

Impact Assessment Responses

P326 'Introduction of a non-Working Day adjustment to the Credit Cover Percentage calculation'

This Impact Assessment was issued on 26 October 2015, with responses invited by 20 November 2015.



Phase

Initial Written Assessment

Definition Procedure

Assessment Procedure

Report Phase

Implementation

Consultation Respondents

Respondent	No. of Parties/Non-Parties Represented	Role(s) Represented
Haven Power Ltd	1 / 0	Supplier
SmartestEnergy	1 / 0	Supplier
Spark Energy Supply Limited	1 / 0	Supplier
Centrica	10 / 0	Generator, Supplier
Opus Energy Ltd	1 / 0	Supplier
E.ON UK Plc	1 / 0	Generator, Supplier, Interconnector User, Non Physical Trader, ECVNA, MVRNA
First Utility	1 / 0	Supplier
RWE Npower	1 / 0	Supplier
EDF Energy	9 / 0	Generator, Supplier, ECVNA, MVRNA
Everis obo ScottishPower	8 / 0	Generator, Distributor, Non Physical Trader, ECVNA, MVRNA

Question 1: Will P326 impact your organisation?

Responses

Respondent	Response
Haven Power Ltd	P326 will have a positive impact on our organisation by lowering the amount of Credit we have to lodge. We envisage some trivial changes to internal reporting systems and processes if either proposed solution is implemented.
SmartestEnergy	We believe this modification would only affect us in terms of the amount of credit required. We do not have a system which replicates the credit calculation.
Spark Energy Supply Limited	<i>Confidential response provided</i>
Centrica	As a Supplier that is a registrant of Supplier BMUs, P326 would require small changes to processes, although we could implement P324 very quickly. We do not consider there to be substantial differences in impacts between the different solutions proposed.
Opus Energy Ltd	<p>The main impact will be a lower and more proportionate credit cover requirement on non-working days.</p> <p>We will have to make a few minor changes to spreadsheets.</p> <p>If credit cover flows are changed to incorporate new fields then minor IT changes will be required to process these.</p>
E.ON UK Plc	<p>P326 will give a better estimate of the supplier credit requirement, particularly for suppliers with commercial customers. Currently our credit cover is kept a high level in case the CCP goes over the threshold of 80% within a short period of time and we are not fast enough to increase the credit cover. This happens often is not to do with the actual supply volume going up but more to do with the CEI calculation methodology. P326 reflects a better view of the energy consumption behaviour thereby helping the suppliers with their credit management leading to a reduced credit cost.</p> <p>Our IT system reflects the current Elexon methodology to calculate the credit cover. A change of the methodology will involve updating the system, change of the business process etc. The amount of change will depend on the adopted solution. The change for Solution A or B shouldn't be dramatically different. There will be, however, more change if the DC/GC value is split into working day and non-working day. Please see Question 8 for the discussion regarding the DC/GC value.</p>
First Utility	A thorough review of our Trading and credit cover calculations would be conducted post approval of the modification to understand our business position. Additionally, there could potentially be an increase in the level of our Credit Cover. This would require relevant approval internally within our business.

Respondent	Response
RWE Npower	We will be positively impacted by P326 as it will mean that our calculated indebtedness is a much better reflection of our actual indebtedness (particularly for the non-Working days within the CEI window), thus reducing the need to lodge excess credit cover. We therefore fully support the rationale of P326.
EDF Energy	Changes to internal procedures and ad-hoc processes for monitoring CALF values and forecasting credit requirements, and requesting holiday values or appeals where required. The different proposal solutions would require slightly different processes, and there might be small differences in resource requirement for each. Overall, the proposals should save effort by reducing effort expended requesting holiday values.
Everis obo ScottishPower	ScottishPower actively manage and model our credit position, and this change will require some reworking of those internal calculations and processes. There will be the standard updating and refreshing of documentation associated with changes of this nature, however we do not feel that they will be onerous and believe that whichever solution finally adopted by the workgroup can be accommodated within the implementation window. Costs will be minimal.

Question 2: Will your organisation incur any costs in implementing P326?

Responses

Respondent	Response
Haven Power Ltd	We do not envisage any costs in implementing P326.
SmartestEnergy	-
Spark Energy Supply Limited	<i>Confidential response provided</i>
Centrica	-
Opus Energy Ltd	Unless flows changes are required in which case there will be minor IT costs to update this part of the system, and a minimum lead time of 6 months will be needed.
E.ON UK Plc	As discussed in Question 1 we will incur IT system change cost and business process change cost but they are not expected to be substantial. The change as a result of Solution A or B might be one-off and is for incorporating the new CALF or DCF factor into our existing model. A probably will be easier to implement than B. It shouldn't be different whether P326 is implemented as part of or outside of a normal BSC System Release.
First Utility	No significant costs will arise in the implementation of this change.
RWE Npower	-
EDF Energy	There would be small costs (probably measured in hours rather than days) to modify internal credit and CALF monitoring processes. These setup costs should be outweighed by ongoing savings in avoided holiday CALF requests.
Everis obo ScottishPower	Minimal

Question 3: How long (from the point of approval) would you need to implement P326?

Responses

Respondent	Response
Haven Power Ltd	We would like to see P326 implemented as soon as practically possible.
SmartestEnergy	-
Spark Energy Supply Limited	1 Month As the changes are modest a one month period should be sufficient to amend our controls and predictions of indebtedness, and our procedures for making our quarterly CEI submissions.
Centrica	We do not require any significant lead time to implement P326.
Opus Energy Ltd	1-6 Months Time required to implement changes should be small. If flow changes are needed then a minimum lead time of 6 months will be needed.
E.ON UK Plc	<1 Month The implementation should be less than one month based on Solution A or B. IT system upgrade is the main driver behind the timescale. A probably is faster to implement than B.
First Utility	3 Months Historical trend analysis of our credit cover position will be the key determination. The timescale identified will not change whether implementation is completed through the normal system release or not.
RWE Npower	<3 Months From the point of approval, we would be happy for the change to take effect from the start of the next BSC season.
EDF Energy	1-3 Months Ad-hoc process changes could probably be achieved within days if required. The cost of an additional CALF verification process cycle would be avoided if implementation were aligned with existing BSC seasonal (3 monthly) CALF processes.
Everis obo ScottishPower	2 Months Updates to internal processes can be undertaken within the standard release schedule. If there is to be optionality then what isn't clear are the timescales for ELEXON providing Parties with the "official" view on the impact of opting in / out, and that could factor into the release timescales (for clarity we prefer to stick to the

Respondent	Response
	standard release schedule). Whilst Parties can calculate the effects on their own BMUs, it would be reassuring (especially for smaller Parties) if ELEXON calculated the definitive effect and passed that on to Parties allowing them confidence in making a decision on opting in or out.

Question 4: Which of the Workgroup's proposed solutions do you believe should be taken forward?

Responses

Respondent	Response
Haven Power Ltd	<p>Solution A</p> <p>We believe the Demand Capacity Factor is the simplest and most accurate way to recognise the impact of the reduction in demand some suppliers experience across non-Working days but do welcome the opportunity to explore both options.</p>
SmartestEnergy	<p>Solution A</p>
Spark Energy Supply Limited	<p><i>Confidential response provided</i></p>
Centrica	<p>We do not currently have a preference between the proposed solutions.</p>
Opus Energy Ltd	<p>Both solutions would fix the underlying issue. Neither solution has particularly higher ongoing operation costs but it's difficult to tell which would be most accurate at this stage.</p>
E.ON UK Plc	<p>It is hard to tell A or B is better without much empirical evidence. B however can be more accurate if</p> <ul style="list-style-type: none"> CALF can be calculated based on a weekly or monthly basis instead of the seasonal data. Weekly or monthly calculation can account for smaller variations hence more accurate. DC/GC is also split into WD and NWD category. This split can avoid the overestimate of the NWD DC/GC by using including the WD capacity into the equation. <p>We suggest Elexon to conduct some empirical analysis to show the difference between the 2 solutions.</p>
First Utility	<p>Solution B</p> <p>We have analysed the two proposed solutions and believe they will benefit the industry. However we cannot determine a distinctive improvement between the two solutions.</p>
RWE Npower	<p>Solution B</p> <p>Solution A would yield a Working day BMCAIC that is not correctly reflective, as it is still influenced by non-Working day data (through the DC and CALF, which would remain as per the current method of calculation by Solution A, i.e. based on both Working and non-Working days). This therefore skews the BMCAIC for Working days.</p> <p>Solution B has the ability to yield a BMCAIC that is better reflective for both Working days and non-Working days. This is therefore the superior solution.</p>

Respondent	Response
	<p>However please note that we believe our adaptation of Solution B (as outlined in our response to Question 8) is to be preferred, as it also allows for differentiation between a standard non-Working day (i.e. a weekend) and special days (i.e. the Annual Holiday Period, as defined in BSC Section M1.5A) by retaining and adapting the HOL-Ratio mechanism.</p>
EDF Energy	<p>Solution B</p> <p>Solution A would systematically underestimate volume during working days, and for this reason should not be taken forward. A variation of solution A which allows for the variation from seasonal average on workdays would be acceptable.</p> <p>Given the defect in solution A, solution B should be pursued. If solution A were corrected, we would be relatively neutral between the solutions.</p> <p>Solution B might have benefits in simplicity when considering CALF appeals and holiday CALFs that might still be made.</p> <p>Note that the average CALF, workday CALF and non-workday CALF are not independent of each other. With knowledge of the number of workdays and non-workdays in each season, any one of them can be determined from the other two. This might not be true if appeals of each were made independently.</p>
Everis obo ScottishPower	<p>Solution B</p> <p>Both solutions have their merits. Solution B seems to be the simpler one conceptually. Looking at the worked examples in Appendix 1 it seems as though Solution B gives a better average, however we look forward to the promised more detailed analysis and the service providers IA before finally settling upon a solution.</p>

Question 5: Should the P326 solution be a mandatory solution or an optional solution?

Responses

Respondent	Response
Haven Power Ltd	<p>Optional</p> <p>We do understand that some Supplier BM Units may wish to have their Credit Cover calculated in the current way and making P326 Optional will facilitate this.</p>
SmartestEnergy	<p>Optional</p> <p>The solution should be optional. The current arrangements create winners and losers and a different mandatory solution would merely alter this balance. We do not believe that there is any interaction between participants' positions (i.e. one is not affected by the choice of another) so it does not matter if it is optional. Also, given how complex the credit calculation is it makes sense for suppliers to be able to make their own choices and reverse them if necessary.</p>
Spark Energy Supply Limited	<p><i>Confidential response provided</i></p>
Centrica	<p>Optional</p> <p>The P326 solution may not be appropriate for all Supplier BMUs. There should be a check to ensure that Supplier BMUs that do not have reduced demand on non-working days are not opting in.</p>
Opus Energy Ltd	<p>Mandatory</p> <p>No strong opinions. It would be less complicated to manage if there was no opt in / opt out system but other parties may have legitimate reasons to want to opt out.</p>
E.ON UK Plc	<p>Optional</p> <p>As shown in Elexon initial analysis some suppliers might be negatively impacted by P326. An optional approach gives such suppliers an opportunity to decide themselves what is the best solution for them.</p>
First Utility	<p>Optional</p> <p>This modification intends to address reductions in supplier demand on non-working days. However, the workgroup has determined there will be some parties who will have additional demand on non-working days. This could mean some new entrant suppliers might be required to pay more for credit cover and others would be required to pay less. We could argue that this limits competition. We understand that this proposal is more cost reflective which in general terms remains competitive.</p>

Respondent	Response
RWE Npower	<p>Mandatory</p> <p>Given the additional administrative burden that P326 as an optional solution would place on the CRA and the increased technical impact (with the need for the addition of a flag), as well as the fact that a significant majority of Supplier BM Units are set to benefit from P326, we believe that a mandatory solution is to be preferred. P326 as an optional solution is likely to increase associated costs and the time taken to implement – and in light of the significant benefit that P326 would bring we would support a shorter delay to implementation.</p>
EDF Energy	<p>If the solution systematically provides more accurate estimates of actual volumes, there would be merit in making it mandatory. This would reduce administrative effort in actively requesting WD/NWD processing.</p> <p>However, although we suspect values would systematically be more accurate across industry, no analysis appears to have been done. If values were not systematically more accurate, there could be anomalous outcomes and many appeals.</p> <p>Provided registrants can make an evergreen request on optional choice, administrative effort for the optional solution should be minimal.</p>
Everis obo ScottishPower	<p>Optional</p> <p>Parties are free to construct their BMUs with whichever components they feel best suits their individual needs or business model. As the initial analysis has shown, this new approach to credit calculation has both winners and losers – BMUs constituted in a certain way may be more accurately assessed under the new methodology, whilst others may not. Parties, who are free to decide upon how those BMU are constructed, should be free to decide how those same BMUs are treated in credit. It is unlikely that one size will fit all.</p>

Question 6: If the solution was made optional, should Supplier BM Units be automatically opted into or opted out of the P326 arrangements upon the P326 Implementation Date (unless the Lead Party has stated otherwise)?

Responses

Respondent	Response
Haven Power Ltd	<p>Opted In</p> <p>We believe that because P326 is beneficial to the vast majority of suppliers, BM Units should be automatically opted into the P326 arrangements. (unless the Lead Party has stated otherwise).</p>
SmartestEnergy	<p>Opted Out</p> <p>The default should be for the status quo to remain</p>
Spark Energy Supply Limited	<p><i>Confidential response provided</i></p>
Centrica	<p>Opted Out – but no strong preference</p> <p>We are open to further discussion on this point. To ensure that only appropriate Supplier BM Units are opted in, the easiest option could be to have Supplier BM Units automatically opted out on the Implementation Date.</p>
Opus Energy Ltd	<p>Opted Out</p> <p>This would in general make the calculation more accurate and if it benefits most suppliers then this seems the most logical way around.</p>
E.ON UK Plc	<p>Opted In but more empirical evidence required</p> <p>Based on the empirical evidence presented by Elexon in the 1st workgroup meeting, only a small proportion of suppliers will be negatively impacted by P326 and the majority will benefit from it. Hence the default should be set as “opted in”.</p>
First Utility	<p>Opted Out</p> <p>Based on the information provided by Answer 5, we believe parties should be automatically opted out. The security of disadvantaged parties will be paramount in the implementation of this change. An increase in credit cover could influence the promotion of effective competition in the market.</p>
RWE Npower	<p>Opted In</p> <p>As the significant majority of Supplier BM Units would benefit from P326, it follows that automatically opted in is the more sensible option.</p>

Respondent	Response
EDF Energy	<p>Opted In</p> <p>Hopefully the processes for opting in or out would be simple. We anticipate WD/NWD values would more accurately reflect outturn volumes, so default opt-in is appropriate.</p>
Everis obo ScottishPower	<p>Opted In</p> <p>The initial analysis seems to support that there is a greater overall good under the proposed arrangements, with a small minority disadvantaged. It seems reasonable in that case to proceed on the basis of everyone is in by default, so long as all Parties are made aware in advance what the effect of their historic position being modelled "In" has had, so they can Opt Out if necessary.</p>

Question 7: Should there be a separate non-Working Day calendar for Scottish BM Units?

Responses

Respondent	Response
Haven Power Ltd	<p>Yes</p> <p>We believe that a separate non-Working Day calendar for Scottish BM Units is appropriate under P326 as it will make the Energy Indebtedness calculation more accurate.</p>
SmartestEnergy	<p>Yes</p>
Spark Energy Supply Limited	<p><i>Confidential response provided</i></p>
Centrica	<p>Yes</p> <p>In principle there should be a separate non-Working Day calendar for Scottish BM Units to accurately reflect reductions in Supplier demand within the Credit Cover calculations.</p>
Opus Energy Ltd	<p>Yes</p> <p>This would slightly increase the accuracy, but if it's a significant amount of work then it seems unlikely that this would be sufficiently material to justify the requirement.</p>
E.ON UK Plc	<p>This will depend on the solution. If the solution proposes to calculate CALF on a weekly basis then applying Scottish Holidays should not add too much additional workload.</p> <p>We suggest Elexon to give an indication of how much additional workload and cost will incur as a result of including the Scottish non-working days into A or B.</p>
First Utility	<p>We do not have substantial resource to analyse the differences between Scottish Bank Holidays and the current arrangements. Our views remain impartial on this subject.</p>
RWE Npower	<p>Yes</p> <p>If this is something that can be implemented with minimal cost then we believe that including a separate non-Working day calendar for Scotland is the fairest solution.</p> <p>However please note that our adaptation of Solution B (as outlined in our response to Question 8 below) addresses 2 of the bank holiday calendar differences between Scotland and England & Wales, namely "Scotland has a bank holiday on 2 January, while England and Wales do not" and "Scotland does not have a bank holiday on Easter Monday, while England and Wales do" without the need for a separate Scottish non-Working day calendar.</p> <p>(Specifically, this would be dealt with through the HOL-ratio process, as the two periods of discrepancy would fall into "Annual Holiday</p>

Respondent	Response
	<p>Period”).</p> <p>Therefore if this alternative solution were to be progressed instead, it could be argued that the impact of the remaining 2 discrepancies may be negligible enough not to warrant the consideration of a separate calendar.</p>
EDF Energy	<p>Yes</p> <p>Although materiality is relatively low for EDF Energy, in principle we think working and non-working days should be accurately represented where possible. Hopefully the additional central costs will be very modest.</p>
Everis obo ScottishPower	<p>Yes</p> <p>There can be a significant difference in consumption on a non-working day compared with a working day. To treat BMUs in Scotland as working on a non-working day or vice versa would be to disadvantage those BMUs purely on geography, and to discriminate against those Suppliers operating in Scotland. At an operational level, Scottish bank holidays are accounted for in processes such as profiling and estimation.</p>

Question 8: Do you believe there are any other possible alternative solutions to P326 that the Workgroup should consider?

Responses

Respondent	Response
Haven Power Ltd	-
SmartestEnergy	-
Spark Energy Supply Limited	<i>Confidential response provided</i>
Centrica	-
Opus Energy Ltd	-
E.ON UK Plc	<p>The rationale is explained in Question 4.</p> <p><u>Alternative solution 1:</u></p> <p>To introduce a working day DC/GC and non-working day DC/GC. WDCALF will times WDDC/GC to give a working-day credit assessment capacity. Multiplying NWDCALF by NWDDC/GC gives a non-working-day credit assessment capacity.</p> <p>CALF calculation is on a seasonal basis as it is now.</p> <p><u>Alternative solution 2:</u></p> <p>Same as Alternative solution 1 except CALF calculation is on a weekly or monthly basis.</p>
First Utility	-
RWE Npower	<p>Yes</p> <p>The future of HOL- and XHOL-CALF values (calculated by the submission of HOL-Ratios values for applicability over the Easter and Christmas Annual Holiday Periods) has not been explicitly addressed. We believe it is also worth considering whether the Easter and Christmas Holiday Periods still require isolation from standard non-Working days (e.g. weekends) for even better reflectivity.</p> <p>Therefore an adaptation of Solution B could be that NWDCALF is still calculated as Avg. NWD Metered Volume / Max. Overall Metered Volume and WDCALF still calculated as Avg. WD Metered Volume / Max. Overall Metered Volume – but days falling within the Annual Holiday Period (as defined in BSC Section M1.5A) are excluded from the days considered in both of these calculations. The existence of HOL-Ratios could therefore be retained, but two versions instead calculated as;</p> $\text{HOL-Ratio} = \frac{\text{HOL average metered volume}}{\text{Avg. NWD Metered Volume}}$ <p>to be applied on Annual Holiday Period days falling on a non-</p>

Respondent	Response
	<p>Working day (i.e. a weekend), or calculated as;</p> $\text{HOL-Ratio} = \frac{\text{HOL average metered volume}}{\text{Avg. WD Metered Volume}}$ <p>to be applied on Annual Holiday Period days falling on a Working day.</p> <p>And then;</p> $\text{HOL-CALF} = \text{HOL-Ratio} \times \text{NWDCALF}$ <p>if the Annual Holiday Period day falls on a non-Working day (i.e. a weekend), or;</p> $\text{HOL-CALF} = \text{HOL-Ratio} \times \text{WDCALF}$ <p>if the Annual Holiday Period day falls on a Working day.</p> <p>We believe this would result in optimal reflectivity, as it segregates 3 different day types that are distinct in their consumption.</p>
EDF Energy	<p>As previously stated, solution A would not accurately reflect the average CALF over the week/season. A reduction for non-working days should have an associated increase for working days so that the average is preserved.</p> <p>It is not clear why non-SVA Consumption BM Units, or in fact all BM Units, are excluded from the solution. Time patterns of transmission-connected demand may also change with working/non-working days, and time patterns of generation follow the same shape as demand. CALF values are not normally used for estimating credit for larger generators which submit PN, and the effect on estimated credit for those production BM Units using CALF would be opposite to that for demand. However, it is not obvious why such BM Units should be prevented from opting for working day/non-working day CALF.</p> <p>Other more radical solutions, such as obtaining real meter data estimates earlier, probably remain too expensive.</p> <p>The natural variation in load factor within seasons and in particular weeks may also be significant, but we assume this is out of scope for the proposal.</p>
Everis obo ScottishPower	-

Question 9: Do you have any further comments on P326?

Responses

Respondent	Response
Haven Power Ltd	-
SmartestEnergy	-
Spark Energy Supply Limited	<i>Confidential response provided</i>
Centrica	<p>We welcome the proposed solutions in P326, subject to the opportunity to comment further on its detailed implementation in the Workgroup's Assessment Procedure Consultation.</p> <p>Our initial assessment is that the costs of implementing P325 within our organisation would be far outweighed by the benefits.</p>
Opus Energy Ltd	-
E.ON UK Plc	-
First Utility	-
RWE Npower	-
EDF Energy	-
Everis obo ScottishPower	-