

Phase

Initial Written Assessment

Definition Procedure

Assessment Procedure

Report Phase

Implementation

P358 'Roll over of BSC Seasonal GC/DC'

This Modification Proposal proposes to amend the Balancing and Settlement Code (BSC) Section K to allow ELEXON to carry over BSC Seasonal Generation Capacity (GC) / Demand Capacity (DC).

This Report Phase Consultation for P358 closes:

5pm on Friday 13 October 2017

The Panel may not be able to consider late responses.



The BSC Panel initially recommends **approval** of P358

This Modification is expected to impact:

- Suppliers
- Generators
- Interconnector Users
- ELEXON

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About This Document

This is the P358 Draft Modification Report, which ELEXON is issuing for industry consultation on the BSC Panel's behalf. It contains the Panel's provisional recommendations on P358. The Panel will consider all consultation responses at its meeting on 9 November 2017, when it will agree a final recommendation to the Authority on whether or not the change should be made.

There are three 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 draft redlined changes to the BSC for P358.
- Attachment B 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.

P358
Report Phase Consultation

25 October 2017

Version 1.0

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Why Change?

This Modification was a recommendation out of the [Issue 68 'Underestimation of Demand Capacity and Credit Cover Percentage'](#) Group. The BSC currently requires GC/DC values to be set to zero if no submission is received. New Suppliers are currently able to avoid lodging any Credit by declaring zero when they are building a customer base. This can reach thousands of customers before the current lower DC limit of 2 Megawatts (MW) is triggered. If such a Supplier fails, this can leave unpaid Trading Charges for all other BSC Parties to pay through Default Funding Shares.

Solution

This Modification seeks to remove the requirement to default values to zero if none is declared, and recognise the existing working practice where ELEXON carries over BSC seasonal GC/DCs. If Parties want to they can re-submit their GC/DC if dissatisfied with the roll-over value in accordance with the existing mid-Season re-declaration processes (BSC Section K3.4.2A).

Impacts & Costs

We anticipate that P358 will impact Suppliers, generators and Interconnector Users. We do not anticipate that there will be any impact on BSC Systems and processes. The central implementation costs to deliver P358 will be £240, with an impact on ELEXON's process.

Implementation

P358 is proposed for implementation on **22 February 2018**, as part of the February 2018 BSC Release.

Recommendation

The BSC Panel unanimously believes that the P358 Proposed Modification better facilitates Applicable BSC Objective (d). The Panel's initial unanimous recommendation is that the Proposed Modification should be **approved**.



What is Generation and Demand Capacity?

Each BM Unit has a Generation Capacity (GC) and a Demand Capacity (DC). This is the maximum expected net Generation and Demand for that BM Unit in the current BSC Season.

These values are declared seasonally. Parties can make resubmissions during the Season if they breach these declared values



Credit Guidance notes

Detail on **Credit Cover** and **Credit Default** can be found in the respective Guidance Notes available on our [Credit webpage](#).

What is the issue?

DC/GC are parameters that are declared for each BSC Season in accordance with [BSC Section K 'Classification and Registration of Metering Systems and BM Units'](#) 3.4. They are self-declared by a BSC Party in 'good faith and as accurately as it reasonably can' for each Balancing Mechanism (BM) Unit. They are declared as the expected negative (indicating Demand) Metered Volume with the maximum magnitude for a single Settlement Period falling within the BSC Season.

Inaccuracy in the DC/GC parameters results in incorrect Credit Cover Percentage (CCP). This results in either an over-requirement or under-requirement in Credit Cover relative to the BM Units actual (or more likely) production or consumption. The under-requirement of Credit Cover, when combined with a Supplier failure can delay an event of Default and BSC Section H Default. Furthermore, an under-requirement may extend the number of days all other BSC Parties are exposed to the failing Supplier's Trading Charges.

New Suppliers are able to avoid lodging any Credit by declaring zero DC when they are building a customer base. This can reach thousands of customers before the current lower DC limit of 2MW is triggered. Other Suppliers are able to maintain under-estimated DC values which also results in a lower Credit Cover requirement than should be required. If such a Supplier fails, this can leave unpaid Trading Charges for all other BSC Parties to pay through Default Funding Shares.

ELEXON's analysis of DC Declaration

Following declaration of the GC/DC parameters each BSC Season, monitoring is performed by ELEXON against Metered Volumes. If a BM Unit's Metered Volume exceeds the GC/DC tolerance limits allowed by BSC Section K, the Lead Party must re-declare the GC/DC for the BM Unit. Current performance by Parties to re-declare each season for DC submission is poor with only 34 out of 131 (26%) of Suppliers declaring GC/DC for the BSC Winter 2016/17 Season.

Furthermore, the quality of DC estimations could be improved as following ELEXON's analysis, an under-statement of the parameter has resulted in circa £6million of Credit Assessment Energy Indebtedness (CEI) error at the start of the Winter 2016/17 BSC Season. This has created a higher risk of exposure to Default Funding Shares for BSC Parties in the event of payment default. Further analysis by ELEXON found that for 2017 Spring declarations, 67/279 (24%) of Suppliers re-declared, in the Summer, 94/288 (34%) re-declared and finally for Autumn 132/288 (45.83%) re-declared.

Regulation of the process is challenging due to the current ambiguous BSC rules, such as the use of the term 'good faith'.

Issue 68

Issue 68 was raised to investigate the under-requirement of Credit Cover and how to develop a solution to avoid inaccurate DC declarations which lead to this. As part of Issue 68, the Issue Group considered whether greater accuracy in DC submissions could be achieved by amending the requirements of the BSC for seasonal declarations.

Seasonal GC/DC declarations are required 10 Working Days (WD) prior to the start of each BSC Season. The self-declarations are made in accordance with BSC Section K and [BSC Procedure \(BSCP\) 15 'BM Unit Registration'](#) and received by the CRA for input into the

registration system. If no GC/DC declaration is made, BSC Section K3.4.1 states that the GC/DC value(s) be set to zero. As noted above, the majority of BSC Parties do not make seasonal GC/DC submissions in practice.

However, where a BM Unit is expected to import or export, a zero DC would underestimate the CEI component of the CCP calculation. An ELEXON working practice that is in use, rolls over GC/DC values from the previous season if no value is declared. The rationale for this practice is driven by pragmatism - were values for a BM Unit to default to zero as the Party failed to declare a seasonal GC/DC, then the Party would have a greater Credit requirement than if values were to instead be rolled over as their existing value. If the rolled over values are not the subject of a 'breach' (i.e. in accordance with BSC Section K3.4.3), it makes sense to use an existing value to ensure a more accurate CEI and CCP calculations; then there is little harm in removing the administrative burden of forcing Parties to comply with the obligation to provide a submission, instead allowing values to rollover. However, the current levels of failure to declare, coupled with the default value of zero would lead to an unnecessary understatement of required credit if applied in practice.

The Issue Group agreed that a Modification should be raised to reflect current operational practice and formally allow for ELEXON to carry over GC/DC values from one BSC Season to the next. The BSC currently requires GC/DC values to be set to zero if no submission is required. This would result in less accuracy in the GC/DC values than carrying over.

Proposed solution

P358 seeks to remove the requirement to default values to zero if none is declared, and recognise the existing working practice where ELEXON carries over BSC seasonal GC/DCs where no declaration is received. This Modification is explicitly intended so there is no challenge process to a rolled-over value. Instead, if Parties want to they can re-submit their GC/DC if dissatisfied with the rollover value in accordance with existing mid-Season re-declaration processes (BSC Section K3.4.2A).

Legal text

The proposed redlined changes to the BSC to deliver P358 can be found in Attachment A.

Are there any (other) alternative solutions?

There are no other alternative solutions for this Modification. The proposed solution was agreed upon unanimously by members of Issue 68.

4 Impacts & Costs

Estimated central implementation costs of P358

This Modification is a document-only change to update BSC Section K. There are no system impacts and no impact on BSC Agents.

The central implementation costs will be approximately £240 (one ELEXON man day) to implement the relevant document changes.

Indicative industry costs of P358

We are not anticipating any industry costs for the implementation of this Modification.

P358 impacts

The tables below detail the identified impacts that arise from the solution to this Modification Proposal:

Impact on BSC Parties and Party Agents	
Party/Party Agent	Impact
Suppliers	Changes will be required to implement the Proposed Modification. We anticipate there may be changes some Party's internal processes.
Generators	
Interconnector Users	

Impact on Transmission Company
None identified.

Impact on BSCCo	
Area of ELEXON	Potential Impact
BSC Operations	Local Working Instructions (LWIs) and Guidance documents referring to the seasonal declaration will need amendment.

Impact on BSC Systems and processes
None identified.

Impact on Code	
Code Section	Potential Impact
Section K	Changes will be required to deliver this Modification. <i>The proposed redlined changes can be found in Attachment A.</i>

Impact on Code Subsidiary Documents

CSD	Potential Impact
None identified	

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

This Modification is not linked to any live SCRs. At the time of writing the following SCRs were in the SCR Phase:

- [Electricity Settlement Reform](#)
- [Targeted Charging Review](#)

The Proposer requests that this Modification be exempt from the SCR process.

Impact on Consumers

No direct impacts on consumers.

Impact on the Environment

No direct impact on the environment.

Recommended Implementation Date

The Proposer recommends an Implementation Date for P358 of:

- **22 February 2018** as part of the February 2018 BSC Release if an Authority decision is received on or before 22 December 2017.

6 Proposer's Conclusions

Applicable BSC Objectives

The impact of the solution to this Modification Proposal on the relevant BSC Objectives is displayed in the table below:

Impact of the Modification on the Relevant BSC Objectives	
Relevant Objective	Identified impact
a) The efficient discharge by the Transmission Company of the obligations imposed upon it by the Transmission Licence	Neutral
(b) The efficient, economic and co-ordinated operation of the National Electricity Transmission System	Neutral
(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	Neutral
(d) Promoting efficiency in the implementation of the balancing and settlement arrangements	Positive
(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]	Neutral
(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	Neutral
(g) Compliance with the Transmission Losses Principle	Neutral

This Modification better facilitates BSC Objective (d), as it will maintain improved accuracy of GC/DC submissions currently achieved through working practice, whilst reducing and minimising the administrative burden for Parties submitting GD/DC values. The working practice provides a better outcome for Parties, in the context of the overall objectives of the credit arrangements, compared to the current provisions of the Code.

At the BSC Panel at its meeting on 14 September 2017 ([Panel 270/05](#)). The Panel agreed this Modification has a positive impact on Objective d.

Self-Governance

This Modification proposal should not be treated as Self Governance on the basis that making the change will have a material impact on the Code's governance procedures, through the removal for a barrier to ELEXON.



What are the Self-Governance criteria?

A proposal that, if implemented:

- a) 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

Panel's discussion of P358

The Initial Written Assessment (IWA) for P358 was presented to the BSC Panel at its meeting on 14 September 2017 (Panel 270/05). The Panel agreed with all recommendations unanimously as set out in Section 8 of this paper.

A Panel Member asked if there are any risks or concerns about this Modification not being in place for winter 2017. The Proposer noted that over the winter the existing process for declaration will be in place (which this Modification seeks to mimic) and although the Proposed Modification will improve the BSC, he did not believe there were any major risks to not implementing it in time for this winter.

Another Panel Member requested clarification as to whether a DC value rolls-over from the previous Season type (e.g. Winter) or consecutive Season i.e. from Winter 2016 to Winter 2017, or Winter Season to Spring Season. The Proposer confirmed that the data rolls over from the previous consecutive Season (e.g. Winter to Spring). The Panel Member was concerned that this would make estimation difficult. ELEXON noted the issue but highlighted that the Party can re-declare the data if they do not agree with the rolled over value and there are processes in place should the value breach the thresholds.

During the Panel meeting, Ofgem confirmed that P358 is not implicated in the two ongoing SCR's (Electricity Settlement Reform and Targeted Charging Review) and as such should be exempt from the SCR process.

Report Phase Consultation Questions

Do you agree with the Panel's initial unanimous recommendation that P358 better facilitates Applicable BSC Objective (d)?

Do you agree with the Panel's initial unanimous recommendation that P358 should be approved?

Do you agree with the Panel that the redlined changes to the BSC deliver the intention of P358?

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

Do you agree with the Panel's initial view that P358 should not be treated as a Self-Governance Modification?

Do you have any further comments on P358?

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

8 Recommendations

The BSC Panel initially recommends to the Authority:

- That P358 **DOES** better facilitate Applicable BSC Objective (d);
- That the P358 Proposed Modification should be **APPROVED**;
- The draft BSC legal text for the P358 Proposed Modification;
- An Implementation Date for the P358 Proposed Modification of:
 - 22 February 2018 if an Authority decision is received on or before 22 December 2018; and

Appendix 1: Glossary & References

Acronyms

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

Acronym	
Acronym	Definition
BSC	Balancing and Settlement Code
BSCP	Balancing and Settlement Code Procedure
BM	Balancing Mechanism
BM	Balancing Mechanism Unit
CCP	Credit Cover Percentage
CEI	Credit Assessment Energy Indebtedness
CRA	Central Registration Agent
DC	Demand Capacity
GC	Generation Capacity
IWA	Initial Written Assessment
LWI	Local Working Instruction
MW	Megawatt
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
3	Issue 68 page on the ELEXON website	https://www.elexon.co.uk/smg-issue/issue-68/
4	BSCPs page on the ELEXON website	https://www.elexon.co.uk/bsc-related-documents/related-documents/bscps/
5	BSC Sections page on the ELEXON website	https://www.elexon.co.uk/bsc-related-documents/balancing-settlement-code/bsc-sections/
6	Credit page on the ELEXON website	https://www.elexon.co.uk/operations-settlement/credit/

External Links		
Page(s)	Description	URL
8	Electricity Settlement Reform SCR page on the Ofgem website	https://www.ofgem.gov.uk/publications-and-updates/electricity-settlement-reform-significant-code-review-launch-statement-revised-timetable-and-request-applications-membership-target-operating-model-design-working-group
8	Targeted Charging Review SCR page on the Ofgem website	https://www.ofgem.gov.uk/publications-and-updates/targeted-charging-review-significant-code-review-launch
10	Panel 270 page on the ELEXON website	https://www.elexon.co.uk/meeting/bsc-panel-268/?from_url=https://www.elexon.co.uk/events-calendar-item/bsc-panel-268/