

Phase

Initial Written Assessment

Definition Procedure

Assessment Procedure

Report Phase

Implementation

P426 'Combining related BSC Parties' Energy Indebtedness positions for the Credit Cover Percentage calculation'

This Modification proposes to remove inefficiencies with the Credit Cover calculation by allowing related BSC Parties to combine their Energy Indebtedness prior to calculating the Credit Cover Percentage.



Elxon recommends P426 is progressed to the Assessment Procedure for an assessment by a Workgroup



Elxon does not consider it likely that P426 will impact the European Electricity Balancing Guideline (EBGL) Article 18 terms and conditions held within the BSC

This Modification is expected to impact:

- All Trading Parties, particularly Suppliers
- Elxon

319/12

P426
Initial Written Assessment

12 October 2021

Version 1.0

Page 1 of 16

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Contents

1	Summary	3
2	Why Change?	4
3	Solution	6
4	Areas to Consider	8
5	Proposed Progression	9
6	Likely Impacts	10
7	Recommendations	14
	Appendix 1: Glossary & References	15



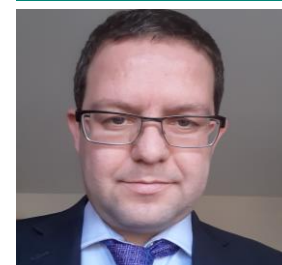
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About This Document



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 and the annexes and attachments

This document is an Initial Written Assessment (IWA), which Elexon will present to the Panel on 14 October 2021. The Panel will consider the recommendations and agree how to progress P426.

There are two 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, including the Workgroup's proposed membership and Terms of Reference.
- Attachment A contains the P426 Proposal Form.

319/12

P426

Initial Written Assessment

12 October 2021

Version 1.0

Page 2 of 16

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What is the issue?

The current method for calculating Balancing and Settlement Code (BSC) Party Energy Indebtedness is inefficient for Parties who have multiple BSC Parties within their group of companies.

Currently, BSC Party Energy Indebtedness is calculated individually for each BSC Party (a legal entity, registered with Companies House) and Credit Cover must be lodged on that basis. Currently there is no option for companies within the same group to provide collective credit arrangements. Sometimes the Energy Indebtedness of one BSC Party in a group of companies may offset the Energy Indebtedness of another. With the current individual calculation and lodging of credit, higher levels of credit are being lodged than may be necessary for the group of companies, as Parties are unable to optimise provision into a single position.

What is the proposed solution?

The Proposal is to provide the option that related BSC Parties are able to rely on shared credit arrangements and provision.

Where BSC Parties are related (i.e. within the same body corporate), the proposal is that the Energy Indebtedness of each BSC Party should be combined and the Credit Cover Calculation then performed on the combined position. Parties would assume joint liability in the event Elexon calls on Credit, and so overall risk to Settlement should remain the same as for the current arrangements.

Impacts and costs

This Modification proposes amending [BSC Section M 'Credit Cover and Credit Default'](#) and related Balancing and Settlement Code Procedures (BSCPs). There are expected to be impacts on BMRS, ECVA, Elexon Portal and FAA. There will be impacts on Parties who chose to use the proposed solution. The Proposer has Suppliers in mind as the main beneficiaries of this Modification, but is open to it being applied to all Trading Parties.

We will submit a Change Request to our service providers to determine the costs and time to implement once the solution is sufficiently developed.

Implementation

The Proposer would like this Modification to be implemented as soon as possible, subject to full consideration by the Workgroup, so that the benefits can be realised. The Implementation Date should be determined by the Workgroup, subject to impact assessments on Parties and Elexon's systems and processes.

Recommendation

We recommend that the Panel agree to progress this Modification to the Assessment Procedure for consideration by a Workgroup to determine the optimal solution and impacts, including costs and benefits.

2 Why Change?

What is the issue?

The Proposer believes that the current method for calculating BSC Party Energy Indebtedness can be inefficient for Parties who have multiple BSC Parties within their group of companies.

Currently, BSC Party Energy Indebtedness is calculated individually for each BSC Party (a legal entity, registered with Companies House) and Credit Cover must be lodged on that basis. Currently there is no option for companies within the same group to provide collective credit arrangements. Sometimes the Energy Indebtedness of one BSC Party in a group of companies may offset the Energy Indebtedness of another. With individual calculation and lodging of credit, Parties are unable to optimise provision into a single position which may result in higher levels of credit being lodged in aggregate.

Background

Why do BSC Parties need to provide Credit Cover?

Credit Cover is needed because Trading Charges are paid approximately 29 calendar days after a Settlement Day occurs. Sometimes a BSC Party will become unable to pay their Trading Charges between a Settlement day and the billing date, for example if they become insolvent. A Party's Credit Cover ensures it has enough collateral to cover payments due in case of default. This means that even when a Party doesn't pay, Settlement arrangements remain protected.

How do BSC Parties lodge Credit Cover?

BSC Parties can lodge Credit Cover during Working Hours as cash via bank transfer, Letter of Credit or an Approved Insurance Product.

How can BSC Parties withdraw Credit Cover?

BSC Parties can withdraw Credit Cover using the 'Minimum Eligible Amount' (MEA) process. This process calculates the minimum level of Credit Cover that would be required to prevent Credit Default. If BSC Parties wish to reduce their collateral, there is a 10 day waiting period, during which the minimum eligible amount is established.

Elxon calculate the MEA by finding the highest level of indebtedness over the 10 day waiting period. We then calculate how much they could have reduced their Credit Cover by and still have a Credit Cover Percentage of 75%; this is the maximum amount they could withdraw.

Desired outcomes

The ability to optimise and enable more efficient credit arrangements will reduce the cost of providing credit for related Parties. Importantly this will not reduce the amount of Credit Cover lodged below the level needed to cover the risk of default, nor will it increase the Credit risk or cost for Parties that do not (or cannot) aggregate their credit provision in this way. As well as improving efficiency for existing related Parties, thereby making them more cost competitive, the arrangements would remove a potential barrier to entry for



What is Energy Indebtedness?

Energy Indebtedness is the sum of a Trading Party's Credit Assessment Energy Indebtedness (CEI) over all the Settlement Periods falling within a period of 29 Settlement Days expiring and including the Settlement Day on which the calculation is made. Has the meaning given to that term in Section M1.2.1.



What is Credit Cover Percentage?

Energy Indebtedness is the sum of a Trading Party's Credit Assessment Energy Indebtedness (CEI) over all the Settlement Periods falling within a period of 29 Settlement Days expiring and including the Settlement Day on which the calculation is made. Has the meaning given to that term in Section M1.2.1.

319/12

P426

Initial Written Assessment

12 October 2021

Version 1.0

Page 4 of 16

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Parties wishing to adopt a related BSC Party corporate structure. Ultimately, implementing this proposal will remove inefficiencies imposed on related BSC Parties as unnecessary excess Credit Cover will no longer need to be lodged.

Proposed solution

The Proposal is to provide the option for related BSC Parties to use shared credit arrangements. This would enable more efficient business operation by removing a significant operational and financial overhead without increasing the cost or exposure of other Parties.

Where BSC Parties are related (i.e. within the same body corporate), the proposal is that the Energy Indebtedness of each BSC Party should be combined and the Credit Cover Calculation then performed on the combined position.

This combined Credit Cover Percentage will then be referenced within [BSC Section M 'Credit Cover and Credit Default'](#).

Benefits

Under the BSC, payments for Trading Charges arising on any given Settlement Day are typically made by Trading Parties 29 calendar days later. Therefore, at any given time a BSC Party may have debts for Trading Charges incurred over the previous 29 Days. Each Party is therefore required to lodge Credit Cover to ensure that, should it default, Elexon has sufficient collateral available to pay off its debts to other Parties.

There has been industry recognition that there is significantly more Credit Cover lodged than is necessary in the event of a BSC Party(s) Defaulting. Elexon's analysis of Voting Share data suggests around 45% of BSC Parties are related to at least one other by parent company and the Proposer believes that allowing related BSC Parties to combine their Energy Indebtedness prior to the Credit Cover Percentage being calculated can help some Parties reduce their overall credit requirements. In turn, a more optimal (i.e. lower) level of Credit Cover will reduce the costs to those Parties, enabling them to price more competitively in the market resulting in lower costs to consumers.

Where related companies opt to take advantage of the arrangements, the Parties would be able to optimise the exposure they face and provide the necessary credit on that basis. This means, for example, that if one BSC Party was to have a strongly negative Energy Indebtedness but a related BSC Party were to have a lesser positive Energy Indebtedness, then combining the Energy Indebtedness would remove the need to lodge separate Credit Cover without any increase in risk to the Industry. In situations where all related BSC Parties have positive Energy Indebtedness, combining them for the Credit Cover Percentage calculation will also remove the need to provide a repeated operational credit 'buffer' for all related BSC Parties.

We anticipate being able to produce an assessment of total potential benefit and assign a related monetary figure during the Workgroup process.

Applicable BSC Objectives

The Proposer believes that this Modification will better facilitate the Applicable BSC Objectives, namely Objectives (c) and (d), when compared to the current baseline.

This Modification will promote both effective competition in the generation and supply of electricity and efficiency in the implementation of the balancing and settlement



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

319/12

P426

Initial Written Assessment

12 October 2021

Version 1.0

Page 6 of 16

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arrangements because the current setup requires related BSC Parties to potentially lodge unnecessarily high levels of Credit Cover. Reducing these levels to a more appropriate amount will result in savings across the industry which can be passed onto consumers and ease the barrier to entry for new Parties. Groups of related BSC Parties would no longer need to provide two lines of credit when only one is necessary, which would be more efficient for those BSC Parties and potentially for Elexon too.

Implementation approach

The Proposer would like this Modification to be implemented as soon as possible, subject to full consideration by the Workgroup, so that the benefits can be realised at the earliest opportunity. The Implementation Date should be determined by the Workgroup, subject to impact assessments on Parties and Elexon's systems and processes.

4 Areas to Consider



What is a Metered Volume Reallocation Notification?

A notification of a Metered Volume Reallocation in relation to Settlement Periods in any Settlement Day from one BSC Party to another. The MVRN can either be a Fixed Reallocation or a Percentage Reallocation.

In this section we highlight areas which we believe the Panel should consider when making its decision on how to progress this Modification Proposal, and which a Workgroup should consider as part of its assessment of P426. We recommend that the areas below form the basis of a Workgroup's Terms of Reference, supplemented with any further areas specified by the Panel.

Areas to consider

The Workgroup should consider how to define groups of BSC Parties. For example, the Voting Share Register or Funding Shares could be used.

The Workgroup should consider corporate governance and whether Parties can access funding arrangements that permit the sharing of liabilities across Parties within a Group.

The Workgroup should consider whether there are any alternative solutions, including consider of whether the use of Metered Volume Reallocation Notifications (MVRNs) is suitable in this situation.

The table below summarises the areas we believe a Modification Workgroup should consider as part of its assessment of P426:

Areas to Consider
How should groups of BSC Parties be defined?
Can BSC Parties access funding arrangements that permit the sharing of liabilities across Parties within a Group?
Are there any alternative solutions which could be suitable?
How will P426 impact the BSC Settlement Risks?
What changes are needed to BSC documents, systems and processes to support P426 and what are the related costs and lead times? When will any required changes to subsidiary documents be developed and consulted on?
Are there any Alternative Modifications?
Should P426 be progressed as a Self-Governance Modification?
Does P426 better facilitate the Applicable BSC Objectives than the current baseline?
Does P426 impact the EBGL provisions held within the BSC, and if so, what is the impact on the EBGL Objectives?

319/12

P426
Initial Written Assessment

12 October 2021

Version 1.0

Page 8 of 16

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Self-Governance

At this time, the Proposer believes this Proposal should be submitted to Ofgem for decision as it will materially impact Parties Credit Cover requirements and consequently Parties ability to trade in the market place, impacting competition and ultimately consumers.

Urgency

This Modification is not subject to a request for Urgent treatment.

Next steps

This P426 IWA will be presented to the BSC Panel at its meeting on 14 October 2021, where it will decide how to progress P426. We recommend P426 is submitted for a six month assessment by a Workgroup.

Workgroup membership

We propose that membership should be drawn from participants with experience and expertise in BSC Credit Cover and Credit Default arrangements, management of Settlement Risk and corporate financing arrangements.

Timetable

Proposed Progression Timetable for P426	
Event	Date
Present Initial Written Assessment to Panel	14 October 2021
Workgroup Meeting	W/C 15 November 2021
Workgroup Meeting	W/C 14 February 2022
Assessment Procedure Consultation	14 March 2022 – 01 April 2022
Workgroup Meeting	W/C 4 April 2022
Present Assessment Report to Panel	14 April 2022
Report Phase Consultation	20 April 2022 – 11 May 2022
Present Draft Modification Report to Panel	09 June 2022
Issue Final Modification Report to Authority	15 June 2022
Development of subsidiary documents	Implementation Phase

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.

319/12

P426

Initial Written Assessment

12 October 2021

Version 1.0

Page 9 of 16

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6 Likely Impacts and costs

Costs will be assessed during the Assessment Procedure. However, for those roles we believe will be impacted, we have indicated whether we believe the costs are likely to be high, medium or low based on the following categories:

- High: >£1 million
- Medium: £100-1000k
- Low: <£100k

Impact on BSC Parties and Party Agents

Party/Party Agent	Potential Impact	Potential cost
BSC Trading Parties	BSC Parties may need to arrange new credit lines if utilising a shared credit arrangement	L

The Proposer has Suppliers in mind as the main beneficiaries of this Modification, but is open to it being applied to all Trading Parties.

Impact on the NETSO

Potential Impact	Potential cost
None identified	None

Impact on BSCCo

Area of Elexon	Potential Impact	Potential cost
Settlement & Invoicing	Changes may be required to existing processes to manage Credit Cover for groups of BSC Parties	L

Impact on BSC Settlement Risks

No impact identified

Impact on BSC Systems and processes

BSC System/Process	Potential Impact
BMRS	BMRS interfaces will need to be updated – credit default notices are currently on a per-party basis
ECVAA	ECVAA interfaces and calculations (including Energy Indebtedness and Credit Cover Percentage) will need to be updated to account for credit lodged by groups of Parties instead of individual Parties
Elexon Portal	Elexon portal interfaces may need to be updated – credit reporting is currently on a per-party basis

319/12

P426
Initial Written Assessment

12 October 2021

Version 1.0

Page 10 of 16

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Impact on BSC Systems and processes	
BSC System/Process	Potential Impact
FAA	FAA interfaces and validations may need to be updated to account for credit lodged on behalf of Groups of Parties instead of individual Parties. This would include arrangements to correctly account for credit lodged by Parties, and to validate and administer requests to withdraw credit lodged

Impact on BSC Agent/service provider contractual arrangements	
BSC Agent/service provider contract	Potential Impact
None	No impacts expected

Impact on Code	
Code Section	Potential Impact
BSC Section M 'Credit Cover and Credit Default'	To be amended to meet the solution specified in Section 3

Impact on EBGL Article 18 terms and conditions	
No impacts identified	

Impact on Code Subsidiary Documents	
CSD	Potential Impact
BSCP301 'Clearing, Invoicing and Payment'	BSCP 301 may need to be updated to provide a process to follow where a BSC Party is lodging or withdrawing credit on behalf of a group, rather than individually.
BSCP65 'Registration of Parties and Exit Procedures'	BSCP65 may need to be updated to describe how to provide and validate data on groups of companies if the solution doesn't use existing sources.
BSCP38 'Authorisations'	BSCP38 may need to be updated to allow for Category N Authorisations (which includes provision of Credit Cover) to be on behalf of groups of BSC Parties instead of individual BSC Parties

Impact on other Configurable Items	
Configurable Item	Potential Impact
BMRA Service Description	To be amended to meet the solution specified in Section 3
BMRA User Requirements Specification	

319/12

P426
Initial Written Assessment

12 October 2021

Version 1.0

Page 11 of 16

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Impact on other Configurable Items	
Configurable Item	Potential Impact
ECVAA Service Description	
ECVAA User Requirements Specification	
FAA Service Description	
FAA User Requirements Specification	
NETA Programme, Interface Definition and Design: Part 1 - Interfaces with BSC Parties and their Agents	Update Interface Design Document (IDD) and associated IDD spreadsheet to meet the solution specified in Section 3
NETA Interface Definition and Design Part 1 – spreadsheet	
NETA Programme, Interface Definition and Design: Part 2 - Interfaces to other Service Providers	
NETA Interface Definition and Design Part 2 – spreadsheet	
Funds Administration Agent Interface Definition and Design Part 1	Update IDD to meet the solution specified in Section 3
Funds Administration Agent Interface Definition and Design Part 2	

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	
Grid Code	

319/12

P426

Initial Written Assessment

12 October 2021

Version 1.0

Page 12 of 16

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



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.

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 12 October 2021

Impact of the Modification on the environment and consumer benefit areas:	
Consumer benefit area	Identified impact
1) Improved safety and reliability	Neutral
2) Lower bills than would otherwise be the case Related BSC Parties would need to lodge less Credit Cover reducing their cost base, which would result in downward pressure on prices and thus lower bills for consumers	Positive
3) Reduced environmental damage	Neutral
4) Improved quality of service	Neutral
5) Benefits for society as a whole	Neutral

319/12

P426

Initial Written Assessment

12 October 2021

Version 1.0

Page 13 of 16

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7 Recommendations

We invite the Panel to:

- **AGREE** that P426 progresses to the Assessment Procedure;
- **AGREE** the proposed Assessment Procedure timetable;
- **AGREE** the proposed membership for the P426 Workgroup; and
- **AGREE** the Workgroup's Terms of Reference.

Appendix 1: Glossary & References

Acronyms

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

Acronym	
Acronym	Definition
BMRA	Balancing Mechanism Reporting Agent
BMRS	Balancing Mechanism Reporting Service
BSC	Balancing and Settlement Code
BSCP	Balancing and Settlement Code Procedures
CEI	Credit Assessment Energy Indebtedness
EBGL	European Electricity Balancing Guideline
ECVAA	Energy Contract Volume Aggregation Agent
FAA	Funds Administration Agent
IDD	Interface Design Document
IWA	Initial Written Assessment
MEA	Minimum Eligible Amount
MVRN	Metered Volume Reallocation Notification
SCR	Significant Code Review
SD	Service Description
URS	User Requirements Specification

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
3, 6, 11	BSC Section M 'Credit Cover and Credit Default'	https://www.elexon.co.uk/the-bsc/bsc-section-m-credit-cover-and-credit-default/
11	BSCP301 'Clearing, Invoicing and Payment'	https://www.elexon.co.uk/csd/bscp301-clearing-invoicing-and-payment/
11	BSCP65 'Registration of Parties and Exit Procedures'	https://www.elexon.co.uk/csd/bscp65-registration-of-parties-and-exit-procedures/
11	BSCP38 'Authorisations'	https://www.elexon.co.uk/csd/bscp38-authorisations/

External Links		
Page(s)	Description	URL
11	BMRA Service Description	https://www.elexon.co.uk/csd/service-description-for-balancing-mechanism-reporting/
11	BMRA User Requirements Specification	https://www.elexon.co.uk/csd/balancing-mechanism-reporting-agent-user-requirements-specification-bmra-urs/
12	ECVAA Service Description	https://www.elexon.co.uk/csd/service-description-for-energy-contract-volume-aggregation/
12	ECVAA User Requirements Specification	https://www.elexon.co.uk/csd/energy-contract-volume-aggregation-agent-user-requirements-specification-ecvaa-urs-v16-0/
12	FAA Service Description	https://www.elexon.co.uk/csd/service-description-for-funds-administration/
12	FAA User Requirements Specification	https://www.elexon.co.uk/csd/funds-administration-agent-user-requirements-specification-faa-urs/
12	NETA Programme, Interface Definition and Design: Part 1 - Interfaces with BSC Parties and their Agents	https://www.elexon.co.uk/csd/neta-programme-interface-definition-and-design-part-1-interfaces-with-bsc-parties-and-their-agents/
12	NETA Interface Definition and Design Part 1 – spreadsheet	https://www.elexon.co.uk/csd/interface-definition-and-design-part-1-interfaces-with-bsc-parties-and-their-agents/
12	NETA Programme, Interface Definition and Design: Part 2 - Interfaces to other Service Providers	https://www.elexon.co.uk/csd/neta-programme-interface-definition-and-design-part-2-interfaces-to-other-service-providers/
12	NETA Interface Definition and Design Part 2 – spreadsheet	https://www.elexon.co.uk/csd/neta-idd-part-2-spreadsheet/
12	FAA Interface Definition and Design Part 1	https://www.elexon.co.uk/csd/funds-administration-agent-interface-definition-and-design-part-1/
12	FAA Interface Definition and Design Part 2	https://www.elexon.co.uk/csd/funds-administration-agent-interface-definition-and-design-part-2/