

P358 'Roll over of BSC Seasonal GC/DC'

The Modification proposes to amend BSC Section K to allow ELEXON to carry over BSC Seasonal GC/DC.



ELEXON recommends P358 is progressed directly to the Report Phase with an initial recommendation to approve

This Modification is expected to impact:

- Suppliers
- Generators
- Interconnector Users
- ELEXON

Phase

Initial Written Assessment

Definition Procedure

Assessment Procedure

Report Phase

Implementation



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About This Document

This document is an Initial Written Assessment (IWA), which ELEXON will present to the Panel on 14 September 2017. The Panel will consider the recommendations and agree how to progress P358.

There are three 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 P358 Proposal Form.
- Attachment B contains the P358 proposed draft Redlining.

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1 Why Change?

What is the issue?

Demand Capacity (DC) and Generation Capacity (GC) are parameters that are declared for each Balancing and Settlement Code (BSC) Season in accordance with BSC Section K 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 BMUs 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 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.

Following declaration of the GC/DC parameters each BSC Season, monitoring is performed by ELEXON against Metered Volume. If a BMU Metered Volume exceeds the GC/DC tolerance limits allowed by Section K, the Lead Party must re-declare the GC/DC for the BMU. Current performance by Parties to declare 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, creating 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 declared, in the Summer, 94/288 (34%) declared and finally for Autumn 132/288 (45.83%) 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

As part of [Issue 68 'Underestimation of Demand Capacity'](#), 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 [BSCP15 'BM Unit Registration'](#) and received by the CRA for input into the registration system. If no GC/DC declaration is made, BSC Section K 3.4.1 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.

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However, where a BMU 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 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

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 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 DC if dissatisfied with the rollover value in accordance with existing mid-Season re-declaration processes (Section K 3.4.2A).

Applicable BSC Objectives

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 administrating 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.

Implementation approach

The Proposer suggests that the solution to this Modification Proposal be implemented on 22 February 2018, as part of the February 2018 BSC Release. This is the next available release date for this Modification.

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

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ELEXON has confirmed that it can deliver the solution to this Modification Proposal on 22 February 2018.

3 Proposed Progression



Next steps

ELEXON agrees with the Proposer's belief that this Modification proposal is suitable to be submitted directly to the Report Phase, and hence be subject to the Report Phase Consultation. That is the Proposer believes it is likely that the Panel's recommendation to the Authority is self-evident, i.e. that it would recommend implementation and that the proposed solution reflects the conclusions of the Issue 68 working group.

For the avoidance of doubt, it is expected that the Panel would usually proceed directly to the Report Phase pursuant to paragraph 2.2.3(b)(iii) where the Modification Proposal is of a minor or inconsequential nature and/or where the recommendation which the Panel should make to the Authority in relation to such Modification Proposal would generally be considered to be self-evident.

We believe the next steps for this Modification should:

- be sent directly to the Report Phase.

Justification for proposed progression - not 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.

Timetable

Proposed Progression Timetable for P358	
Event	Date
Present Initial Written Assessment to Panel	14 Sept 17
Report Phase Consultation	25 Sept – 13 Oct 17
Present Draft Modification Report to Panel	9 Nov 17
Issue Final Modification Report to Authority	17 Nov 17

What is the Self-Governance Criteria?

A Modification 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.

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4 Likely Impacts

Impact on BSC Parties and Party Agents

Party/Party Agent

Suppliers

Generators

Interconnectors Users

Impact on Transmission Company

None Identified

Impact on BSCCo

Area of ELEXON	Potential Impact
ELEXON Operations	<ul style="list-style-type: none">LWIs and Guidance documents referring to the seasonal declaration may need amendment.

Impact on BSC Systems and processes

BSC System/Process	Potential Impact
None identified	

Impact on Code

Code Section	Potential Impact
Section K	Redlining amendments as proposed by the solution to this Modification Proposal.

Impact on Code Subsidiary Documents

CSD	Potential Impact
None identified	

Impact on other Configurable Items

Configurable Item	Potential Impact
None Identified	

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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 Significant Code Review process.

Impact on Consumers

ELEXON agrees with the Proposer's view that the solution to this Modification does not have any direct impacts on consumers.

Impact on the Environment

ELEXON does not believe that the solution to this Modification has any direct impacts on the environment.

5 Recommendations

We invite the Panel to:

- **AGREE** that P358 progresses directly to the Report Phase;
- **AGREE** that P358:
 - **DOES/DOES NOT** better facilitate Applicable BSC Objective (d);
- **AGREE** an initial recommendation that P358 should be **approved**;
- **AGREE** an initial Implementation Date of:
 - 22 February 2018 if an Authority decision is received on or before 22 December 2017;
- **AGREE** the draft legal text;
- **NOTE** that ELEXON will issue the P358 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 09 November 2017.

Appendix 1: Glossary & References

Acronyms

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

Acronym	
Acronym	Definition
BSC	Balancing and Settlement Code
BM	Balancing Mechanism
CCP	Credit Cover Percentage
CEI	Credit Assessment Energy Indebtedness
CRA	Central Registration Agent
DC	Demand Capacity
GC	Generation Capacity
IWA	Initial Written Assessment
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	ELEXON webpage for Issue 68	https://www.elexon.co.uk/smg-issue/issue-68/
3	ELEXON webpage for BSCP15	https://www.elexon.co.uk/bsc-related-documents/related-documents/bscps/