

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

This Modification proposes to address inefficiencies with excess Credit Cover under the BSC. The proposed solution seeks to remove a limitation in the calculation of Credited Assessment Energy Indebtedness (CEI) for Balancing Mechanism (BM) Units registered in the Supplier Volume Allocation (SVA) arrangements. The removal of this limitation will allow for non-Working Day variations for a Supplier BMU's BM Unit Credit Assessment Import Capability (BMCAIC).



ELEXON recommends P326 is progressed to the Assessment Procedure for an assessment by a Workgroup

This Modification is expected to impact:

- Suppliers
- Central Registration Agent (CRA)
- Energy Contract Volume Aggregation Agent (ECVAA)

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About This Document

This document is an Initial Written Assessment (IWA), which ELEXON will present to the Panel on 10 September 2015. The Panel will consider the recommendations and agree how to progress P326.

There are two parts to this document:

- This is the main document. It provides details of the Modification Proposal, an assessment of the potential impacts and a recommendation of how the Modification should progress, including the Workgroup's proposed membership and Terms of Reference.
- Attachment A contains the P326 Proposal Form.

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1 Why Change?



What is Credit Cover?

Under the Balancing and Settlement Code (BSC) each Trading Party is required to pay Trading Charges to ELEXON as BSCCo for each Settlement Day. Trading Charges are determined in accordance with BSC [Section T 'Settlement and Trading Charges'](#).

Payments for Trading Charges incurred on a Settlement Day are typically made by Trading Parties 29 calendar days later. Therefore, at any given time a BSC Party may have debts for Trading Charges incurred over the previous 29 Days. Each Party is therefore required to lodge Credit Cover based on their accumulated debt.

The purpose of Credit Cover is to ensure that, should a Party be unable to pay the trading charged incurred, sufficient collateral is available for ELEXON to pay off its debts. If a Party does not have sufficient Credit Cover they will enter into Credit Default in accordance with BSC [Section M 'Credit Cover and Credit Default'](#).

The BSC does not specify the amount of Credit Cover that Parties must provide. It is instead left to Parties to determine the appropriate level of Credit Cover.

What is Energy Indebtedness?

ELEXON performs a credit check process every half hour to ensure that each Party's accumulated debt, known as Energy Indebtedness (EI), over the 29 day period has not exceeded 80% of the amount of Credit Cover they have provided. The EI for each Settlement Period is calculated as the sum of the following over the previous 29 days:

- Credit Assessment Energy Indebtedness (CEI);
- Metered Energy Indebtedness (MEI); and
- Actual Energy Indebtedness (AEI).

The metered volumes (or estimations thereof) for every Balancing Mechanism (BM) Unit are aggregated to a Party level and used to produce a Party's overall EI figure.

What is Credit Assessment Energy Indebtedness?

Metered Volumes are received five working days after the Settlement Day and until this time, Indebtedness must be calculated using estimations of metered volume. Under the current arrangements the BM Unit Credit Assessment Import Capability (BMCAIC) calculates a flat line demand estimate across each Settlement Day and Settlement Period. The BMCAIC is multiplied by Settlement Period Duration (SPD) to get a MWh value of Credit Assessment Credited Energy Volume (CAQCE).

The CAQCE is then compared to the Account Bilateral Contract Volume (QABC). The QABC shows a Party's position in any given half hour based on its portfolio. There can be a significant variation in QABC across different day types. This is because the QABC will tend to reflect the expected demand of a Supplier's portfolio.

Credit Assessment Energy Indebtedness (CEI) is the difference between the CAQCE and QABC. Some Suppliers have a significant reduction in their demand across non-Working Days. For example, a Supplier may have a portfolio of large industrial sites that

Where can I find more details on Credit Cover?

Further information on Credit Cover can be found in the Guidance Note document on our [Credit webpage](#).



How is the DC and CALF calculated?

Further information on how the DC and the CALF are calculated can be found on the [CALF page](#) and [GC/DC page](#) of our website.

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shut down across the weekend. The flat CEI estimate does not take this into account. It assumes that the demand is higher than the contracts and therefore the CEI increases. The Credit Cover Percentage (CCP) then increases as the calculation assumes that the Supplier is accumulating Energy Imbalance Charges. This increase can become more significant across holiday periods (Bank Holidays, Easter and Christmas).

What is the issue?

The Proposer notes recent industry recognition that there is significantly more Credit Cover lodged than is actually necessary. The Proposer believes that one of the reasons for this is a limitation in the calculation of CEI.

Currently the CEI calculation for BM Units registered in the SVA arrangements does not allow for non-Working Day variations for a Supplier BM Units' BMCAIC. The Proposer notes that many BSC Parties have a significantly lower Maximum Demand over a non-Working Day compared to a Working day and that this can lead to an unnecessary peak in the amount of Credit Cover required. It is this peak amount of Credit Cover that sets the overall credit required under the BSC. The Proposer seeks to improve the accuracy of the CEI for Supplier BM Units across non-Working Days and therefore address inefficiencies with excess Credit Cover.

Proposed solution

Haven Power raised [P326 'Introduction of a non-Working Day adjustment to the Credit Cover Percentage calculation'](#) on 25 August 2015.

The Modification proposes to address inefficiencies with excess Credit Cover under the BSC. The Proposer seeks to do this by removing a limitation in the calculation of CEI for BM Units registered in the SVA arrangements and allowing for non-Working Day variations for a Supplier BMUs' BMCAIC.

The BMCAIC, which is a product of Demand Capacity (DC) and Credit Assessment Load Factor (CALF), is currently calculated as $DC * CALF$. This Modification proposes to introduce a Demand Capacity Factor (DCF) which will be calculated as:

- Maximum Seasonal non-Working Day Demand / Maximum Seasonal Working Day demand.

P326 proposes that the BMCAIC is then calculated as $DC * CALF * DCF$ for a non-Working Day and $DC * CALF$ for a Working day. The Proposer believes that this will increase the accuracy of the BMCAIC for Supplier BM Units and address inefficiencies with excess Credit Cover.

Applicable BSC Objectives

The Proposer believes that this Modification will better facilitate Applicable BSC Objective (c), when compared to the current baseline.

This Modification will promote effective competition in the generation and supply of electricity because the current setup requires BSC Parties to potentially lodge unnecessarily high levels of Credit Cover. Reducing these levels to a more appropriate amount will result in savings across the industry which can be passed onto consumers and ease the barrier to entry for new parties.



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 P326. 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.

Areas to consider

The table below summarises the areas we believe a Modification Workgroup should consider as part of its assessment of P326:

Areas to Consider
What impact will this Modification have on the overall amount of Credit Cover required?
What impact does P326 have on the Holiday CALF process? - Is the Holiday CALF process still required if this Modification is approved?
Should the DCF be calculated on an average value basis opposed to a maximum value basis?
Should the DCF values be capped?
Should BSC Parties be able to opt in/out?
Should Scottish bank holidays be included?
Does this Modification meet the Self-Governance criteria?
What changes are needed to BSC documents, systems and processes to support P326 and what are the related costs and lead times?
Are there any Alternative Modifications?
Where there is insufficient historic data with which to calculate a DCF for a BM Unit, should a default of 1 be assigned? - Should Parties be able to appeal this, similarly to a CALF appeal?
Does P326 better facilitate the Applicable BSC Objectives than the current baseline?

Average versus Maximum

ELEXON believes the Workgroup needs to consider whether the DCF should be calculated on an average value as shown below:

- average Seasonal non-Working Day Demand / average Seasonal Working Day demand.

ELEXON has conducted some initial analysis showing the DCF being calculated on both an average and maximum value basis. Our initial analysis shows that calculating the DCF on an average value basis may be more accurate. However, ELEXON will need to conduct further analysis as part of the Assessment Procedure.

Capping and opting in/out

ELEXON believes the Workgroup should consider whether the DCF values should be capped. ELEXON has conducted some initial analysis where the DCF is calculated using average values opposed to maximum. In this instance the DCF is set between 1 and 0 in the majority of cases, with some undesirable effects where the DCF was greater than 1 or less than 0, most likely due to imbedded generation.

The Workgroup should also consider whether BSC Parties will be able to opt in or out of this new methodology. Some Parties may not see a significant reduction in their demand during weekends or holiday periods due to the makeup of their portfolio. Therefore, we believe it is appropriate to consider an opt in/out provision. Allowing for such a provision is consistent with other services, for example the Holiday CALF which Parties have to opt into in order to use.

Holiday CALF

The Workgroup should determine what impact this Modification will have on the Holiday CALF process. ELEXON operates the Holiday CALF process for Easter and Christmas only. Parties can opt into the process and have the opportunity to lower the CALF across the holiday period. This Holiday CALF process might be made redundant if the changes proposed under this Modification are implemented.

Scottish Bank Holidays

ELEXON believe the Workgroup should consider whether the P326 proposed solution should be applied to Scottish Bank Holidays as well.

Self-Governance

The Proposer is not requesting that P326 is progressed as a Self-Governance Modification Proposal. ELEXON notes that recent Modifications relating to the Credit Cover arrangements have been approved as Self-Governance Modifications. For Example, [P310 'Revised Credit Cover for Exporting Supplier BM Units'](#), [P306 'Expanding the definition of a 'Letter of Credit' to include regulated insurance companies'](#) and [P307 'Amendments to Credit Default arrangements'](#). ELEXON therefore believes that the Workgroup should consider whether this Modification meets the Self-Governance Criteria.



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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4 Proposed Progression

Next steps

We recommend that P326 is progressed to the Assessment Procedure for consideration by a Workgroup. We recommend that the P326 Workgroup membership be formed of experts on the credit processes and any other relevant experts and interested parties.

Timetable

We recommend that P326 undergoes a five month Assessment Procedure, meaning the Workgroup will submit the Assessment Report to the Panel at its meeting on 10 March 2016. If the Modification progresses more quickly than anticipated, we will seek to bring the Assessment Report back to the Panel at an earlier meeting.

We believe the Workgroup will need to undertake the activities shown in the table below, which includes a central systems impact assessment as well as a 20 WD Assessment Procedure Consultation to take into account the Christmas and New Year holiday period. 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 P326	
Event	Date
Present Initial Written Assessment to Panel	10 Sep 15
Workgroup Meeting	W/B 28 Sep or 5 Oct 15
Industry Impact Assessment	26 Oct – 13 Nov 15
Workgroup Meeting	W/B 23 or 30 Nov 15
Assessment Procedure Consultation	21 Dec 15 – 20 Jan 16
Workgroup Meeting	W/B 25 Jan or 1 Feb 16
Present Assessment Report to Panel	10 Mar 16
Report Phase Consultation	14 Mar – 5 Apr 16
Present Draft Modification Report to Panel	12 May 16
Issue Final Modification Report to Authority	13 May 16

5 Likely Impacts

Impact on BSC Parties and Party Agents

Party/Party Agent	Potential Impact
Suppliers	There may be an impact on Suppliers to implement this Modification as the registrants of the Supplier BMUs.

Impact on Transmission Company

There are no impacts to the Transmission Company anticipated.

Impact on BSCCo

Area of ELEXON	Potential Impact
ELEXON	ELEXON will be impacted through the implementation of the Modification should it be approved. This will include the implementation of corresponding document changes (and system changes if required) as well as ensuring that any business-as-usual processes are adapted accordingly.

Impact on BSC Systems and processes

BSC System/Process	Potential Impact
CRA	Changes may be required to implement the proposed solution. Impacts on BSC Systems, processes and BSC Agents will be determined as part of the assessment of this Modification.
ECVAA	

Impact on Code

Code Section	Potential Impact
Section M	Changes may be required to implement the proposed solution.
Section K	

Impact on Code Subsidiary Documents

CSD	Potential Impact
Credit Cover Guidance Note	Changes may be required to implement the proposed solution.
CALF Guidance Note	

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6 Recommendations

We invite the Panel to:

- **AGREE** that P326 progresses to the Assessment Procedure;
- **AGREE** the proposed Assessment Procedure timetable;
- **AGREE** the proposed membership for the P326 Workgroup; and
- **AGREE** the Workgroup's Terms of Reference.

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Appendix 1: Glossary & References

Acronyms

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

Acronym	
Acronym	Definition
AEI	Actual Energy Indebtedness
BM	Balancing Mechanism
BMCAIC	BM Unit 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
DC	Demand Capacity
DCF	Demand Capacity Factor
EI	Energy Indebtedness
MEI	Metered Energy Indebtedness
QABC	Account Bilateral Contract Volume
SPD	Settlement Period Duration
SVA	Supplier Volume Allocation
SVAA	Supplier Volume Allocation Agent
TC	Transmission Company

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	BSC Sections webpage	https://www.elexon.co.uk/bsc-related-documents/balancing-settlement-code/bsc-sections/
3	Credit Cover webpage	https://www.elexon.co.uk/reference/credit-pricing/credit/
3	CALF webpage	https://www.elexon.co.uk/reference/technical-operations/balancing-mechanism-units/credit-assessment-load-factor/

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Page(s)	Description	URL
3	GC/DC webpage	https://www.elexon.co.uk/reference/technical-operations/balancing-mechanism-units/generation-and-demand-capacity/
5	P326 webpage	https://www.elexon.co.uk/mod-proposal/p326/
7	P306 webpage	https://www.elexon.co.uk/mod-proposal/p306/
7	P307 webpage	https://www.elexon.co.uk/mod-proposal/p307/
7	P310 webpage	https://www.elexon.co.uk/mod-proposal/p310/
-	Credit Cover guidance note	https://www.elexon.co.uk/bsc-related-documents/bsc-guidance-notes/
-	CALF guidance note	https://www.elexon.co.uk/bsc-related-documents/bsc-guidance-notes/

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