEXON's value proposition to industry.</p>	<p>consider the Panel Governance Review's analysis of the PAA's role.</p> <p>We will give careful consideration to how ELEXON's capabilities may need to evolve in order for the PAF to be effective in future.</p>

# 264/07 – PAF REVIEW SCOPE & APPROACH APPROVAL

---

## 12. Appendix 2 – Detailed explanations of work streams

### Smart metering

- 12.1 The smart metering work stream will focus on the immediate assurance challenges of the smart metering rollout. It will produce, using data sourced from the Data Transfer Network (DTN), proofs of concept (PoCs) for monitoring the Settlement Risks associated with the rollout. Each PoC will be developed in collaboration with stakeholders, to both deliver effective monitoring in time for the rollout and to gain buy-in for different enduring approaches to risk management under the PAF.

### The REM and other PAF procedures

- 12.2 The REM is a key part of the PAF. The approach it sets out to defining Settlement Risks is the basis on which the PAF is defined and administered. Stakeholders believe the REM is not currently reflective of risk and that it is difficult for participants to understand. The work stream will consequently focus on redesigning the REM to reflect risk and make it more meaningful to Parties.
- 12.3 We expect this to involve aggregating the risks it sets out to produce a smaller set of monitored risks, using the work of the data provision work stream to more accurately measure the probability and impact of those risks, and redesigning the engagement with PAB and participants to make the revised view of risk as flexible, accurate, clear and compelling as possible.
- 12.4 The remainder of the PAF procedures and the working practices surrounding them will also be reviewed. Stakeholders feel that the consultations surrounding the procedures are too inflexible, infrequent and inconvenient. The procedures themselves are difficult for participants to understand, administratively burdensome and result in the PAF changing infrequently, inadequately or not at all. Recommendations will focus on how to remedy these failings.

### Performance Assurance Techniques

- 12.5 Appendix 1 sets out the detailed feedback we received from stakeholders on each technique. The work stream will assess, in light of all feedback received on the PAF, if there are any gaps in the current set of techniques (using the new REM and risk set to identify gaps in risk mitigation), which techniques are cost effective for the level of risk they mitigate, and which techniques are not. It will then produce a set of recommendations for retaining, altering, adding or removing techniques.
- 12.6 The work stream will also consider the general working practices that ELEXON and the PAB adopt in relation to coordinating and applying the techniques.

### Data Provision

- 12.7 The PAF depends on credible sources of data to guide the use of its procedures and techniques, as well as to inform its decision making. The work stream will explore if there are any feasible alternative ways of provisioning data that provide better capacity for accurate risk appraisal, better support the use of the revised set of techniques, place less burden on participants to provide data and are easier to change as required in future.
- 12.8 A set of recommendations will be produced on viable alternative methods of data provision. It is critical that this work stream considers the technical practicalities of how data would be sourced, loaded and exposed to end users. We consequently anticipate that it will involve creating proofs of concept to test viability and demonstrate the value of different approaches to stakeholders.