

## P310 'Revised Credit Cover for Exporting Supplier BM Units'

Under the current BSC arrangements the credit requirements for SVA BM Units are calculated on the basis of energy import (Balancing Mechanism Credit Assessment Import Capability).

This Modification contends that this approach distorts the credit requirements of SVA BM Units with embedded generation and no consumption, and proposes to address this by changing the BSC arrangements so the credit requirements for such BM Units are calculated on the basis of energy export (Balancing Mechanism Credit Assessment Export Capability).



ELEXON recommends P310 is progressed to the Assessment Procedure for an assessment by a Workgroup

This Modification is expected to impact:

- Suppliers (with embedded generation)
- ELEXON

What stage is this document in the process?

01 Initial Written Assessment

02 Definition Procedure

03 Assessment Procedure

04 Report Phase



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**Any questions?**

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## About This Document

This document is an Initial Written Assessment (IWA), which ELEXON will present to the Panel on 14 August 2014. The Panel will consider the recommendations and agree how to progress P310.

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# 1 Why Change?



**Where can I find more information on Credit Cover?**

More detail on **Credit Cover** can be found in the Guidance Note document on our [Credit webpage](#).

## What are the credit arrangements?

Under the BSC arrangements, payments by Trading Parties for Trading Charges arising on any particular Settlement Day are typically made 29 calendar days later. Thus, at any given time, Parties may have debts (or be due payments) for Trading Charges incurred over the previous 29 days. Each Party is required to lodge Credit Cover to cover this period, to ensure that, should it default, it has sufficient collateral available to pay off its debts. Otherwise the debts are shared across all other BSC Parties.

The BSC does not stipulate the amount of Credit Cover that Parties must provide. Instead it is left to Parties to decide on the level of cover that they wish to provide, though Parties will enter Credit Default if they are assessed to have insufficient Credit Cover.

## What is Energy Indebtedness?

A credit check process is performed every half hour to ensure that each Party's accumulated debt, known as their Energy Indebtedness (EI) over the 29 day period does not exceed the amount of Credit Cover they have provided. If a Party has insufficient funds lodged to cover this debt, it will receive a default notice.

Credit Assessment Energy Indebtedness (CEI) is an estimate of EI used until the Interim Information (II) Run is carried out, after five Working Days (WDs).

The methodology for determining CEI is based on the type of BM Unit:

- For Credit Qualifying BM Units and Interconnectors it is based on the BM Unit's contractual position at Gate Closure compared to the latest Physical Notification submitted to National Grid before Gate Closure (Final Physical Notification (FPN)).
- For non-Credit Qualifying BM Units it is based on each BM Unit's contractual position at Gate Closure compared to an estimated metered volume based on the Credit Assessment Load Factor (CALF) and the expected maximum demand and consumption over the BSC Season, called Generation Capacity (GC) or Demand Capacity (DC).

This Modification relates only to non-Credit Qualifying BM Units.

## Non-Credit Qualifying BM Units

For all non-credit Qualifying BM Units, the first five WDs of the calculation use either the BM Unit's GC or DC value (according to its Production/Consumption (P/C) Status). GC and DC values are estimates of a BM Unit's maximum generation and maximum demand for a BSC Season (in MW).

The GC and DC values are firstly multiplied by the respective CALF value of the BM Unit. CALF values are a measure of a BM Unit's average generation or demand as a ratio of its maximum for the equivalent BSC Season of the previous year. For all Supplier BM Units, ELEXON must calculate a CALF value four times a year (once per BSC Season).

Under [BSC Section M 'Credit Cover and Credit Default'](#) 1.6, CALF is used in the calculation of the Balancing Mechanism Credit Assessment Export Capability (BMCAEC) or the Balancing Mechanism Credit Assessment Import Capability (BMCAIC) as follows:



## How are the CALF values calculated?

ELEXON calculates the CALF values in accordance with the ISG's published [CALF Guidance Document](#).

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- $CALF * GC = BMCAEC$
- $CALF * DC = BMCAIC$

BMCAEC and BMCAIC provide an estimate of the export or import capability, respectively, of a BM Unit. This is multiplied by the Settlement Period Duration (SPD) in hours (i.e. currently 0.5) to provide the Credit Assessment Credited Energy Volume in MWh (CAQCE).

This is compared to the Parties' contractual position or Account Bilateral Contract Volume (QABC) to provide their CEI as follows:

- $CEI = (CAQCE - QABC)$

A positive CEI equates to an EI that would require Credit Cover to be lodged.

### Previous discussion of issue

In August 2012, ELEXON presented a paper to the Imbalance Settlement Group (ISG) on considering a way of replacing GC/DC and CALF in the Credit Cover calculation with recent II Run data ([ISG137/09](#)). Taking into account the results of ELEXON's initial assessment of the potential costs and benefits for this change, the ISG agreed that the solution and analysis could be refined further as part of a Modification Proposal if a Party wished to raise a change.

Subsequently at its August 2013 meeting, ELEXON presented a similar issue to the ISG ([ISG148/01](#)), where the current credit calculation fails to reflect the EI of an embedded generator that has a zero DC and is registered in a Base or Additional BM Unit. ELEXON considered this type of registration to be more frequent if Electricity Market Reform (EMR) requires qualifying sites to be registered as additional BM Units. In conclusion, the ISG asked ELEXON to consider more options before taking any further actions.

### What is the issue?

When the CEI is calculated for embedded generation, those BM Units that are registered in Supplier Volume Allocation (SVA) and only have generation sites and no consumption sites, have a DC estimated as zero in the first five WDs. The production volumes are not considered relevant and are not taken into account, i.e. such BM Units would have a non-zero GC, but GC is not used in determining their CEI. The Proposer of P310 notes that the assignment of zero DC means the generation sites are not affecting the CEI calculations, which results in the Party having to lodge Credit Cover or claim Material Doubt to prevent Credit Default.

The Proposer highlights that in the case where the embedded generator has no consumption within the Supplier BM Unit, the BMCAIC is calculated to be zero due to the BM Unit having a zero DC. This zero BMCAIC is then compared against the Account Bilateral Contract Volume (QABC). As a result, any energy that the generator contracts to sell creates an EI, which has to be covered by lodging Credit Cover. The Proposer of P310 contends that this implication for Credit Cover is not justified and that the use of DC and BMCAIC is inappropriate in such cases, i.e. if GC and BMCAEC were used the calculated CEI would be a more realistic reflection of the generator's ability to produce energy and would not result in automatic creation of an EI.



#### What is Material Doubt?

Material Doubt can be claimed where substantial evidence shows that the Credit Cover Percentage (CCP) for a Trading Party as calculated by the ECVA does not give a true reflection of that Party's EI.

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### Proposed solution

P310 seeks to amend the current provisions in BSC Section M so that the BMCAEC value is used instead of the BMCAIC value in the calculation of CEI calculations when a SVA BM Unit contains embedded generation and no consumption.

The Workgroup will need to consider the most suitable change to the current BM Unit data model in the BSC system as part of this Modifications' assessment. In order to reduce the system impact, the current data model could continue to be used under P310. By using the Manual\_Credit\_Qualifying\_flag column in conjunction with the FPN\_Flag column which both use a 'True' or 'False' option, it is possible to indicate to the CEI Calculations that the above switch to using BMCAEC instead of BMCAIC has to be carried out for a specific BM Unit.

Alternatively, an additional flag could be added to the BM Unit data model, which a Party can activate if the BM Unit should use the BMCAEC value instead of the BMCAIC value in the CEI Calculation. This has a minor system impact, but does not require Parties that are not affected by this issue to take any action.

### Applicable BSC Objectives

The Proposer considers that P310 would better facilitate:

- **Applicable BSC Objective (c)**

They believe that the current set-up constitutes a distortion in how BSC Parties with embedded generation and no consumption should lodge Credit Cover as a result of their calculated Indebtedness.

Removing such a distortion should remove unjustifiably onerous Credit Cover requirements from such Parties and thereby facilitate competition in the generation of electricity.



#### What are the Applicable BSC Objectives?

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

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

(c) Promoting effective competition in the generation and supply of electricity and (so far as consistent therewith) promoting such competition in the sale and purchase of electricity

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

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

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

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### 3 Areas to Consider

In this section we highlight areas which we believe the Panel should consider when making its decision on how to progress this Modification Proposal, and which a Workgroup should consider as part of its assessment of P310. We recommend that the areas below form the basis of a Workgroup's Terms of Reference, supplemented with any further areas specified by the Panel.

#### Development of the Proposed Modification

The Workgroup may develop the solution for the Proposed Modification, though the Proposer will retain control of the Proposed Modification. As part of this there are some specific areas for the Workgroup to consider, as follows.

##### Are changes needed to the current BM Unit data model?

As detailed in section 2, the Workgroup will need to consider whether changes can be made to the current BM Unit data model or whether an additional trigger such as a flag will need to be introduced to the system if BM Units should use the BMCAEC value instead of the BMCAIC value in CEI calculations.

##### Other potential changes to the BSC

ELEXON operates an alternative CALF calculation, which gives the opportunity to reverse the sign of the BMCAIC and thereby reflect the generation within the BM Unit. However this option requires a non-zero DC value in order to produce a useable estimate. The Proposer of P310 highlights that this solution is currently not applicable for Suppliers with embedded generation and no consumption, as they have to comply with [BSC Section K 'Classification and Registration of Metering Systems and BM Units'](#) 3.4 and submit a zero DC value when having no consumption. The Workgroup may wish to consider whether this requirement should be amended.

#### What is the magnitude of the issue?

The Proposer contends that the issue will have a more widespread impact on market participants when the EMR Feed in Tariff Contract for Differences (CfD) goes live, as it is expected that these sites will be registered within their own BM Units. The Workgroup should consider the materiality of the issue now and what the magnitude of the issue is likely to be in the future with the introduction of the EMR changes which were directed on 1 August 2014.

#### Areas to consider

The table below summarises the areas we believe a Modification Workgroup should consider as part of its assessment of P310, including standard areas in addition to those detailed above:

Areas to Consider
What changes are needed to BSC documents, systems and processes to support P310 and what are the related costs and lead times?
What is the magnitude of the issue now and what is the magnitude likely to be in the future now that EMR CFD has gone live?



#### Where can I find all the required changes for EMR?

Details of all the required changes can be found on the Other Regulatory Decision (ORD) [5 'Electricity Market Reform' page](#) of the ELEXON website.

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Areas to Consider
Development of the Proposed Modification, including whether a change should be made to the current data model or an additional flag added to the BM Unit data model.
Consider the appropriate implementation approach for the proposed changes
Are there any Alternative Modifications?
Does P310 better facilitate the Applicable BSC Objectives compared with the current baseline?

## 4 Proposed Progression

### Next steps

We recommend that P310 is progressed to the Assessment Procedure for consideration by a Workgroup.

The Proposer is not requesting that P310 is progressed as a Self-Governance Modification Proposal. We agree that it does not meet the Self-Governance Criteria (as defined in BSC Annex X-1), because it would have a material effect on competition in the generation, distribution, and supply of electricity.

### Workgroup membership

We recommend that the P310 Workgroup membership should be formed of experts on the credit processes and any other relevant experts and interested parties.

### Timetable

We recommend that P310 undergoes a four month Assessment Procedure, meaning the Workgroup will submit the Assessment Report to the Panel at its meeting on 11 December 2014. If P310 progresses more quickly than anticipated, we would seek to bring the Assessment Report back to the Panel at an earlier meeting.

We believe that the Workgroup will need to undertake the activities shown in the table below, which includes a central systems impact assessment as well as a 15 WD Assessment Procedure consultation. We propose that the Report Phase consultation is carried out over a 20 WD period. This takes into account the Christmas and New Year holiday periods, when it may be difficult to receive responses due to a probable reduction in the availability of industry members. This will then allow the Draft Modification Report to be presented to the Panel at its February 2015 meeting. This timetable also allows for the Workgroup to fully develop the proposed solution outlined in Section 2 and fully consider the areas in Section 3.

The BSC allows the Panel to set an Assessment Procedure timetable which is longer than three months where the Panel believes this is justified by "the particular circumstances of the Modification Proposal (taking due account of its complexity, importance and urgency)", (Section F2.2.9), and provided the Authority does not issue a contrary direction.

Proposed Progression Timetable for P310	
Event	Date
Present Initial Written Assessment to Panel	14 Aug 14
Workgroup Meeting	W/B 01 Sep 14
Workgroup Meeting (if required)	W/B 08 Sep 14 or 15 Sep 14
Central Systems Impact Assessment	19 Sep 14 – 10 Oct 14
Workgroup Meeting	W/B 13 Oct 14
Assessment Procedure Consultation	24 Oct 14 – 14 Nov 14
Workgroup Meeting	W/B 17 Nov 14



### What is the Self-Governance Criteria?

A Modification that, if implemented:

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

- (i) existing or future electricity consumers; and
- (ii) competition in the generation, distribution, or supply of electricity or any commercial activities connected with the generation, distribution, or supply of electricity; and
- (iii) the operation of the national electricity transmission system; and
- (iv) matters relating to sustainable development, safety or security of supply, or the management of market or network emergencies; and
- (v) the Code's governance procedures or modification procedures; and

(b) is unlikely to discriminate between different classes of Parties.

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Proposed Progression Timetable for P310	
Event	Date
Present Assessment Report to Panel	11 Dec 14
Report Phase Consultation (20 WD consultation)	12 Dec 14 – 14 Jan 15
Present Draft Modification Report to Panel	12 Feb 15
Issue Final Modification Report to Authority	13 Feb 15

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## 5 Likely Impacts

This is our initial view of the probable impacts of this Modification. The detailed impact of the Modification will be fully assessed as part of the Assessment Procedure.

Impact on BSC Parties and Party Agents	
Party/Party Agent	Potential Impact
Suppliers	It is anticipated that there will be a direct impact on Suppliers who have embedded generation and low/zero demand to implement this Modification.

Impact on Transmission Company	
None anticipated.	

Impact on BSCCo	
Area of ELEXON	Potential Impact
Credit Arrangements	ELEXON will need to manage any changes to the current credit arrangements.

Impact on BSC Systems and processes	
BSC System/Process	Potential Impact
SVAA	Changes will be required to implement the proposed solution.

Impact on Code	
Code Section	Potential Impact
Section M	Changes will be required to implement the proposed solution.

Other Impacts	
Item impacted	Potential Impact
Credit Cover Guidance Note	Changes will be required as a result of this Modification.
CALF Guidance Document	Review of alternative CALF values

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## 6 Recommendations



We invite the Panel to:

- **AGREE** that P310 progresses to the Assessment Procedure;
- **AGREE** the proposed Assessment Procedure timetable;
- **AGREE** the proposed membership for the P310 Workgroup; and
- **AGREE** the Workgroup's Terms of Reference.

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### Recommendation

We recommend the Panel submits P310 to a four month Assessment Procedure.

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## Appendix 1: Glossary & References

### Acronyms

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

Glossary of Defined Terms	
Acronym	Definition
BMCAEC	Balancing Mechanism Credit Assessment Export Capability
BMCAIC	Balancing Mechanism Credit Assessment Import Capability
BSC	Balancing and Settlement Code
CALF	Credit Assessment Load Factor
CAQCE	Credit Assessment Credited Energy Volume
CCP	Credit Cover Percentage
CEI	Credit Assessment Energy Indebtedness
CfD	Contract for Difference
DC	Demand Capacity
EI	Energy Indebtedness
FPN	Final Physical Notification
GC	Generation Capacity
II	Interim Information
ISG	Imbalance Settlement Group
IWA	Initial Written Assessment
ORD	Other Regulatory Decision
QABC	Account Bilateral Contract Volume
SPD	Settlement Period Duration
SVA	Supplier Volume Allocation
WD	Working Day

### External links

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

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

External Links		
Page(s)	Description	URL
3	Link to Credit webpage	<a href="http://www.elexon.co.uk/reference/credit-pricing/credit/">http://www.elexon.co.uk/reference/credit-pricing/credit/</a>
3	Link to CALF Guidance Document	<a href="http://www.elexon.co.uk/wp-content/uploads/2013/11/calf_guidance_v17.0_cgi.pdf">http://www.elexon.co.uk/wp-content/uploads/2013/11/calf_guidance_v17.0_cgi.pdf</a>

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External Links		
Page(s)	Description	URL
3	Link to BSC Section M	<a href="http://www.elexon.co.uk/bsc-related-documents/balancing-settlement-code/bsc-sections/">http://www.elexon.co.uk/bsc-related-documents/balancing-settlement-code/bsc-sections/</a>
4	Link to ISG 137/09 paper	<a href="http://www.elexon.co.uk/meeting/isg-138-aug2012/">http://www.elexon.co.uk/meeting/isg-138-aug2012/</a>
4	Link to ISG 148/01 paper	<a href="http://www.elexon.co.uk/meeting/isg148/">http://www.elexon.co.uk/meeting/isg148/</a>
6	Link to BSC Section K	<a href="http://www.elexon.co.uk/bsc-related-documents/balancing-settlement-code/bsc-sections/">http://www.elexon.co.uk/bsc-related-documents/balancing-settlement-code/bsc-sections/</a>
6	ORD005 webpage	<a href="http://www.elexon.co.uk/ord/ord005-electricity-market-reform/">http://www.elexon.co.uk/ord/ord005-electricity-market-reform/</a>

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