ELEXON

Issue 106 Issue Group Meeting 4 Summary

Summary

1. Meeting Objectives

The Chair welcomed attendees and presented the meeting objectives:

- Objective 1: agree on the proposed solutions for the 'looking forward' aspect of the Credit Cover Calculation
- Objective 2: vote on the proposed solutions for the Credit Risk profiles and the Credit Risk Criteria

2. Forward aspect of the new Credit Cover Calculation – New values - Proposal 1

- 2.1 Elexon started by making a quick recap of the existing calculation, the 'looking background' aspect of the new calculation and why do we need Credit for.
- Then Elexon showed the seven Trading Charges, explained how the Daily Party BM Unit cashflow and the Daily Part non delivery charge work, and how the Daily Party Energy Imbalance cashflow is calculated.
- 2.3 After reviewing the methodology, Elexon proposed to predict and calculate some values (like the BM Unit Metered Volume, QM_{ij}) used in the Trading Charge calculations. The aim is to estimate Trading Charges for the days between a Default and when an administrator is appointed by Ofgem.
- 2.4 The Issue Group (IG) noted that this case, the SoLR procedure, applies only to Suppliers, and that it is not possible to accurately apply the same approach to generators as it is not possible to predict BM Unit output due to weather conditions, bid/offer activity etc. Also, Elexon may not hold liability to retain collateral looking forward.
- 2.5 Elexon reminded the IG that the aim is to reduce mutualisation, which was highlighted as one of the main Issues to resolve. It was discussed that the solution may be developed only for Suppliers, or that maybe, mutualisation should be covered only among Suppliers. It was also explained that while we may take different approaches to determine some of the values need for the Trading Charges calculations, the calculations themselves wouldn't change. For example, where a Generator would no longer generate, their value of QMij would be Zero.
- 2.6 For all the different values to estimate, Elexon proposed four solutions:
 - a) Value in ECVNs and MVRNs in place before entering default and/or updated post-default;
 - b) Base on Demand Disconnection process –using an average, in the same way as we would if there is a Demand Disconnection event, the benefit being that this is an established process already used in Settlement to determine a value of QMij, and ergo could apply equally to this proposal -the values used for the calculation e.g. the same day for the last 13 weeks, or the amse period for the last 7 days would be subject to further discussion;
 - c) Estimated data from LSS (SVA) and CDCA (CVA) the same data would be used for Settlement purposes (including inputting into Trading Charge calculations) in the event of a meter read being missing; and
 - d) Combination of all of the above.
- 2.7 Another IG member proposed an alternative suggestion to the whole 'next Y days' approach: reducing the 80% /90% thresholds for Level 1/2 Default, which is one of the topics to be covered later in the meeting.
- An IG member noted that if the end goal is to reduce chance of suppliers causing mutualisation, and that the biggest cause of that is the 10 days from default until market exit, then it would be better to work on getting those 10 days reduced rather than focusing on Credit Cover. Elexon explained that it does not have any enforcement power and that it is a matter for Ofgem, but it could be included in Elexon's engagement with them.

- 2.9 Another proposed solution by an IG member was using the headline values of recent actual Trading Charges (AEI) to estimate Trading Charges for the next Y days.
- 2.10 Elexon proposed to vote between the options, but the IG considered it was better to discard this topic in proposal 1 for now and think of a different solution altogether.

3. Forward aspect of the new Credit Cover Calculation – Proposal 2 - Credit Risk Profiles

- 3.1 As one of the potential solutions to reduce mutualisation, the Issue Group suggested using Credit Risk Profiles when they provided feedback through the survey. Based on a fairness value, the IG noted that Parties more at risk of Default and therefore higher risk of accumulating unpaid Trading Charges should be required to hold more collateral.
- 3.2 Elexon presented a risk based approach to using collateral to cover as much unpaid Trading Charges by creating Credit Risk Profiles based on certain credit/payment criteria which will apply to all parties. This would be reviewed every six months or so. It was noted by an IG member that the review should be more dynamic than every six months to cover for market conditions and sudden changes. This Profiles would apply to Parties entering the Market onwards.
- 3.3 Elexon then proposed what criteria would be used to create the Credit Risk Profiles, based on research done on what other Codes are doing and the feedback received. It was also noted that this could work as a barrier to market.
- 3.4 An IG member asked how this criteria would interact with Ofgem's funding assessment. Elexon will raise it as part of the engagement plan with Ofgem.
- 3.5 Elexon suggested that both the BSC Panel and/or the Credit Committee could play a role in reviewing and approving the risk assessments. It was presented that a Parent Company Guarantee could be used to lower a company's risk, but an IG member noted that the idea was discussed in the past and it should be discarded.
- 3.6 Then the IG voted if they agreed with the initial concept of a risk profile based approach.

Yes	No	Neutral
5	1	1

4. Forward aspect of the new Credit Cover Calculation – Proposal 3 - Default Threshold Percentages

- 4.1 As a third option, Elexon proposed modifying the Default threshold percentages according to the Party's risk profile. For example, Parties with a higher risk profile could reach Default at a 50% of Credit Cover Percentage (CCP), while a Party with a low risk profile could have a 100% threshold. This solution minimises the amount of imbalance charges leverage against Parties Credit collateral, but may not completely fix the problem.
- 4.2 An IG member requested a further analysis to compare how much the mutualisation amount would have changed if the Level 2 Default was triggered at a lower CCP in the past. Elexon will work on this for the next meeting.
- 4.3 Then the IG voted if they agreed with the initial concept of a risk profile based approach.

Yes	No	Neutral
3	-	3

Actions

No.	Action	Owner
1.	Analyse and create 'scenario-based' cases for the Credit Default Proposal	Elexon
2.	Analyse the mutualisation amounts with different Default thresholds	Elexon