'Move the Letter of Credit templates and Approved Insurance Product requirements to the BSC Website for more efficient maintenance and simplification'

A Modification is required to remove the templates in annexes M1 – M4 in Section M 'Credit Cover and Credit Default' and replace them with a requirement for the BSC Panel approved templates and Approved Insurance Product requirements to be published on the BSC Website. Subsequently, the Letter of Credit templates previously approved by the Panel in their meeting on April 2020 shall become the only Letter of Credit templates to be used and published on the Elexon website



ELEXON recommends the Panel raises the attached Modification Proposal in accordance with the provisions of Section F 'Modification Procedures' F2.1.1(d)(i).



ELEXON recommends this Modification is progressed directly to the Report Phase with an initial recommendation to approve



ELEXON does not consider that this Modification impacts the European Electricity Balancing Guideline (EBGL) Article 18 terms and conditions held within the BSC

This Modification is expected to impact:

- Suppliers
- Interconnector Users
- Non-Physical Traders
- Generators
- Virtual Lead Parties

ELEXON

Phase

- Initial Written Assessment
- Definition Procedure
- Assessment Procedure
- Report Phase
- Implementation

© ELEXON Limited 2020

Contents

1 Summary 3
2 Why Change? 5
3 Solution 7
4 Proposed Progression 9
5 Likely Impacts and costs 10
6 Recommendations 13
Appendix 1: Glossary & References 14

About This Document

Not sure where to start? We suggest reading the following sections:

- Have 5 mins? Read section 1
- Have 15 mins? Read sections 1, 4, 5 and 6
- Have 30 mins? Read all sections
- Have longer? Read all sections, the annexes and attachments

This document is an Elexon recommendation to the BSC Panel to raise a Modification Proposal (Attachment A) as it will facilitate a more efficient implementation and operation of the BSC (in accordance with BSC Section F 2.1.1(d)(i)).

ELEXON will present this Proposal to the Panel on 10 December 2020. If the Panel agree to raise the Modification Proposal, this document will form its Initial Written Assessment (IWA), and the Proposal Form will be updated and published on the Elexon website accordingly.

There are four parts to this document:

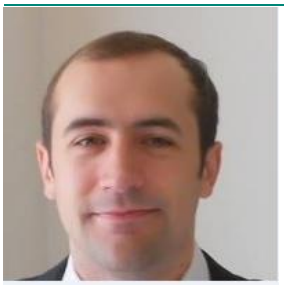
- This is the main document. It provides details of the Modification Proposal, an assessment of the potential impacts and a recommendation of how the Modification should progress.
- Attachment A contains the Proposal Form.
- Attachment B contains the draft redlining to Section M for this Modification
- Attachment C contains the draft redlining to Section X-1 for this Modification

Contact
Chris Arnold

020 7380 4221

bsc.change@elexon.co.uk

chris.arnold@elexon.co.uk



© ELEXON Limited 2020

1 Summary

What is the issue?

This Modification seeks to address two issues:

- Section M 'Credit Cover and Credit Default' of the BSC contains valid forms that can be used to provide Credit Cover with a Letter of Credit as well as general requirements of an Approved Insurance Product. If changes to the Section M provisions are required a BSC Modification Proposal must be raised to update the text which will take at least three months to implement and more industry and Elexon effort to progress than need be the case.
- There are currently two valid sets of Letter of Credit templates under the BSC. Elexon contends that having two valid sets of Letter of Credit templates could increase the risk of Imbalance Parties using Letter of Credit templates that are not in line with current banking practices.

What is the proposed solution?

The Modification Proposal will:

- Remove the Letter of Credit templates and Approved Insurance Product requirements from annexes M1 - M4.
- Update Sections 2.1.4 & 2.1.5 of Section M to introduce a requirement for the Letter of Credit templates and the Approved Insurance Product requirements to be published on the BSC Website; and
- Alter the definitions of Letter of Credit and Approved Insurance Product so that there is a requirement for Elexon to publish these templates and requirements on the BSC Website.

Impacts and costs

This Modification will require Imbalance Parties that lodge credit using the Letter of Credit templates to use the new templates published on the BSC website when renewing their Letters of Credit.

This Modification will also require Elexon to publish Letter of Credit templates on the BSC Website and update the BSC Website when updated templates are approved by the BSC Panel.

The costs for Elexon and industry to implement are low (£<1k), as this is a document only change.

Implementation

We recommend an Implementation Date of:

- 25 February 2021 as part of the February 2021 BSC Release

This is the next available Release that this change can practically be included in.

© ELEXON Limited 2020

Recommendation

We recommend the Panel raise this Proposal and submit it directly to the Report Phase as a Self-Governance Modification Proposal, as the solution is self-vident and arguably also of an inconsequential nature. However, it will maintain Panel oversight of the Letter of Credit template and Approve Insurance Product requirements as well as removing the requirement to update BSC sections when making changes.

© ELEXON Limited 2020

2 Why Change?

What is the issue?

Multiple methods of changing Letters of Credit & Approved Assurance Products in BSC

Section M 'Credit Cover and Credit Default' of the BSC contains provisions that require Imbalance Parties to provide Credit Cover with a Letter of Credit, Approved Insurance Product or in cash in favour of the BSC Clearer, Elexon. Annexes M1, M2 and M3 of Section M contain valid forms that can be used to provide Credit Cover with a Letter of Credit and annex M4 specifies the general requirements of an Approved Insurance Product.

Banking practices continuously change over time and Elexon contends that the forms of the Letters of Credit and the requirements of the Approved Insurance Products should be kept as up to date as reasonably practicable. If Letters of Credit and Approved Insurance Products are not in line with current banking practices it could cause problems with Imbalances Parties accessing appropriate credit products, introduce unnecessary operational inefficiencies and cause delays to payments or rejections of claims.

As annexes M1 – M4 are within the BSC, changes can only be made to these templates and requirements by the raising a BSC Modification and following the processes as required under the provisions of Section F 'Modification Procedures'. The Modification process can take several months to complete from the point in time the Modification is raised, to the point in time the required changes are implemented in the BSC. This means that there can be a significant time lag between identifying an issue with these templates or requirements and these templates or requirements being updated.

In addition to the Modification Procedure detailed in Section F, the BSC allows the BSC Panel to approve alternative Letters of Credit under the definitions within Annex X-1 'General Glossary'. Elexon contends that having multiple methods of altering the templates and requirements is unnecessary and inefficient.

Two Valid Sets of Letter of Credit Templates under the BSC

There are currently two different sets of valid Letter of Credit templates under the BSC, these are:

1) The templates contained in BSC section M: Credit Cover and Credit Annexes M1-M3; and
2) The templates as approved by the BSC Panel on their meeting in April 2020 (A paper explaining the rationale of the change as well as the templates are available on the BSC Website).

The BSC Panel approved the templates in their April 2020 meeting to address a series of operational issues that can arise with the templates in Section M of the BSC. These include but are not limited to, not allowing electronic signatures thus requiring in person signatures when raising Letters of Credit and the requirement for Letters of Credit to be issued in person at a specified bank branch which can cause unnecessary delays when raising or drawing down credit.

© ELEXON Limited 2020

Elexon believes that having two sets of valid Letter of Credit templates increases the risk of Imbalance Parties using Letter of Credit templates that are not in line with current banking practices.

Background

Imbalance Parties are required to lodge Credit Cover under the BSC. This is required as Trading Charges are paid approximately 29 calendar days after a Settlement Day occurs. The Credit Cover raised ensures that a Party has enough collateral to cover these payments in the event of default. The provisions within the BSC allow Imbalance Parties to lodge Credit Cover in cash, with a Letter of Credit or with an Approved Insurance Product.

In Spring 2020 the UK government directed people to stay at home where possible in response to the Coronavirus (Covid-19) pandemic. As a result of these restrictions companies have needed to adapt existing operational processes and practices where possible to ensure continued operations whilst minimising the risk of exposure to the virus to staff. This included the processes surrounding the Credit Cover provisions within the BSC.

In response to these restrictions, RWE Ltd raised a query with Elexon on whether the BSC would allow Imbalance Parties to raise a Letter of Credit with a suitable electronic signature rather than a physical or wet signature. After considering the query, Elexon determined that the templates set out in Annexes M1 – M3 did not provide enough assurance that electronic signatures could be used and raised a decision paper to the Panel in April 2020 to address this and other relevant scenarios involving the use of signatures in relation to the Letters of Credit. The Panel approved these updated templates at its April 2020 meeting.

Desired outcomes

The desired outcome of this change is to ensure the Letter of Credit Templates and Approved Insurance Product requirements can be changed quickly with appropriate oversight from the BSC Panel so that they are in line with current banking practices as far as reasonably practicable.

© ELEXON Limited 2020

3 Solution

Proposed solution

The Modification Proposal will:

- Remove the Letter of Credit templates and Approved Insurance Product requirements from annexes M1-M4.
- Update Sections 2.1.4 & 2.1.5 of Section M to introduce a requirement for the Letter of Credit templates and the Approved Insurance Product requirements to be published on the BSC Website; and
- Alter the definitions of Letter of Credit and Approved Insurance Product so that there is a requirement for Elexon to publish these templates and requirements on the BSC Website.

For the avoidance of doubt, the effect of the above changes will be that the BSC Panel must approve all changes to the Letter of Credit templates and Approved Insurance Product requirements and once approved, Elexon will be able to quickly update the templates or requirements on the BSC Website. It is therefore also the case that this Modification is not introducing any new powers or rights for the Panel or Elexon, rather it is ensuring the BSC can be more efficiently maintained, by removing the need for a Modification to amend the credit templates.

This solution will also have the effect of making the Letter of Credit templates as approved by the BSC Panel on their meeting in April 2020 the valid set of BSC templates going forwards which clarify that electronic signatures can be used when raising or drawing down credit.

Benefits

This Modification will:

- Clarify and streamline the process for altering the Letter of Credit templates and the Approved Insurance Product requirements. This will reduce the risk that these provisions are not in line with current banking practice and any operational risks associated with this discrepancy.

- Updating the Letter of Credit templates so that the templates approved by the BSC Panel in April 2020 are the only valid set of Letter of Credit templates going forwards. These templates have the following operational efficiency benefits over the templates in Section M of the BSC.

Applicable BSC Objectives

The Proposer contends that this Modification will better facilitate Applicable BSC Objective (d) by ensuring that the Letter of Credit templates and Approved Insurance Product requirements are as in line with current banking practice as reasonably practicable and reduces the risks of operational inefficiencies associated with discrepancies between current banking practice and the templates and requirements. The Modification also reduces the time required the enact changes to the Letter of Credit templates and Approved Insurance Product requirements whilst ensuring appropriate oversight from the BSC Panel.

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 administrating 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

© ELEXON Limited 2020

Implementation approach

Elexon recommends an Implementation Date for this Modification of:

- 25 February 2021 as part of the February 2021 BSC Release.

© ELEXON Limited 2020

4 Proposed Progression

Proposed Progression

Due to the straightforward nature of this proposal we believe that this Modification should be sent directly into the Report Phase. Any assessment by a Workgroup during the Assessment Phase would provide no further benefit in this case. The proposed solution is already fully developed and drafting included in Attachments B and C.

Next steps

We recommend that this Modification Proposal proceed to a 15 Working Day (WD) Report Phase Consultation running from 14 December 2020 to 6 January 2021.

Self Governance

This Modification should be treated as a Self-Governance Modification on the basis that it is an administrative change that will not impact the operation of the BSC.

Timetable

Proposed Progression Timetable for this Modification	
Event	Date
Present Initial Written Assessment to Panel	10 December 2020
Report Phase Consultation	14 December 2020 – 6 January 2021
Present Draft Modification Report to Panel	14 January 2021
Issue Final Modification Report to Authority	18 January 2021

What is the Self-Governance Criteria?

A Modification that, if implemented:
(a) does not involve any amendments whether in whole or in part to the EBGL Article 18 terms and conditions; except to the extent required to correct an error in the EBGL Article 18 terms and conditions or as a result of a factual change, including but not limited to:
(i) correcting minor typographical errors;
(ii) correcting formatting and consistency errors, such as paragraph numbering; or
(iii) updating out of date references to other documents or paragraphs;
(b) is unlikely to have a material effect on:
(i) existing or future electricity consumers; and
(ii) competition in the generation, distribution, or supply of electricity or any commercial activities connected with the generation, distribution, or supply of electricity; and
(iii) the operation of the national electricity transmission system; and
(iv) matters relating to sustainable development, safety or security of supply, or the management of market or network emergencies; and
(v) the Code's governance procedures or modification procedures; and

(b) is unlikely to discriminate between different classes of Parties.

© ELEXON Limited 2020

5 Likely Impacts and costs

Estimated implementation costs

The costs to implement this Modification will be low. The cost to implement this Modification is expected to be <£1k which are the costs associated with developing the legal drafting for Section M and X-1.

Benefits

Elexon estimates the cost benefit between making updates using the Modification Procedures under Section F and updates to the BSC Website with BSC Panel approval to be between £1.5k and £3k per update. These savings are realised by not requiring:

- Report Phase Consultation documentation and collation; and
- Draft Modification Reports and Final Modification Reports.

Modification impacts

Impact on BSC Parties and Party Agents		
Party/Party Agent	Potential Impact	Potential cost
Suppliers, Interconnector Users, Non Physical Traders, Generators	Imbalance Parties using Letters of Credit or Approved Insurance Products to provide Credit Cover will need to use the new templates and requirements respectively when lodging Credit Cover with Elexon.	L

Impact on the NETSO	
Potential Impact	Potential cost
No impacts identified	None

Impact on BSCCo		
Area of ELEXON	Potential Impact	Potential cost
Settlement & Invoicing	The Settlement Operations team will be required update the BSC Website with the BSC Panel approved Letter of Credit templates or Approved Insurance Product requirements as and when required.	L

Impact on BSC Settlement Risks
No impacts identified

© ELEXON Limited 2020

Impact on BSC Systems and processes	
BSC System/Process	Potential Impact
None	No impacts identified

Impact on BSC Agent/service provider contractual arrangements	
BSC Agent/service provider contract	Potential Impact
N/A	No impacts identified

Impact on Code	
Code Section	Potential Impact
BSC Sections M and X-1	To be amended as per Attachments B and C to meet the solution detailed in Section 3.

Impact on EBGL Article 18 terms and conditions
No impacts identified

Impact on Code Subsidiary Documents	
CSD	Potential Impact
N/A	No impacts identified

Impact on other Configurable Items	
Configurable Item	Potential Impact
N/A	No impacts identified

Impact on Core Industry Documents and other documents	
Document	Potential Impact
Ancillary Services Agreements	No impacts identified
Connection and Use of System Code	
Data Transfer Services Agreement	
Distribution Code	
Distribution Connection and Use of System Agreement	
Grid Code	

© ELEXON Limited 2020

Impact on Core Industry Documents and other documents	
Document	Potential Impact
Master Registration Agreement	
Supplemental Agreements	
System Operator-Transmission Owner Code	
Transmission Licence	
Use of Interconnector Agreement	

Impact on a Significant Code Review (SCR) or other significant industry change projects
No impacts identified. We have requested that Ofgem treat this Modification as a SCR exempt Modification on 3 December 2020.

Impact on Consumers
No impacts identified

Impact on the Environment	
This Modification is consistent with the net zero target.	

© ELEXON Limited 2020

6 Recommendations

We invite the Panel to:

- **RAISE** the Modification Proposal in Attachment A in accordance with F2.1.1(d)(i);
- **AGREE** that this Modification:
    - **DOES** better facilitate Applicable BSC Objective (d);
- **AGREE** that this Modification progresses directly to the Report Phase;
- **AGREE** that this Modification **DOES NOT** impact the EBGL Article 18 terms and conditions held within the BSC;
- **AGREE** an initial recommendation that this Modification should be **approved**;
- **AGREE** an initial Implementation Date of:
    - 25 February 2021 part of the February 2021 BSC Release
- **AGREE** the draft legal text;
- **AGREE** an initial view that this Modification should be treated as a Self-Governance Modification; and
- **NOTE** that ELEXON will issue the Draft Modification Report (including the draft BSC legal text) for a 15 Working Day consultation and will present the results to the Panel at its meeting on 14 January 2021.

© ELEXON Limited 2020

Appendix 1: Glossary & References

Acronyms

Acronyms used in this document are listed in the table below.

Acronym	
Acronym	Definition
BSC	Balancing and Settlement Code
CSD	Code Subsidiary Document
EBGL	Electricity Balancing Guideline *(EU Network Code)*
IWA	Initial Written Assessment
NETSO	National Electricity Transmission System Operator *(National Grid ESO)*
SCR	Significant Code Review
WD	Working Day

External links

A summary of all hyperlinks used in this document are listed in the table below.

All external documents and URL links listed are correct as of the date of this document.

External Links		
Page(s)	Description	URL
1 & 5	BSC Section M 'Credit Cover and Default'	https://www.elexon.co.uk/the-bsc/bsc-section-m-credit-cover-and-credit-default/
5	BSC Section F 'Modification Procedures'	https://www.elexon.co.uk/the-bsc/bsc-section-f-modification-procedures/
5	BSC Section X-1 'General Glossary'	https://www.elexon.co.uk/the-bsc/bsc-section-x-annex-x-1-general-glossary/
5	Letter of Credit Updates Decision Paper for April 2020 Panel Meeting.	https://www.elexon.co.uk/documents/groups/panel/2020-meetings-panel/301-april/301-12-letter-of-credit-template-updates/

© ELEXON Limited 2020