

Phase

Initial Written Assessment

Definition Procedure

Assessment Procedure

Report Phase

Implementation

P417 '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.



The BSC Panel initially recommends **approval** of P417



The BSC Panel **does not** believe P417 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

311/06

P417
Draft Modification Report

4 March 2021

Version 2.0

Page 1 of 17

© ELEXON Limited 2021



Contents

1	Summary	3
2	Why Change?	5
3	Solution	7
4	Impacts & Costs	10
5	Implementation	13
6	Panel's Initial Discussions	14
7	Report Phase Consultation Responses	15
8	Recommendations	16
	Appendix 1: Glossary & References	17

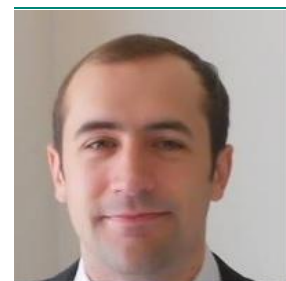
Contact

Chris Arnold

020 7380 4221

BSC.change@elexon.co.uk

Chris.arnold@elexon.co.uk



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, 8 and 9
- Have 30 mins? Read all except section 6
- Have longer? Read all sections and the annexes and attachments

This is the P417 Draft Modification Report, which Elexon will present to the Panel at its meeting on 11 March 2021. It includes the responses received to the Report Phase Consultation on the Panel's initial recommendations. The Panel will consider all responses, determine whether to approve or reject P417 and then send P417 to the Authority for information. This is the second version of the P417 Draft Modification Report. The first version was scheduled to be presented to the Panel on 11 February 2021, but was deferred.

There are four parts to this document:

- This is the main document. It provides details of the solution, impacts, costs, benefits/drawbacks and proposed implementation approach.
- Attachment A contains the Proposal Form.
- Attachment B contains the Proposed Modification draft redlined changes to the BSC for P417 which **does include** provisions for a mandatory consultation period and lead time.
- Attachment C contains draft redlined changes to the BSC for P417 which **does not include** provisions for a mandatory consultation period and lead time.

311/06

P417

Draft Modification Report

4 March 2021

Version 2.0

Page 2 of 17

© ELEXON Limited 2021

What is the issue?

This Modification seeks to address three 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. There are currently two processes that can be used under the BSC to update these templates and requirements which is unnecessary and inefficient.
- There are currently two valid sets of Letter of Credit templates under the BSC. 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.
- Using the processes under [Section F 'Modification Procedures'](#) for updating the Letter of Credit templates and Approved Insurance Product requirements can unnecessarily increase the length of time taken enact minor amendments to these templates or requirements.

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;
- 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; and
- Introduce:
 - A mandatory 20 Business Day consultation period for any changes to the Letter of Credit templates or Approved Insurance Product requirements; and
 - At least a 60 Business Day period from Panel approval till the specified updates become live.

Elexon Assessment of Proposed Solution

Following the Panel meeting in December 2020 extra provisions were included, at the request of the Panel (the Proposer), in the legal text for a mandatory consultation period and lead time before the implementation of changes to the templates/requirements.

After further Elexon analysis from operational teams it is Elexon's view that, on balance, these provisions constitute changes that would make the Proposed Modification worse at facilitating the Applicable BSC Objectives than the current baseline.

Elexon therefore recommends either:

1. The legal text in Attachment C, which excludes the mandatory consultation and lead time, is approved and the current proposed legal text in Attachment B is rejected; or
2. P417 is rejected.

The reasons for this are set out in section 3 of this report.

Impacts & 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. No costs have been identified for impacted participants. However, we anticipate there will be some marginal costs for participants that need to use the new templates.

Implementation

We recommend an Implementation Date of:

- 24 June 2021 as part of the June 2021 BSC Release

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

Recommendation

The Panel believe that P417 better facilitates Applicable BSC Objective (d) and should therefore **be approved as a Self-Governance Modification** Proposal, as the solution is self-evident and arguably also of an inconsequential nature. No impacts on the EBGL Article 18 balancing terms and conditions have been identified.

2 Why Change?

What is the issue?

Two 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.

There are currently two processes within the BSC that can be used to update the Letter of Credit templates or the Approved Insurance Product requirements. These are:

- 1) Raising a BSC Modification and following the processes as required under the provisions of [Section F 'Modification Procedures'](#); or
- 2) The BSC allows the BSC Panel to approve alternative Letters of Credit or Approved Insurance Products 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 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.

Inefficient updates to Letter of Credit Templates & Approved Insurance Product Requirements

Banking practices continuously change over time and so 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

311/06

P417

Draft Modification Report

4 March 2021

Version 2.0

Page 5 of 17

© ELEXON Limited 2021

with current banking practices it could cause problems with Imbalances Parties accessing appropriate credit products, introduce unnecessary operational inefficiencies (which drive up costs to Elexon) 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 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.

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.

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.
- Introduce:
 - A mandatory 20 Business Day consultation period for any changes to the Letter of Credit templates or Approved Insurance Product requirements; and
 - At least a 60 Business Day period from Panel approval till the specified updates become live.

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, consulted upon and the specified lead time has elapsed, 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.

Elexon Assessment of Proposed Solution

The provisions relating to the mandatory 20 Business Day consultation period as well as the 60 Business Day period from Panel approval till implementation were added by the Panel (as the Proposer) to the Proposed Solution when the Initial Written Assessment was presented to the Panel on 10 December 2020.

Following the Panel amendments to the solution, Elexon further considered the impacts of these amendments on the solution and determined that the additional changes would not better facilitate Applicable BSC Objective (d) over the baseline on the basis that:

- The introduction of a mandatory consultation window and lead time could increase the length of time required to enact changes to the Letter of Credit templates or Approved Insurance Product requirements. This could have a material impact on Parties. For example, the templates were amended at the April 2020 Panel meeting to allow signature via email, significantly saving time and reducing the

311/06

P417
Draft Modification Report

4 March 2021

Version 2.0

Page 7 of 17

© ELEXON Limited 2021

health and safety risks from the COVID-19 pandemic. The extra time taken to enact changes could arise in two ways:

- The process under the Proposed Solution would be longer than the process currently detailed in the BSC if the provisions under [Annex X-1 'General Glossary'](#) are used to enact changes. This is because the Annex X-1 process only requires Panel approval to implement changes to the templates/requirements so changes can be made immediately following the meeting if approved. As an example the April 2020 changes were implemented immediately following the 9 April 2020 Panel meeting.
- In some cases the Proposed Modification process would not be quicker than the processes under [Section F 'Modification Procedures'](#). For example, if a Modification proceeded directly to the Report Phase, was Self-Governance and had a release scheduled shortly after the Self-Governance window closed.
- A lead time from Panel approval till the specified updates become live is already given under the current BSC provisions. Imbalance Parties are notified by the FAA at least 20 Business Days before their Credit Cover is due to expire under Section M – 2.2.3, this notification is given for both Letters of Credit and Approved Insurance Products. Having two separate lead times prior to changes would be inefficient.
- The types of change that would be implemented would be minor in nature and limited in scope to changes that would make it operationally easier for Elexon to draw down credit in the event of Default. This means that a mandatory consultation period would not add any value to the process.

Elexon notes that:

- Parties are required to adhere to the latest templates and only upon expiry of an existing Letter of credit or Approved insurance Product.
- If material changes are required to the Letters of Credit or Approved Insurance Products a BSC Modification changing the requirements detailed elsewhere in Section M should be raised to address the specified issue. These changes would be subject to full BSC Modification governance.
- Nothing detailed in the drafting for P417 would prevent the Panel from consulting or introducing a lead time if there was uncertainty on the materiality of a suggested change.
- The templates and requirements currently given under Section M only have to be 'substantially in the form' set out in templates/requirements as per the definitions in Section X-1 and Elexon will accept Letters of Credit or Approved Insurance Products where the wording is similar enough to meet Elexon operational requirements.
- The types of updates that would use the Panel approval process for updates to the Letter of Credit templates or Approved Insurance Product requirements would be infrequent due to the limited scope of applicability

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.
- Update 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 to enact changes to the Letter of Credit templates and Approved Insurance Product requirements whilst ensuring appropriate oversight from the BSC Panel.

Legal text

The legal text for the Proposed Modification which **does include** the provisions relating to a mandatory consultation period and lead time before implementation is provided in Attachment B.

The legal text for P417 that **does not include** the provisions relating to a mandatory consultation period and lead time before implementation and that Elexon recommends is provided in Attachment C.

4 Impacts & 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

Proposed Modification

Elxon expects minimal efficiency savings under the Proposed Modification due to the mandatory consultation period included in the redlining. This would require Elxon to carry out a consultation process and summarise responses in line with current Report Phase Consultation processes.

Elxon Recommended Approach

Elxon 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.

P417 impacts

Impact on BSC Parties and Party Agents		
Party/Party Agent	Impact	Estimated cost
Suppliers, Interconnector Users, Non Physical Traders, Generators, Virtual Lead Parties.	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 Elxon.	Low

Impact on the NETSO	
Impact	Estimated cost
No impacts identified	None

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

311/06

P417
Draft Modification Report

4 March 2021

Version 2.0

Page 10 of 17

© ELEXON Limited 2021

Impact on BSC Settlement Risks	
No impacts identified	

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

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

Impact on Code	
Code Section	Impact
BSC Sections M and X-1	To be amended to give effect to the solution detailed in Section 3.

Impact on EBGL Article 18 terms and conditions and objectives	
No impacts identified	

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

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

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

311/06

P417
Draft Modification Report

4 March 2021

Version 2.0

Page 11 of 17

© ELEXON Limited 2021

Impact on Core Industry Documents and other documents	
Document	Impact
Distribution Code	
Distribution Connection and Use of System Agreement	
Grid Code	
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
Ofgem confirmed on 8 th December 2020 that this Modification does not impact a SCR or any other significant industry change project.

Impact of the Modification on the environment and consumer benefit areas:	
Consumer benefit area	Identified impact
1) Improved safety and reliability No material impacts identified	Neutral
2) Lower bills than would otherwise be the case No material impacts identified	Neutral
3) Reduced environmental damage No material impacts identified	Neutral
4) Improved quality of service No material impacts identified	Neutral
5) Benefits for society as a whole No material impacts identified	Neutral



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.

311/06

P417
Draft Modification Report

4 March 2021

Version 2.0

Page 12 of 17

© ELEXON Limited 2021

Recommended Implementation Date

The Panel recommends an Implementation Date for P417 of:

- 24 June 2021 as part of the June 2021 BSC Release

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

Initial Panel Discussions

The Panel considered the P417 Initial Written Assessment at its meeting on 10 December 2020 ([Panel 309/07](#)) and agreed to raise the P417 Modification in line with Section F 2.1.1 (d) (i) of the BSC as recommended by Elexon. The Modification was progressed directly to the Report Phase. An initial view was taken by the Panel that the Modification should be treated as a Self-Governance Modification.

A Panel member suggested that the drafting should contain a provision that requires the Panel to consult on any changes made to the Letter of Credit templates or the Approved Insurance Product requirements to ensure appropriate industry review before making amendments. A Panel member also raised concerns that a lead time should be included in the Modification due to the potential time required to negotiate terms of Letters of Credit or Approved Insurance Products in the new format with the relevant bodies e.g. banks. Panel members suggested that a consultation period of 1 month and a lead time of 3 months might be appropriate and requested Elexon update the drafting to reflect this.

A Panel member also suggested that as Elexon's view is that this Modification is treated as Self-Governance a longer Report Phase Consultation of 20 Working Days (WD) could be more appropriate than the standard 15WD consultation period. Panel members also noted that this would mean that the Modification could not be accommodated in the February 2021 release and suggested that P417 could be included in the April 2021 release.

The BSC Panel:

- **RAISED** the Modification Proposal in Attachment A in accordance with F2.1.1(d)(i);
- **AGREED** that this Modification:
 - **DOES** better facilitate Applicable BSC Objective (d);
- **AGREED** that this Modification progresses directly to the Report Phase;
- **AGREED** that this Modification DOES NOT impact the EBGL Article 18 terms and conditions held within the BSC;
- **AGREED** an initial recommendation that this Modification should be approved;
- **AGREED** an initial Implementation Date of:
 - 1 April 2021 as part of the April 2021 Standalone Release;
- **AGREED** the draft legal text;
- **AGREED** an initial view that this Modification should be treated as a Self-Governance Modification; and
- **NOTED** that Elexon will issue the Draft Modification Report (including the draft BSC legal text) for a 20 Working Day consultation and will present the results to the Panel at its meeting on 11 February 2021.

311/06

P417
Draft Modification Report

4 March 2021

Version 2.0

Page 14 of 17

© ELEXON Limited 2021

7 Report Phase Consultation Responses

The Report Phase Consultation opened on 22 December 2020 and closed on 22 January 2021. No responses were received to the consultation.

8 Recommendations

We invite the Panel to:

- **REJECT** the draft legal text in Attachment B for the Proposed Modification which **does include** provisions for a mandatory consultation period and lead time;
- **APPROVE** the draft legal text in Attachment C for the Proposed Modification which **does not include** provisions for a mandatory consultation period and lead time;
- **AGREE** that the P417 Proposed Modification:
 - **DOES** better facilitate Applicable BSC Objective (d);
- **DETERMINE** (in the absence of any Authority direction) that P417 is a Self-Governance Modification Proposal;
- **APPROVE** the P417 Proposed Modification;
- **APPROVE** an Implementation Date for the Proposed Modification of:
 - 24 June 2021 as part of the June 2021 Release; and
- **APPROVE** the P417 Modification Report.

Appendix 1: Glossary & References

Acronyms

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

Acronyms	
Acronym	Definition
BSC	Balancing and Settlement Code
CSD	Code Subsidiary Document
EBGL	European Balancing Guidelines
NETSO	National Electricity Transmission System Operator
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
5	BSC Section M 'Credit Cover and Credit Default'	https://www.elexon.co.uk/the-bsc/bsc-section-m-credit-cover-and-credit-default/
5 & 6	BSC Section F 'Modification Procedures'	https://www.elexon.co.uk/the-bsc/bsc-section-f-modification-procedures/
5	BSC Section X Annex X-1 'General Glossary'	https://www.elexon.co.uk/the-bsc/bsc-section-x-annex-x-1-general-glossary/
5	April 2020 Panel Meeting 301	https://www.elexon.co.uk/documents/groups/panel/2020-meetings-panel/301-april/301-12-letter-of-credit-template-updates/
14	December 2020 Panel Meeting 309	https://www.elexon.co.uk/meeting/bsc-panel-309/

311/06

P417

Draft Modification Report

4 March 2021

Version 2.0

Page 17 of 17

© ELEXON Limited 2021