

# PAF REVIEW STAKEHOLDER ENGAGEMENT – CONSULTATION

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## Response deadline and contact details

The consultation deadline is close of business on **14 October 2016**.

All questions and responses should be sent to Max O'Connor at [max.oconnor@elexon.co.uk](mailto:max.oconnor@elexon.co.uk). Please CC in [design.authority@elexon.co.uk](mailto:design.authority@elexon.co.uk).

## Purpose of Consultation

The electricity market is set to change significantly over the next decade. Smart metering will have profound impacts on wholesale electricity and the BSC, changing industry processes, providing unprecedented quantities and granularity of data, and presenting new assurance challenges. Non-Traditional Business Models (NTBMs) have also been becoming more prevalent and more varied. Their prevalence is likely to increase as initiatives like smart metering create new competitive opportunities inside of wholesale electricity.

The Performance Assurance Framework (PAF) should evolve to meet the challenges of a changing market. Assurance under the BSC should remain robust, but must not act as an undue barrier to innovation or competition.

The current PAF provides for a flexible, integrated approach to the deployment of techniques. ELEXON and the PAB believe there are opportunities to further enhance the application of the risk-based PAF implemented in BSC Modification P207, to address the challenges of a changing industry. Specific areas of the PAF where we particularly believe this to be the case include the BSC Audit, Market Entry and Exit and the current approach to escalation of non-compliant participants.

In order to ensure that the review is informed by as broad a set of views as possible, we have issued a consultation to all Performance Assurance Parties, inviting their views on the PAF. The consultation is your opportunity to influence the scope of the review.

This document is intended to give respondents some background on the Performance Assurance Framework (PAF) and a format for providing their feedback. It reflects the content of the scope paper for the review which was approved by the Panel in July<sup>1</sup>. It is not however intended to be exhaustive. Any representations respondents wish to make that are not relevant to one of the targeted questions can be made against the final question.

Appendix A provides an overview of current PAF procedures. Appendix B sets out the observations made about specific Performance Assurance Techniques (PATs) in the scoping paper approved by the Panel. Attachment A provides a response form.

## Background

ELEXON is conducting a full review of the PAF over the next 10-12 months. The Performance Assurance Board (PAB) is overseeing the review on the BSC Panel's behalf.

The objectives for the review that the Panel approved are:

The review should make recommendations for change to systems, processes and the BSC that will, if progressed, provide a PAF that:

- a) engages Performance Assurance Parties in identifying and, from time to time, re-appraising the things that do and don't matter to them (their risk appetite);

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<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)

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- b) meets the current and future needs of the Panel, the PAB and the wider electricity industry for the delivery of efficient, effective and economic assurance on those things that matter; and
- c) enables the Performance Assurance Administrator (PAA) to deliver a valued and trusted assurance service to BSC Parties under the strategic and tactical guidance of the BSC Panel and PAB.

Such a PAF should:

- i) Be flexible enough to identify and address current and future Settlement Risks and issues.
- ii) Be able to assess and communicate both aggregate and individual performance across key risk areas so as to enable strategic and tactical deployment of Performance Assurance Techniques (PATs), eliminating reliance on exhaustive enumeration of low-level Settlement Risks.
- iii) Make use of data sources which BSC Parties trust, give accurate and actionable views of the materiality of non-compliance and that, as much as possible, minimise the reporting burden for BSC Parties and their agents.
- iv) Be supported by systems and processes which are:
  - legally robust;
  - scalable to meet changing assurance needs;
  - enable evidence-based decision making;
  - provide the functionality and content needed to support the delivery of a risk-based PAF;
  - facilitate the coordinated, problem-appropriate, application of PATs; and
  - as inexpensive as possible to maintain or change.

The Panel agreed to a two-month planning phase for the review, within which ELEXON will validate the issues raised in the Panel scope proposal. Validation will take the form of internal workshops, interviews with PAB members, and an industry consultation, which invites perspectives from all Performance Assurance Parties (PAPs) on the current PAF.

## Questions

**Please respond to the questions on the response form provided. We have included the questions here so that we can provide you with things to think about in relation to each.**

- 1) Do you believe the objectives given for the PAF in the consultation document are appropriate?
- 2) Does the current approach to identifying, recording and assessing Settlement Risks meet the objectives set out for the PAF above?

Points to consider in relation to this question include:

- The number of Settlement Risks resulting from the current methodology
- The resultant necessity of choosing a small subset of risks on which to focus monitoring
- The accuracy and consequent effectiveness of the process for defining impact and probability of risks
- The generally poor response rate from industry on REM and RER consultations
- The emphasis given to SVA and CVA risks in the evaluation methodology

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3) Does the current approach to identifying ways to mitigate risk meet the PAF objectives?

Points to consider in relation to this question include:

- The completeness of the existing set of PATs, including their applicability to CVA and central system risks.
- The extent to which they currently complement one another
- The way in which they are reviewed and the frequency of review
- The appropriateness of the mechanism (currently the APAR) through which they are reviewed

4) Does the current approach to planning each year of PAF delivery (PAOP) of assurance activity meet the PAF objectives?

Points to consider in relation to this question include:

- The content of the ROP, including the level of detail provided on planned application of techniques to risks and budgetary predictions.
- The extent to and manner in which the ROP is applied within each PAOP
- The processes that exist for ensuring it is being applied inside each period and for ensuring that it factors in any unexpected changes to priorities for the PAF
- The focus that is generally given to SVA risks in how the techniques are applied.
- The generally poor response rate from industry on ROP consultations
- The extremely infrequent use of mid-period revisions to the ROP

5) Does the current review of and lessons learnt from each PAOP meet the PAF objectives?

Points to consider in relation to this question include:

- The appropriateness/efficacy of the Annual Performance Assurance Review.
- The extent to which its content results in changes to the PAF year-on-year
- The tracking of the effectiveness of those changes

6) Are the current PATs used in such a way that they are effective in mitigating the Settlement Risks to which they are applied?

The table in Appendix A lists and categorises the current set of PATs, as well as noting the observations that were made in relation to each in the Panel scope proposal for the PAF review.

7) Does ELEXON, as the Performance Assurance Administrator (PAA), effectively deliver the PAF's objectives?

Points to consider in relation to this question include:

- ELEXON's administration of PAF procedures.
- ELEXON's routine reporting of BUSRR performance to the PAB.

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- ELEXON's planning and coordination of the various PATs.
- ELEXON's delivery against the ROP and application of each of the PATs.

8) Do you believe that the PAF's current governance model enables effective delivery of its objectives?

Points to consider in relation to this question include:

- The involvement of the Panel and PAFs in defining the PAF approach in any given year, i.e. deciding what matters, agreeing how best to assure what matters and ensuring the PAF has what it needs to deliver best assurance.
- The two roles the PAF fulfils, i.e. a BSC Audit function and a PAF delivery management function.
- The different priorities, skill sets and business the two roles require.
- The amount of business the PAF is required to consider each month.

9) Do you believe there are any specific challenges relating to the rollout of smart metering that the review should give particular consideration?

Points to consider in relation to this question include:

- Any transitional provisions that may be required to provide appropriate levels of assurance during the rollout.
- Key changes to the profile of risk after the mass rollout of smart metering is complete (including treatment of the population of legacy dumb metering systems and associated legacy settlement processes).
- Possible key areas of risk under smart Settlement processes.
- Changes to existing PATs or any new PATs that may be needed to deliver Settlement assurance against smart metering.

10) Do you believe there are any specific challenges relating to Non-Traditional Business Models that the review should give particular consideration?

Points to consider in relation to this question include:

- Any specific NTBMs you are aware of which might require special treatment for assurance purposes, e.g. 'off-the-shelf' suppliers.
- How the PAF can provide robust assurance against the extensive set of potential business models covered under the term 'NTBM'.

11) Do you believe the current way in which ELEXON provisions data to support the PAF meets the PAF's objectives?

Points to consider in relation to this question include:

- The current, decentralised approach to the provision of PAF data, i.e. each data provider develops their own data extraction processes to match the high-level requirements in BSCP533.

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- The provision of MEM data for Large EAC/AA, UMS and Energisation through bespoke extracts and supporting utilities.
- The use of aggregated data (rather than the 'source' data contained in underlying D-flows) to populate BUSRRs.
- The ad hoc way in which ELEXON currently requests drilldown data to support more detailed analysis of Settlement Risks and underperformance.

12) Do you have any other comments on the PAF?

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## Appendix A – Overview of current PAF procedures

The current PAF was introduced through BSC Modification P207 in September 2007. It introduced a risk-based approach to assurance, which was intended to give the PAB more flexibility in deciding the most effective and efficient focus for the PAF each year.

### The Risk Evaluation Methodology

A view of risks to Settlement and their likely materiality in any given year is key to the risk-based approach. The Risk Evaluation Methodology (REM) consequently sets out the basis on which the PAB will define Settlement Risks and quantify the risk they each pose to Settlement.

The REM must be created and published by the PAB, having consulted with industry, in advance of each new Performance Assurance Operating Period (operating period). Therefore, the REM is capable of being changed year-on-year to reflect changing assurance needs. It can also be revised inside an operating period, subject to similar approval and consultation.

### Risk Evaluation Register

Currently, the REM results in a Risk Evaluation Register (RER) containing detailed enumeration of specific Settlement events, which can, if not carried out compliantly, result in Settlement Error, e.g. the timely and accurate transfer of Meter Technical Details on a change of agent. There are 187 very specific potential points of failure in both Supplier Volume Allocation (SVA) and Central Volume Allocation (CVA) processes that are set out in the 2016/17 RER.

The RER, similar to the REM, must be created by the PAB, consulted on with PABs and then approved by the Panel in advance of each operating period. The RER can also be changed before or during any operating period to reflect any reappraisal of specific risks the PAB believes to be necessary.

### Performance Assurance Techniques

Once the PAB has defined how risks should be evaluated and which risks are consequently material, the Panel identifies Performance Assurance Techniques (PATs), which are existing provisions of the BSC that are capable of mitigating Settlement Risks (a full list of current PATs is provided in Appendix A).

### Risk Operating Plan

The Risk Operating Plan (ROP) is effectively a project plan for the upcoming PAOP. It sets out how PATs (and the ELEXON resource needed to provide them) will be applied to material Settlement Risks, in order to deliver the PAF's objectives with optimal efficiency, effectiveness and economy. Included in the plan is an estimate of the anticipated costs associated with the intended approach. It is possible to amend the ROP mid-period, but agreeing it upfront provides a shared, baselined set of expectations for the PAB, PAA and PABs to plan and deliver against.

### Annual Performance Assurance Report

The Annual Performance Assurance Report (APAR) is used to review the activities and outcomes inside of a Performance Assurance Operating Period (PAOP), and evaluate if the approach and cost/benefit agreed through the ROP were effective and accurate. If the application of a ROP suggests that the existing PATs might be deficient in some way, it provides a mechanism for recommending change and setting out any cost-benefit arguments that may exist.

In other words, the APAR is how the PAF learns lessons from previous PAOPs and applies them to the REM, RER, PATs and ROP for upcoming operating periods.

## Appendix B – Observations on current PATs from Panel Paper

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Performance Assurance Technique	Category	Issues noted
Qualification	Market Entry and Exit	<ul style="list-style-type: none"> <li>The Panel feels the current entry/exit and qualification processes could provide better assurance than they do currently.</li> <li>Breach and Default can be difficult to evidence in sufficient detail to justify their use, and can consequently be seen as lacking teeth.</li> <li>Breach and Default lacks a 'middle' option between EFR and a full-blown Panel escalation and can be too slow.</li> </ul>
Re-Qualification		
Removal of Qualification		
Breach and Default		
Performance Reporting and Monitoring (PRM)	Performance Reporting	<ul style="list-style-type: none"> <li>Current Business Unit Settlement Risk Ratings (BUSRRs) are narrowly focussed on specific risks, reducing their usefulness in informing or evidencing other PATs.</li> <li>Underlying systems are inflexible, expensive to change and decentralise data provision in such a way that costs are borne by PAPs individually, and inconsistent data submission is likely.</li> <li>Peer comparison isn't used as extensively or as effectively as it could be, and can be time-consuming/uneconomic to change.</li> </ul>
Material Error Monitoring		
Peer Comparison		
Trading Disputes	Settlement Error correction	<ul style="list-style-type: none"> <li>Trading Disputes could be used more extensively in rectifying measurable and material events of Settlement error.</li> <li>Supplier Charges are currently capped in such a way that some stakeholders believe they provide a poor incentive to improve performance.</li> <li>Supplier Charges are based on a methodology of pre-estimating loss. They could, with appropriately detailed and reliable data, be based on a retrospective determination of real loss.</li> <li>Supplier Charges and PRM share an old, complex system, which relies on decentralised data provision. Costs of change are high and borne by all data providers as well as centrally through ELEXON.</li> </ul>
Supplier Charges		
BSC Audit	Audit	<ul style="list-style-type: none"> <li>Informing the use of the audit techniques with the data ELEXON currently holds can be hit and miss, potentially reducing their efficiency, effectiveness and value for money.</li> <li>The purpose of the BSC Audit could be better delivered with better upfront access to data for determining its focus.</li> <li>TAPAP could be used more extensively with better access to data upfront, to both identify candidate processes for</li> </ul>
Technical Assurance of Metering Systems		
Technical Assurance of Performance Assurance Parties		

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		<p>TAPAP and specific instances of potential non-compliance to check.</p> <ul style="list-style-type: none"> <li>TAM could similarly benefit from targeting based on better access to data. This could mitigate existing issues with sample size and a completely random sample selection method.</li> <li>The divisions between the three techniques and the party used to deliver them could be changed to improve efficiency/effectiveness or reduce cost.</li> </ul>
Error and Failure Resolution (EFR)	Miscellaneous	<ul style="list-style-type: none"> <li>EFR is being used as a 'catch-all' technique for problems, perhaps due partly to issues with Breach and Default noted above.</li> <li>EFR issues can remain outstanding for years at a time, suggesting they are either less material than indicated or are not being addressed effectively.</li> <li>The change mechanism is rarely if ever used to address perceived inadequacies with the PAF.</li> <li>The trigger for BCoA is very prescriptively defined in the relevant BSCP, meaning that parties changing agents generally deliberately avoid triggering BCoA. The intentions of the technique might be better realised through better use of a broader set of monitoring data and associated PATs.</li> <li>Education may require reviewing to ensure it is appropriate for NTBMs and for the changes resulting from Smart Metering. Some training should perhaps be mandatory for new entrants.</li> </ul>
Change Mechanism		
Bulk Change of Agent		
Education		