

Issue 106 Workgroup Meeting 2 Summary

Summary

Workgroup Meeting 1 Recap

The Chair welcomed attendees, and Elexon presented a meeting 1 recap.

1. Work stream 1: What should Credit be used for? New Credit calculation proposal

- 1.1. During Meeting 1, the Workgroup (WG) discussed the extent that Credit should be able to cover Trading Charges accrued in the event of a default. In response to Issue Group members' feedback, Elexon has developed a new long-term solution for the Credit Cover calculation based on Trading Charges and not imbalance volume. The reason for the solution being long-term, is that it won't be implementable until post-Market Half Hourly Settlement (MHHS) implementation as it uses estimated meter reads for day D-1 which will be supplied by the new Load Shaping Service (LSS). The principle proposed was generally accepted by members, but it was noted that some modelling and detailed explanations should be provided before deciding whether the proposed solution should be taken forward. Elexon will work on this point for the next meeting, this is **ACTION 1 on Elexon**. The WG noted that the proposal still includes a data estimation and discussed whether the Credit Cover calculation should be based on a daily or per Settlement Period basis; there was no general consensus either way.
- 1.2. The solution proposed includes estimating the Credit Cover needed for a period of time in the future to cover mutualistaion at 100% exposure before a Supplier of Last Resort (SoLR) is appointed. A WG member noted that this could result in the largest Parties having to lodge much more collateral than they currently lodge based on their Trading Charges. Elexon pointed out that the calculation may need to include different criteria for different BSC Parties types, this is **ACTION 2 on Elexon**. This could be, for example, a cap in the amount of Credit collateral deposited for a Party with a good payment history and credit score.
- 1.3. Elexon then proposed a short term solution for Total Energy Indebtedness (TEI). However, the WG noted that the solution might present similar problems to those from the current arrangements and that the focus should be on developing a solid long term solution.

2. Work stream 2: Data and timeframes. Proposed improvements to current processes

- 2.1. Elexon presented a potential change for the Minimum Eligible Amount (MEA) Process since the main feedback from WG meeting 1 was that although the WG were generally happy with the current arrangements, there could be improvements made to the process as it takes too long to withdraw credit collateral.
- 2.2. Elexon proposed to change the ten calendar day waiting period to 7, however looking backwards at the highest indebtedness. The WG discussed the potential implications. If misused, Parties could withdraw their collateral knowing that they may fall into default in the following days.
- 2.3. Therefore, Elexon agreed to analyse the impacts further and develop a more detailed justification for the potential change. **ACTION 3 on Elexon**.
- 2.4. Elexon presented a potential solution for the "Changes around Level 2 Default". An example of this as discussed in the last WG meeting was the impact to the power exchanges which need to hold large amounts of collateral to cover the risk of counterparties entering level 2 credit default.as Energy Contract Volume Notifications (ECVN)/Metered Volume Reallocation Notifications (MVRN)'s are at risk of being rejected. Elexon presented three possible solutions: to remove the actions to refuse/reject energy contract notifications, to provide power exchangers details of its customers' Credit Cover Percentages (CCPs), and the third would be to delay the actions on rejecting ECVNs/MVRNs when a Party enters Level 2 default. There would also be a separate proposal to speed up the publication of Level 1 Default by removing the Cure Period.

- 2.5. A WG member noted that publishing Level 1 Defaults sooner and sharing customers (CCPs) would solve the power exchange main problems with the current arrangements. However, another WG member noted that the impacts on small Suppliers could be very detrimental. Elexon will further analyse the impacts for the different BSC Parties before taking any action forward. **ACTION 4 on Elexon.**

3. Next steps

- 3.1. Elexon reminded the WG about the remaining Work streams and proposed a progression plan for Issue 106.
- 3.2. The next meeting will discuss Work stream 3: fairness and equity, where the WG will discuss a potential risk-based solution. And it will also discuss the actions and follow-ups from meeting 2.

Actions

No.	Action	Owner
1.	Analyse the implications and develop case examples for the new Credit Cover Calculation proposed	Elexon
2.	Analyse the possibility of having different calculations for different industry roles	Elexon
3.	Analyse the potential impacts of changing the MEA and develop a justification for the change	Elexon
4.	Analyse the potential impacts of scrapping the cure period on different BSC Parties	Elexon