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Issue 106

Meeting 2

23 March 2023

RECAP OF MEETING 1

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Workgroup Meeting 1 Recapitulation

- Workgroup meeting 1 was held on 21 February 2023
- Elexon took the group thought the Credit Cover arrangements and main pain points identified with the Survey
- The Workshop provided feedback and discussing points for the 5 work streams proposed by Elexon, which are:
    - What should Credit be used for?
    - Data and timeframes
    - Fairness and equality
    - Impacts of providing Credit Cover
    - Communication and Credit Governance
- Elexon then explained that the team was going to analyse the feedback further and propose the next steps

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Meeting Agenda

Meeting objectives:

- Discuss the proposed long term solution
- Review and approve proposed improvements to the current processes

Agenda Item	Lead
1. Welcome and meeting objectives	Elliott Harper, Elexon – Chair
2. Work stream 1: What should Credit be used for? Proposed new Credit Cover calculation	Chris Wood – Market Design
3. Work stream 2: Data and timeframes. Proposed improvements to current processes 3.1 Minimum Eligible Amount - MEA 3.2 Changes to Credit Default	Chris Wood and Tirath Maan – Subject Matter Expert
4. Next steps	Cecilia Portabales - Lead Analyst
5. Meeting close	Chair

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WORK STREAM 1 WHAT SHOULD CREDIT BE USED FOR

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Work stream 1: What should Credit be used for?

- According to the feedback and discussion duirng the first meeting, how indebtedness is calculated is one of the most problematic aspects of the Credit Cover arrangements.

- It was agreed previously that the amount of Credit lodged should cover worst case scenario to minimise risk to BSC Parties

- Credit should be such that, in the event of a default, there are funds to cover Charges accrued and potential charges that maybe accrued between default and Market Exit
  - In simple terms – we need to be able to access enough money to cover outstanding costs at the point of Market Exit

- In response to Issue Group members feedback, Elexon has developed a new Credit Cover calculation
  - The proposed options are based on post-MHHS implementation (so longer term)
  - This solution looks forward and backward the Credit Cover calculation
  - Initial calculation is based on Trading Charges but shouldn’t be too difficult to add in Section D Charges and other costs if required

PROPOSED NEW CREDIT CALCULATION AS A LONG TERM SOLUTION

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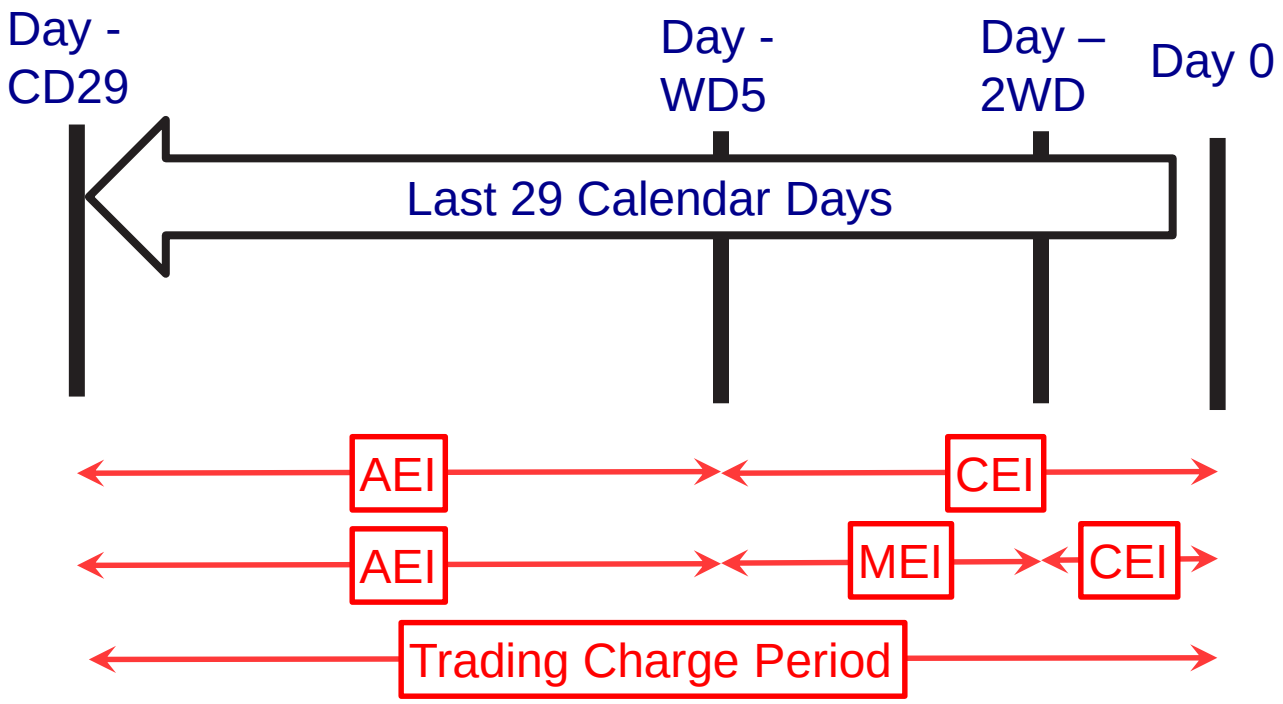
Existing Credit Calculation

- Simple Calculation:

$$Credit\ Assessment\ Energy\ Indebtedness + (Metered\ Energy\ Indebtedness) + Actual\ Energy\ Indebtedness = Total\ Energy\ Indebtedness$$

$$CEI + (MEI) + AEI = TEI$$



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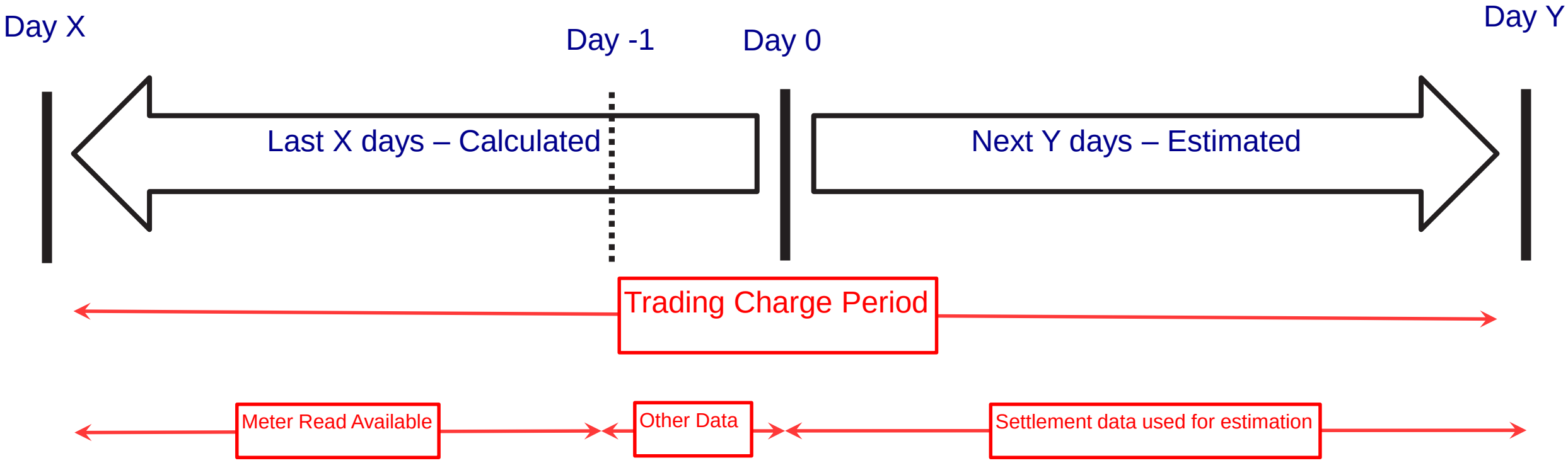
Proposed Credit Calculation – Long term solution

- Simple Calculation:

$$Trading\ Charges\ from\ previous\ X\ days + Expected\ Trading\ Charges\ for\ next\ Y\ days$$

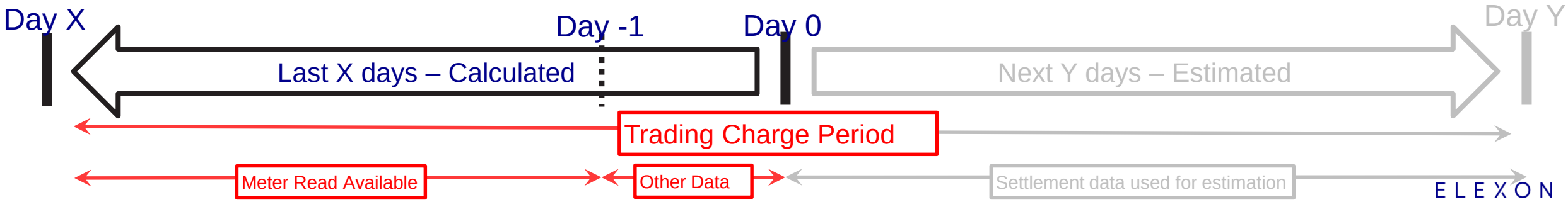


Previous X days notes

- Use existing Trading Charges calculations used in AEI – consensus from IG One is that AEI works
- AEI is a cost - it is the sum of trading charges for a given day
- Meter reads will normally be available next day
  - CDCA dials meters daily
    - CVA Estimation – Elexon has ongoing work identified under Issue 103 to investigate improving the estimation of CVA data
  - Under MHHS we will have meter reads within 24 hours, and LSS data can be used to fill gaps
- Use AEI calculation for D-1, but use estimated Meter Volumes form LSS/CVA Estimates
  - Alternative one – estimate based on MVRNs, ECVNs, FPNs and Balancing actions – would need to investigate further if Issue Group wish to pursue

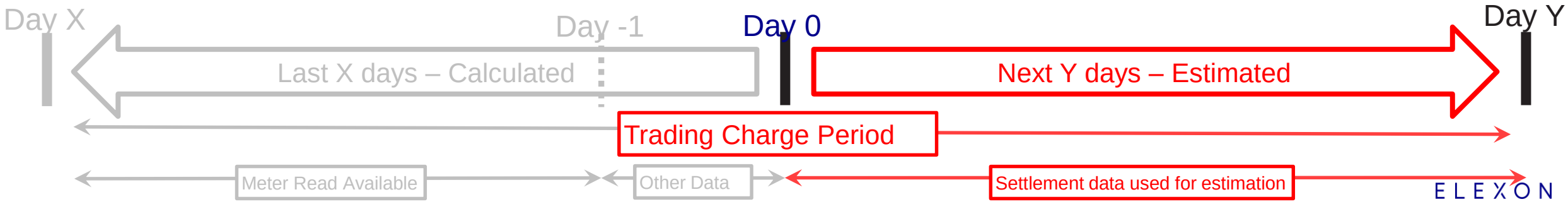
$$(Contract\ Volume \pm Balancing\ Action \pm Outages - Losses \pm Volume\ reallocation) \times Mean\ SSP\ over\ Z\ Periods$$

    - Issue with timings for when data comes through – rather than Per Settlement Period calculation, go for daily?
  - Alternative two – use CEI calculation and then multiply by an SSP related value
- Could Period between invoices reflect this change
- Invariably there will be variations on the formulas for different parties, as we have now



Forward looking Y days

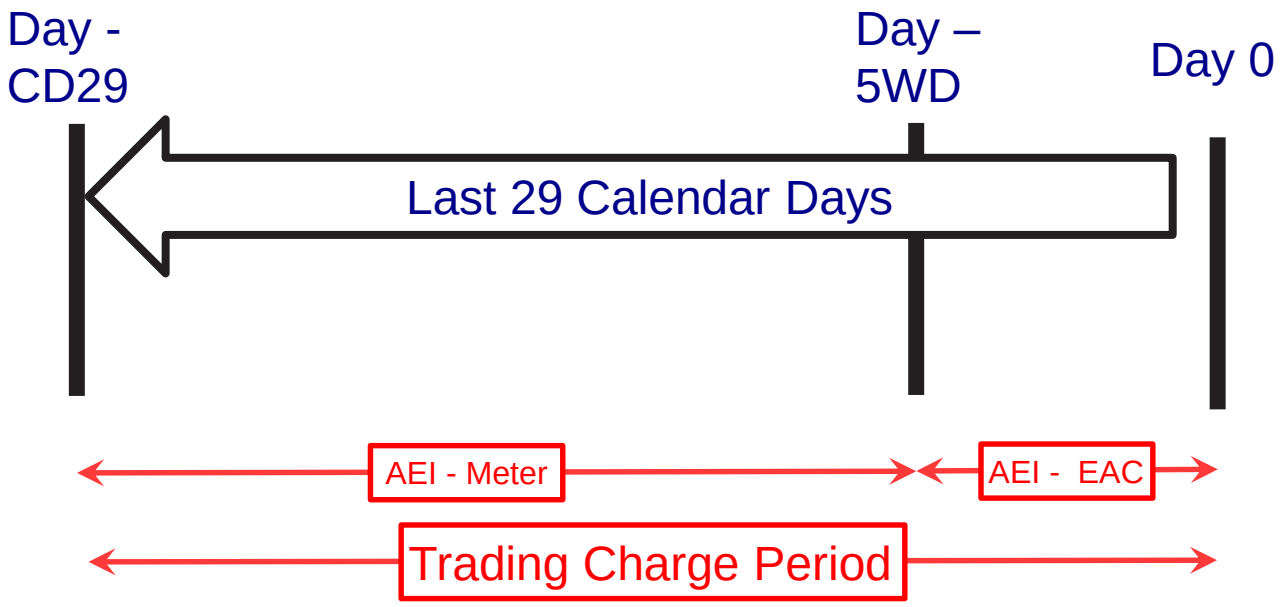
- As a starting point – need to cover period between Default and Market Exit (e.g. SOLR)
  - Usually averages 7 – 14 Calendar Days
- Needs to be 100% Imbalance
- Use the AEI calculation as per last slide but ned to consider the Metered Volume data to 'plug-in' to calculation
- Potential sources/calculations
  - Option one – Use SVA/CVA estimates for consumption from LSS/CVA Estimate as discussed on last slide
  - Option two - reflect last X days for consumption values (Metered volumes)
    - Would we need to make an allowance for holidays – use Holiday CALF?
  - Option three - Use mean volumes over longer period:
    - Monthly – would see little seasonal difference
    - Quarterly – allows for wider range of data but minimalises seasonal variation
    - Six months/year – good set of data, but could be skewed by seasonal variations
- Consider a safety factor e.g. Times calculated forward volume by 1.5 (TBD) to give room for error
  - Could also consider a cap based on a risk based approach



SHORT TERM CHANGES BASED ON LONG TERM SOLUTION

Potential Short term change to TEI

- Could AEI be used instead of MEI/CEI
- Need to consider periodicity of calculations i.e. at present we re-calculate after each Settlement Period
- Could substitute LSS data for EAC data but still use CVA Estimated data for D-1
- If we do this, then wouldn't need to apply CAP in AEI calculation
- Wouldn't require use of CALF or GC/DC estimates
- May not be suitable as we work on MHHS ideals



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WORK STREAM 2 DATA AND TIMEFRAMES - PROPOSED IMPROVEMENTS TO CURRENT PROCESSES

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Minimum Eligible Amount Process - Proposal of changes/Improvements

- From previous discussions/Feedback from 1st IG, we are generally satisfied with current process in that there is an understanding of the principles and steps in involved in current procedure.
- However there is agreement that improvements could be made to current procedure rather than starting from scratch.
- Currently, submitting an MEA request initiates a 10 calendar day waiting period. We take the maximum indebtedness amount seen in that period and work out what amount of credit is required to avoid breaching over 75% of your total indebtedness.

Current Issues

- Delay in withdrawal of credit collateral from submitting a request to the result being received.
  - Ties up cashflow for Parties which could potentially be required elsewhere.
  - Extension to the waiting period when considering increased indebtedness around bank holidays.
- A completely manual procedure.
  - Currently takes 0.3 FTE to process requests.
- Some Parties do not act in the spirit of the current arrangements by submitting daily MEA requests. The purpose of which is to always have a result ready.
  - An impact on resource requirements.

Minimum Eligible Amount Process - Proposal of changes/Improvements

Proposed Solution

- 10 calendar day window is potentially too long for some Parties. Proposal to reducing MEA window to 7 Calendar days looking at backwards indebtedness amount instead of the forward indebtedness amount
  - An MEA result will be calculated looking at the highest indebtedness amount seen in previous 7 Calendar days. An MEA result will be calculated every 30 minutes, meaning Parties will have a result available every Settlement Period.
  - There is not a one size fits all in regards to period length.
  - However 7 Calendar day period will take into account variation of peaks seen across weekdays and weekend.
- FAA to complete final check before processing credit withdrawal, to monitor any noticeable changes in indebtedness.
  - An additional check before withdrawal will reduce risk of having insufficient credit in place against any potential large swings in a Party's indebtedness position.
- Digitising the current process and automate the manual aspects
- Limit Credit Cover withdrawals to one per week
  - One Credit reduction, per week, per BSC Party, otherwise resource requirements begin to shift and impact to FAA.

Credit Default – Proposal of changes/Improvements

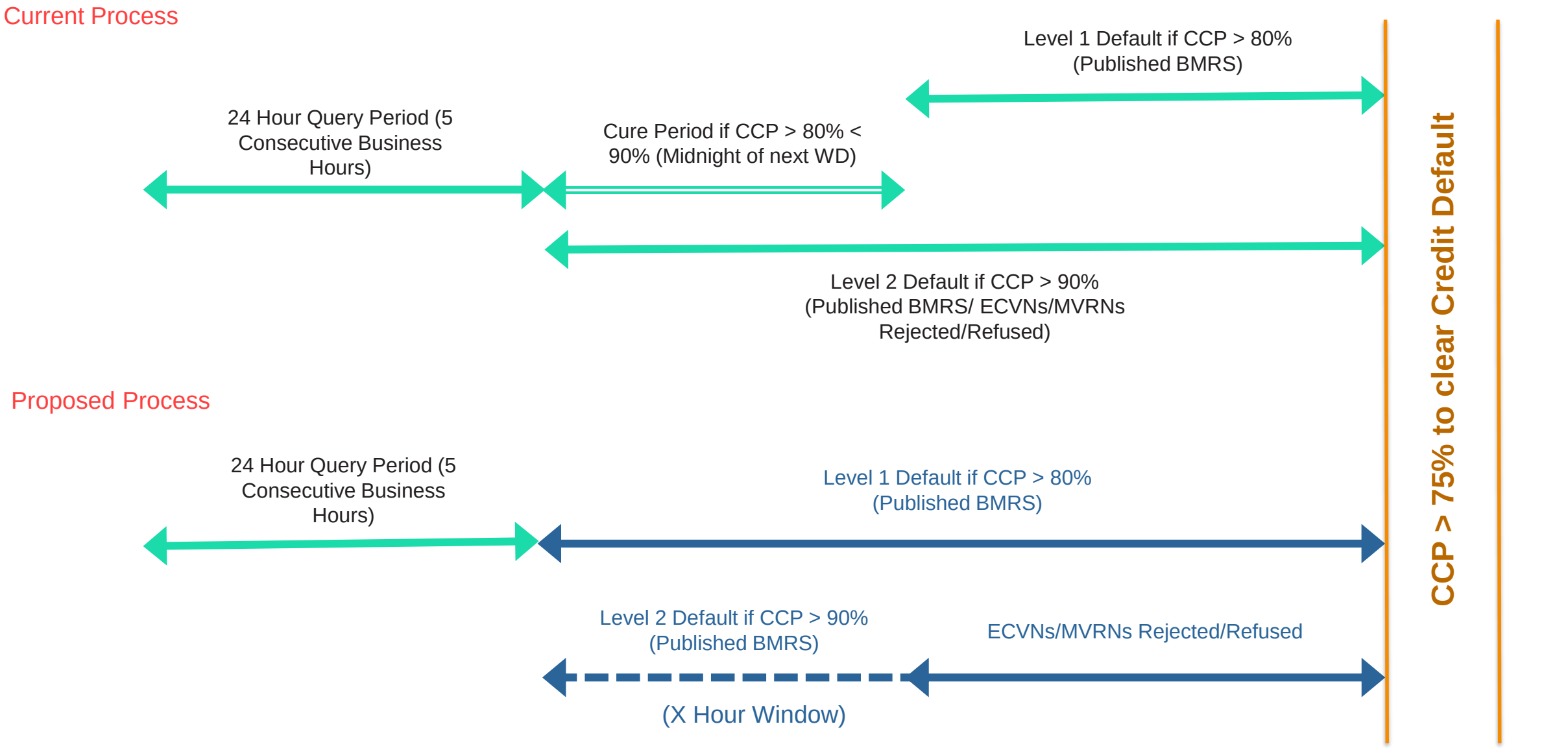
Current Issues

- Consequences of Level 2 Default (if CCP > 90%) causing any upcoming ECVNs/MVRNs to be rejected and any notifications to be refused.
  - Feedback gathered from survey results is that some Parties require early notification of Parties in Default where ECVN's/MVRN's could be rejected.
- Power exchanges need to be able to request collateral from its members in case of refusal or rejection of their energy contracts.
  - Power exchanges need advance warning to call on collateral of its members when needed.

Proposed Solution

- The 24 Hour Query Period remains which includes 5 consecutive business hours. No change to this part of process.
- Proposal to speed up the publication of Level 1 Default by removing Cure Period. Parties published on BMRS (Credit Default notices page) at both Level 1 & 2 Default.
  - Would a Cure Period still be helpful to Parties to Clear Default?
- Level 2 Default Solution 1 – Remove the current actions to refuse /reject energy contract notifications.
  - Benefit would be savings in collateral for customers using power exchanges through no risk of contracts being refused.
  - Should the action be to only remove current ECVN's/MVRN's in place. Not to reject any upcoming ECVN's/MVRN's.
- Level 2 Default Solution 2 – Provide power exchanges details of its customers Credit Cover Percentages.
- Level 2 Default Solution 3 – Change of timings to delay ECVNs/MVRNs being rejected /refused if CCP > 90%.
  - If after Query Period the CCP > 90% ➡ Party enters Level 2 Default (Party published on BMRS). Further delay (X) Hours (ECVNs/MVRNs rejected).
  - What is sufficient time to allow? Do Parties need to be extra vigilant on timings & monitoring?

Level 2 Default Solution 2 Representation



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NEXT STEPS

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Next steps

- We are expecting to discuss each work stream in one or two meetings. Therefore, in the following meetings we will discuss:
  - Any pending point from Meeting 2
  - Work stream 3: Fairness and Equality
  - Work stream 4: Impacts of Providing Credit
  - Work stream 5: Communications and Credit Governance

- If we identify and agree on potential solutions after each meeting, we aim to start the modification processes simultaneously to Issue 106

Progression plan

Event	Date
Workgroup meeting 1	21 February 2023
Workgroup meeting 2	**22 March 2023**
Workgroup meeting 3	W/C 24 April 2023
Workgroup meeting 4	W/C 22 May 2023
Workgroup meeting 5	W/C 12 June 2023
Draft Report to Workgroup	19 June – 30 June 2023
Issue Final Report tabled at BSC Panel Meeting	13 July 2023

AOB

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THANK YOU

Lead Analyst

Cecilia.Portabales@elexon.co.uk

bsc.change@elexon.co.uk

DD Month YYYY