

249/15 - REVIEW OF BSC CREDIT MODIFICATIONS

MEETING NAME BSC Panel Meeting

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Owner/author Elliott Hall

Purpose of paper Information

Classification Public

Summary This paper summarises ELEXON's review of three Credit Cover related BSC Modifications implemented via the November 2014 and June 2015 releases. This information was presented to the Imbalance Settlement Group (ISG) for comment at its January 2016 meeting.

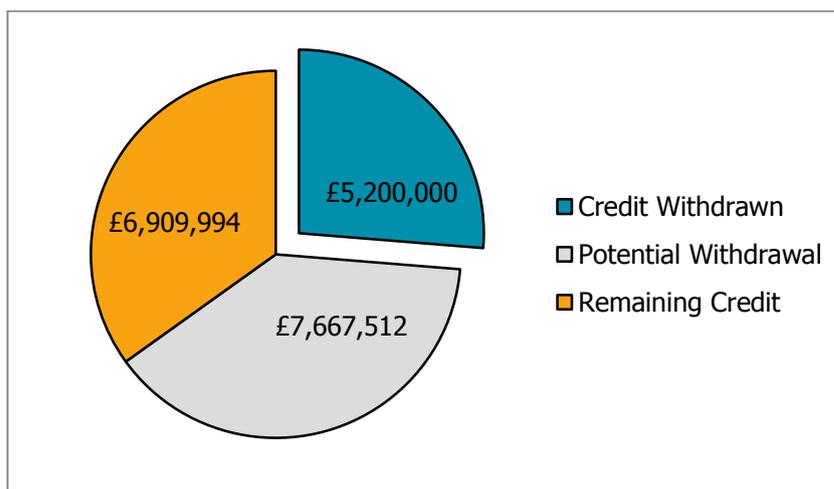
1. Executive Summary

1.1 We have undertaken a review of the following three Approved Modifications that were implemented in the November 2014 and June 2015 releases:

- Modification P306 'Expanding the definition of a 'Letter of Credit' to include regulated insurance companies'
- Modification P307 'Amendments to Credit Default arrangements'; and
- Modification P310 'Revised Credit Cover for Exporting Supplier BM Units'

1.2 Each of the Modifications has distinct impacts on the BSC arrangements for Credit Cover. P306 sought to address a shortage in providers of security for BSC Parties. P307 and P310 tackled excess credit cover by lengthening credit default timescales and improving the accuracy of calculations respectively.

1.3 P310 had the most positive impact, measured by a reduction in total credit lodged of £5.2m. The review also identified a further £7.6m that could be withdrawn. We have offered training to BSC Parties that have the potential to withdraw Credit Cover.



Graph 1: Credit impact of P310

1.4 P307 also had a positive impact, with two Parties avoiding Credit Default due to the longer timescales.

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2. Further Information And Next Steps

- 2.1 [Modification P306](#) intended to expand the pool of financial institutions able to provide security by allowing an Approved Insurance Product from a regulated insurance company, equivalent to a Letter of Credit. However no Approved Insurance Product issued by a regulated insurance company has been used as Credit Cover. Additionally, there is currently no Letter of Credit solely valid due to Fitch Ratings held as Credit Cover. Therefore the benefits brought by this Modification have not been realised to date.
- 2.2 [Modification P307](#) addressed scenarios where, due to the timing of a Credit Default, a Party was allowed no Business Hours to remedy the situation. This led BSC Parties to lodge excess Credit Cover to mitigate this risk. Two Parties would have entered Level 2 Credit Default if the rules were not been changed by P307. This review did not identify any BSC Parties that reduced their Credit Cover specifically due to this Modification.
- 2.3 [Modification P310](#) allowed energy volumes for generating Supplier BM Units with no consumption (e.g. embedded generation) to be estimated more accurately. This Modification only affects Supplier BM Units with a GC > 0 and a DC of 0. 11 BSC Parties were affected by P310; three of which withdrew £5.4m of Credit Cover. Seven did not change their Credit Cover and one lodged Credit Cover for the first time; however five of these saw their Energy Indebtedness fall after the P310 implementation and could have withdrawn Credit Cover. We estimate that these Parties could have withdrawn a further £7.6m.
- 2.4 Further information can be found in the ISG Paper provided in Attachment A – ISG177/02 – Review Of BSC Credit Modifications.
- 2.5 The ISG welcomed the review at its January meeting. Members discussed the relative effectiveness of the Modifications, reasons for excess Credit Cover and the relevance of cost-benefit analysis for future Modifications. The ISG made no explicit comments for inclusion in this Panel Paper.
- 2.6 We will continue monitoring the effect of the three Modifications, particularly P307 and P310 on BSC Parties' Energy Indebtedness. We will continue to offer education to BSC Parties that could better understand the rules and use this to review their Credit Cover. We will provide a further update on Modifications P307 and P310 to the ISG in July 2016.

3. Recommendations

- 3.1 We invite you to:
 - a) **NOTE** the update given on the impact of Modification P306; and
 - b) **NOTE** our plan to complete a further review of Modifications P307 and P310 in July 2016.

Attachments

Attachment A – ISG177/02 – Review Of BSC Credit Modifications

For more information, please contact:

Elliott Hall, Market Analyst

Elliott.Hall@elexon.co.uk

020 7380 4170