

## Information Sheet

### Credit Cover

This document covers: why you need Credit Cover and how to lodge it; how we calculate your indebtedness; and checking your Credit Cover Percentage (CCP).



If you have any questions on Credit, please call **Rosalind Hartley** on **020 7380 4003** or **Tabish Khan** on **020 7380 4007**.

#### Why do I need Credit Cover?

Trading Charge payments are made to or by Parties 29 days after a Settlement Day. Credit Cover ensures that ELEXON has enough collateral to cover these payments if you cannot make them.

##### Why 29 days?

The timing is linked to the timing of our Initial Settlement (SF) Run. The SF Run determines how much energy you've generated and consumed. The Run also lets us determine the Trading Charges you owe or are owed. Any calculation of charges before this time is approximate.

We send you an Advice Note after we've calculated your Trading Charges. When you receive this note, you should pay or be paid the amount of the Note by Payment Day. The Payment Day, falls 29 days after the associated Settlement Day.

You can lodge Credit Cover during working hours as cash or Letters of Credit. The amount of credit you lodge is divided by the Credit Assessment Price (CAP) to determine your Energy Credit Cover in MWh. We use Energy Credit Cover in the credit calculations.

If you default on a Trading Charge payment, we'll use the Credit Cover that you've lodged to pay off these charges.

##### What if I want to withdraw my Credit Cover?

We ensure that you can't withdraw Credit Cover and put yourself into Credit Default. If you wish to reduce your collateral, there is a 10 day waiting period, during which a 'minimum eligible amount' (MEA) is established. We calculate the MEA by finding your highest level of indebtedness over the last 10 days. We then calculate how much you could have reduced your Credit Cover by and still had a CCP of 75%; this is the maximum amount you can withdraw.

Details on how to submit an MEA request and the relevant forms can be found in **BSCP301**.

##### How much Credit Cover do I need to lodge?

We don't specify the amount of Credit Cover that you must lodge; it's up to you to decide. You'll generally make this decision based on your trading characteristics, but we're happy to help if you'd like some advice. Some things you may want to consider are:

- How much indebtedness could I accrue over 29 days?;
- How would my indebtedness be affected if I experienced a plant trip/system outage?; and
- Other worst-case scenarios.

We will carry out regular Credit checks to ensure that you can't accumulate a debt, over the twenty-nine day period that exceeds the amount of Credit Cover you've provided.



How do I lodge Credit Cover?

If you want advice on lodging Credit Cover, contact the BSC Service Desk on **0870 010 6950** or **bscservicedesk@logica.com**.

## How is my indebtedness calculated?

We check your Energy Indebtedness (EI) every half-hour; EI is measured in MWh. Credit Cover, however, is lodged in pounds (£). To convert your Credit Cover into Energy Credit Cover we divide it by the Credit Assessment Price (CAP). CAP is a parameter set by the **Credit Committee**, and is compared against current wholesale prices to ensure it represents the current market value of electricity.

### Example

If a Party has £500,000 of Credit Cover and CAP is set at £100:

Energy Credit Cover = £500,000 / £100

Energy Credit Cover = 5000 MWh

You can find the current CAP value here:

<http://www.elexon.co.uk/marketdata/staticdata/Parameters/creditalcparams.aspx>

### CEI, MEI and AEI

For each Settlement Period, the EI is the sum over the previous 29 days (including the current Settlement Day) of:

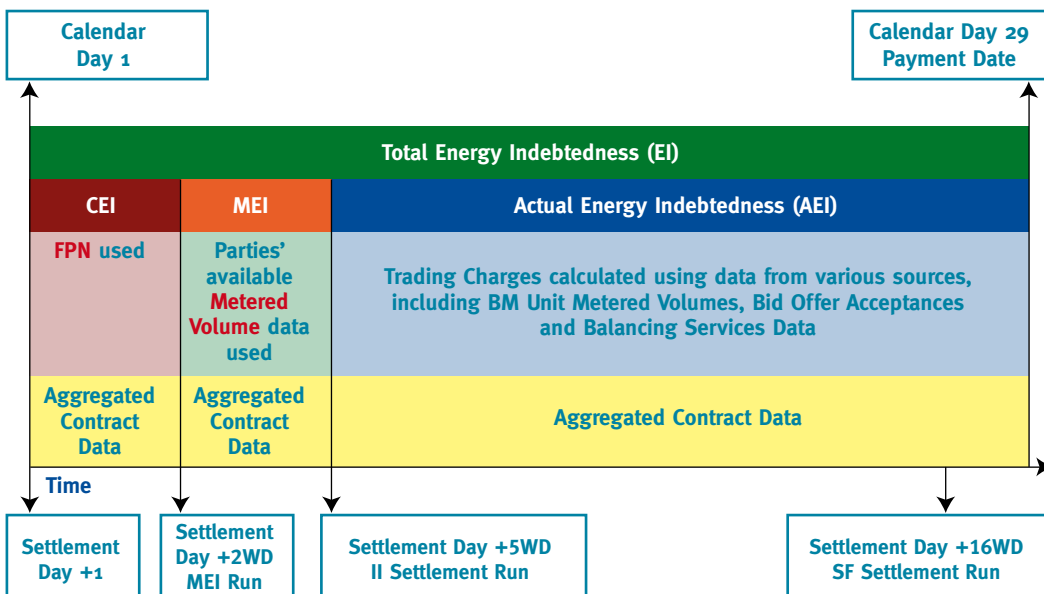
- Credit Assessment Energy Indebtedness (CEI);
- Metered Energy Indebtedness (MEI); and
- Actual Energy Indebtedness (AEI)

These components are calculated for Settlement Periods in the time frames outlined in Figures 1 and 2. These diagrams show the three components and the periods they cover.

The components are calculated for every Balancing Mechanism Unit, in MWh, and are aggregated up to a Party level to produce a Party's overall EI figure. Essentially this is an estimate of your imbalance volume over the 29 day period.

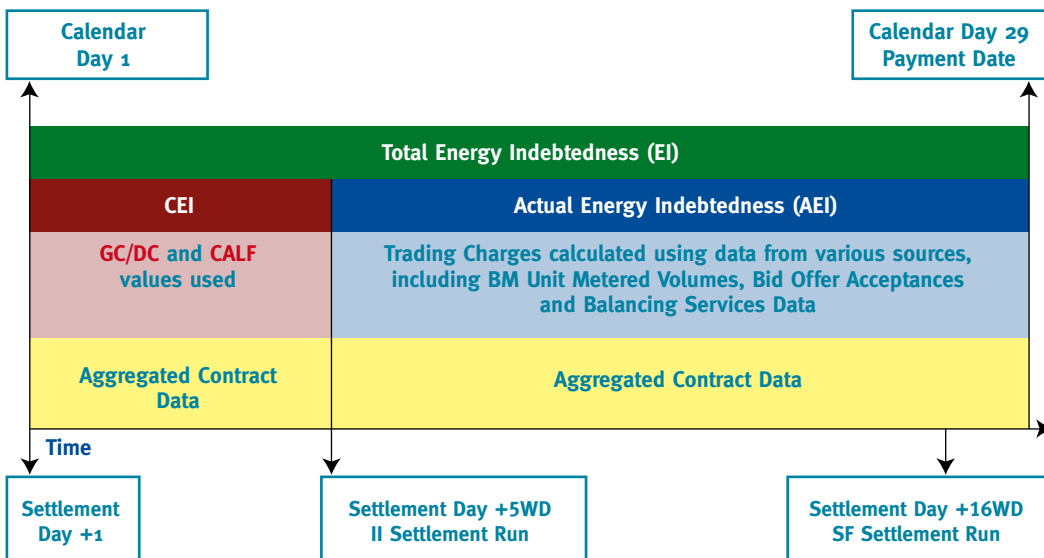
Remember that not all BM Units have a MEI Credit component. MEI is only calculated for Credit Qualifying BM Units – we'll cover these later.

**Figure 1: The Credit Calculation for Credit Qualifying BM Units.**



What is a BM Unit?  
See our information sheet.

**Figure 2: The Credit Calculation for other BM Units (not including Interconnector BM Units)**



### What's a Credit Qualifying BM Unit?

If the BM Unit is not an interconnector BM Unit and is required to submit Final Physical Notifications to the System Operator, it can qualify as a Credit Qualifying BM Unit as long as it has:

- A Production Status flag (i.e. it's classed as a generating BM Unit);
- Exempt Export status; or
- A specific dispensation from the BSC Panel.

As we mentioned earlier, for Credit Qualifying BM Units, CEI only calculates indebtedness over the first two Working Days. The remaining days between CEI and AEI, are covered by an MEI component.

### Credit Assessment Energy Indebtedness (CEI)

CEI estimates a proportion of your Energy Indebtedness until we gather the metered data for that Day. For this reason, the CEI is always used for the last five working days, irrespective of how many calendar days have passed. The CEI for Credit Qualifying BM Units is only for the last two working days.

Immediately after a Settlement Period, no metered data is available. For these Settlement Periods and the next five Working Days, a CEI for each Settlement Period is based on:

- The contractual position, as notified before Gate Closure;
- An estimate of each BM Unit's position based on the Credit Assessment Load Factor (CALF) and a measure of the capacity of the BM Unit, called Generating and Demand Capacity (GC and DC).
- For Credit Qualifying BM Units and Interconnector BM Units, Final Physical Notification (FPN) values are used instead of GC, DC and CALF values.

The measure of capacity for a BM Unit is either the Generation Capacity (GC), for a Production BM Unit, or the Demand Capacity (DC), for a Consumption BM Unit. CALF multiplied by the GC or DC gives an estimate of the average Export or the average Import of the BM Unit per Settlement Period. We compare this to your contractual position to provide your Credit Assessment Energy Indebtedness (CEI).

BM Unit GC and DC must be declared before the start of each BSC Season. It's your best estimate of expected maximum positive and negative metered volume values for the coming season.

### Metered Energy Indebtedness (MEI)

The MEI is based on metered volumes retrieved two working days after a given Settlement day. It compares these metered volumes to the contract volumes you've submitted. This provides your imbalance volume, and this volume is your MEI. MEI is only calculated for Credit Qualifying BM Units. For all other BM Units, including Interconnector BM Units, the MEI doesn't apply and these days are part of their CEI.



#### What about Interconnector BM Units?

The credit calculation for Interconnector BM Units lies between between Figures 1 and 2. The CEI calculation covers the first five working days (as in Figure 2) but it's calculated using FPN data (as in Figure 1).



GC, DC and CALF values for all BM Units are on our [website](#). See the [CALF Guidance Note](#) for more information on CALF and how CALF values are calculated.

### Actual Energy Indebtedness (AEI)

Actual Energy Indebtedness is an estimate of your Trading Charges for a given Settlement Period expressed in MWh. It's calculated from five Working Days after a Settlement Day, at which point it replaces the CEI (and MEI) for those particular Settlement Periods. Like CEI and MEI, the AEI is a MWh quantity and is calculated by dividing your Trading Charges by the CAP.

After five working days, we'll have calculated the daily Trading Charges for each Party. At this stage, we'll have determined the BM Unit Metered Volumes for CVA (Centrally Registered) BM Units. However, this metered data may include estimates that have not yet been agreed with a Party.

The volumes for Supplier BM Units take longer to collect, so we don't have these volumes after five working days. At this point we do have the Grid Supply Point (GSP) Group Take – the total energy consumed by a specific geographical area (the UK is divided into 14 GSP Groups for Settlement). We then use this volume to estimate a Supplier's consumption/generation for each GSP Group by comparing it to a similar day that has already passed through initial Settlement, carried out after 16 Working Days.

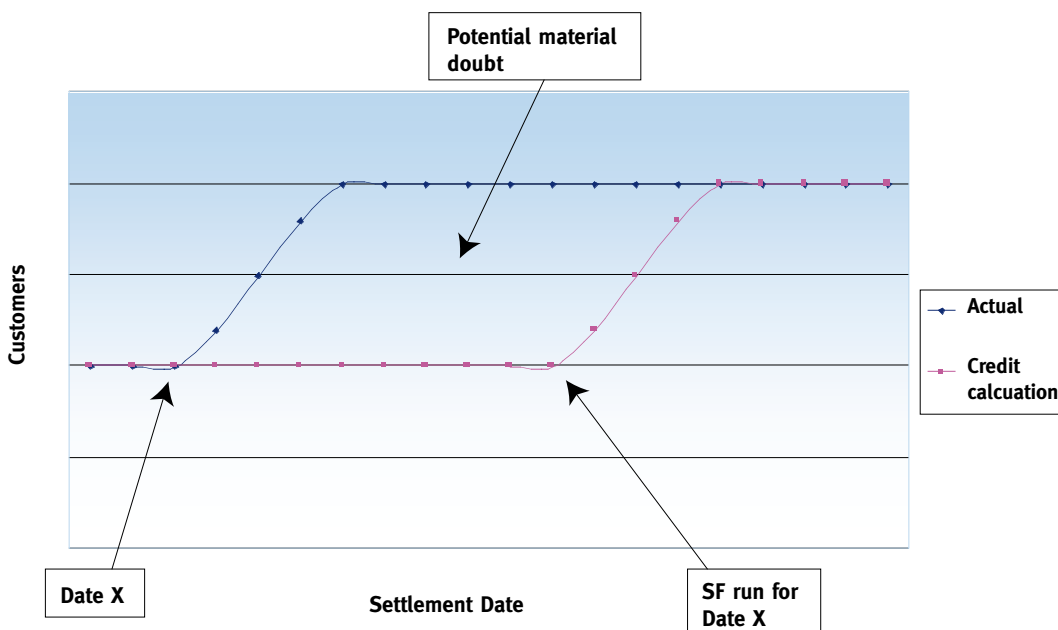
#### Example

Let's assume the Settlement Date is a Monday and the GSP Group Take for a particular area that day is 500MWh. Metering data for individual Suppliers, within this GSP Group, is not known until an SF Settlement Run. We therefore need a way of estimating Suppliers metered data. In this instance we would look at the last Monday that went through an SF Run, and call this the 'Reference Day'. This tells us what the GSP Group Take was in the same area for this Reference Day. We can then use the Supplier volumes and this Group Take figure to calculate the percentage of energy used by a particular Supplier within that area, on the reference day. Let's say that this percentage is 10%. From there, we apply that percentage to the current GSP Group take of 500MWh to estimate the Suppliers consumption on the actual day. In this example, the estimated consumption is 50 MWh. The volume will also be adjusted to account for any difference in temperature between the actual day and the "reference day".

This means that any change in a Supplier BM Unit's proportion of GSP Group Take will not be reflected until that change has passed through SF, approximately twenty-two days later. So if a Supplier's customer portfolio changed significantly, this wouldn't be reflected in the estimates of metered volumes until after the SF Run for the day the portfolio changed.

The credit calculation would over- or under-estimate the metered volumes for that Supplier, which could force them to post additional Credit Cover.

**Figure 3: How the credit calculation impacts Suppliers**



In the graph above a Supplier progressively gains more customers after 'Date X'. The credit calculation won't reflect this as it uses reference dates from before Date X. Only after Date X has passed through the SF run will the credit calculation reflect this change in their customer portfolio.

The discrepancy between the two lines in the graph indicates the difference between the estimated indebtedness and the actual indebtedness in their AEI.

If a Supplier feels that the AEI disadvantages them unfairly, they are able to appeal the calculation by lodging Material Doubt, see the [Material Doubt Guidelines](#) for more information.



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Want to know more about Credit Default?  
[See our information sheet.](#)

## Checking Credit

After each Gate Closure (the point at which no further contracts may be submitted for a Settlement Period), a new estimate of EI for each Party is calculated. We do this by taking into account the Contracted and Metered Volumes for the Settlement Period for which Gate Closure has just passed.

This estimate is divided by the amount of Energy Credit Cover in order to provide your Credit Cover Percentage (CCP). Depending on whether your CCP exceeds certain thresholds, a number of steps may be taken.

### **Further Information**

Further information on this subject is contained in Sections M – ‘Credit Cover and Credit Default’, and P – ‘Energy Contract Volumes and Metered Volume Reallocations’ of the Balancing and Settlement Code (BSC).