

## Initial ASSESSMENT CONSULTATION for Modification Proposal P207

# 'Introduction of a New Governance Regime to Allow a Risk Based Performance Assurance Framework (PAF) to be Utilised and Reinforce the Effectiveness of the Current PAF'

Prepared by: P207 Modification Group

**For attention of:** BSC Parties and other interested parties  
**Responses due:** **12 noon on 8 December 2006**  
(to: [modification.consultations@elexon.co.uk](mailto:modification.consultations@elexon.co.uk))

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This document has been distributed in accordance with Section F2.1.10 of the Balancing and Settlement Code.<sup>1</sup>

**Proposed Modification P207** seeks to introduce new governance arrangements to allow a risk based Performance Assurance Framework (PAF) to be utilised under the Balancing and Settlement Code (BSC). P207 looks to introduce Supplier Volume Allocation (SVA) Assurance objectives to define the purpose of the assurance arrangements. P207 suggests that under the new arrangements two Panel Committees would be in operation; one committee would deal with risk evaluation and its role would be to identify, assess and prioritise risks; and the other committee would be responsible for risk assurance and would operate the PAF by choosing how to deploy assurance techniques against those risks identified by the risk evaluation committee. These committees would be formed from independent experts.

### **PURPOSE OF CONSULTATION**

This consultation seeks respondents' initial views around some of the discussions of the P207 Modification Group to further inform the Modification Group's development of the Proposed Modification solution.

**You are invited to provide a response to the questions contained in the attached pro-forma.**

Please send responses, entitled 'P207 Assessment Procedure Consultation', by **12 noon on 8 December 2006** to the following e-mail address: [modification.consultations@elexon.co.uk](mailto:modification.consultations@elexon.co.uk).

Any queries on the content of the consultation pro-forma should be addressed to Katie Wilkinson (020 7380 4376), e-mail address [Katie.Wilkinson@elexon.co.uk](mailto:Katie.Wilkinson@elexon.co.uk).

<sup>1</sup> The current version of the Code can be found at <http://www.elexon.co.uk/bscrelateddocs/BSC/default.aspx>.

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## SUMMARY OF IMPACTED PARTIES AND DOCUMENTS

As far as the Modification Group has been able to assess, the following parties/documents would be impacted by P207.

Parties	Sections of the BSC	Code Subsidiary Documents
Distribution System Operators <input checked="" type="checkbox"/>	A <input type="checkbox"/>	BSC Procedures <input checked="" type="checkbox"/>
Generators <input type="checkbox"/>	B <input checked="" type="checkbox"/>	Codes of Practice <input type="checkbox"/>
Interconnectors <input type="checkbox"/>	C <input checked="" type="checkbox"/>	BSC Service Descriptions <input checked="" type="checkbox"/>
Licence Exemptable Generators <input checked="" type="checkbox"/>	D <input checked="" type="checkbox"/>	Party Service Lines <input checked="" type="checkbox"/>
Non-Physical Traders <input type="checkbox"/>	E <input type="checkbox"/>	Data Catalogues <input type="checkbox"/>
Suppliers <input checked="" type="checkbox"/>	F <input type="checkbox"/>	Communication Requirements Documents <input type="checkbox"/>
Transmission Company <input type="checkbox"/>	G <input type="checkbox"/>	Reporting Catalogue <input type="checkbox"/>
<b>Party Agents<sup>2</sup></b>		
Data Aggregators <input checked="" type="checkbox"/>	H <input checked="" type="checkbox"/>	<b>Core Industry Documents</b>
Data Collectors <input checked="" type="checkbox"/>	I <input type="checkbox"/>	Ancillary Services Agreement <input type="checkbox"/>
Meter Administrators <input checked="" type="checkbox"/>	J <input checked="" type="checkbox"/>	British Grid Systems Agreement <input type="checkbox"/>
Meter Operator Agents <input checked="" type="checkbox"/>	K <input type="checkbox"/>	Data Transfer Services Agreement <input type="checkbox"/>
ECVNA <input type="checkbox"/>	L <input checked="" type="checkbox"/>	Distribution Codes <input type="checkbox"/>
MVRNA <input type="checkbox"/>	M <input type="checkbox"/>	Distribution Connection Agreements <input type="checkbox"/>
<b>BSC Agents</b>		
SAA <input type="checkbox"/>	N <input type="checkbox"/>	Distribution Use of System Agreements <input type="checkbox"/>
FAA <input type="checkbox"/>	O <input type="checkbox"/>	Grid Code <input type="checkbox"/>
BMRA <input type="checkbox"/>	P <input type="checkbox"/>	Master Registration Agreement <input type="checkbox"/>
ECVAA <input type="checkbox"/>	Q <input type="checkbox"/>	Supplemental Agreements <input type="checkbox"/>
CDCA <input type="checkbox"/>	R <input type="checkbox"/>	Use of Interconnector Agreement <input type="checkbox"/>
TAA <input checked="" type="checkbox"/>	S <input checked="" type="checkbox"/>	<b>BSCCo</b>
CRA <input type="checkbox"/>	T <input type="checkbox"/>	Internal Working Procedures <input checked="" type="checkbox"/>
SVAA <input type="checkbox"/>	U <input type="checkbox"/>	<b>BSC Panel/Panel Committees</b>
Teleswitch Agent <sup>2</sup> <input type="checkbox"/>	V <input type="checkbox"/>	Working Practices <input checked="" type="checkbox"/>
BSC Auditor <input checked="" type="checkbox"/>	W <input type="checkbox"/>	<b>Other</b>
Profile Administrator <sup>2</sup> <input type="checkbox"/>	X <input checked="" type="checkbox"/>	Market Index Data Provider <input type="checkbox"/>
Certification Agent <sup>3</sup> <input checked="" type="checkbox"/>		Market Index Definition Statement <input type="checkbox"/>
<b>Other Agents<sup>2</sup></b>		
Supplier Meter Registration Agent <input checked="" type="checkbox"/>		System Operator-Transmission Owner Code <input type="checkbox"/>
Unmetered Supplies Operator <input checked="" type="checkbox"/>		Transmission Licence <input type="checkbox"/>
Data Transfer Service Provider <input checked="" type="checkbox"/>		

<sup>2</sup> The Teleswitch Agent and Profile Administrator are not currently subject to Performance Assurance techniques, but could be in the future if the activities that they carry out are deemed to be an 'at risk' area of the market.

<sup>3</sup> Note that the Certification Agent will cease to exist nine months after the implementation of Approved Modification P197. A Qualification Service Provider will be in place following the Implementation Date of P197 to deliver the Qualification Service.

## 1 EXECUTIVE SUMMARY

The key conclusions of the P207 Modification Group ('the Group') to date are outlined below.

The Group:

- **AGREED** by **MAJORITY** the high level process for P207 as set out in the attachment to the P207 Modification Proposal with some minor amendments, including the addition of the requirement for a consultation on the Risk Evaluation Group (REG) methodology for determining risks, an annual, and where necessary, ad hoc consultation on the Risk Evaluation Register and a mechanism whereby participants can query and then appeal (the later being Parties only) their Risk Management Plans;
- **AGREED** by **SLIGHT MAJORITY** that the REG will be a Panel Committee comprised of independent industry experts;
- **AGREED** by **MAJORITY** that the REG should be able to recommend to the Panel that Modification Proposals be raised in the area of Performance Assurance. This would mean that the Panel would have the authority to raise Modification recommended by the REG;
- **AGREED** by **MAJORITY** that the Performance Assurance Board (PAB) should be disbanded and a new Panel Committee, the Risk Assurance Board (RAB) appointed. The RAB would be responsible for applying Performance Assurance techniques on a risk basis and managing the outcome of those techniques;
- **AGREED** by **MAJORITY** that the RAB will be a Panel Committee comprised of independent industry experts but the RAB would not be able to recommend that Modifications in the area of Performance Assurance should be raised to the Panel, other than through the REG;
- **AGREED** by **MAJORITY** that CVA Assurance would fall under the remit of P207, but in practice the application of Performance Assurance techniques in CVA areas would not change;
- **AGREED** that there would need to be a transition and handover following the Implementation of P207 from the existing governance arrangements under the PAB to the new governance arrangements under the REG and the RAB;
- **AGREED** that P207 would not remove any existing non-compliances even in areas of low risk, but Performance Assurance techniques may be applied differently to these areas following the implementation of P207;

A description of the P207 solution is provided in Section 3. Further information regarding the Group's initial discussions of the areas set out in the P207 Terms of Reference is contained in Section 4. A copy of the Group's full Terms of Reference can be found in [Appendix 1](#).

## 2 CURRENT PROCESS

The BSC sets out each of the basic PAF techniques and places an obligation on ELEXON as BSCCo to support the PAB in its delivery of these techniques in accordance with the BSC. Each of these techniques aims to ensure that BSC Parties and their agents meet all their obligations under the BSC. The PAF techniques are intended to be either preventative, detective or corrective in nature, reflecting the method of operation. These techniques are summarised in the following table:

<b>PREVENTATIVE</b>	<b>DETECTIVE</b>	<b>CORRECTIVE</b>
Accreditation and Certification <sup>4</sup>	Technical Assurance of Metering Systems	Peer Comparison
Entry Process <sup>4</sup>	BSC Audit	Supplier Charges
Education	Technical Assurance of Suppliers and Supplier Agents Performance Reporting and Monitoring	Error and Failure Resolution

The current PAF and use of these techniques places focus on compliance by participants with all the processes set out under the BSC. There is only very limited ability under the current arrangements to treat those non-compliances that have a large impact on Settlement any differently to those non-compliances that have a negligible impact on Settlement.

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<sup>4</sup> Note that following the implementation of Approved Modification P197 'SVA Qualification Processes Review' on 23 August 2007, Accreditation, Certification and Entry Processes will be replaced by Qualification Processes.

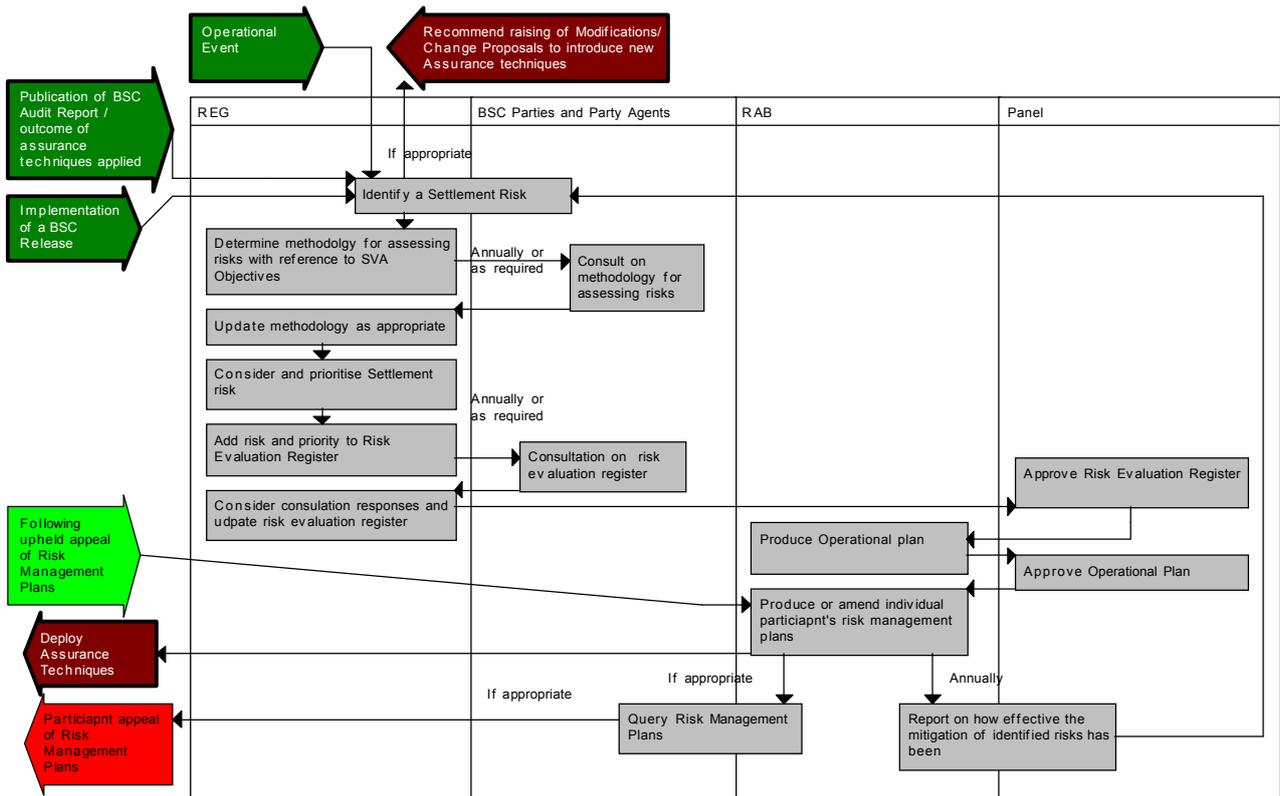
### 3 DESCRIPTION OF MODIFICATION

This section outlines the solution for the Proposed Modification as developed by the Modification Group.

For a full description of the original Modification Proposal as submitted by energywatch ('the Proposer'), please refer to the P207 Initial Written Assessment (IWA).

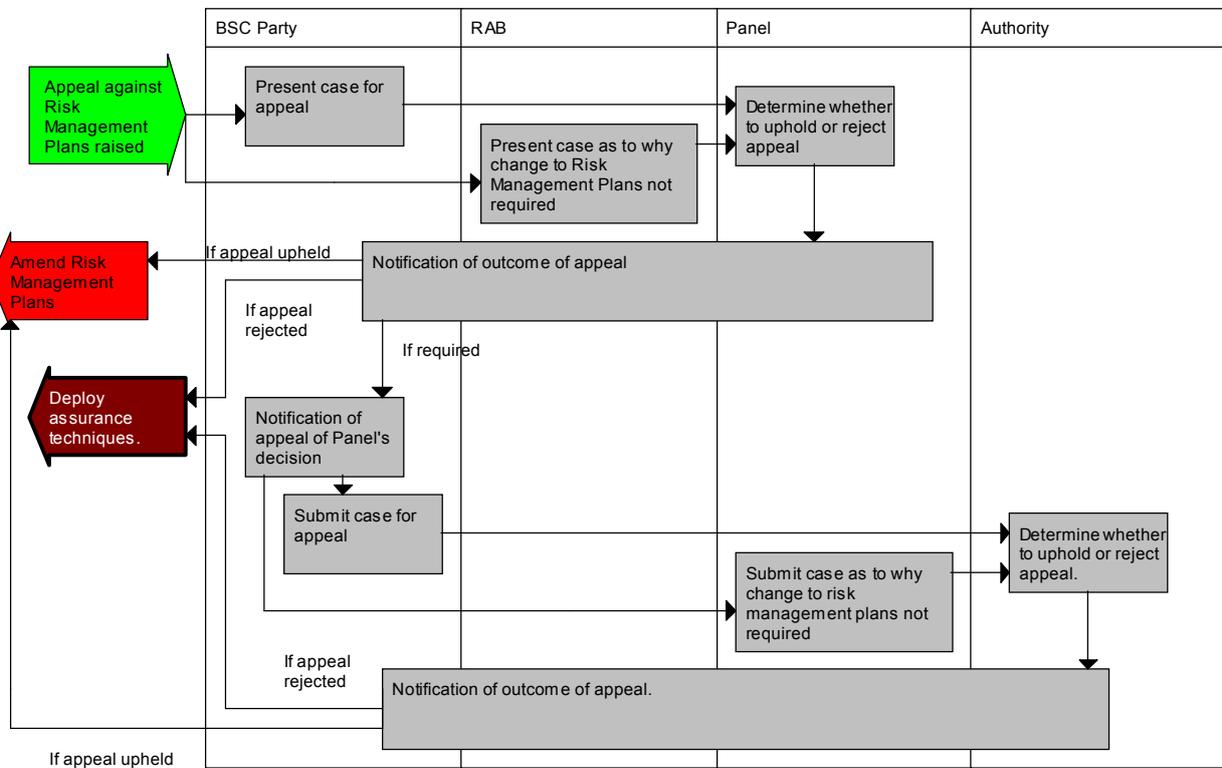
#### 3.1 Process diagrams

##### 3.1.1 Risk Evaluation and Assessment Process



### 3.1.2 Appeals Process

Note that this process assumes that the Party has already been through the query process with the RAB.



## 3.2 Risk Evaluation and Assessment Process

### 3.2.1 Identification of Risks

Following the Implementation of P207 a Risk Evaluation Register will be formed (the first draft of which will be formed in line with the process described below). This could be a spreadsheet and will detail the areas in the CVA and SVA market that are perceived to be risky. In the SVA Market the significance of the risk will be determined with reference to the following two SVA Assurance Objectives:

- Energy is allocated efficiently and equitably between Suppliers, to an acceptable level of accuracy, that is derived from the aggregated consumption of Metering Systems for which each Supplier is responsible; and
- Participants act as good stewards of Metering System data, delivering efficient and effective transfer of this data between Suppliers and Supplier hubs and supporting the equitable allocation of energy.

In the CVA market, the concept will be that the significance of the risk will be deemed to be high (by being written into the Code).

Additions to the first and subsequent Risk Evaluation Registers can be suggested for consideration by the Risk Evaluation body by BSC Parties, Party Agents, BSC Agents, ELEXON or other interested bodies at any point in time, e.g. via email to ELEXON. However, it is thought that the vast majority of risks will be identified through the Implementation of approved changes in a BSC Release or outcomes of any previously applied techniques e.g. the publication of a BSC Audit Report.

A new Panel Committee, called the Risk Evaluation Group (REG) will be formed, whose task it will be to draft the first version of the Risk Evaluation Register and determine the significance of the risks to Settlement. Over time, the REG will then identify and / or consider any risks that are proposed for addition to the register. The REG will determine whether new risks should be added to the Risk Evaluation Register, and the significance that should be associated with the risk. The REG will also carry out a review of the risks contained within the register. Prior to considering any actual risks, including prior to creating the first draft of the Risk Evaluation Register, the REG will determine the methodology that it will use to assess the risks and determine the significance of the risks.

On an annual basis, the REG will consult with Parties, Party Agents, BSC Agents and other interested bodies on the methodology used to assess risks. The REG will take into account any comments received from this consultation to make appropriate changes to the methodology that it uses to assess the risks. The REG will then use the methodology to identify and / or evaluate risks which would be added to the Risk Evaluation Register and will issue the Risk Evaluation Register for consultation to Parties, Party Agents, BSC Agents and other interested bodies. The REG will consider the consultation responses submitted in relation to the Risk Evaluation Register and will provide the final version of the Risk Evaluation Register to the Panel for approval.

The REG will also be able to consult with Parties, Party Agents, BSC Agents and other interested bodies on an ad hoc basis during the rest of the year, if the REG feels that a newly identified risk is of a significant enough nature to be consulted upon. This consultation will be focused on the particular risk(s) to be added to the Risk Evaluation Register; however, participants would be able comment on any of the other risks in the register, particularly if there is an impact or connection between the new risk and any existing risks. In this scenario, the Panel would not be asked to approve the changes to the Risk Evaluation Register until the annual approval process at the end of the year. It is envisaged that there would be few consultations of this nature as significant risks are only likely to be introduced by changes to the BSC Arrangements (which are generally delivered three times a year) and the receipt of a BSC Audit Report (generally delivered once a year). Note also that the REG can update the register whenever it feels it to be appropriate throughout the rest of the year without consulting the rest of the industry or asking that the Panel approve the changes.

### **3.2.2 Determination of Techniques to be used to mitigate risks**

Once a year, when the Panel has approved the complete Risk Evaluation Register, the Risk Assurance Board (RAB) will consider the risks and their materiality and produce an Operating Plan for the forthcoming year. The Operating Plan will detail the Performance Assurance techniques (from the suite of existing Performance Assurance techniques) that will be applied over the course of the year to mitigate each individual risk. Note that there may be more than one technique applied to mitigate against each risk and some techniques may only be applied dependent on the results of other techniques. The Code will require that the RAB determines that CVA processes are subject to a full compliance Audit under the BSC Audit and Technical Assurance of Metering System checks in the same way as they are currently. All other PAF techniques will remain applicable to CVA systems and processes to the extent that they are currently defined, for example Accreditation and Certification of CVA MOAs. Individual participants and the techniques to be applied to them would not be named in this report, although the RAB may use risks that have been highlighted at particular participants to inform its production of the Operating Plan. The Operating Plan will also include an estimate of the costs of providing assurance over the forthcoming year. Once the RAB had formed its Operating Plan, it will ask the Panel to approve this plan. If the Risk Evaluation Register is updated over the course of the year, the RAB will consider the additional risks and the techniques that it will use to mitigate these risks. It will update its Operating Plan appropriately; however it would not ask the Panel to approve these changes to the Operating Plan until the following annual report is produced.

Once the Operating Plan has been agreed by the Panel, the RAB would produce individual Risk Management Plans for each Participant. This would detail the risks that are relevant to each participant (with an explanation about how the RAB came to that decision) and the techniques that are going to be applied to

the participant over the course of the next year (selected from the Operating Plan), to mitigate against those risks. The Risk Management Plans would not impose specific resolution actions on participants, although they may state that the Performance Assurance technique to be applied in respect of a risk at a particular participant is the Error and Failure resolution process. In this case participants would be expected to describe how they intend to resolve the risk in the same way as they currently do.

The RAB would determine the risks that are relevant to each participant by looking at the extent to which the risks highlighted in the Risk Evaluation Register existed at that participant. The way that the RAB determines the risks that are relevant to each participant would be at the discretion of the RAB, but could be based on:

- The participant's dimensions and portfolio of Metering Systems;
- An assessment of the participant's performance history; and
- Knowledge of the relevant control arrangements in place at the participant for each SVA process risk.

Note that it is not intended that these criteria are included in the Code or formally documented as the criteria would be set by the RAB as appropriate. This information would be obtained from current market knowledge and the findings of any previously applied assurance techniques. It is envisaged that the majority of techniques will be common to each type of participant; however, if the RAB believes that a particular participant creates more risk than other similar participants in a particular area, then the RAB may determine a technique to be applied to that participant (from the Operating Plan). The RAB must have evidence to support its view that a specific participant presented an additional or significantly greater risk before applying additional techniques (e.g. from the application of previous Performance Assurance techniques). The RAB's Terms of Reference will state that it should act impartially to ensure that Parties are treated fairly and so as not to discriminate against any Party.

### **3.2.3 Query of Risk Management Plan**

If the participant disagreed with the Risk Management Plan in that:

- it did not feel that it was performing in such a way to have the particular risk identified attached to it and could provide clear evidence to support said claim; or
- the techniques imposed were not listed on the operational plan; or
- the particular technique was not suitable for the participant in question,

then the participant would clarify this with the RAB by the time of the next RAB meeting. Discussions would take place between the participant and the RAB. ELEXON would provide support to the RAB during the production of the Risk Management Plans and also to participants should they wish to discuss or query their Risk Management Plans with the RAB.

If an agreement could not be reached the participant can lodge a formal Query to the RAB within 10 Working Days of the conclusion of the participants and the RAB's discussions. This Query would be in writing and could be made simply on the grounds that the participant (acting reasonably) does not agree with the Risk Management Plan.

The Query would be heard at a formal meeting (i.e. RAB monthly meeting) and the participant raising the Query would be entitled to attend. The RAB would discuss the Query and respond to it formally i.e. by providing a written response.

### **3.2.4 Appeal of Risk Management Plans**

If within 10 Working Days after receipt of a Query Response the participant still disagreed with the RAB over its Risk Management Plan, a Party could lodge an appeal with the Panel. It would only be open for an

affected Party to lodge and appeal. If an affected participant was a Party Agent and it was still in disagreement with the RAB then it would have to seek support from an associated Supplier (who shares the 'risk' and associated Performance Assurance technique) to appeal to the Panel on its behalf. The grounds for appeal to the Panel would be:

- If the Party reasonably believes or is advised that the decision of the RAB will or is likely to unfairly prejudice the interests (including both commercial or BSC interests (however BSC interests take precedence)) of the Party;
- The RAB has not followed the correct procedures under the Code or CSD;
- The RAB has given undue weight to particular evidence submitted or to the lack of particular evidence submitted; or
- The RAB has misinterpreted all or the some of the evidence submitted.

The Panel will then hear the appeal. This will be at the next available Panel meeting and would be in the closed session of the Panel meeting. The Party raising the Appeal would be able to attend and put forward any representation in support of the appeal, but would not be obliged to attend. The Panel would provide a formal response to the Party in writing as to the outcome of their appeal.

Once the Party has received the response from the Panel, if it disagrees with the decision then within 14 days (calendar days) it can lodge a further appeal to the Authority. The grounds for appeal to the Authority would be:

- The Panel and/or the RAB has not followed the correct procedures under the Code or CSD;
- The Panel and/or the RAB has given undue weight to particular evidence submitted or to the lack of particular evidence submitted;
- The Panel and/or the RAB has misinterpreted all or some of the evidence submitted.

The Authority would determine whether to uphold the appeal or not in its own timescales. If a Participant appealed its Risk Management Plans to the Panel or the Authority, the RAB may not be able to apply some of the risk Assurance Techniques under appeal on that participant until the outcome of the appeal was determined (and if appropriate the timescales for raising the appeal to another body had passed).

### **3.2.5 Application of Performance Assurance Techniques**

Common Performance Assurance techniques would be applied to all participants in the same way and to the same extent. Further assurance techniques would only be applied where a participant significantly contributed to the existence of a risk or issue identified within the Risk Evaluation Register in accordance with the Participants Risk Management Plan and may comprise targeted audits, escalation proceedings or similar.

The RAB would ensure that the application of both common and further assurance techniques would be consistent between participants in similar circumstances. The RAB would apply techniques fairly, consistently and in a non-discriminatory nature.

As each technique is applied, participants' performance would be reported to the RAB via an outcome report<sup>5</sup>. Where the application of a Performance Assurance technique provides further information about a participant's performance this may be used to update that participant's Risk Management Plan (in line with the Operating Plan). This may mean that additional techniques could be applied to a participant throughout the year. Where a participant is found to be failing, and this failing is significant, escalation processes could allow for the RAB and ultimately the BSC Panel to be informed of the participant's poor performance in order

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<sup>5</sup> The term 'outcome report' is used here to refer to the many and various outputs of each Performance Assurance technique, e.g. Technical Assurance non-compliance reports, Peer Comparison Reports, Supplier Charge Reports, etc. In this context, the BSC Auditor's Annual Report is an 'outcome report', as are individual audit issue documents.

that further provisions set out under the BSC may be applied in accordance with the powers of the RAB and the BSC Panel.

If new information is collected about an existing or potential new risk or issue following the application of a Performance Assurance technique, then this would be communicated to the REG for consideration as to whether it should be added to the Risk Evaluation Register. This would be communicated in a non-confidential manner and would not name any specific participants. Any non-confidential report or communication of potential new risks to the REG may also be published on the ELEXON website.

### **3.2.6 Annual Report**

Once a year, the RAB would prepare an annual report for presentation to the Panel and the industry. The report would contain the results of the work performed by the RAB, particularly to what extent assurance had been provided to mitigate against the risks identified in the Risk Evaluation Register. The bulk of the report would be concerned with the findings of the different assurance techniques that had been applied during the period and the results that had been obtained from the application of those techniques. The report would also contain details of the cost of the provision of the assurance framework over the course of the year and how these costs compare to the costs set out originally in the RAB's Operating Plan; any deviations would be explained. This report may also include areas in which the Performance Assurance techniques could be improved, for example via a Modification. The Annual report would be a non-confidential report that may be published on the ELEXON website. It would not contain any participant specific Confidential Information.

### **3.3 Example of the new Risk Based Performance Assurance Process**

An example of how the new process could operate is set out in [Appendix 2](#).

### **3.4 Formation of Panel Committees**

P207 will make use of two new Panel Committees, the Risk Evaluation Group (REG) and the Risk Assurance Board (RAB). These will both be Panel Committees containing independent industry experts in the same way as all other current Panel Committees under the Code. Members would act independently; that is, when appointed to the board by the Panel their role is that of industry expert; members would not represent the interests of their employer.

Meetings of the REG will be held in open session meaning that anyone can come to the meetings, but speak at the invitation of the chairperson. The BSC Auditor or other experts would be invited to attend meetings of the REG as and when required. Ofgem and energywatch (or if appropriate, its successor) will be able to attend meetings of the REG as non-voting members. ELEXON will provide a chair and secretariat to the Group. The Risk Evaluation Group will meet annually and may also meet on an ad hoc basis when new risks are proposed that require discussion by the Group. The REG will have the ability to recommend to the Panel that it raises a Modification in any particular area relating to Performance Assurance that it feels to be appropriate.

Meetings of RAB will be held in closed session, as the matters to be discussed will be confidential. If however, a participant is discussing or querying its Risk Management Plans with the RAB, the participant will have the right to attend the appropriate part of the RAB meeting. If the RAB is discussing a specific participant's performance as a result of the application of a particular Performance Assurance technique, the participant may be invited to attend that meeting of the RAB. The BSC Auditor will be invited to be a non-voting member of the RAB. Ofgem and energywatch (or if appropriate, its successor) will also be able to attend meetings of the RAB as non-voting members. Unlike the REG, the RAB will not be able to recommend to the Panel that it raises a Modification in any particular area relating to Performance Assurance that it feels to be appropriate, but would be able to recommend to the REG via its annual report

or on an ad hoc basis, areas in which it feels that the techniques set out in the Code could be modified. The REG could then recommend to the Panel that appropriate Modifications are raised.

The RAB's Terms of Reference may be similar to the PAB's Term of Reference, as the RAB will be responsible for applying Performance Assurance techniques and managing the outcome of those techniques in a similar way to the PAB currently does, although the RAB will be able to apply those techniques flexibly. The RAB will have the additional requirements in its Terms of Reference for writing the Operating Plan, individual participants Risk Management Plans and the Annual Report. The REG and the RAB would be accountable to the same people as the PAB, i.e. they would be accountable to Trading Parties.

These new Panel Committees would be set up following the Implementation Date of P207. After a transitional period, the Performance Assurance Board (PAB) would be disbanded and the RAB would take responsibility for applying Performance Assurance Techniques and managing the outcome of those techniques.

## **4 AREAS RAISED BY THE TERMS OF REFERENCE**

This section outlines the initial conclusions of the Modification Group regarding the areas set out in the P207 Terms of Reference.

### **4.1 High Level Process**

The Modification Group agreed by majority the high level process for the new governance regime as set out in the attachment to the P207 Modification Proposal with some additions.

The Group agreed that the Risk Evaluation Report should actually be a Risk Evaluation Register to better reflect that it is a living document that can be added to, as and when necessary.

#### **4.1.1 Consultation on Risk Evaluation Register**

The Modification Proposal stated that the REG should consult on the Risk Evaluation Register. The Group agreed that the Risk Evaluation Register should be consulted on once a year. The Group also agreed that if new risks are identified, these should be discussed by the REG, and if the REG agree that they are risks, then these should be added to the Risk Evaluation Register.

The Group discussed whether the Risk Evaluation Register should be consulted upon each time it was updated. A minority of the Group felt that one annual consultation would be enough as participants would not want to be overloaded with consultations where one new risk was added to the Risk Evaluation Register. A number of members of the Group felt that participants should be consulted each time that the register was updated on the basis that any risk identified could lead to further Performance Assurance techniques being applied to one or more participants. These Group members therefore felt that participants should be able to comment on the risk that was to be added to the Risk Evaluation Register. These Group members also noted and agreed with the concern that participants should not be overloaded with consultations.

The majority of Group members felt that, in all likelihood, new risks would only be identified as a result of the implementation of a BSC release (i.e. a change in the rules), which occurs three times a year or the production of an outcome report of a Technical Assurance check or the BSC Audit and suggested that this would lead to one annual consultation on the Risk Evaluation Register and possibly three interim consultations. A majority of the Group felt that this would not be an overburden on participants.

The Group noted that whilst anyone could propose a new risk, all new risks would have to be discussed by the Risk Evaluation Group. Meetings of the REG would be held in open session, meaning that any participant could attend the meeting and speak with the agreement of the chairman if they had a particularly strong view in relation to any particular risk. The Group therefore agreed that the REG should

determine whether to carry out an interim consultation on the Risk Evaluation Register, if the REG felt that it should obtain the industry's views on a particular risk.

The Group discussed whether an interim consultation should be a consultation on the whole Risk Evaluation Register, or whether it should just focus on new or amended risks. A majority of the Group initially felt that an interim consultation should only focus on the areas of the Risk Evaluation Register that had changed, however a minority of the Group felt that new risks would have to be assessed against existing risks. The Group therefore agreed that whilst any interim consultation would focus on the changes to the Risk Evaluation Register, participants would be able to comment on any other aspects of the Register that they felt to be appropriate.

#### **4.1.2 Detail for the Evaluation of Risks**

The Modification Proposal states that the REG would be responsible for defining the process that it would then use to identify and evaluate risks. The Group discussed whether it was content with leaving the development of how the risks would be evaluated to the REG. Some members of the Group were comfortable that this was left to the REG, however other members felt these aspects should be considered as part of the Modification Proposal (however noted that should there be a desire for further detail to be added to how the REG evaluate risk, then this would form part of an Alternative Modification as the Proposed Modification is clear that the REG is responsible for these functions).

Those members of the Group that felt that the REG should be responsible for developing how it would evaluate the risks felt that the REG would be a Panel Committee of experts who would therefore have the expertise for developing its methodology for carrying out the risk evaluation. These members of the Group were therefore happy to leave the development of the risk evaluation process to the REG. Other members of the Group felt that if the REG is left to develop the rules for risk evaluation, then this could lead to more appeals of Risk Management Plans, if participants do not believe that risk evaluation had been carried out appropriately. Some members of the Group disagreed that there would be more appeals, noting that where there is the current ability for Performance Assurance decisions to be appealed, there are actually very few, if any, appeals as the committees use their expertise to make judgements. One Group member noted that the REG might be more comfortable applying rules that are formed by someone else rather than forming their own rules for risk evaluation and applying them.

One Group member suggested that to overcome the concerns of some Modification Group members regarding leaving the REG to determine how it is going to carry out risk evaluation, the REG could be obliged to consult participants on its proposed methodology for carrying out risk evaluation. It should be noted that the methodology that the REG develops for determining the significance of SVA risks must ensure the Performance Assurance Framework seeks to achieve the SVA Assurance Objectives. The majority of the Group felt that this was a sensible way forward and therefore agreed that the REG should consult participants on its methodology for carrying out risk evaluation.

#### **4.1.3 Appeal of Risk Management Plans**

A majority of the Modification Group was uncomfortable with the fact that the RAB would produce its Operating plan and individual participants' Risk Management Plans without any consultation with participants or the ability for those participants to disagree with the Performance Assurance techniques being applied to them. The Group noted that current participants do not have any say on the Performance Assurance techniques applied to them. One Group member noted that if there was an appeals process, it may be difficult for a participant to say that they are being unfairly treated in comparison to other participants when Risk Management Plans are confidential to individual participants.

The Modification Group agreed that if there was an appeals process, that Risk Management Plans should only be appealed as a last resort. A majority of the Group felt that if there was the ability for participants to appeal the decisions of the RAB, this would help to ensure that the RAB makes well informed decisions. A

majority of the Group also believed that participants should have the ability to question their Risk Management Plans if they did not feel that they were appropriate. One Group Member suggested that instead of forming an appeals process, that decisions of the RAB should be open to scrutiny by another body, to ensure that they are consistent. The majority of the Group felt that it would not be appropriate to form a separate body to scrutinise the decisions of the RAB. Therefore, the majority of the Group therefore felt that there should be a process whereby participants could appeal Risk Management Plans.

The Group agreed that participants should initially be able to discuss any issues with their Risk Management Plans with the RAB, and then if they were not satisfied with the response from the RAB, appeal to the Panel. The group discussed who appeals should finally be directed to. The majority of the Group felt that the most appropriate body would be the Authority. One member of the Group suggested that appeals could be directed to an Arbitration Panel; however the Group agreed that it would be overly bureaucratic for another body to become involved in the process. The Group also discussed whether it would be appropriate for the Competition Commission to become involved in this type of appeal as participants could be disadvantaged in the market if they disagreed with their Risk Management Plans. The Group however agreed that the most appropriate body would be the Authority. The majority of the Group therefore felt that participants should be able to discuss their Risk Management Plans with the RAB and if they still disagree with the plans, appeal them to the Panel and ultimately the Authority.

The Group discussed which type of participants should be able to appeal their Risk Management Plans. The Group agreed that all types of participants would be able to query their plans with the RAB but felt that only Parties should be able to appeal Risk Management Plans with the Panel and the Authority. The Group felt that since Party Agents are not signatories to the Code, and since Parties themselves are ultimately responsible for the performance of their Party Agents, that Party Agents should not be allowed to appeal their Risk Management Plans directly to the Panel or the Authority. The Group felt that if Party Agents were able to appeal their Risk Management Plans, this would undermine the Supplier hub principle. The Group did however believe that if Party Agents had concerns over their Risk Management Plans, an associated Party who had the same issue identified with it could appeal their Risk Management Plans on their behalf.

## **4.2 CVA Performance Assurance**

One member of the Group questioned whether the Modification Group had the expertise in the CVA arrangements to consider whether CVA Assurance should fall under the REG and the RAB in the same way as the SVA arrangements. Other Group members confirmed that they did have the expertise in CVA to consider this point.

The Group discussed whether CVA Performance Assurance should fall under the risk based Assurance Model described in the P207 Modification Proposal. A number of members of the Group argued that CVA Performance Assurance should fall under the arrangements. These members felt that it is not efficient to have two separate processes; one for CVA, working as it does currently and monitored by the Performance Assurance Board (PAB) and one for SVA which is risk based and overseen by the REG and the RAB. One Group member noted that if the PAB was only to oversee CVA Performance Assurance, it is likely that the PAB meetings would be very short.

Some Group Members felt that there are links between the CVA and SVA arrangements and activities under CVA have the ability to impact on SVA, particularly in the areas of Grid Supply Point (GSP) Metering. Some Group members also felt that participants such as CVA Meter Operator Agents (MOAs) and their functions should be considered by the REG and their risks determined. These Group members also felt that there are similarities between CVA and SVA, such as the BSC arrangements rely on accurate data entering Settlement and therefore lessons between the two arrangements can be learnt if performance in the markets is considered in the same way.

Other Group members felt that CVA Performance Assurance should not be risk based. These members of the Group felt that the PAF Review, which led to this Modification being raised only looked at SVA

Performance Assurance. This review spent nine months determining an approach to improve SVA Performance Assurance under the Code, but did not look at CVA Performance Assurance, although the review merely concluded that a 'risk based' approach could apply to assurance in general. Therefore some Group members felt that by including CVA Performance Assurance under P207, there is a risk that it is being shoehorned into arrangements that are suitable for SVA without proper consideration as to whether they are also suitable for CVA.

These Group members also felt that CVA is a very risky area of the market, in as much as if CVA arrangements were not performing adequately then Settlements could grind to a halt. These members therefore felt that a full compliance Audit and the Technical Assurance of Metering System processes should be continued to be applied in the same way as they are now to ensure that major issues are not overlooked.

One Group member suggested that if the REG looks at both CVA and SVA risk, the risks in the CVA market may override those in the SVA market, meaning that risks in the SVA market are not properly considered.

The Group discussed whether a CVA Objective could be added to the Code and be left to the REG to determine that CVA is high risk and the same techniques as now should be applied. Some members of the Group felt that the only way to ensure that CVA is considered high risk is to include this in the Code. Therefore these Group members felt that the risks in the CVA market should not be left to the REG to determine.

Some Group members questioned whether it would be possible to form a REG and a RAB with members having appropriate expertise in both CVA and SVA arrangements. The Group noted that currently the PAB and the Trading Disputes Committee (TDC) act in both the CVA and SVA arrangements and there is appropriate expertise in these bodies. Also the Programme Board oversees changes in both the SVA and CVA markets and there is appropriate expertise in this body. The majority of the Group therefore agreed that there is no reason not to think that a REG and a RAB could have the appropriate CVA and SVA expertise.

The Group did agree that it would be inefficient to have one set of bodies, i.e. the REG and the RAB responsible for SVA Assurance and another body, the PAB responsible for CVA Assurance. The Group believed that the same bodies should be responsible for both CVA and SVA Assurance. The majority of the Group therefore agreed that both CVA and SVA Assurance should fall under the remit of the REG and the RAB, but the Code should be clear that the REG do not have the ability to determine the risks or their priorities in the CVA market, and the RAB does not have the ability to flex Performance Assurance techniques in the CVA market. A minority of the Group still believed that CVA Assurance risks and the mitigation of those risks should be determined by the REG and the RAB in the same way as SVA risks.

## **4.3 The Panel and Panel Committees**

### **4.3.1 Risk Evaluation Group (REG)**

The REG is the body that identifies, assesses and prioritises risks. The Group discussed the constitution of the REG and whether it should be formed of independent industry experts in the same way as all other Panel Committees under the Code, or whether it should be formed of representatives of Parties to the Code. The Group agreed that the meetings of the REG would be held in open session and that there would be a consultation on the resulting Risk Evaluation Register.

Taking account of these facts, the initial view of a slight majority of the Group was that the REG could be formed of members that represent their individual Party and therefore put forward their Party's views on whether a proposed risk should be included on the Risk Evaluation Register and the significance of the risk. A minority of the Modification Group felt that the REG should be formed of independent industry experts. Following further discussion, view of the Group changed and currently a slight majority of the Group feels that the REG should be formed of independent industry experts.

A number of members of the Group stated that independent industry experts should currently be employed by a participant that is active in the market, so that they have the relevant expertise to look at current risks. The Group noted that the current drafting of the Code is clear that members of Panel Committees have to have relevant expertise, and therefore agreed that no changes to the Code to further clarify the definition of independent industry experts is required.

Those members of the Modification Group that believed that the REG should be made up of independent experts believed that the advantages of this are as follows:

- The REG may need to consider Confidential Information to be able to properly determine risks and their significance (if this was the case, such matters would have to be discussed in a closed portion of the meeting). It would not be appropriate to share Confidential Information with representatives of each Party under the Code. If the REG was representative, they would have to use collated, non-confidential data, which would not be to the same level of detail as the confidential data;
- If the REG was representative, Parties may not send experts to the meetings; they may send the person who is available at the time. An independent Panel Committee would have members appointed by the Panel, who would be experts in that area;
- If the REG was representative, at some meetings, some Parties may have resource constraints, meaning that they could not attend. At other meetings, potentially many Parties may turn up. This may lead to some meetings actually being unrepresentative if only particular types of Party attends and differing decisions being made, depending on who was able to attend;
- If the REG is representative it may be harder to reach decisions as different types of participants may vote in different ways;
- If the REG is representative, this may lead to block voting by a particular set of participants to reach a decision that is best for them as opposed to best for Assurance in the market, which in turn may lead to more appeals of Risk Management Plans;
- Setting up a representative committee would be more complex than the current Panel Committee baseline and therefore may be inefficient; and
- External stakeholders (such as Ofgem and energywatch) may be more comfortable with decisions made by a group of independent experts rather than a group of Party representatives.

One Group member felt that the REG and the RAB should be the same body and believed that this would only be possible if the REG was made up of independent experts.

Those members of the Group that believed that the REG should be made up of Party representatives believed that:

- Having a representative committee should cut down the responses received as part of the consultation as all Parties will have already had a chance to have their say at the REG meeting;
- Small Suppliers may find it easier to have their say, particularly if they are able to vote by proxy;
- The people in companies that are actively involved in Performance Assurance in that company would be involved in the process and would be able to make the decisions; and
- Over the last couple of years, Suppliers have been working together to bring about improvements. A representative REG would work in the same way. The market has matured and participants can work together in the best interest of the industry.

The Group discussed whether the BSC Auditor should be a non-voting attendee of the REG (the BSC Auditor currently has the right to attend but not vote at the PAB). The Group felt that if it was appropriate for the BSC Auditor to attend meetings of the REG (e.g. to explain or provide background on the Audit report), then the BSC Auditor could be invited to attend meetings of the REG. The Group also felt that, if appropriate,

experts in other fields could be invited to attend meetings of the REG where their input is likely to be required. The Group also felt that Ofgem and energywatch could be part of the Group as non-voting attendees if they so desired.

The Group briefly discussed a number of aspects that would need to be considered if the REG was representative, but did not discuss this area in detail as the proposed solution (as agreed by a majority of the Group) is that the REG is comprised of independent experts. If following this consultation, the Group agrees that the REG should be comprised of representatives of Parties, the Modification Group will need to consider whether each Party has one vote, or whether votes depend on market shares (and if so whether these would be capped). The Group would also need to consider whether voting could be carried out by proxy, or whether each Party would have to attend a meeting to be able to vote.

The Group looked at which type of Parties should be members of the REG, if it was decided that this would be a representative body. As of the 14 November 2006, there are 192 BSC signatories. These are split into the following types of Party:

- Licensed Distribution System Operators (LDSOs) – There are currently 17 BSC Parties registered as LDSOs;
- Interconnector Administrators (IAs) – There are currently 4 BSC Parties registered as IAs;
- Interconnector Error Administrators – There are currently 4 BSC Parties registered as IEAs;
- Transmission Company (TC) – There is currently 1 BSC Party registered as the TC;
- Trading Parties – The distinction between a BSC Party and a Trading Party is that a Trading Party must have an Energy Account, whereas a BSC Party which is not a Trading Party will not have an Energy Account (the only exception to this is the TC who are not a Trading Party but do have an Energy Account). Trading Parties (but not BSC Parties) are entitled to vote for the BSC Panel Industry representatives, although it should be noted that LDSOs and the TC appoint their own representatives to the BSC Panel. Trading Parties are split into the following categories:
  - Generators – There are currently 54 BSC Parties registered as Generators;
  - Interconnector Users – There are currently 33 BSC Parties registered as Interconnector Users;
  - Non-Physical Traders – There are currently 49 BSC Parties registered as Non-Physical Traders;
  - Suppliers – There are currently 48 BSC Parties registered as Suppliers;
- Energy Contract Volume Notification Agents (ECVNAs) – There are currently 82 BSC Parties registered as ECVNAs; and
- Meter Volume Reallocation Notification Agents (MVRNAs) – There are currently 53 BSC Parties registered as MVRNAs.

The Group felt that anyone who was impacted by the BSC arrangements and would require assurance that the arrangements are working as expected should be able to be a member of the REG if it was a representative committee, but decided that if necessary they would determine who these Parties are following responses to the initial consultation.

#### **4.3.2 Risk Assurance Board (RAB)**

The RAB is the body responsible for risk assurance. The RAB would have a similar function to the current PAB in as much as it would be responsible for applying and managing the results of the application of Performance Assurance techniques, however it would be able to do this flexibly. The RAB would also be responsible for producing its Operating Plan, Risk Management Plans for individual participants and its

Annual report. The Group discussed the constitution of the RAB and whether it should be formed of independent industry experts in the same way as all other Panel Committees under the Code, or whether it should be formed of representatives of Parties to the Code. A majority of the Modification Group believed that the RAB should be formed of industry experts. The role of the RAB would be to consider the techniques that should be used to mitigate the risks identified by the REG, produce the participant Risk Management Plans and then manage the application and results of the techniques.

The majority of the Group felt that the RAB should be an independent expert body due to the fact that its meetings should be in closed session and it will see Confidential Information. The additional reasons quoted in 4.3.1 for why the REG should be a group of independent experts also applied to the RAB. Other members of the Group felt that the RAB could be a representative body on the basis that members would sign to say that the information that they receive as that body will be kept confidentially, and whatever the make up of the Group, it would be formed of participants in the market. The additional reasons quoted in 4.3.1 for why the REG should be a group of representatives also applied to the RAB. Other Group members felt that even if representative members confirmed that they would keep information confidential, they may be pressured to share this information.

### **4.3.3 Recommendations to the Panel that a Modification should be raised**

The Modification Proposal states that the REG and possibly the RAB would be able to recommend to the Panel that Modifications are raised in areas relating to Performance Assurance. The Group discussed whether the Panel Committees should be able to raise Modifications themselves or whether they should recommend to the Panel that a Modification be raised. If a Panel Committee recommends to the Panel that a Modification should be raised then if the Panel agrees with the recommendations, it would raise the Modification. The Group agreed that the Panel Committees would not be able to raise Modifications themselves, and agreed that if one of these Panel Committees believed that a Modification should be raised, then this should be recommended to the Panel. This is consistent with the TDC which is able to recommend to the Panel that Modifications are raised in relation to Trading Disputes, but cannot raise Modifications in its own right.

The Group discussed whether the RAB should be able to recommend to the Panel that Modifications are raised, or whether it would only be the REG that would be able to do this. A majority of the Modification Group felt that the RAB should not be able to recommend that Modifications are raised. These members of the Group felt that the role of the RAB is to monitor compliance as opposed to recommend change. These Group members also felt that since the meetings of the RAB would be held in closed session, potential Modifications should be aired in an open forum before being recommended as Modifications. Therefore, if the RAB felt that a Modification should be raised, it would be able to report this to the REG (possibly in its annual report). The REG could consider the subject area and determine whether to recommend to the Panel that a Modification is raised. This would fit with the REG having a more strategic role of identifying and prioritising risk, and leaving the RAB to focus on the management of techniques to mitigate these risks. The majority of the Group also felt that it would be useful for any potential Modifications to be discussed by the REG in open session to obtain a wide range of views before being raised as a Modification.

A minority of the Group felt that the RAB should also be able to recommend to the Panel that Modifications be raised in areas relating to Performance Assurance. These Group members felt that as the RAB was the body that determined what Performance Assurance techniques should be applied to mitigate against risks, it would be best placed to know if a change was required to an existing technique or if a new technique was required. Some members of the Group were concerned that the RAB could propose that a Modification be raised that the REG did not agree with. This would mean that the Modification would never be aired at the Panel. One Group member felt that P207 is aiming to give the RAB flexibility; however in not letting the RAB recommend to the Panel that Modifications are raised in areas of Performance Assurance, this does not give the RAB flexibility.

One Group member noted that the Panel is asked to approve the Operating Plan of the RAB. If the RAB could recommend Modifications to the Panel, this would be the same reporting structure.

The Group also discussed whether either Panel Committee would need to have the ability to raise Modifications on the basis that these committees are formed of industry members who can raise Modifications in their own right. The majority of the Group felt that a Modification recommended by a Panel Committee carries more weight as it would be backed by members of the Group as opposed to a Modification raised by an individual company. The Group also felt that, particularly in the context of the RAB, a group member would be prevented from raising a Modification via their company arising from an issue that was discussed in a closed Panel Committee.

The Group therefore concluded by majority that the REG should be able to recommend to the Panel that Modification Proposals are raised (as included in the Modification Proposal), but the RAB should not be able to do this.

#### **4.3.4 Panel**

The Group agreed that the functions of the REG and the RAB should be defined in the Code as Panel Committees. Therefore none of the functions of these roles relating to Performance Assurance would be placed on the Panel to carry out or delegate as it sees fit. The Panel will only become involved in the process in the yearly approval of the Risk Evaluation Register and Operating Plan, and to hear appeals from Parties if these are raised.

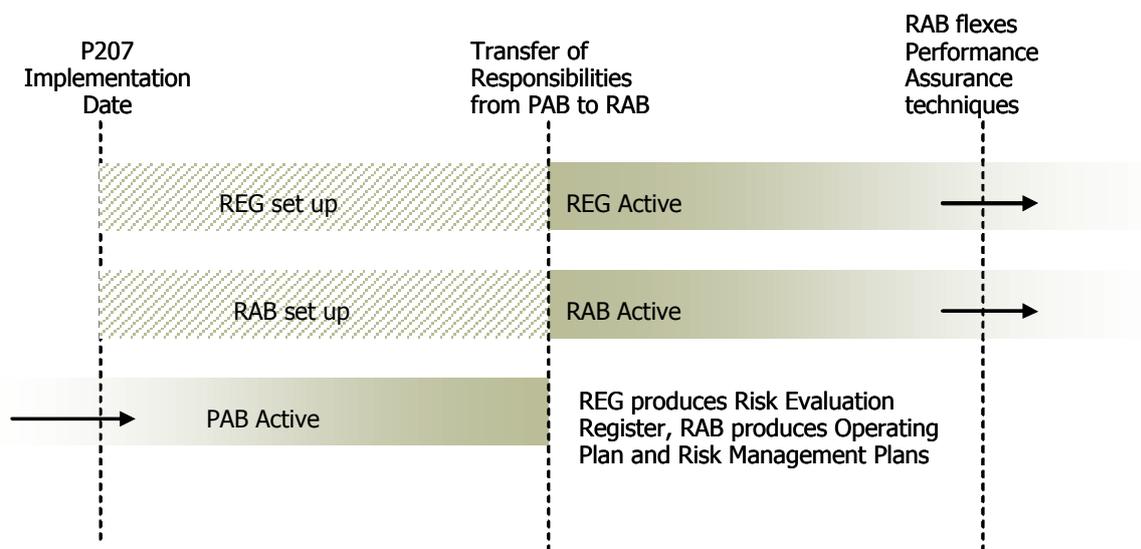
#### **4.3.5 Performance Assurance Board (PAB)**

The Group discussed the ongoing status of the Performance Assurance Board (PAB). The Group agreed that all the current functions of the PAB would become functions of the RAB; however the RAB would have the added functions of producing the Operating Plan and individual participant Risk Management Plans and annual report. The Group discussed whether the RAB could actually be the PAB, whether the PAB's name could be changed to the RAB, or whether the PAB should be disbanded and a new Panel Committee called the RAB created. The majority of the Modification Group felt that the last option would be the appropriate way forward. The majority of the Group felt that the name of the 'Risk Assurance Board' would better reflect the role of that committee as opposed to the name 'Performance Assurance Board'. The majority of the Group also felt that it would be better to disband the current PAB and appoint members to the RAB as opposed to simply changing the name of the PAB to the RAB, to ensure that the members of the new RAB are appropriately qualified in terms of mitigating risk as well as managing the Performance Assurance techniques.

A minority of the Modification Group felt that it would be more efficient if the PAB were to take on the role of the RAB. These Group members felt that if the PAB and the RAB were the same, this would also make the implementation of the Modification easier.

### **4.4 Implementation Approach and Transitional Arrangements**

The Modification Group discussed how P207 could be implemented. The Group noted that the REG and the RAB would not be able to be set up before the Implementation Date of the Modification Proposal, as they would not exist until the text in the Code becomes active. The Group therefore agreed that following the Implementation Date for P207, there would have to be a transitional period where the REG and RAB are set up, whilst the PAB continues to be in existence until hand over from the PAB to the RAB could take place. The proposed implementation approach is shown in the diagram below:



Following the Implementation Date of P207, the REG and the RAB would be set up. This would include the drafting and Panel approval of the Terms of Reference for the Panel Committees and the appointment of members to the Panel Committees. During this period there would also be education of the new Panel Committees, particularly the RAB in the current responsibilities of the PAB. When the RAB is ready to take on the responsibilities of the PAB, these responsibilities will transfer over. Note that this will be 'event' related as opposed to date related, as the make up of the RAB will determine the level of education of the members required and therefore the length of time required between the Implementation Date and handover from the PAB to the RAB.

Following the transfer of the PAB's responsibilities to the RAB, the RAB would initially act in much the same way as the PAB, i.e. it would not be able to flex the techniques applied to participants, as at this stage there will be no Risk Evaluation Register or Operating Plan.

At the same time as the transfer of the PAB's responsibilities to the RAB, the REG will start to produce its first Risk Evaluation Register. Once this is approved, the Risk Evaluation Register will be passed to the RAB to formulate its Operating Plan and then individual participants' Risk Management Plans. Only when all Risk Management Plans have been written by the RAB, will the RAB be able to start to apply Performance Assurance techniques flexibly based on the risks posed by individual participants. Again this would be 'event' related as opposed to 'date' related to ensure that the RAB has as much time as it needs to produce individual Risk Management Plans. In the meantime, the RAB would have to continue to operate the Performance Assurance Framework in the same way as the PAB did to ensure that there is no gap in the application of techniques and monitoring of participants.

The Group discussed whether it would be appropriate for the handover from the PAB to the RAB to wait until the REG had produced and had approved its first Risk Evaluation Register. This would mean that the REG and the RAB started up at different times. The Group noted that in this scenario, the RAB would still have to act in the same way as the PAB immediately following the handover as at this time, it would not have produced its Operating Plan or Risk Management Plans. If this approach was followed, this may effectively mean that the RAB is set up but has no role until the REG had produced its first Risk Evaluation Register. The Group agreed that this would not be efficient.

The Group also discussed keeping the PAB in existence until the RAB had written all its Risk Management Plans, however the Group agreed that this would mean that there would be three Panel Committees operating in parallel for a longer period of time which would not be efficient.

Therefore the Group agreed that the implementation of P207 would be based on the diagram shown above.

## 4.5 Status of Existing Non-Compliances

The Group discussed the status of existing non-compliances. The Group noted that all participants are required to be compliant with the Code. Therefore, if any participant had an existing non-compliance, this would not be removed with the implementation of P207, even if it was in an area that the REG later considered to be low risk.

The Group agreed that the RAB would evaluate each non-compliance that a participant has when they write each participants first Risk Management Plan to determine how Performance Assurance techniques should be applied to the participant in respect of its existing non-compliances. The Risk Management Plans should allow the RAB and the participant to prioritise their efforts on the higher risks; however existing non-compliances may not be completely ignored.

If over time, areas change from being high risk to lower risk, but participants have non-compliances in the area, the same principles will apply and the participant's Risk Management Plans will set out how the Performance Assurance techniques will be applied in relation to these risks.

The Group noted that this approach is consistent with the approach of the Financial Services Authority (FSA) who use a risk based assurance regime.

A Group member asked how this approach fitted in with the Supplier licence condition that Suppliers must comply with the BSC. It was noted that Suppliers must currently comply with the BSC and mechanisms for breach of this compliance remain available. It was noted that the Authority may wish to consider this point as part of any Supplier licence review.

## 4.6 Further Matters for Consideration

This initial consultation has been developed by the P207 Modification Group to gain feedback from the industry on the proposed process for P207. The Modification Group has yet to discuss a number of areas contained in its Terms of Reference. A Second Consultation will be issued containing the Modification Group's discussions on these areas, once the Group has finalised the proposed process based on feedback from this initial consultation. The areas still to be discussed by the Modification Group are as follows:

- Impact on Current Assurance Techniques;
- Legal Text and Code Subsidiary Document changes;
- Interaction with the Implementation of P197;
- A consideration of the next steps if P207 is approved; and
- Views of the Modification against the Applicable BSC Objectives.

## 5 TERMS USED IN THIS DOCUMENT

Other acronyms and defined terms take the meanings defined in Section X of the Code.

Acronym/Term	Definition
BMRA	Balancing Mechanism Reporting Agent
BSC	Balancing and Settlement Code
BSCCo	Balancing and Settlement Code Company
BSCP	Balancing and Settlement Code Procedure
CDCA	Central Data Collection Agent

Acronym/Term	Definition
CoA	Change of agent
CRA	Central Registration Agent
CSD	Code Subsidiary Document
CVA	Central Volume Allocation
ECVAA	Energy Contract Volume Aggregation Agent
FAA	Funds Administration Agent
HH	Half Hourly
IWA	Initial Written Assessment
KPI	Key Performance Indicator
NHH	Non-Half Hourly
PAB	Performance Assurance Board
PAF	Performance Assurance Framework
RAB	Risk Assurance Board
REG	Risk Evaluation Group
SAA	Settlement Administration Agent
SMRA	Supplier Meter Registration Agent
SVA	Supplier Volume Allocation
SVAA	Supplier Volume Allocation Agent
SVAO	Supplier Volume Allocation Agent Operations
TAA	Technical Assurance Agent
VASMG	Volume Allocation Standing Modification Group

## 6 DOCUMENT CONTROL

### 6.1 Authorities

Version	Date	Author	Reviewer	Reason for Review
0.1	14/11/06	Katie Wilkinson		Section 3 provided to Modification Group for Information
0.2	16/11/06	Katie Wilkinson	P207 Modification Group	For Modification Group review of Section 3
0.3	17/11/06	Katie Wilkinson	David Jones	For technical and quality review
0.4	20/11/06	Katie Wilkinson	P207 Modification Group	For Modification Group review of entire document
0.5	21/11/06	Katie Wilkinson		Incorporating Modification Group comments
1.0	24/11/06	P207 Modification Group		For industry consultation

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## APPENDIX 1: PROCESS FOLLOWED

Copies of all documents referred to in the table below can be found on the BSC Website at: [ELEXON - Modification Proposal P207](#)

Date	Event
29/09/06	Modification Proposal raised by energywatch
12/10/06	IWA presented to the Panel
16/10/06	First Assessment Procedure Modification Group meeting held
2/11/06	Second Assessment Procedure Modification Group meeting held
15/11/06	Third Assessment Procedure Modification Group meeting held

## MODIFICATION GROUP MEMBERSHIP

Member	Organisation	16/10/06	02/11/06	15/11/06
David Jones	ELEXON (Chairman)	✓	✓	✓
Katie Wilkinson	ELEXON (Lead Analyst)	✓	✓	✓
Carole Pitkeathley	energywatch (Proposer)	✓	×	×
Rosie McGlynn	E.ON UK	✓	✓	✓
Richard Harrison	npower	✓	✓	✓
Colin Prestwich	Smartestenergy	✓	✓	✓
Chris Carberry	Scottish Power	×	✓	✓
Andrew Latham	Centrica	✓	✓	✓
Sue Edwards	Scottish and Southern	✓	✓	×
James Evans	British Energy	✓	✓	✓
Craig Tate	Gaz de France	×	✓	✓
Frank Welsh	United Utilities	×	×	✓

Attendee	Organisation	16/10/06	02/11/06	15/11/06
Natasha Hall	ELEXON (Lawyer)	✓	✓	✓
Adam Richardson	ELEXON (Technical Expert)	✓	✓	✓
Ysanne Hills	ELEXON	✓	✓	✓
Nicholas Rubin	Ofgem	✓	✓	✓
Abid Sheikh	energywatch	×	✓	✓
John Sykes	BSC Panel	✓	×	✓
James Kelly	SAIC	✓	×	×
Mark Gribble	LogicaCMG	✓	×	×

## **MODIFICATION GROUP TERMS OF REFERENCE**

The Modification Group shall consider and/or include in the Assessment Report as appropriate:

- The role of the Panel and Panel Committees, including existing and potential new Panel Committees;
- The high level process for P207 including the key deliverables and timescales for these deliverables;
- CVA Performance Assurance;
- Impact on the current assurance techniques to ensure they support a risk based governance;
- Legal Text and changes required to Code Subsidiary Documents;
- The interaction with the implementation of P197;
- The Implementation Approach and transitional arrangements;
- The status of existing non-compliances; and
- A consideration of the next steps if P207 is approved.

The Modification Group shall be mindful that this Modification was preceded by the PAF Review and the Modification seeks to reflect the outcomes of that review and not revisit that work. This review was led by a Core Working Group of industry members and included two industry consultations.

## **APPENDIX 2: EXAMPLE OF THE NEW RISK BASED PERFORMANCE ASSURANCE PROCESS**

This appendix seeks to describe, by way of a simplified example, the way that the new process could operate in practise.

This scenario assumes that P207 has been in place for one year. The REG and the RAB have been set up and produced and had approved their initial Risk Evaluation Register and Operating Plans. The RAB has produced Risk Management Plans for all participants and has applied them for one year.

The following Performance Assurance Techniques are available for use by the RAB (where these are not available at the moment, Modifications would have been raised approved and implemented to introduce the new techniques):

- Qualification (and Re-Qualification);
- Key Performance Indicators;
- Risk based Audit;
- Targeted Audit;
- Escalation to Committee (initially to the RAB, with provision to escalate to the BSC Panel);
- Naming to Peers / Public / Ofgem;
- Notification to Associated Suppliers; and
- Development and Progression of Rectification Plans.

The following participants act in the SVA market:

- Suppliers:
  - Watt Energy
  - Ample Savings

- Business Joule
- Ohm Energy
- Supplier Agents:
  - Metering Hertz
  - Tesla Services

The process would be as follows (the timeline of events used in this example has been set out for indicative purposes only):

- **1st June 2008** – the BSC Auditor publishes its report following a risk-based audit. There are 3 issues in the Opinion, 3 in the Statement of Significant Matters (SSMs) and 300 other issues.

Issue Status	Issue Description	Issue Relates To...
BSC Audit Opinion	Energisation Status Mismatches	<b>Industry-wide Issue</b>
BSC Audit Opinion	Significant backlog of failed business processes following agent migration	Supplier <b>Watt Energy</b>
BSC Audit Opinion	Line loss factors not being applied correctly	HHDA <b>Metering Hertz</b>
BSC Audit SSM	Incorrect application of Gross Volume Correction	NHHDC <b>Metering Hertz</b>
BSC Audit SSM	Inadequate management of material NHH exceptions	Supplier <b>Watt Energy</b>
BSC Audit SSM	Excessive backlog of unprocessed “no access” reports	NHHDC <b>Metering Hertz</b>

- **1st July 2008** – the RAB publishes its Annual Report drawing on information in the BSC Audit Report, the progress in addressing issues throughout the year, the effectiveness of the tool sets used etc.
- **14th July 2008** – the Panel approves the RAB’s Annual Report.
- **1st August 2008** - the REG meets and considers the RAB’s Annual Report. It establishes the matters it wishes to include in the Risk Evaluation Register and consult upon, regarding risks to the SVA Assurance Objectives.
- **14th August 2008** – the REG issues its consultation.
- **14th September 2008** – the REG considers the results from the consultation.
- **30th September 2008** – the REG submits its Risk Evaluation Register to the Panel for approval. In summary it concludes that the 3 Opinion Issues and 2 of the 3 SSM issues are material risks to the SVA Assurance Objectives that need managing (the SSM regarding unprocessed “no access” report not being considered a significant risk to the SVA Assurance Objectives). The REG also identifies a further area that may constitute material risk to the SVA Assurance Objectives.
- **14th October 2008** – the Panel approves the Risk Evaluation Register. The published Risk Evaluation Register records the following significant risks:

Risk Area	Current Status
Energisation Status Mismatches	BSC Audit Opinion
Significant backlog of failed business processes following agent migration	BSC Audit Opinion
Line loss factors not being applied correctly	BSC Audit Opinion

Risk Area	Current Status
Incorrect application of Gross Volume Correction	BSC Audit SSM
Inadequate management of material NHH exceptions	BSC Audit SSM
New Risk - Application of Estimating Processes	Unknown

- 1st November 2008** – the RAB considers the Risk Evaluation Register and produces its Operational Plan. It is estimated that this will require 10% less budget than the previous year as the risks to the SVA Assurance Objectives have reduced. A requirement for a new Key Performance Indicator (KPI) to monitor energisation status mismatches is identified.
- 14th November 2008** – the Panel Approves the RAB’s Operational Plan. The published Operational Plan records the following:

Risk Area	Current Status	Applies to...	Actions and Applicable Assurance Techniques Noted in the Operational Plan
Energisation Status Mismatches	BSC Audit Opinion	Industry-wide	<ul style="list-style-type: none"> <li>• Include in Scope of BSC Audit for all participants.</li> <li>• Gather and monitor individual participant rectification plans.</li> <li>• Escalation to Committee if rectification plans not progressed.</li> <li>• Recommend to the REG the introduction of a basic KPI (could be provided to support industry self-monitoring).</li> </ul>
Significant backlog of failed business processes following agent migration	BSC Audit Opinion	One Supplier	<ul style="list-style-type: none"> <li>• Include in Scope of BSC Audit for all participants.</li> <li>• Gather and monitor individual participant rectification plans.</li> <li>• Deploy Targeted Audit on particular Supplier part-way through year.</li> <li>• Escalation to Committee if rectification plans not progressed.</li> <li>• Naming to peers if Escalation to Committee is required.</li> </ul>
Line loss factors not being applied correctly	BSC Audit Opinion	One HHDA	<ul style="list-style-type: none"> <li>• Include in Scope of BSC Audit for all participants.</li> <li>• Notification to Associated Suppliers.</li> <li>• Gather and monitor individual participant rectification plans.</li> <li>• Deploy Targeted Audit on particular HHDA part-way through year.</li> <li>• Escalation to Committee if rectification plans not progressed.</li> <li>• Naming to peers if Escalation to Committee is required.</li> <li>• Require Re-Qualification if rectification plans not progressed.</li> </ul>
Incorrect application of Gross Volume Correction	BSC Audit SSM	One NHHDC	<ul style="list-style-type: none"> <li>• Include in Scope of BSC Audit for all participants.</li> <li>• Notification to Associated Suppliers.</li> <li>• Gather and monitor individual participant rectification plans.</li> <li>• Deploy Targeted Audit on particular NHHDC part-way through year.</li> <li>• Escalation to Committee if rectification plans not progressed.</li> <li>• Naming to peers if Escalation to Committee is required.</li> <li>• Require Re-Qualification if rectification plans not progressed.</li> </ul>

Risk Area	Current Status	Applies to...	Actions and Applicable Assurance Techniques Noted in the Operational Plan
Inadequate management of material NHH exceptions	BSC Audit SSM	One Supplier	<ul style="list-style-type: none"> <li>• Include in Scope of BSC Audit for all participants.</li> <li>• Gather and monitor individual participant rectification plans.</li> <li>• Escalation to Committee if rectification plans not progressed.</li> <li>• Naming to peers if Escalation to Committee is required.</li> <li>• Deploy existing KPI to monitor broader risk.</li> </ul>
Application of Estimating Processes	Unknown	Unknown	<ul style="list-style-type: none"> <li>• Include in Scope of BSC Audit for all participants.</li> </ul>

The REG considers the creation of the new energisation status KPI and recommends to the Panel that a Modification to include this KPI in the BSC is raised.

- **December 2008 to January 2009** – the RAB makes sure the appropriate set of Risk Mitigation Plans (RMPs) is in place that utilise appropriate assurance techniques. Information received from participants during this process reveals the following:
  - Suppliers indicate that they plan to progress the energisation status mismatch issue collectively as part of a self-managed industry initiative.
  - A letter is received from a Watt Energy Director advising that the issue relating to significant backlogs of failed business processes has already been resolved.
- The RAB therefore establishes the following risk mitigation plans:
  - **Common Techniques - Applied to all Suppliers (Watt Energy, Ample Savings, Business Joule, Ohm Energy)**

Assurance Technique	Scope
Key Performance Indicators	Inadequate management of material NHH exceptions
Risk-based Audit	Energisation Status Mismatches. Backlogs of failed business processes following agent migration. Application of Line loss factors. Application of Gross Volume Correction. Management of material NHH exceptions. Application of Estimating Processes.
Development and Progression of Rectification Plans	Energisation Status Mismatches (Taking account of feedback from the Supplier Group that has been established to progress this issue as part of a self managed industry initiative.) Management of material NHH exceptions (where an issue is identified by the KPI – see above).
Escalation to Committee <sup>6</sup>	Energisation Status Mismatches.

<sup>6</sup> These techniques will not be applied at this stage but may be employed should feedback from other techniques identify a need for their use.

○ **Further Techniques - Applied to Watt Energy Only**

Assurance Technique	Scope
Targeted Audit	Backlogs of failed business processes following agent migration.
Development and Progression of Rectification Plans	Backlogs of failed business processes following agent migration. <i>(Only in the event that the targeted audit is unable to confirm that this issue has been resolved).</i> Management of material NHH exceptions.
Escalation to Committee <sup>6</sup>	Backlogs of failed business processes following agent migration. Management of material NHH exceptions.
Naming to Peers / Public / Ofgem <sup>6</sup>	Backlogs of failed business processes following agent migration. Management of material NHH exceptions.

○ **Common Techniques - Applied to all Applicable Agent Roles (Metering Hertz, Tesla Services)**

Assurance Technique	Scope
Risk-based Audit	Energisation Status Mismatches. Backlogs of failed business processes following agent migration. Application of Line loss factors. Application of Gross Volume Correction. Management of material NHH exceptions. Application of Estimating Processes.
Development and Progression of Rectification Plans	Energisation Status Mismatches.
Escalation to Committee <sup>6</sup>	Energisation Status Mismatches.

○ **Further Techniques - Applied to Metering Hertz Only**

Assurance Technique	Scope
Targeted Audit	Application of Line loss factors. Application of Gross Volume Correction.
Development and Progression of Rectification Plans	Application of Line loss factors. Application of Gross Volume Correction.
Notification to Associated Suppliers	Application of Line loss factors. Application of Gross Volume Correction.
Escalation to Committee <sup>6</sup>	Application of Line loss factors. Application of Gross Volume Correction.
Naming to Peers / Public / Ofgem <sup>6</sup>	Application of Line loss factors. Application of Gross Volume Correction.
Re-Qualification <sup>6</sup>	Application of Line loss factors. Application of Gross Volume Correction.

- **1 February 2009 – 31 March 2009** – Monitoring conducted against Rectification Plans. Progress is as follows:

Risk Area	Assurance Techniques Already Used	Progress / Action in this and future periods
Energisation Status Mismatches.	Development and Progression of Rectification Plans. RAB asks for regular progress reports from the Supplier self-managed industry initiative.	Considerable progress for all but one large Supplier ( <b>Business Joule</b> ). Escalation to Committee (RAB) deployed for <b>Business Joule</b> . Authority agreement to new KPI following progression of modification and implementation to be taken forward.
Backlogs of failed business processes following agent migration.	Letter received from <b>Watt Energy</b> Director advising that this issue has already been resolved. Targeted Audit (day visit) commissioned to confirm.	Issue resolved.
Application of Line loss factors not being applied correctly.	Development and Progression of Rectification Plans for <b>Metering Hertz</b> . Notification to associated Suppliers of <b>Metering Hertz</b> of the issue status.	No rectification plans provided. Name <b>Metering Hertz</b> as being under further investigation following failure to provide rectification plan. Escalation to Committee (RAB) deployed for <b>Metering Hertz</b> . Targeted Audit deployed. This confirms the problem is only occurring for one of the Agent's associated Suppliers ( <b>Business Joule</b> ). Notify associated Suppliers of <b>Metering Hertz</b> of the results of the Targeted Audit, noting implications for failure to address the issue. Update Risk Mitigation Plans for <b>Business Joule</b> , noting that, as the Supplier responsible, Escalation to committee may be employed if the Supplier does not resolve the matter with its Agent.
Application of Gross Volume Correction.	Development and Progression of Rectification Plans for <b>Metering Hertz</b> . Notification to associated Suppliers of <b>Metering Hertz</b> of the issue status.	Progress made in accordance with plans. Notification to associated Suppliers of <b>Metering Hertz</b> of the progress made.
Management of material NHH exceptions.	Development and Progression of Rectification Plans for <b>Watt Energy</b> . Existing KPI deployed across Suppliers as this is viewed as a broader risk.	Progress in accordance with plan for Supplier <b>Watt Energy</b> . KPI Monitoring reveals similar issue at <b>Ample Savings</b> and <b>Ohm Energy</b> . Development and Progression of Rectification Plans deployed for these Suppliers.
Application of Estimating Processes.	None	This will be the subject of the BSC Audit. Fieldwork due to take place at all participants during March and April.

- **1 April 2009 – 31 May 2009** - Monitoring conducted against Rectification Plans. Progress is as follows:

Risk Area	Assurance Techniques Already Used	Progress / Action in this and future periods
Energisation Status Mismatches.	Development and Progression of Rectification Plans. RAB asks for regular progress reports from the Supplier self-managed industry initiative. Escalation to Committee (RAB) deployed for <b>Business Joule</b> .	Considerable progress for all Suppliers. New KPI implemented.
Backlogs of failed business processes following agent migration.	Issue already resolved – confirmed in last period by a Targeted Audit.	N/A.
Application of Line loss factors not being applied correctly.	Development and Progression of Rectification Plans for <b>Metering Hertz</b> . Notification to associated Suppliers of <b>Metering Hertz</b> of the issue status. <b>Metering Hertz</b> named as being under further investigation following failure to provide rectification. Escalation to Committee (RAB) deployed for <b>Metering Hertz</b> . Targeted Audit deployed. This confirms the problem is only occurring for one of the Agent's associated Suppliers ( <b>Business Joule</b> ).	Limited progress. Escalation to Committee (RAB) deployed for Supplier <b>Business Joule</b> .
Application of Gross Volume Correction.	Development and Progression of Rectification Plans for <b>Metering Hertz</b> . Notification to associated Suppliers of <b>Metering Hertz</b> of the issue status.	Issue resolved. Notification to associated Suppliers of <b>Metering Hertz</b> of the resolution of the issue.
Management of material NHH exceptions.	Development and Progression of Rectification Plans for <b>Watt Energy</b> . Existing KPI deployed across Suppliers as this is viewed as a broader risk. Development and Progression of Rectification Plans for <b>Ample Savings</b> and <b>Ohm Energy</b> .	Issue resolved for Supplier <b>Watt Energy</b> . Progress in accordance with plans for <b>Ample Savings</b> and <b>Ohm Energy</b> .
Application of Estimating Processes.	BSC Audit fieldwork takes place at all participants during March and April.	This will be included in the BSC Audit Report to be published in June 2009.

- **1st June 2009** – the BSC Auditor publishes its report following a risk-based audit. There are 2 issues in the Opinion, 2 in the Statement of Significant Matters (SSMs) and 280 other issues.

Issue Status	Issue Description	Issue Relates To...
BSC Audit Opinion	Line loss factors not being applied correctly	Supplier <b>Business Joule</b> (HHDA <b>Metering Hertz</b> )
BSC Audit Opinion	Flawed estimating processes	HHDA <b>Tesla Services</b>

BSC Audit SSM	Energisation Status Mismatches	<b>Industry-wide Issue</b>
BSC Audit SSM	Inadequate management of material NHH exceptions	Suppliers <b>Ample Savings</b> and <b>Ohm Energy</b>

**APPENDIX 3: MODIFICATION PROPOSAL**

<b>Modification Proposal – BSCP40/06</b>	MP No: 207 (mandatory by BSCCo)
<b>Title of Modification Proposal</b> <i>(mandatory by originator)</i> : Introduction of a new governance regime to allow a risk based Performance Assurance Framework (PAF) to be utilised and reinforce the effectiveness of the current PAF	
<b>Submission Date</b> <i>(mandatory by originator)</i> : <b>29 September 2006</b>	
<b>Description of Proposed Modification</b> <i>(mandatory by originator)</i>	
<p>This Modification proposes to introduce appropriate new governance arrangements to allow a risk based Performance Assurance Framework (PAF) to be utilised and to reinforce the effectiveness of the current PAF. It builds on the work undertaken in the recent PAF Review.</p> <p>First the proposal requires a statement in the Code that defines the purpose of the SVA assurance arrangements. Such a statement is to be in the form of SVA Assurance Objectives and is to be effectively the same as points (A) and (B) below:</p> <p><i>The SVA Assurance regime should provide assurance that:</i></p> <ul style="list-style-type: none"> <li>A) <i>energy is allocated efficiently and equitably between Suppliers, to an acceptable level of accuracy, that is derived from the aggregated consumption of Metering Systems for which each Supplier is responsible; and</i></li> <li>B) <i>participants act as good stewards of Metering System data, delivering efficient and effective transfer of this data between Suppliers and Supplier Hubs and supporting the equitable allocation of energy.</i></li> </ul> <p>In addition, the proposal will introduce two new roles which could be called (and for the purposes of this proposal shall be called) the Risk Evaluation Group (REG) and the Risk Assurance Board (RAB). These roles may be performed by creating new Panel Committees or by modifying the role of an existing Panel Committee such as the Performance Assurance Board (PAB). Potentially the roles could be carried out by one or two different Panel Committees, however, if it is able to be one, the Panel Committee must have the two roles distinctly and separately detailed in the Code.</p> <p>The REG would be responsible for identifying, assessing and prioritising the risks that occur in the SVA market on the basis of their potential impact on the achievement of the SVA Assurance Objectives set out above. The general nature of the REG’s functions/roles shall be contained in the Code and this shall include a requirement for the REG to consult with the industry on its proposed conclusions. The methodology for identifying, assessing and prioritising risk will be devised by the REG at its discretion. The REG would also recommend the level of performance standards that are applicable to Suppliers and their Agents.</p> <p>The RAB would be responsible for developing and delivering an operational plan detailing which assurance techniques from the current assurance techniques are to be deployed as against those risks which have already been identified by the REG. The RAB will also be able to determine at its discretion those participants in respect of whom particular assurance techniques should be utilised. The general nature of the RAB’s</p>	

<b>Modification Proposal – BSCP40/06</b>	MP No: 207 (mandatory by BSCCo)
<p>functions/roles shall be contained in the Code.</p> <p>It would be for the Modification Group to consider whether the REG and the RAB ought to be two distinct bodies with different memberships and whether the current PAB could evolve into the RAB to provide continuity from the current arrangements.</p> <p>The REG (and possibly in some circumstances the RAB) would be able to raise Modifications or make recommendations to the BSC Panel that changes to the Code or Code Subsidiary Documents (CSDs) should be made. Such proposals could be in respect of assurance matters, including but not limited to performance standards and/or in relation to the suite of assurance techniques which are to be deployed.</p> <p>Given that a new governance regime is being proposed in respect of the PAF, changes will also be required to the Code to remove any incompatible existing governance arrangements relating to the current PAF, including those functions currently performed by the Performance Assurance Board (PAB).</p> <p>This proposal also seeks to ensure that the effectiveness of the assurance framework would be evaluated and reported to BSC Parties on a regular basis (potentially annually).</p> <p>The role of the BSC Panel under the proposed governance regime would, amongst other things, be to oversee the delivery of the regime and could act as a point of escalation in respect of participants who continuously breach the Code (i.e. are in continuous or repeated non-compliance).</p> <p>A possible example of the practical application of the risk based assurance regime is attached to this proposal at Appendix A (this proposal was drafted by the Core Working Group (CWG) and was included in the PAF Final Report as Appendix F).</p> <p>The new governance arrangements when introduced will utilise and apply the current assurance techniques available under the Code. Changes to such techniques will therefore be required only to the extent necessary to ensure that the current assurance techniques are compatible and are able to be deployed with the new governance arrangements and the risk based approach described in the proposal.</p> <p>To avoid any doubt, it is not the intention that new assurance techniques or substantially amended current assurance techniques are introduced via this proposal. Any additional assurance techniques or substantially altered assurance techniques would need to be introduced via separate Modifications and Change Proposals.</p> <p>It is envisaged that the performance assurance of CVA Systems would also fall under the remit of the new governance regime as to have two separate governance and assurance regimes would be less efficient and effective and would give rise to an element of duplication and inconsistency in the treatment of like situations. It may be that in order to define the purpose of the CVA Systems assurance a CVA Assurance Objective(s) will need to be developed to provide guidance.</p>	
<p><b>Description of Issue or Defect that Modification Proposal Seeks to Address</b> <i>(mandatory by originator)</i></p> <p>Since 1998, considerable experience has been gained regarding the operation of the SVA arrangements. Over this time, however, there have still been a number of significant issues that have arisen which materially impact the accuracy of Settlement. In addition, there have been a multitude of non compliances where the significance or materiality or risk in relation to Settlement is thought to be low.</p> <p>A review of the PAF was launched in August 2005. The CWG carrying out this review concluded that there are weaknesses in the current PAF which justify change, particularly in the way assurance is governed.</p> <p>By way of background, the circumstances within which the PAF operates have changed considerably since the SVA arrangements were originally designed. At that time there was a need to mitigate possible risks arising from the initial implementation of a completely new set of industry processes; there was also uncertainty over</p>	

<b>Modification Proposal – BSCP40/06</b>	MP No: 207 (mandatory by BSCCo)
<p>how Suppliers would operate under the new arrangements.</p> <p>A comprehensive PAF was therefore put in place, with considerable emphasis on ensuring compliance with all aspects of the SVA arrangements by Suppliers and their Agents. With the advent of the New Electricity Trading Arrangements (NETA), this framework was transferred into the Code.</p> <p>Consequently, the BSC Panel, the PAB and the associated PAF techniques are constrained in their operation by requirements set out in the Code and CSDs. These requirements oblige the BSC Panel and the PAB to monitor and audit compliance by participants with all aspects of the Code and to subsequently provide specific notifications and take defined actions in respect of all identified breaches of (i.e. non-compliance with) the Code. A governance regime and more tailored application of the assurance regime of the nature described in this proposal would be more efficient, effective and deliver better value as it would be able to take into account, as a priority, those significant or material issues and/or non-compliances and apply the relevant assurance techniques in a more focussed and productive way.</p> <p>Further, the Code contains no clear objectives against which to assess, on a continuing basis, whether the various non-compliances are significant. As such, under the current PAF it can be difficult to establish the significance of identified non-compliances, and the PAB has little discretion in choosing to disregard non-compliances (or give them a lower priority) where the significance, materiality, or risk to Settlement is low.</p> <p>The existing PAF is therefore considered to be inflexible, and does not necessarily focus on the most important issues. The Proposer considers that one outcome of this is that a number of important issues have remained unresolved over several years.</p> <p>The governance arrangements therefore should not only be flexible enough so that they can identify those risk areas which are seen as a priority but also be flexible enough so that its governing authority is able to deploy a flexible set of assurance techniques in a proportionate manner against those risks. This could be seen as more adaptable, effective and efficient.</p> <p>It is noted though that participants would still be obliged to comply with the Code and CSDs.</p> <p>The performance assurance of the CVA Systems would be better facilitated if they fell under the remit of the REG and RAB as it is felt that it would be inappropriate to have two different governance arrangements under the Code for performance assurance. A consistent approach to the SVA and CVA assurance regimes would be more effective and efficient.</p>	
<p><b>Impact on Code</b> <i>(optional by originator)</i></p> <p>Changes are potentially required to the following sections of the Code:</p> <ul style="list-style-type: none"> <li>▪ Section B and Annex B-1</li> <li>▪ Section C</li> <li>▪ Section H</li> <li>▪ Section J</li> <li>▪ Section L</li> <li>▪ Section S and Annex S-1</li> <li>▪ Section W</li> </ul>	
<p><b>Impact on Core Industry Documents or System Operator-Transmission Owner Code</b> <i>(optional by originator)</i></p> <p>None Identified</p>	

<b>Modification Proposal – BSCP40/06</b>	MP No: 207 (mandatory by BSCCo)
<b>Impact on BSC Systems and Other Relevant Systems and Processes Used by Parties</b> <i>(optional by originator)</i>	
None identified	
<b>Impact on other Configurable Items</b> <i>(optional by originator)</i>	
<p>Changes are potentially required to all assurance related CSDs to ensure that a new governance regime which utilises a risk based approach is able to be deployed and further given this the current assurance techniques will also need to be compatible with the risk based approach. The current assurance related CSDs identified to date are:</p> <ul style="list-style-type: none"> <li>▪ BSCP533 'PARMS Data Provision'</li> <li>▪ BSCP534 'PARMS Techniques'</li> <li>▪ BSCP535 'Technical Assurance'</li> <li>▪ BSCP536 'Supplier Charges'</li> <li>▪ BSCP27 'Technical Assurance of Half Hourly Metering Systems for Settlement Purposes'.</li> </ul> <p>Note that the CSDs relating to Entry Processes, Accreditation and Certification have not been included in this list since they are due to be withdrawn with the implementation of Approved Modification P197 'SVA Qualification Processes Review'.</p> <p>It may also be necessary to include a reference to the effect that the new governance regime is to follow a risk based assurance approach in a new or existing CSD.</p>	
<b>Justification for Proposed Modification with Reference to Applicable BSC Objectives</b> <i>(mandatory by originator)</i>	
<p>The risk-based assurance regime to be governed by the REG and the RAB (as described above) is considered to better facilitate Applicable BSC Objective (c) 'The promotion of effective competition in the generation and supply of electricity, and (so far as consistent therewith) promoting such competition in the sale and purchase of electricity' by providing assurance that the REG and the RAB are able to identify and highlight risks which are seen as significant or material and hence that participants in the SVA arrangements concentrate efforts on resolving such risks such that:</p> <ul style="list-style-type: none"> <li>▪ the transfer of Metering Systems between Supplier Hubs is underpinned by improved data quality; and</li> <li>▪ energy is allocated equitably between Suppliers.</li> </ul> <p>Compliance with the requirements will be monitored by the REG/RAB. Over the course of time, addressing significant or material risks should make the Settlement process more efficient, reducing the overall costs of market operation. It should also encourage entry into the market of new participants with more robust systems and processes as their awareness of the materiality of existing risks would allow them to address, or, at the very least, mitigate those risks prior to market entry.</p> <p>Including the performance assurance of the CVA Systems under the REG and RAB would be seen to enhance its performance assurance as it would be consistent with the SVA arrangements and therefore be more effective and efficient. As a result it would promote more effective competition.</p>	
<b>Urgency Recommended: Yes / No</b> <i>(delete as appropriate) (optional by originator)</i>	
No	

<b>Modification Proposal – BSCP40/06</b>	MP No: 207 (mandatory by BSCCo)
<b>Justification for Urgency Recommendation</b> <i>(mandatory by originator if recommending progression as an Urgent Modification Proposal)</i>	
N/A	
<b>Details of Proposer:</b>	
<b>Name.....Carole Pitkeathley.....</b>	
<b>Organisation...energywatch.....</b>	
<b>Telephone Number.....0191 221 2072.....</b>	
<b>Email Address.....carole.pikeathley@energywatch.org.uk.....</b>	
<b>Details of Proposer’s Representative:</b>	
<b>Name.....Paul Savage.....</b>	
<b>Organisation.....energywatch.....</b>	
<b>Telephone Number.....0207 654 9490 .....</b>	
<b>Email address.....paul.savage@energywatch.org.uk.....</b>	
<b>Details of Representative’s Alternate:</b>	
<b>Name.....</b>	
<b>Organisation.....</b>	
<b>Telephone Number.....</b>	
<b>Email address.....</b>	
<b>Attachments: Yes / No</b> <i>(delete as appropriate) (mandatory by originator)</i>	
<b>If Yes, Title and No. of Pages of Each Attachment:</b>	

**APPENDIX A**

**Overview of Governance Arrangements of a Risk Based Assurance Regime**

**1. Governance Overview**

The proposed assurance framework is founded explicitly on the basis of ongoing risk identification, risk evaluation, and risk mitigation. The governance arrangements described below have been developed to enable an agreed set of assurance techniques to be deployed to mitigate the risk that SVA Assurance Objectives are not met.

Risk identification and evaluation would, in effect, provide a map of the level of risk across the SVA arrangements. A set of assurance techniques would then be chosen for deployment to mitigate the identified risks. Some of these techniques might be deployed across the SVA arrangements as a whole, whilst others, reflecting a further risk assessment, might focus on individual participants (or type of participant).

Transparency would be of particular importance in building confidence that the assurance framework was being operated impartially and efficiently. The outcome of the risk assurance programme would be monitored and the results fed back into the risk identification and evaluation process.

#### BSC Panel

The role of the Panel would be to oversee the delivery of the assurance framework and to approve the key deliverables produced. The Panel would also act as a point of escalation for resolving issues. It may be envisaged that the Panel would also deal with participants that:

- fail to comply with the assurance framework;
- make an unacceptable contribution to the risk to SVA Assurance Objectives; or
- impact the SVA Assurance Objectives in a material or persistent way.

The CWG noted that it might be valuable to distinguish between the role of a "Risk Evaluation Group" (REG), whose task would be to reach a view on the significance of risks facing the SVA arrangements, and the role of a "Risk Assurance Board" (RAB) whose task it would be to deploy the appropriate assurance techniques required to mitigate these identified risks. The CWG noted that it need not be assumed that two separate bodies would perform these roles, or that it would be necessary to establish, for example, new BSC Panel Committees; these would be matters for further consideration.

#### Risk Evaluation Group (REG)

This strategic role would be responsible for the identification and evaluation of key risks to the SVA Assurance Objectives that may arise from the processes set out in the BSC. The REG would be able to regularly assess the requirements for assurance, and would be able to take account of the views of Suppliers about the importance of particular issues.

The REG would be able to promote the development of the assurance regime by raising Modification Proposals or Change Requests, or at the very least be able to make recommendations to the Panel in this regard, for industry consideration as required. The CWG anticipates that this responsibility would be limited to matters of assurance rather than the Balancing and Settlement Arrangements as set out under the BSC. In this way the REG could adapt the techniques available for deployment by the RAB (see below) and the standards to which participants were measured in order to adapt the assurance regime to the changing needs of the industry.

It is envisaged that meetings of the REG would be held in open session and that industry participants would be able to comment on the work of the group through a process of formal consultation. The constitution of this group could comprise either:

- elected or Panel-appointed members that acted as independent experts reflecting an appropriate cross-section of industry participant functions; or
- Panel-appointed representatives from Trading Party organisations, each member representing his or her Trading Party.

#### Risk Assurance Board (RAB)

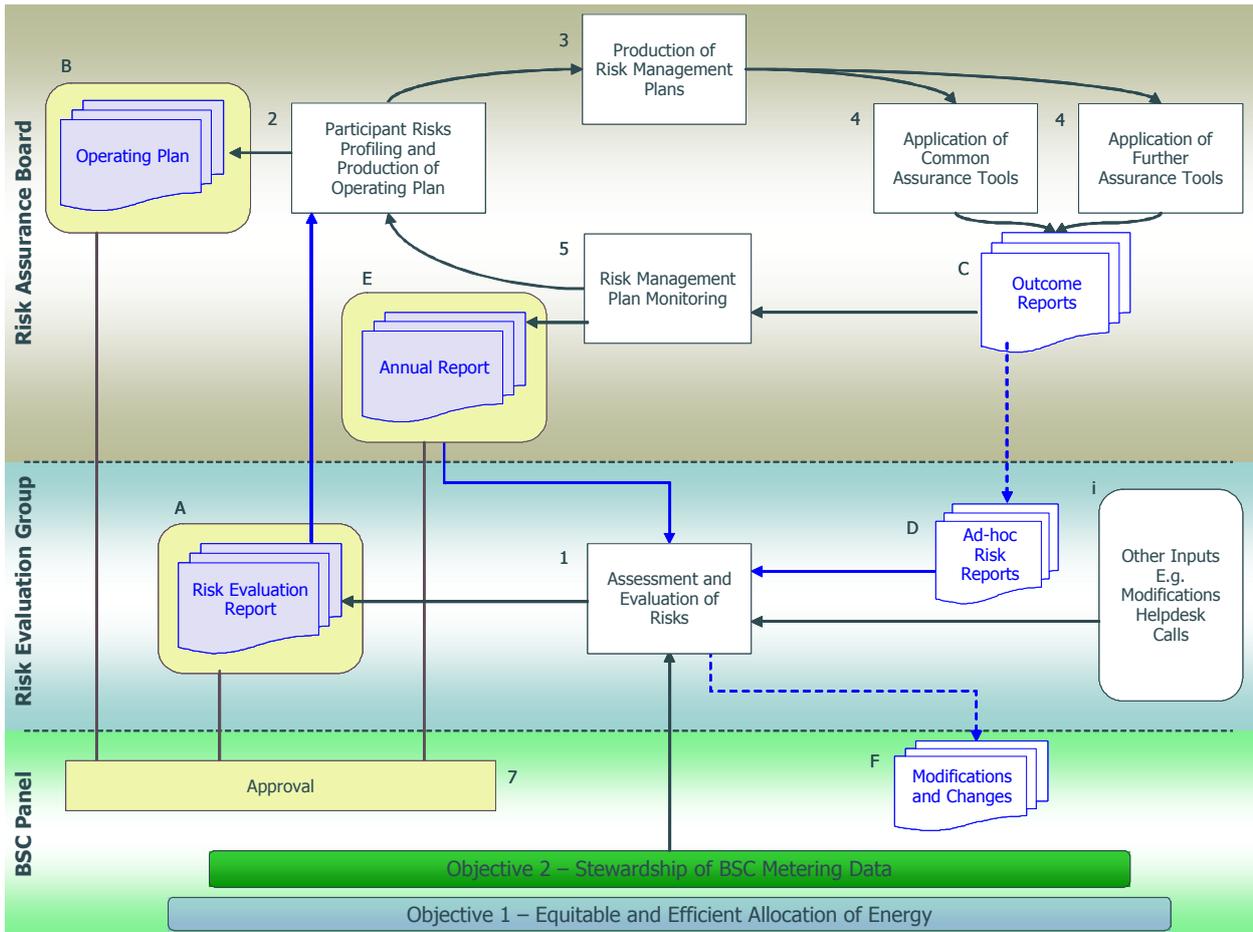
This operational role would be responsible for the development and delivery of an operational plan designed to manage the risks identified by the REG. This work would encompass the application of the assurance techniques. It is envisaged that the flexibility of the risk-based assurance regime would

be founded in the RAB’s ability to deploy assurance techniques according to risk and that these responsibilities would be enabled by the BSC.

Much of the RAB’s work would be confidential and meetings would be held in closed session. Members would act independently; that is, when appointed to the board by the Panel their role is that of industry expert; members would not represent the interests of their employer.

**2. Operation Overview**

The diagram below sets out one possibility for the practical application of a risk-based assurance regime under the governance set out above. Several key deliverables are referenced in this diagram. Each is described in the following section.



**Phase 1: Identification and Evaluation of Risks**

This task would be performed by the REG and would result in the production of a Risk Evaluation Report (RER). The REG would be responsible for the production of this report. Members of the industry would have an opportunity to contribute to the report through the formal consultation that would take place (at least once every year). Any changes to the SVA arrangements that are introduced each year (either via a Modification or a Change Proposal) would be reviewed by the REG and their impact on the RER would be assessed. In addition, whenever an Ad-hoc Risk Report is produced its impact on the RER would also be assessed. This is because Ad-hoc Risk Reports would be generated whenever new information about a particular risk or issue is collected or whenever a potential new risk or issue is identified. It is therefore likely that as well as an annual periodic review the RER would be reviewed and potential updated at various points throughout the year (e.g. to coincide with the implementation of an SVA Release).

### Phase 2: Risk Assessment Decisions and Production of Operational Plan

This task would be performed by the RAB and would result in the production of the Operational Plan. This document is the RAB's formal response to the RER, setting out how the board intends to provide assurance for those risks and issues identified, that is, what assurance techniques will be applied and how they will be applied; and the cost of providing that assurance (i.e. the anticipated costs of applying the assurance techniques). It is envisaged that the Operational Plan will be a non-confidential report that is approved by the Panel and published to the industry. The plan would be produced at least once annually but would also be reviewed whenever the RER was updated.

During this phase the RAB would determine the profile of risks for each participant. The participant risk profile would describe the extent to which the risks highlighted in the RER existed at that participant and would be based on:

- the participant's dimensions and portfolio of metering systems;
- an assessment of the participant's performance historically; and
- knowledge of the relevant control arrangements in place at the participant for each SVA process risk.

This information would be obtained from current market knowledge and the findings of any previously applied assurance techniques. For example, Qualification processes could provide information about an individual participant's control environment. Whilst the RAB may use this information to inform the development of its Operational Plan, it is not envisaged that the detail of participant risks would be published in the Operational Plan. Participant risk information would be considered further during phase 3 below. Appendix H provides further information regarding participant risks.

### Phase 3: Production of Risk Management Plans

Following the assignment of participants' risks profiles, the RAB would translate the Operational Plan into individual Risk Management Plans (RMPs) setting out in more detail how preventative, detective, incentive and remedial assurance techniques would be deployed at each participant.

### Phase 4: Application of Common and Further Assurance Tools

The application of common and further assurance techniques.

Common assurance techniques would be applied to all participants (or groups of participants, e.g. NHHDCs) in the same way and to the same extent. For example, the collection and reporting of Key Performance Indicator (KPI) data for specific business processes could be a common assurance tool, as all participants with the same role in that business process would have to provide the same monitoring data, e.g. all NHHDCs would have to provide data about the number of D0023 exceptions they received.

Further assurance techniques would only be applied where a participant significantly contributed to the existence of a risk or issue identified within the RER and may comprise targeted audits or escalation proceedings or similar.

It is anticipated that controls would be in place to ensure that the application of both common and further assurance techniques would be consistent, with participants in similar circumstances treated similarly by the RAB.

Whenever an assurance technique is applied, an Outcome Report would be produced detailing the findings. If new information is collected about an existing or potential new risk or issue then an Ad-hoc Risk Report would also be produced for review by the REG.

### Phase 5: Risk Management Plan Monitoring

Performance against RMPs would be reported to the RAB. Where the application of an assurance tool provides further information about a participant’s performance this would be used to update that participant’s RMP. Where a participant is found to be failing against its agreed RMP, and this failing is significant, escalation processes could allow for the RAB and ultimately the BSC Panel to be informed of the participant’s poor performance in order that further provisions set out under the BSC may be applied in accordance with the powers of the RAB and the BSC Panel.

At the year-end the RAB would prepare an annual report for presentation to the Panel and the industry. The report would contain the results of the work performed by the RAB, particularly how successful it had been at providing assurance that the risks identified in the RER had been successfully mitigated. The bulk of the report would be concerned with the findings of the different assurance techniques that had been applied during the period and the results that had been obtained from the application of those techniques. This report could include details of those participants who were contributing significantly to the manifestation of a particular risk or issue, as well as league tables of how different participants perform in different areas. In addition, the report would also contain details of the cost of the provision of the assurance framework over the course of the year and how these costs compare to the costs set out originally in the board’s Operational Plan; any deviations would be explained.

**Summary of Key Deliverables**

A number of documents produced by either the RAB or the REG are key to the model. The purpose of these documents and their frequency of production are set out in the table below.

Deliverable	Description	Frequency	Author	Approver	Distribution
<b>(A)</b> Risk Evaluation Report (RER)	Details all key risks and their relative importance (see below)	At least annually	REG	BSC Panel	All
<b>(B)</b> Operational Plan	The RAB’s response to the RER detailing what actions it will take to mitigate the risks identified (see below)	At least annually	RAB	BSC Panel	All
<b>(C)</b> Outcome Reports	The findings of the technique that has been applied (e.g. audit issue documents)	Following the application of a tool	ELEXON, BSC Agent or subcontractor	RAB	Impacted participants, associated Suppliers, OSMs
<b>(D)</b> Ad-hoc Risk Reports	Reports of new risks that have been identified or where further information has been obtained about a known risk	Only when new risks or information is identified following the application of a technique	ELEXON, BSC Agent or subcontractor	REG	All
<b>(E)</b> Annual Report	Details how effective the RAB has been at mitigating the risks identified in the RER (see below)	At least annually	RAB	BSC Panel	All

Deliverable	Description	Frequency	Author	Approver	Distribution
<b>(F)</b> Modifications and Change Proposals or Recommendation to the Panel for the same.	Changes to assurance techniques, standards etc. raised under BSC Section F.	As required when potential improvements identified by the REG or noted to the REG by the RAB via ad-hoc risk reports above.	REG	As per industry process	As per industry process
Risk Management Plans	Details the assurance techniques that will be deployed at a participant based upon an assessment of the risks that the participant presents to the SVA Assurance Objectives	At least annually and revised as necessary	RAB	RAB	Impacted participants, associated Suppliers, OSMs