# ELEXON

# **Issue 106 Workgroup Meeting 1 Summary**

#### **Summary**

# 1. Meeting Objectives

The Chair welcomed attendees and presented the meeting objectives:

- gather feedback from the Workgroup around the main areas of the Credit Cover process that could be improved;
- review the Credit Cover arrangement, and
- agree the different work streams for Issue 106.

## 2. Overview of Credit Cover arrangements

- 2.1 The proposer explained the main points of the Credit Cover arrangements and how it has not fundamentally changed since its inception. Elexon explained that changes have been mainly around using estimated data to reflect settlement, but the methodology has always been to use Settlement data to reflect outturn trading charges.
- A WG member noted that Credit Assessment Energy Indebtedness (CEI) and Metered Energy Indebtedness (MEI) factors used in calculating indebtedness are highly impacted by Annual Holiday Periods. Weekends and holidays modify the standard payment calendar, making it very complicated to calculate the amount of Credit Cover. CEI and MEI seem problematic in the Credit Cover process due to the arbitrary nature of the Credit Assessment Price (CAP).
- 2.3 A WG member queried how often Elexon calculates the amount of collateral needed. It was explained that calculations run every 30 minutes.

#### 3. Survey outcomes

3.1 Elexon received 20 answers from a wide range of organisational roles represented. The identified themes to discuss during Issue 106 were: calculations, timeframes, and communication and credit governance. Elexon will group all comments and WG questions into five topics and work streams.

## 4. What should Credit Cover be used for?

- 4.1 Elexon explained that currently, Credit Cover covers trading charges. Among the WG's responses was that it should cover: 'everything', 'open exposure for each participant', and 'trading charges'.
- 4.2 A participant noted that Credit Cover should cover not only trading charges but also the risk of default. Until a Supplier of Last Resort (SoLR) is appointed, a party can keep accumulating debt, which is then mutualised.
- 4.3 A WG member noted that, in their view, Credit Cover is to shield all parties from the defaults of others. Until the last two years and the energy crisis, the system prevented Industry from mutualising onerous amounts from large firms failing. Regarding Suppliers failing and the Supplier of Last Resort (SoLR) process, the BSC Panel depends on Ofgem to expel parties from the market. The WG may need to consider if a different point of non-return for defaulted parties is required.
- 4.4 Elexon asked the WG whether Credit Cover should cover a company going out of business. It was noted by a WG member that Elexon should not allow all debts to be mutualised since that could encourage wrong behaviours. There needs to be a balance between preventing failure, and requiring too much Credit Cover.
- 4.5 A WG member queried about having 29 days as a Credit cycle, suggesting that shorter cycles would allow for smaller amounts to be invoiced and lower the risk of default. Elexon explained that the Funds Administration Agent currently requires a 29 days period, but the Market-Wide Half Hourly Settlement (MHHS) will impact the timescales, allowing for shorter Settlement Runs. Although, as a WG member noted, it could also increase volatility.

#### 5. Data and Timeframes

- 5.1 The WG discussed the different data each type of organisation uses, noting the considerable differences between Non-Physical Traders, Generators and Suppliers. It was also stated that estimated data should be avoided when possible.
- The WG discussed the CAP's pros and cons, and was noted as a point to discuss on a different meeting to review it and find a solution. Also, a WG member noted that Demand Capacity (DC) and Generation Capacity (GC) factors do not account for batteries. Currently, a battery with DC bigger than GC is treated as a supplier. The current data captured does not incentivise generation or renewable assets to act efficiently. Therefore, the WG may wish to discuss not only different Credit arrangements for different Party types, but for different technologies as well.
- 5.3 A WG member noted that reducing the Settlement Final (SF) Run timeframe would lessen the need for estimated data. Elexon asked if developing a solution around being –for example- invoiced every seven days would be something the WG would like to explore, and there was a general agreement on it. However, this may impose some difficulties for those parties receiving most of their income at the end of each month.
- A WG member asked whether samples from smart meters users could not be used as indicative real-time data. For instance, instead of estimating volumes, Elexon could use samples from different profiles. It was noted as an idea to be explored Elexon also explained that the new Load Shaping Service (LSS), being developes under MHHS, will only be good for Supplier Volume Allocation (SVA), but not for Central Volume Allocation (CVA).

# 6. Fairness and equality

- 6.1 The WG discussed whether there should be different rules for different types of Parties. There was some consensus that the arrangement is not fair on Non-Physical Traders (NFT), even if the arrangements are equal on all Parties. However, it was noted that developing other solutions for different types of parties would be very complicated for companies with mixed portfolios, but not impossible.
- 6.2 Some WG members suggested that Elexon should develop risk profiles and request collateral amounts according to the risk a party presents of defaulting. The WG discussed if there should be different requirements for high risk profile companies to enter the market. A WG member noted that new companies could lodge more collateral to minimise the risk of defaulting.
- 6.3 A participant noted that risk profiles are not necessarily attached to the type of organisation. There could be different risk appetites among Suppliers, Generators, etc.
- 6.4 A WG member noted that Parties could be treated differently depending on whether they have accurate metering earlier (CVA) or not (non-credit qualifying). Similarly, different business models should also be considered e.g. NPTs vs Suppliers.
- 6.5 Elexon asked the WG how going into default and being suspended for trading affects the current bilateral contracts. A WG member noted that the hidden default period makes it difficult for Non-Physical Traders to estimate risk, and there should be more trnsparency around actions being taken and timelines associated therewith.

#### 7. Impacts of providing Credit Cover

- 7.1 A WG member noted that BSC Credit is just one of several financial obligations that companies have, and that the WG should be mindful of this when designing a new solution.
- 7.2 Elexon asked the WG what the main impacts of providing Credit Cover were, and the WG replied that it has high impacts on liquidity since it ties up capital. The main problem seems to be that it takes too much time and effort to admin Credit, especially to withdraw after CAP decreases. However, Elexon explained that the waiting period to withdraw collateral covers potential inceases in the incoming days.
- 7.3 It was noted that the timescales involved in lodging collateral to clear Credit Default by 14:00 on the Monday following a weekend is not helpful when public holidays or weekends are involved. This then increases the likelihood of parties entering default.
- 7.4 One WG member asked if Elexon could provide Parties with an advanced credit note to show what Parties are due to get in 29 days based on assumptions of imbalance price. Elexon said it was possible to do.

- 7.5 Elexon explained that MEA, even when recognised as presenting some problems due to the time frames of requesting withdrawal of funds, works as a control mechanism that prevents parties with high-risk appetites from defaulting.
- 8. Communication and Credit Governance
- 8.1 The WG discussed the need for a better understanding of Ofgem's position regarding defaulting parties and expelling them from the Market. It was noted that expelling Suppliers may impact on consumers, difficulting the decision.
- 8.2 A WG member explained that the BSC Panel has no visibility of a company's liability elsewhere, which hinders their ability to decide on Parties' positions.
- 9. The reason for a 24-hour Default query was asked, and Elexon explained it is to allow Parties to collect cash to cover the default. Conclusions
- 9.1 Elexon presented the five work streams is planning to create for Issue 106:
  - i Why should Credit be used for?
  - ii Data and timeframes
  - iii Fairness and equality
  - iv Impacts of providing Credit Cover
  - v Communication and Credit Governance
- 9.2 WG members were asked how frequently they could meet, and in which work stream they were interested in. Based on the answers, Elexon will create and circulate a progression plan for Issue 106.

#### **Actions**

No.	Action	Owner
1.	Create and distribute a progression plan	Elexon