

Phase[Initial Written Assessment](#)[Definition Procedure](#)[Assessment Procedure](#)[Report Phase](#)[Implementation](#)

P393 'Disapplication of Supplier Charge SP01'

Currently over 90% of total Supplier Charges are levied against SP01 'Delivery of Routine Performance Monitoring Reports'. Supplier Charges are intended to charge Parties where they fail to meet certain performance levels, and redistribute such funds to disadvantaged Parties. However, the non-submission of Performance Assurance Reporting and Monitoring System (PARMS) reports does not directly disadvantage other Parties. Therefore, the application of Supplier Charge SP01 does not clearly align to the objective of Supplier Charges.

This Report Phase Consultation for P393 closes:

5pm on Wednesday 30 October 2019

The Panel may not be able to consider late responses.



The BSC Panel initially recommends **approval** of P393

This Modification is expected to impact:

- Suppliers
- All other Trading Parties (except Non-Physical Traders)
- ELEXON as the Balancing and Settlement Code Company (BSCCo)

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About This Document

This is the P393 Draft Modification Report, which ELEXON is issuing for industry consultation on the BSC Panel's behalf. It contains the Panel's provisional recommendations on P393. The Panel will consider all consultation responses at its meeting on 14 November 2019, when it will agree a final recommendation to the Authority on whether or not the change should be made.

There are four parts to this document:

- This is the main document. It provides details of the solution, impacts, costs, benefits/drawbacks and proposed implementation approach. It also summarises the Workgroup's key views on the areas set by the Panel in its Terms of Reference, and contains details of the Workgroup's membership and full Terms of Reference.
- Attachment A contains the P393 Proposal Form.
- Attachment B contains the draft redlined changes to the BSC for P393.
- Attachment C contains the specific questions on which the Panel seeks your views. Please use this form to provide your responses to these questions, and to record any further views/comments you wish the Panel to consider.



Contact

Elliott Harper

020 7380 4302

elliott.harper@elexon.co.uk



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Report Phase Consultation

14 October 2019

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Why Change?

Suppliers incur Supplier Charges if they fail to meet certain performance levels against six PARMS Serials. Supplier Charges are intended to charge Parties where they fail to meet certain performance levels, and redistribute such funds to disadvantaged Parties. However, the non-submission of PARMS reports does not directly disadvantage other Parties. Therefore, the application of Supplier Charge SP01 doesn't clearly align to the purpose of Supplier Charges.

Solution

P393 seeks to set Supplier Charge SP01 to a value of £0 in [BSC Section S Annex S-1 'Performance Levels and Supplier Charges'](#). Historic missing data for which an SP01 Charge is applicable will also revert to zero after the Implementation Date of this Modification.

Impacts & Costs

Suppliers are impacted as they will no longer be required to pay SP01 charges.

Non-Half-Hourly (NHH) and all Trading Parties (except non-Physical Traders) will be impacted by the redistribution of Supplier Charges. Currently, NHH Suppliers receive 90% redistribution and all other Trading Parties (except non-Physical Traders) receive 10% redistribution based on main funding share.

We do not expect there to be any direct market participant implementation costs resulting from this Modification.

Implementation

P393 is proposed for implementation on **27 February 2020** as part of the February 2020 BSC Release.

Recommendation

The BSC Panel initially and unanimously recommends that P393 be **approved** as it better facilitates Applicable BSC Objectives (c) and (d), and should not be progressed as Self-Governance.



What is the Performance Assurance Board (PAB)?

The PAB is a sub-Committee of the BSC Panel, which conducts and administers activities to provide assurance that all participants in the BSC arrangements are suitably qualified and that the relevant standards are maintained.

Background

The Performance Assurance Framework (PAF) is a set of incentive, preventive, detective and remedial techniques the Performance Assurance Board (PAB) uses to assess whether there are any active issues or risks in the market that may impact the integrity of Settlement. The PAF provides the PAB with the ability to monitor and manage BSC Party and Party Agent performance against the requirements and obligations outlined in the BSC.

ELEXON is currently undertaking a review of the PAF 'the PAF Review', which is seeking to ensure the PAF meets the current and future assurance needs of the GB Balancing and Settlement market. Market participants are engaged in such review through [BSC Issue 69 'Performance Assurance Framework Review'](#).

Overall, the PAF Review is seeking to make recommendations of how the PAF can be improved, which can be implemented through BSC Changes (Modifications and Change Proposals), or other means that do not require BSC Changes as appropriate.

The PAF Review has conducted a preliminary review of Supplier Charges, an incentive Performance Assurance Technique (PAT). The conclusion of the review, as described in paper [PAB/220/12](#), was that Supplier Charges is a useful assurance technique that warrants a full review of all its elements.

A further conclusion was that the PAB should consider raising a Modification to refocus Supplier Charges on losses from underperformance in the short term and that this should be progressed prior to the full technique review. The PAB approved the proposed solution described here in paper [PAB/222/15](#).

The Performance Assurance Reporting and Monitoring System

As part of the PAF, a set of PATs are used to help mitigate the Settlement Risks. The PARMS is a database containing information about how Suppliers and their Supplier Agents are performing. The data from PARMS supports PAF techniques of Performance Monitoring, Peer Comparison and Supplier Charge techniques, and provides such data for reporting purposes to Parties for information, and to the PAB for information. Further, data from PARMS supports the BSC Audit and we periodically provide information to the BSC Panel and other Panel Committees or Modification groups.

PARMS data is provided in reports referred to as Serials. A Serial is a defined area for measuring a Supplier or Supplier Agents' performance against key industry processes. The majority of PARMS Serials are submitted by Supplier Agents.

The table below shows the six PARMS Serials and Standards for which Supplier Charges are incurred in instances of underperformance.



What is a Settlement Risk?

A Settlement Risk is a risk of any failure or error in a step or process required under the BSC (including in each case a risk which has materialised as an actual failure or error) for the purpose of effecting Settlement or otherwise required in connection with Settlement according to the provisions of the BSC.

Settlement Risks are outlined in the Settlement Risk Register (SRR)

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Serial	Serial Description	Standard
SP01	Delivery of Routine Performance Monitoring Reports	Zero Working Days that a full set of PARMS Reports has not been submitted into PARMS
SP02	Delivery of Routine Performance Monitoring Logs	Zero Working Days that Drill Down or Ad-Hoc data has not been submitted to the Performance Assurance Administrator (PAA)
SP04	Installation of Half Hourly (HH) Metering	Zero Calendar Days where a mandatory HH Meter has not been installed
SP08a	Percentage of Non-Half Hourly (NHH) Energy Settled on Annual Advances	R3 – 80% RF – 97%
SP08b	Percentage of HH Energy Settled on Actual Readings	SF – 99% R1 – 99%
SP08c	Percentage of non-mandatory HH Energy Settled on Actual Readings	RF – 99%

Supplier Charges are applied based on underperformance by Supplier ID, Reporting Period (Calendar Month) and Grid Supply Point (GSP) Group. Supplier Charges levied against Serial SP01 are applied to encourage submission of PARMS reports.

As part of the PARMS process, Suppliers have to let PARMS know which PARMS Serials to expect from which of their Agents and GSP Group. Suppliers do this by submitting a Data Provider Information (DPI) file to the PARMS by the 15th Working Day (WD) of each month, for the relevant Reporting Period. Once received, PARMS will expect only the PARMS Serials from the Agents named in the DPI.

Suppliers will incur a SP01 charge for each day data remains outstanding, until all data as expected from the DPI file is provided. If a Supplier fails to submit a DPI, the database will count all Serials as outstanding for the Reporting Period. This means that the Supplier will incur incompleteness SP01 charges in each GSP Group until a DPI is received to correct it.

Capped/uncapped Supplier Charges

The PARMS database calculates the total Supplier Charges due each calendar month. A cap limits each Supplier's total monthly Supplier Charge for a GSP Group, reflective of the Supplier's 'active import energy' market share. This limits each Party's liability in any one reporting period. A GSP Group monthly liability cap is calculated based on its annual energy take for the previous financial year. A Supplier's monthly liability cap is calculated based on its total active import energy in the reporting period within each GSP Group.

ELEXON have visibility of both capped and uncapped charges, though a Supplier will only receive their capped charges.

Because of the significant growth of the SP01 charges, a Supplier's capped limit is often substantially below the total charge apportioned to them. This means that even significant performance improvements (e.g. for SP08) mean a Supplier is still over its cap due to SP01, and so is liable to its total capped amount.

What is the issue?

Supplier Charges are the liquidated damages that Suppliers incur if they fail to meet certain performance levels against six PARMS Serials. Supplier Charges are intended to charge Parties where they fail to meet certain performance levels, and redistribute such funds to disadvantaged Parties. This is regarded as a remedial PAT. However, the non-submission of PARMS reports does not directly disadvantage other Parties. Therefore, the application of Supplier Charge SP01 doesn't clearly align to the objective of Supplier Charges.

Currently, over 90% of total Supplier Charges are levied against serial SP01. This strongly suggests that this charge is not effective in acting as an incentive and masks the actual performance measures (e.g. Serials SP08) that comprise the compensation, which is the focus of this technique. SP01 related charges are cumulative and we have therefore seen them grow exponentially. The associated uncapped charges have risen from £2.5m per month in August 2017 to £6.8m in April 2019.

The full review of Supplier Charges began on 15 August 2019 and ELEXON aims to present recommendations to the PAB in December 2019. If approved, BSC Changes necessary to enact the recommendations will subsequently be raised. Modifications will typically take six to eight months to progress to final decision, with implementation timescales following. By this time, uncapped SP01 charges could be in excess of £14m per month and represent 97% of total Supplier Charges, further undermining the intent of Supplier Charges. Whilst Suppliers aren't exposed to this level of charge, it does demonstrate that the SP01 charge is masking the effectiveness of other Supplier Charges.

Resolving this issue would refocus Supplier Charges on the performance-related measures, which directly impact Settlement.

Proposed solution

This Modification proposes to set the SP01 charge to zero, which will involve an amendment to paragraph 3.6 of [BSC Section S Annex S-1](#). Further, a routine operational amendment to the parameters within the PARMS system will be required.

The value of £0 will be applied to the next Supplier Charge period, after the Modification (if approved) is implemented. Therefore, historic missing data for which an SP01 Charge is applicable will also revert to zero after the Implementation Date of this Modification. For the avoidance of doubt, Supplier Charges already reconciled will not be retrospectively amended.

This Modification rectifies the issue previously outlined, as it will ensure Supplier Charges are refocussed on charging Parties where they fail to meet certain performance levels more related to Settlement performance, and redistribute such funds to disadvantaged Parties.

The PAF Review data provision work stream, as part of the wider PAF Review, will continue to consider PARMS Serials more generally, and the ongoing Supplier Charge review will review the methodology used to apply appropriate Supplier Charges. Any subsequent recommendations will need progressing and implementing through a subsequent Modification or Change Proposal. This Modification will deliver a 'quick-win'.

In the interim, should ELEXON and the PAB believe the submission of PARMS Serials is not at the level required for some Parties, other PATs could be deployed, for example Error and Failure Resolution (EFR).

Some Parties may not receive the same levels of payment from the redistribution of Supplier Charges following the implementation of this Modification. However, as identified under the Issue section of this Modification Proposal, Supplier Charge SP01 does not align to the purpose of Supplier Charges.

Applicable BSC Objectives

This Modification will better facilitate Applicable BSC Objectives (c) and (d) compared to the current baseline.

(c) Promoting 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.

The intention of Supplier Charges as a PAT is to redistribute charges due to those who suffer loss due to others failure to meet performance levels, and such loss has not been directly incurred for the SP01 Serial with its current calculation methodology. This Modification will refocus the technique on this original intention. Therefore, this Modification is positive against BSC Objective (c) by mitigating the competition dis-benefit from the existing SP01 Supplier Charge not delivering benefits that align to the principle of Supplier Charges.



What are the Applicable BSC Objectives?

(a) The efficient discharge by the Transmission Company of the obligations imposed upon it by the Transmission Licence

(b) The efficient, economic and co-ordinated operation of the National Electricity Transmission System

(c) Promoting 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

(d) Promoting efficiency in the implementation of the balancing and settlement arrangements

(e) Compliance with the Electricity Regulation and any relevant legally binding decision of the European Commission and/or the Agency [for the Co-operation of Energy Regulators]

(f) Implementing and administering the arrangements for the operation of contracts for difference and arrangements that facilitate the operation of a capacity market pursuant to EMR legislation

(g) Compliance with the Transmission Losses Principle

(d) Promoting efficiency in the implementation of the balancing and settlement arrangements.

Removing the SP01 portion of Supplier Charges will focus the technique to be on the Settlement performance Serials, whereby Suppliers are charged for failing to meet the standards of percentage of energy settled on actual metered data for the Half Hourly and Non-Half Hourly markets. This will ensure the Supplier Charges technique is efficient in managing Settlement Risk.

PAB Endorsement

An update on the PAF review, with particular focus on addressing the SP01 Supplier Charge was presented to the PAB at its meeting on 25 July 2019 [PAB/222/15](#). This paper described the options, including pros and cons, for addressing Supplier Charge SP01, ahead of the main Supplier Charges review due to conclude at the end of 2019.

The PAB agreed that the SP01 charge should be set to zero through a BSC Modification. At its meeting on 26 September 2019, the PAB **unanimously** recommended to the Panel that this Modification be raised in accordance with [BSC Section Z 'Performance Assurance'](#) 8.2.

Self-Governance

This Modification Proposal should not be progressed under the Self-Governance arrangements as it could materially impact Self-Governance criterion:

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

Whilst the SP01 charge is not a payment, rather a redistribution, we understand some Parties significantly benefit from SP01 payments. Therefore, there is a possibility that the disapplication of the SP01 charge could materially impact a Supplier's commercial activity.

Report Phase Consultation Question

Do you agree with the Panel's initial view that P393 should not be treated as a Self-Governance Modification?

[The Panel invites you to give your views using the response form in Attachment C](#)

Estimated central implementation costs of P393

The Central implementation costs to amend documentation and internal working practises for this Modification will be approximately £3120.

Indicative industry costs of P393

We do not expect there to be any direct market participant implementation costs resulting from this Modification Proposal.

P393 impacts

Impact on BSC Parties and Party Agents	
Party/Party Agent	Potential Impact
Suppliers	Suppliers are impacted as they will no longer be required to pay SP01 charges. Suppliers that currently receive the re-distribution of Supplier charges will no longer receive such funds.
All Trading Parties except non-Physical Traders	Under the Code, 90% of Supplier Charges collected are redistributed to NHH Suppliers, with the remaining 10% distributed across all Trading Parties based on main funding share, with the exception of Non-Physical Traders. Therefore, all other Trading Parties (except Non-Physical Traders) are impacted by the redistribution of SP01 Supplier Charges.

Impact on the National Electricity Transmission System Operator (NETSO)
No impacts anticipated.

Impact on BSCCo	
Area of ELEXON	Potential Impact
Operations	The Operations department will need to update internal working procedures and guidance documentation published on the BSC Website.

Impact on BSC Settlement Risks
Whilst there is no direct impact on any particular BSC Settlement Risk from this Modification, its implementation will positively impact the effectiveness of the PAF through the Supplier Charges PAT. This is because Supplier Charges will be refocussed on the performance-related measures, which directly impact Settlement.

Impact on BSC Systems and processes

BSC System/Process	Potential Impact
PARMS	The SP01 charge parameter in the PARMS system will need to be changed to zero, to implement this solution on the Implementation Date (once approved). This will be achieved as a routine 'business as usual' process. The wider Supplier Charge calculation process will not be affected.

Impact on BSC Agent/service provider contractual arrangements

BSC Agent/service provider contract	Potential Impact
There is no impact on BSC Agent/service provider contractual arrangements resulting from this Modification Proposal.	

Impact on Code

Code Section	Potential Impact
BSC Section S Annex S-1 'Performance Levels and Supplier Charges'	The Legal Text for BSC Section S Annex S-1 will need to be amended to give effect to the solution.

Impact on Code Subsidiary Documents (CSDs)

CSD	Potential Impact
There are no CSDs requiring amendment to implement this Modification Proposal. SP01 Supplier Charge provisions will remain in the BSC and its subsidiary documents, but the charge will be set to zero.	

Impact on other Configurable Items

Configurable Item	Potential Impact
No impacts on other BSC Configurable Items.	

Impact on Core Industry Documents and other documents

Document	Potential Impact
Ancillary Services Agreements	No impacts identified.
Connection and Use of System Code	
Data Transfer Services Agreement	
Distribution Code	

Impact on Core Industry Documents and other documents

Document	Potential Impact
Distribution Connection and Use of System Agreement	
Grid Code	
Master Registration Agreement	
Supplemental Agreements	
System Operator-Transmission Owner Code	
Transmission Licence	
Use of Interconnector Agreement	

Impact on a Significant Code Review (SCR) or other significant industry change projects

We do not expect this Modification to impact any ongoing SCR. We sent the request for SCR exemption to the authority on 3 October 2019.

Impact on Consumers

We do not anticipate there to be any direct impacts on consumers resulting from this Modification Proposal.

Impact on the Environment

We do not anticipate there to be any direct impacts on the environment resulting from this Modification Proposal.

Report Phase Consultation Questions

Will P393 impact your organisation?

If 'Yes', please provide a description of the impact(s) and any activities which you will need to undertake between approval of P393 and the P393 Implementation Date (including any necessary changes to your systems, documents and processes) and any on-going operational impacts.

Will your organisation incur any costs in implementing P393?

If 'Yes', please provide details of these costs, how they arise and whether they are one-off or on-going costs. Please also state whether it makes any difference to these costs whether P393 is implemented as part of or outside of a normal BSC Systems Release.

The Panel invites you to give your views using the response form in Attachment C

6 Implementation

Implementation approach

Due to the minimal changes required to implement this Modification, it should be implemented in a manner that will ensure the benefits can be realised at the earliest opportunity.

Recommended Implementation Date

The BSC Panel initially recommends an Implementation Date for P393 of:

- 27 February 2020 as part of the February 2020 BSC Release, if the Authority's decision is received on or before 3 January 2020.

Report Phase Consultation Question

Do you agree with the Panel's recommended Implementation Date?

The Panel invites you to give your views using the response form in Attachment C

Upon the PAB's recommendation to the Panel to raise P393 in accordance with BSC Section Z 8.2, we presented the 'Request to raise new BSC Modification' paper to the Panel at its meeting on 10 October 2019. Upon the Modification being raised, the paper became its Initial Written Assessment as published on the [P393 webpage](#).

A Panel member questioned whether it would be more efficient to remove the Supplier Charge levels from the BSC itself and place them into a CSD. ELEXON clarified that this Modification is a quick win, in advance of the Wider PAF Review recommendations, and as such simply setting the charge to zero is the most efficient means of progressing this particular Modification. ELEXON clarified the PAF Review is assessing Supplier Charges more generally and may consider where these charges are outlined in the BSC Framework as part of its review.

A Panel member highlighted the support from the PAB on P393, and agreed with the rationale behind P393 that Supplier Charges should focus on performance matters that impact Settlement. The Panel member reiterated that, due to the high levels of SP01 charge (approx. 90% total Supplier Charges), the PAT is not delivering its intent.

The Panel member added a concern regarding the level of resource required to produce PARMS reports and questioned whether PARMS is included within the PAF Review. ELEXON confirmed that, whilst Supplier Charge SP01 will be set to zero, the obligation to submit such reports remains. ELEXON is able to analyse the submission of reports, and has other techniques available to ensure Parties submit such reports. ELEXON added that the PAF review project will consider the PARMS technique.

A Panel member questioned whether the exponential growth of Supplier Charges was primarily due to SP01. ELEXON confirmed that SP01 charges have exponentially increased whilst other Supplier Charges have remained relatively constant. Since August 2016, with the exclusion of SP01 charges, the monthly Supplier Charge level would have remained below the monthly cap. ELEXON added that the majority of SP01 charges are attributable to small-medium sized Suppliers.

A Panel member questioned whether an alternative option to incentivise performance would be to remove the Supplier Charge cap. The Panel member also questioned whether the issue with Supplier charges in general is the redistribution of funds, rather than the use of the charge to incentivise performance. The Panel member suggested that funds could be redistributed to Parties that submit reports on-time, rather than by market share. ELEXON advised that the PAF Review will investigate Supplier Charges as part of its PAT Review work stream. ELEXON clarified P393 is a 'quick win' solution until the PAF Review makes further outcomes and recommendations (where applicable).

The Panel **unanimously**:

- **RAISED** P393 (in accordance with F2.1.1(d)(vi));
- **AGREED** that P393 progresses directly to the Report Phase;
- **AGREED** that P393:
 - **DOES** better facilitate Applicable BSC Objective (c); and
 - **DOES** better facilitate Applicable BSC Objective (d);
- **AGREED** an initial recommendation that P393 should be **approved**;

- **AGREED** an initial Implementation Date for P393 of:
 - **27 February 2020** as part of the February 2020 BSC Release, if an Authority decision is received by 3 January 2020;
- **AGREED** the draft legal text;
- **AGREED** an initial view that P393 should not be treated as a Self-Governance Modification; and
- **NOTED** that ELEXON will issue the draft Modification Report (including the draft BSC legal text) for a 13 Working Day consultation and will present the results to the Panel at its meeting on 14 November 2019.

Report Phase Consultation Questions

Do you agree with the Panel's initial unanimous recommendation that P393 should be approved?

Do you agree with the Panel that the redlined changes to the BSC deliver the intention of P393?

Do you have any further comments on P393?

The Panel invites you to give your views using the response form in Attachment C

8 Recommendations

The BSC Panel initially recommends to the Authority:

- That P393 should be **approved**;
- An Implementation Date for P393 of:
 - 27 February 2020 if an Authority decision is received on or before 3 January 2020; and
- The draft BSC legal text for P393.

Appendix 1: Glossary & References

Acronyms

Acronyms used in this document are listed in the table below.

Acronym	
Acronym	Definition
BSC	Balancing and Settlement Code
BSCCo	Balancing and Settlement Code Company
CSD	Code Subsidiary Document
DPI	Data Provider Information
EFR	Error and Failure Resolution
GSP	Grid Supply Point
IWA	Initial Written Assessment
NETSO	National Electricity Transmission System Operator
NHH	Non-Half Hourly
PAB	Performance Assurance Board
PAF	Performance Assurance Framework
PARMS	Performance Assurance Reporting and Monitoring System
PAT	Performance Assurance Technique
SCR	Significant Code Review
WD	Working Day

External links

A summary of all hyperlinks used in this document are listed in the table below:

All external documents and URL links listed are correct as of the date of this document.

External Links		
Description	URL	Page
BSC Section S Annex S-1	https://www.elexon.co.uk/the-bsc/bsc-section-s-annex-s-1-performance-levels-and-supplier-charges/	3, 7
Issue 69	https://www.elexon.co.uk/smg-issue/issue-69/	4
PAB Meeting 220	https://www.elexon.co.uk/meeting/pab220/	4
PAB Meeting 222	https://www.elexon.co.uk/meeting/pab222/	4, 9
BSC Section Z	https://www.elexon.co.uk/the-bsc/bsc-section-z-performance-assurance-3/	9
BSC Modification P393	https://www.elexon.co.uk/mod-proposal/p393/	13