

P345 'Reducing the CAP change notice period and improving its flexibility'

Following discussion by the Credit Committee and BSC Panel, this Modification seeks to reduce the notice period for changes to the Credit Assessment Price (CAP) to 15 Business Days. P345 would also enable the notice period to be changed in future without a Modification as long as it remains above a minimum value set out in the BSC and such a change is consulted upon.



ELEXON recommends P345 is progressed directly to the Report Phase with an initial recommendation to approve

This Modification is not expected to impact BSC Parties or any other participants

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About This Document

This document is an Initial Written Assessment (IWA), which ELEXON will present to the Panel on 9 June 2016. The Panel will consider the recommendations and agree how to progress P345.

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.
- Attachment A contains the P345 Proposal Form.
- Attachment B contains the draft legal text to implement P345.



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1 Why Change?

Background

Credit Committee recommendations

In February 2016 the Credit Committee discussed options to improve the Credit Assessment Price (CAP) review and implementation processes. With the agreement of the BSC Panel the Credit Committee subsequently consulted on several options, including reducing the notice period for implementing a new CAP value from 20 Working Days to 15 Working Days.

All four respondents to the Credit Committee's consultation supported shortening the notice period for implementing a new CAP value. One respondent suggested shortening the notice period further in the future to make the process even more flexible.

The Credit Committee therefore proposed a series of amendments to the CAP review process to the Panel, including recommending reducing the notice period for implementing a new CAP value to 15 Working Days.

Panel considerations

The Panel considered the Credit Committee's recommendations at its meeting on 10 March 2016. The Credit Committee's recommendations and supporting information were set out in paper [250/15 'Proposed Changes to the CAP Process'](#).

The Panel approved the Credit Committee's recommended changes and noted that a BSC Modification would need to be raised to amend the notice period for implementing a new CAP value.

While changes to the CAP calculation require the Credit Committee to seek the Panel's approval, most of the Credit Committee are also Panel Members. The Panel considered whether a lack of industry responses to Credit Committee consultations coupled with little industry representation at the Credit Committee meetings was an issue. They noted, however, that the Credit Committee had agreed to consult on any recommended changes to the CAP calculation, which will ensure industry participants have an opportunity to raise any concerns.

To facilitate the execution of the change a Panel Member agreed to raise the requisite Modification, with the assistance of ELEXON in drafting the Modification Proposal and legal text and the Panel's review of the proposal.

The Panel considered that it might prove beneficial to reduce the notice period further in future to provide additional flexibility and that it would be sensible to provide some scope for this to be done without a Modification being required, but that appropriate oversight and industry consultation should be required.

The Panel therefore determined that the Modification to reduce the notice period for implementing a new CAP value from 20 Working Days to 15 Working Days should also:

- Enable the CAP change notice period to be changed without a Modification by moving this parameter from the BSC to the CAP Review Guidance Document;
- Require that any change to the notice period must be consulted upon and is subject to the agreement of the Panel; and

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- Retain a backstop notice period of 10 Working Days in the BSC so that the period cannot be reduced below this minimum value without a Modification.

What is the issue?

CAP is used in the calculation of Actual Energy Indebtedness (AEI). The Credit Committee considers changing the CAP value if the difference between the CAP and a reference price breaches a predetermined value, as set out in the CAP Review Guidance Document.

At present, BSC Section M 'Credit Cover and Credit Default' includes a requirement that the effective date of any change to the CAP shall not be earlier than the 20th Business Day following the date of notification of the change. In practice this means that implementing a new CAP value takes on average six weeks from the breach to the implementation.

Recent volatility in market prices means a more flexible process for changing the CAP would enable it to better reflect reference electricity prices. Reducing the notice period for changing the CAP would enable it to be changed more quickly, which would allow the CAP to reflect more recent data and better react to market conditions. The benefit of a revised CAP value being applied in the calculation of AEI would also be delivered more quickly.

In addition, since the notice period is currently specified in the BSC, a Modification is required to change it. This limits the flexibility of the CAP review process and means that a Modification is required for any change to this parameter.

P345 'Reducing the CAP change notice period and improving its flexibility' was raised by SSE plc on 2 June 2016 to implement the solution agreed by the Panel following its consideration of the Credit Committee's recommendations.

Proposed solution

P345 would amend the BSC and the CAP Review Guidance Document by:

- Moving the CAP change notice period parameter from the BSC to the CAP Review Guidance Document;
- Reducing the CAP change notice period from 20 Working Days to 15 Working Days;
- Requiring that any change to the CAP change notice period must be consulted upon and is subject to the agreement of the Panel; and
- Introducing a backstop CAP change notice period of 10 Working Days into the BSC, i.e. a Modification would be required to reduce the notice period to less than 10 Working Days.

Implementation of this solution is a document only change, with no associated system changes.

Legal text

The draft legal text to implement P345 is set out in Attachment B. As well as changes to BSC Section M 'Credit Cover and Credit Default', the required changes to the CAP Review Guidance Document are also included in the attached legal text.

Applicable BSC Objectives

As set out in the Modification Proposal, it is contended that P345 will better facilitate Applicable BSC Objectives (c) and (d).

Objective (c)

Recent high volatility in market prices means there is a need for a more flexible process for changing the CAP to better reflect the level of electricity prices. Reducing the notice period will allow the Credit Committee to react faster in case of a sudden drop or increase in market prices to reflect System Prices more accurately. This will facilitate Objective (c) because having the most reflective value of CAP in place as quickly as possible will enable more accurate calculation of Parties' indebtedness and consequently Credit Cover requirements. Faster and more efficient calculation and securitisation of energy indebtedness will tend to promote effective competition in the generation and supply of electricity, as any under or over securitisation of indebtedness will be corrected more quickly, reducing unnecessary collateral burdens but equally minimising Parties' exposure to bad debt.



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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Objective (d)

Moving the notice period from the BSC to the CAP Review Guidance Document (while retaining a minimum notice requirement in the BSC) means that if it is considered beneficial to change the notice period in the future this can be done without a BSC Modification, whilst requiring industry consultation and oversight by the Credit Committee and BSC Panel. This will facilitate Objective (d) as it will promote efficiency in the administration of the balancing and settlement arrangements.

Implementation approach

We recommend an Implementation Date for this Modification of 10 Working Days following approval, i.e. following the 15 Working Day period for appealing Self-Governance Modification decisions.

Changes are required only to the BSC and the CAP Review Guidance Document. The changes have minimal impact to implement and the introduction of increased process flexibility would be beneficial.

3 Proposed Progression

Next steps

The solution is fully developed and does not require further assessment by a Workgroup. We therefore believe that P345 should progress directly to the Report Phase.

Self-Governance

We believe that this Modification meets the Self-Governance Criteria because:

- It will have no material impact on:
 - Existing or future consumers;
 - Competition;
 - The operation of the Transmission System;
 - Wider market/network management issues;
 - Code procedures; and
- It does not discriminate between different classes of Parties.

We therefore recommend that P345 is treated as a Self-Governance Modification.

Timetable

We recommend P345 is progressed directly to the Report Phase as a Self-Governance Modification, following the proposed timetable set out below.

Proposed Progression Timetable for P345	
Event	Date
Present Initial Written Assessment to Panel	9 June 2016
Report Phase Consultation (<i>15 Working Days</i>)	13 June - 1 July 2016
Present Draft Modification Report to Panel	14 July 2016
Self-Governance Appeal Window (<i>15 Working Days</i>)	15 July - 4 August 2016



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 Likely Impacts

This Modification is a document-only change to amend the BSC and the CAP Review Guidance Document.

Implementation of P345 will have no impact on BSC Parties, the Transmission Company, BSCCo or BSC systems. It has no system impacts and no impact on BSC Agents.

The central implementation impact for ELEXON is estimated to be one ELEXON man day of effort to implement the document changes (equating to approximately £240).

Impact on Code	
Code Section	Potential Impact
Section M 'Credit Cover and Credit Default'	Changes required to implement the P345 solution (set out in full in Attachment B).

Impact on other Configurable Items	
Configurable Item	Potential Impact
CAP Review Guidance Document	Changes required to implement the P345 solution (set out in full in Attachment B).

5 Recommendations

We invite the Panel to:

- **AGREE** that P345 progresses directly to the Report Phase;
- **AGREE** that P345:
 - **DOES** better facilitate Applicable BSC Objective (c); and
 - **DOES** better facilitate Applicable BSC Objective (d).
- **AGREE** an initial recommendation that P345 should be **approved**;
- **AGREE** an initial Implementation Date of 10 Working Days following approval;
- **AGREE** the draft legal text;
- **AGREE** an initial view that P345 should be treated as a Self-Governance Modification; and
- **NOTE** that ELEXON will issue the P345 draft Modification Report (including the draft BSC legal text) for a 15 Working Day consultation and will present the results to the Panel at its meeting on 14 July 2016.

Appendix 1: Glossary & References

Acronyms

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

Acronym	
Acronym	Definition
AEI	Actual Energy Indebtedness
BSC	Balancing and Settlement Code
CAP	Credit Assessment Price
IWA	Initial Written Assessment

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 Panel paper 250/15 'Proposed Changes to the CAP Process' on the Panel Meeting 250 page of the ELEXON website	https://www.elexon.co.uk/meeting/bsc-panel-250/
5	Modification P345 page on the ELEXON website	https://www.elexon.co.uk/mod-proposal/p345/