

P465 ‘Correction to P415 legal text to amend Credit Cover requirements for Virtual Trading Parties’

This Modification is required to correct an error in the approved legal drafting for P415. This Proposal will ensure that Credit Cover requirements for Virtual Trading Parties (VTPs) correctly take into account the energy volumes (‘Deviation Volumes’) that VTPs trade in wholesale markets, which was the intention of the P415 Workgroup.

This Report Phase Consultation for P465 closes:

5pm on Tuesday 28 November 2023

The Panel may not be able to consider late responses.



The BSC Panel initially recommends **approval** of P465



The BSC Panel **does not** believe P465 impacts the European Electricity Balancing Guideline (EBGL) Article 18 terms and conditions held within the BSC

This Modification is expected to impact:

- Virtual Trading Parties (VTPs)
- Elexon

E L E X O N

Phase

Initial Written Assessment

Definition Procedure

Assessment Procedure

Report Phase

Implementation

P465

Report Phase
Consultation

Monday 13 November

Version 1.0

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About This Document

You can find the definitions of the terms and acronyms used in this document in the [BSC Glossary¹](#).

This is the P465 Draft Modification Report, which Elexon is issuing for industry consultation on the BSC Panel's behalf. It contains the Panel's provisional recommendations on P465. The Panel will consider all consultation responses at its meeting on 14 December 2023, when it will agree a final recommendation to the Authority on whether or not the change should be made.

There are 4 parts to this document:

- This is the main document. It provides details of the solution, impacts, costs, benefits/drawbacks and proposed implementation approach. It also summarises the Workgroup's key views on the areas set by the Panel, and contains details of the Workgroup's membership and full Terms of Reference.
- Attachment A contains the P465 Proposal Form.
- Attachment B contains the draft redlined changes to the BSC for P465.
- Attachment C contains the specific questions on which the Panel seeks your views. Please use this form to provide your responses to these questions, and to record any further views/comments you wish the Panel to consider.



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Not sure where to start?

We suggest reading the following sections:

- Have 5 minutes? Read section 1
- Have 15 minutes? Read sections 1, 7 and 8
- Have 30 minutes? Read all except section 6
- Have longer? Read all sections and the annexes and attachments.

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¹ <https://www.elexon.co.uk/glossary/?show=all>



Why Change?

Approved Modification [P415 'Facilitating access to wholesale markets for flexibility dispatched by Virtual Lead Parties'](#)² requires changes to BSC registration, qualification and communication processes to facilitate wholesale market access for Virtual Lead Parties (VLPs). To remove barriers to entry P415 creates a new Trading Party category of Virtual Trading Party (VTP) to facilitate access to the wholesale market.

The approved P415 legal text does not correctly describe the intended solution for calculating VTP's Credit Cover requirements. The P415 legal text (drafted in the mistaken belief that Metered Energy Indebtedness (MEI) is not relevant to non-Credit Qualifying BM Units) does not include the necessary drafting to include Credit Assessment Credited Deviation Volume values in the MEI calculation.

In the absence of this Modification, implementation of the approved P415 solution in the November 2024 release would incur:

- Inaccuracies in the calculation of Credit Cover requirements for VTPs; and
- Additional and unnecessary expense for Elexon (and by extension BSC Parties) in amending the Energy Contract Volume Aggregation Agent (ECVAA) system to calculate MEI for Secondary BM Units in a different way to other non-Credit Qualifying Balancing Mechanism (BM) Units.

Ultimately, this change will ensure that Credit Cover requirements for Secondary BM Units are comparable with those of other non-Credit Qualifying BM Units and ensure that the P415 solution reflects the intention of the P415 Workgroup regarding the calculation of VTP Credit Cover, as reflected in the P415 Modification Report.

Solution

This change proposes to amend the MEI calculation to include CAQDE values and take into account any Deviation Volumes delivered by the VTP.

This is achieved by a change to [BSC Section M 'Credit Cover and Credit Default'](#)³ to define the Metered Credit Assessment Credited Deviation Volume (MAQDE_{iaj}) as being equal to the Credit Assessment Credited Deviation Volume (CAQDE_{iaj}) and include MAQDE in the equation for MEI_{pj} as follows:

$$MEI_{pj} = - ((\sum_{a,i} MAQCE_{iaj} + \sum_{a,i} MAQDE_{iaj}) - \sum_a QABC_{aj})$$

What is a Virtual Trading Party?

In order to trade in the wholesale markets, independent aggregators will be able to register as a BSC Trading Party under a new Trading Party role type (Virtual Trading Party) for P415.



What is Credit Cover?

The purpose of Credit Cover is to ensure that, should a Trading Party default, sufficient collateral is available to pay any debts. If a Party does not have sufficient funds it will enter into Credit Default.

Elexon check Energy Indebtedness (EI) every half-hour. To convert parties' Credit Cover into Energy Credit Cover Elexon divide it by the Credit Assessment Price (CAP).

Determining factors in this calculation are the Credit Assessment Energy Indebtedness (CEI), Metered Energy Indebtedness (MEI) and Actual Energy Indebtedness (AEI) values that will accrue for the rolling 29 day period after each settlement day. Metered Energy Indebtedness (MEI) uses Central Data Collection Agent (CDCA) metered data to replace FPN data for Credit Qualifying BM Units. The MEI data is available for use in the credit calculations after two Working Days.

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² <https://www.elexon.co.uk/mod-proposal/p415/>

³ <https://bscdocs.elexon.co.uk/bsc/bsc-section-m-credit-cover-and-credit-default>

Impacts & Costs

We expect costs to implement this Modification to be low (<£1k) as it is a document only change. We also do not anticipate any costs or impacts for BSC Parties.

Costs Estimates			
Organisation	Implementation (£)	On-going (£)	Impacts
Elxon	<1k	None anticipated	Document Only
NGESO	0	0	No Impact
Industry	0	0	No Impact
Total	<1k	0	

Implementation

To avoid the unintended consequences associated with implementing the current P415 solution, the BSC Panel recommend that the Implementation Date for this Modification should be aligned with Implementation Date for P415 on **7 November 2024 (November 2024 Release)**. To support this, a decision to approve this Modification will be required from Ofgem by **7 September 2024**.

Recommendation

The BSC Panel raised this Modification on Thursday 9 November 2023 ([344/07](#)) and recommended that this Modification does better facilitate Applicable BSC Objectives (c) and (d) and therefore should be approved. The BSC Panel agreed an initial view that is Modification should not be treated as a Self-Governance Modification and does not impact the EBGL Article 18 terms and conditions.



Virtual Trading Parties

Independent aggregators who wish to sell customers' flexibility into wholesale markets are required to accede to the BSC under the role of Virtual Trading Party, conceptualised and introduced by P415.



What are Deviation Volumes?

Deviation Volumes are a new type of Settlement volume introduced for P415 and represent the difference between what is forecast to be consumed / generated and what was actually consumed / generated (where the difference can be attributed to a VLP action taken at that site.) Deviation Volumes represent an import/export MWh deviation to the Total System as a result of said action by a VLP.

What is the issue?

Modification P415 'Facilitating access to wholesale markets for flexibility dispatched by Virtual Lead Parties' seeks to allow independent aggregators to sell customers' flexibility into wholesale markets. Independent aggregators wishing to do this will be required to accede to the BSC in the new role of VTP. Ofgem has [approved](#)⁴ this Modification for implementation on 7 November 2024.

Ellexon is working with service providers to design the system changes required to implement Modification P415, and this work has revealed that the P415 legal text does not correctly describe the intended solution for calculating VTP's Credit Cover requirements.

The P415 Modification Report states that VTP's Secondary BM Units should be treated as non-Credit Qualifying BM Units, which means that:

- 1) For those days that have had an Interim Information (II) Settlement Run, but not yet had an Interim Information (II) Settlement Run, the **Actual Energy Indebtedness** (AEI) will be determined from the outputs of the II run;
- 2) For those days that have not yet had an II Settlement Run, indebtedness will be estimated using Credit Assessment Load Factor (CALF), Generation Capacity (GC) and Demand Capacity (DC). In the context of Secondary BM Units this approach produces a Credit Assessment Credited Deviation Volume (CAQDE_{iaj}), which is an estimate of the Deviation Volume traded by the VTP in each Settlement Period. This method is used to determine both:
 - a) The **Metered Energy Indebtedness**, for days that have had a Credit Assessment Volume Allocation Run; and
 - b) The **Credit Assessment Energy Indebtedness**, for days that have not yet had a Credit Assessment Volume Allocation Run.

The legal text correctly implements this intention for AEI and CEI, but it does not include the necessary drafting to include CAQDE values in the MEI calculation. As a result, the MEI calculation does not take into account any Deviation Volumes delivered by the VTP. If we were to implement changes to the ECVA system in line with the currently-drafted legal text the implications would be:

- **Inaccurate Credit Cover calculations for VTPs**, for those days failing within the MEI calculation. For example, if a VTP had instructed a customer to reduce their demand (and sold that flexibility into the wholesale market) the MEI calculation would take into account the energy they sold, but not the Deviation Volume delivered by the customer. This would potentially lead to the VTP being required to post additional and unnecessary Credit Cover; and
- **Additional development cost**. The solution intended by the P415 Workgroup treats Secondary BM Units in a similar way to other non-Credit Qualifying BM Units (which simplifies development and testing). The error in the legal text requires MEI to be calculated differently for Secondary BM Units, which will increase the effort required for testing and development (although the increase is likely to be relatively small).

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⁴ <https://www.ellexon.co.uk/documents/change/modifications/p401-p450/p415-ofgem-decision/>

How did this error in the legal text arise?

Elxon believe the P415 business requirements were drafted in the mistaken belief that MEI is not relevant to non-Credit Qualifying BM Units (e.g. the document states that for non-Credit Qualifying BM Units “*the MEI doesn’t apply and these days are part of their CEI*”). In fact, MEI does apply for all BM Units, but for non-Credit Qualifying BM Units the legal text specifies that MEI should be calculated in the same way as CEI.

Because of this misunderstanding the P415 business requirements did not state that MEI for Secondary BM Units needs to be calculated in the same way as CEI (using CAQDE values), and this was therefore not included in the legal text.

Background

P415

Enel X UK Ltd raised P415 ‘Facilitating access to wholesale markets for flexibility dispatched by Virtual Lead Parties’ on 30 September 2020. P415 amends the BSC to allow VLPs to participate in the GB wholesale market and was approved by Ofgem on 6 October 2023.

It was raised to address the issue that customers (consumers of electricity) who are able to be flexible about their consumption cannot currently obtain any value from that flexibility from the Wholesale Energy Market, except if they work with their Supplier to do so. Therefore, customers can only obtain value from flexibility from working with their Supplier, and not from VLPs who may also be able to support flexibility services. P415 is expected to remove a barrier to customers offering flexibility, and hence should increase participation and the level of effective competition in the wholesale market.

The P415 solution enables a VLP to trade Deviation Volumes on the wholesale market on behalf of their customer(s). These trades shall be captured in the same manner as existing Parties i.e. via Electricity Contract Volume Notifications (ECVN).

Deviation Volumes are a measurable commodity that represent an import/export MWh deviation to the Total System as a result of independent aggregation activity by a VLP.

Neither the counterparty nor registered Supplier shall bear any liability for delivery of the trade. On principle, the registered Supplier at a site where the customer has chosen to use a VLP independent aggregation service will receive no direct benefit nor detriment from such a service

In development of credit arrangements for VLPs under the P415 solution, the Workgroup examined three credit options and chose Option 1 ‘VLPs lodge cover for an estimate of their net exposure’. The group unanimously agreed and determined that Option 1 is the preferred P415 Credit Assessment Energy Indebtedness (CEI) solution for P415.

To implement this option, the Deviation Volumes (delivered by Virtual Trading Parties) need to be included in the calculation of both Metered Energy Indebtedness (MEI) and Credit Assessment Energy Indebtedness (CEI).

Further information, including the approved P415 Solution and accompanying legal text, can be found on its [webpage⁵](https://www.elxon.co.uk/mod-proposal/p415/).

⁵ <https://www.elxon.co.uk/mod-proposal/p415/>

Desired outcomes

The desired outcome is to allow MEI values for VTPs to be calculated in the manner intended by the P415 Workgroup and described in the P415 Modification Report (as opposed to the calculation currently specified in the legal text, which is inaccurate and not what was intended). This will have the effect of ensuring that Credit Cover requirements for Secondary BM Units are comparable with those of other non-Credit Qualifying BM Units, as was intended.

Proposed solution

The proposed solution is to clarify that CAQDE values calculated for Secondary BM Units should be included in the calculation of MEI as well as CEI.

BSC Section M will be amended to:

- Define the **Metered Credit Assessment Credited Deviation Volume** (MAQDE_{iaj}) as being equal to the **Credit Assessment Credited Deviation Volume** (CAQDE_{iaj})
- Include MAQDE in the equation for MEI_{pj} as follows in paragraph 1.2.4A:

$$MEI_{pj} = - \left(\left(\sum_{a,i} MAQCE_{iaj} + \sum_{a,i} MAQDE_{iaj} \right) - \sum_a QABC_{aj} \right)$$

This change is correcting an error in the P415 legal text, in order to bring it in line with the intended P415 solution, which is that Credit Cover for Virtual Trading Parties should be calculated using an estimate of their exposure.

As explained in, this error arose because of a misunderstanding that MEI is not relevant to non-Credit Qualifying BM Units (including Secondary BM Units), and therefore Deviation Volumes did not need to be included in the calculation of MEI. Elexon believes that the desirability of correcting this misunderstanding is self-evident and it is suitable therefore to process straight to the Report Phase, without the need for an industry Workgroup.

Benefits

This change will:

- Avoid inaccuracies in the calculation of Credit Cover requirements for VTPs;
- Ensure that Credit Cover requirements for Secondary BM Units are comparable with those of other non-Credit Qualifying BM Units (which was the intended solution); and
- Avoid additional expense in amending the ECVA system to calculate MEI for Secondary BM Units in a different way to other non-Credit Qualifying BM Units.

Alternative solution

The solution is clear and self-evident and therefore no alternative solutions are expected or identified.

Legal text

To implement the desired solution, the following documents will be impacted:

[BSC Section M 'Credit Cover and Credit Default' – paragraph 1.2.4A](#)

Report Phase Consultation Questions

Do you agree with the Panel that the redlined changes to the BSC deliver the intention of P465

Please provide your rationale.

The Panel invites you to give your views using the response form in Attachment C



What are the Applicable BSC Objectives?

(a) The efficient discharge by the Transmission Company of the obligations imposed upon it by the Transmission Licence

(b) The efficient, economic and co-ordinated operation of the National Electricity Transmission System

(c) Promoting effective competition in the generation and supply of electricity and (so far as consistent therewith) promoting such competition in the sale and purchase of electricity

(d) Promoting efficiency in the implementation of the balancing and settlement arrangements

(e) Compliance with the Electricity Regulation and any relevant legally binding decision of the European Commission and/or the Agency [for the Co-operation of Energy Regulators]

(f) Implementing and administering the arrangements for the operation of contracts for difference and arrangements that facilitate the operation of a capacity market pursuant to EMR legislation

(g) Compliance with the Transmission Losses Principle

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Estimated costs of P465

Ellexon's assumption is that this Modification is a document-only change to correct a self-evident error in the approved P415 solution and is therefore understood to incur no additional cost or impact on parties, and that the desirability of correcting this misunderstanding is self-evident.

Implementation costs estimates			
Organisation	Item	Implementation costs (£)	Comment
Ellexon	Systems	None	Positive impact by avoiding unnecessary changes to BSC systems in amending the ECVA system to calculate MEI for Secondary BM Units in a different way to other non-Credit Qualifying BM Units to support implementation of P415.
	Documents	>£1K	Simple document change.
	Other	None	
NGESO	Systems	None	
	Other		
Industry	Systems & processes	None	Positive impact due to ability to avoid an unnecessary impact on VTPs having to post additional unnecessary Credit Cover in certain circumstances upon implementation of P415.
Total		Low	

P465 impacts

Impact on BSC Parties and Party Agents		
Party/Party Agent	Impact	Estimated cost
VTPs	This Modification is intended to avoid unintended inaccuracies in the calculation of Credit Cover requirements for Virtual Trading Parties. This change is correcting an error in the P415 legal text, in order to bring it in line with the intended P415 solution, which is that Credit Cover for Virtual Trading Parties should be calculated using an estimate of their exposure.	Positive impact

Impact on the NETSO	
Impact	Estimated cost
None anticipated	N/A

Impact on BSCCo		
Area of Elexon	Impact	Estimated cost
Elexon	<p>Minor impact to implement BSC document changes.</p> <p>Positive impact on Elexon due to the reduced resource assigned to P415 to amend the ECVAAs system to calculate MEI for Secondary BM Units in a different way to other non-Credit Qualifying Balancing Mechanism (BM) Units.</p>	L

Impact on BSC Settlement Risks
This change will not impact Settlement and no impacts on Settlement Risks are anticipated or identified. However, this will be confirmed through the Report Phase Consultation.

Impact on BSC Systems and process	
BSC System/Process	Impact
ECVAA	This Modification corrects an error in the P415 requirements for calculation of MEI, which will be implemented in the ECVAAs system.

Impact on BSC Agent/service provider contractual arrangements	
BSC Agent/service provider contract	Impact
None anticipated	N/A

Impact on Code	
Code Section	Impact
BSC Section M 'Credit Cover and Credit Default'	<p>Amendment to paragraph 1.2.4A.</p> <p>Additional definition that the Metered Credit Assessment Credited Deviation Volume is being equal to the Credit Assessment Credited Deviation Volume.</p>

Impact on MHHS
This Modification is correcting a technical error in the P415 legal text, therefore no impact on MHHS is expected.

Impact on EBGL Article 18 terms and conditions

This Modification will not impact the EBGL Article 18 terms and conditions as BSC Section M paragraph 1.2.4A is not specified in the mapping given in Section F Annex F-2.

Impact on Code Subsidiary Documents

CSD	Impact
All CSDs	No changes will be necessary for this Modification. Further definition of Elexon CSDs will be undertaken as part of the P415 implementation phase.

Impact on a Significant Code Review (SCR) or other significant industry change projects

This is not expected to impact any open SCR and Ofgem confirmed this view on 3 November 2023.

Report Phase Consultation Questions

Will P465 impact your organisation?

If it will impact, please provide a description of the impact(s) and any activities which you will need to undertake between approval and implementation (including any necessary changes to your systems, documents and processes) and any on-going operational impacts. Where applicable, please state any difference in impacts between the proposed solutions.

How much will it cost your organisation to implement P465?

If any, please provide details of these costs, how they arise. Please also state whether it makes any difference to these costs whether implemented as part of or outside of a normal BSC Systems Release. Where applicable, please state any difference in costs between the proposed solutions and if applicable, between the different roles.

What will the ongoing cost of P465 be to your organisation?

If any, please provide details of these costs, how they arise. Please also state whether it makes any difference to these costs whether P465 is implemented as part of or outside of a normal BSC Systems Release. Where applicable, please state any difference in costs between the proposed solutions and if applicable, between the different roles.

How long (from the point of approval) would you need to implement P465?

Please provide an explanation of your required lead time, and which activities are the key drivers behind the timescale. Please also state whether it makes any difference to this lead time whether implemented as part of or outside of a normal BSC Systems Release. Where applicable, please state any difference in lead times between the proposed solutions.

The Panel invites you to give your views using the response form in Attachment C



What are the consumer benefit areas?

- 1) Will this change mean that the energy system can operate more safely and reliably now and in the future in a way that benefits end consumers?
- 2) Will this change lower consumers' bills by controlling, reducing, and optimising spend, for example on balancing and operating the system?
- 3) Will this proposal support:
 - i) new providers and technologies?
 - ii) a move to hydrogen or lower greenhouse gases?
 - iii) the journey toward statutory net-zero targets?
 - iv) decarbonisation?
- 4) Will this change improve the quality of service for some or all end consumers. Improved service quality ultimately benefits the end consumer due to interactions in the value chains across the industry being more seamless, efficient and effective.
- 5) Are there any other identified changes to society, such as jobs or the economy.

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Impact of the Modification on the environment and consumer benefit areas:	
Consumer benefit area	Identified impact
1) Improved safety and reliability The Proposer believes that this Modification is neutral against this consumer benefit area.	Neutral
2) Lower bills than would otherwise be the case The Proposer believes that this Modification is neutral against this consumer benefit area.	Neutral
3) Reduced environmental damage The Proposer believes that this Modification is neutral against this consumer benefit area.	Neutral
4) Improved quality of service The Proposer believes that this Modification is neutral against this consumer benefit area.	Neutral
5) Benefits for society as a whole The Proposer believes that this Modification is neutral against this consumer benefit area.	Neutral

This Modification is correcting a technical error in the P415 legal text. Although it does have benefits (reduced Elexon effort, potential to avoid VTPs having to post additional unnecessary Credit Cover in certain circumstances), and it would theoretically be possible to argue that these could indirectly benefit consumers, the materiality is so low that in practice there is unlikely to be any discernible benefit.

Report Phase Consultation Questions

Do you agree with the identified consumer benefits?

Please provide your rationale.

The Panel invites you to give your views using the response form in Attachment C

Recommended Implementation Date

The Panel recommends an Implementation Date for P465 of:

- 7 November 2024 as part of the Standard November 2024 BSC Release if a decision from Ofgem is received by 7 September 2024;

Report Phase Consultation Question

Do you agree with the Panel's recommended Implementation Date?

Please provide your rationale.

The Panel invites you to give your views using the response form in Attachment C

6 Panel's Initial Discussions

The BSC Panel considered the Initial Written Assessment for P465 at its Thursday 9 November 2023 Meeting ([344/07⁶](#)). The BSC Panel noted that the solution seemed clear and straightforward but made no other comment on P465 and unanimously agreed with all recommendations.

The BSC Panel unanimously:

- **RAISED** this Modification Proposal in accordance with Section F2.1.1(d)(i);
- **AGREED** that this Modification progresses directly to the Report Phase;
- **AGREED** that this Modification:
 - **DOES** better facilitate Applicable BSC Objective (d); and
 - **DOES** better facilitate Applicable BSC Objective (c);
- **AGREED** an initial view that P415 **SHOULD NOT** be treated as a Self-Governance Modification;
- **AGREED** that **DOES NOT** impact the EBGL Article 18 terms and conditions held within the BSC;
- **AGREED** an initial recommendation to the Authority that this Modification should be **approved**;
- **AGREED** an initial Implementation Date of:
 - **7 November 2024** as part of the Standard November 2024 BSC Release if a decision from Ofgem is received by 7 September 2024;
- **AGREED** the draft Legal Text;
- **NOTED** that Elexon will issue the Draft Modification Report (including the draft Legal Text) for a 10 Working Day consultation and will present the results to the Panel at its meeting on 14 December 2023.

Report Phase Consultation Questions

Do you agree with the Panel's initial unanimous recommendation that P465 should be approved/rejected?

Please provide your rationale with reference to the Applicable BSC Objectives.

Do you agree with the Panel's initial view that P465 should not be treated as a Self-Governance Modification?

Please provide your rationale.

Do you agree with the Panel's initial consideration that P465 does not impact the European Electricity Balancing Guideline (EBGL) Article 18 terms and conditions held within the BSC?

Please provide your rationale.

The Panel invites you to give your views using the response form in Attachment C

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7 Recommendations

The BSC Panel initially recommends to the Authority:

- That P465 should be **approved**;
- That P465 **does not** impact the EBGL Article 18 terms and conditions held within the BSC;
- An Implementation Date for P465 of:
 - **7 November 2024 as part of the Standard November 2024 BSC Release** if an Authority decision is received on or before 7 September 2024; and
- The draft Legal Text for P465 .