

BSC Modification Proposal Form		At what stage is this document in the process?
<h1>P359</h1> <h2>'Mechanised process for GC/DC declarations'</h2>		<div style="display: flex; flex-direction: column; align-items: flex-start;"> <div style="border: 1px solid green; background-color: #00a651; color: white; padding: 5px; margin-bottom: 5px;">01 Modification</div> <div style="border: 1px solid blue; padding: 5px; margin-bottom: 5px;">02 Workgroup Report</div> <div style="border: 1px solid purple; padding: 5px; margin-bottom: 5px;">03 Draft Modification Report</div> <div style="border: 1px solid orange; padding: 5px;">04 Final Modification Report</div> </div>
<p>Purpose of Modification:</p> <p>This Modification seeks to introduce a new mechanised process for Generation Capacity and Demand Capacity declarations.</p>		
	<p>The Proposer recommends that this Modification should:</p> <ul style="list-style-type: none"> be assessed by a Workgroup and submitted into the Assessment Procedure <p>This Modification will be presented by the Proposer to the BSC Panel on 14 September 2017. The Panel will consider the Proposer's recommendation and determine how best to progress the Modification.</p>	
	<p>High Impact:</p> <p>BSC Party with a production and consumption BMU</p> <p>ELEXON</p>	
	<p>Medium Impact:</p> <p>N/A</p>	
	<p>Low Impact:</p> <p>N/A</p>	

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Timetable		Proposer's representative: <i>Garth Graham</i>
The Proposer recommends the following timetable:		
Initial consideration by Workgroup	W/B 2 Oct 17	
Secondary consideration by Workgroup	W/B 23 Oct 17	garth.graham@sse.com
Assessment Procedure Consultation	30 Oct 17 – 17 Nov 17	
Consultation responses considered by Workgroup	W/B 27 Nov 17	<i>+44 (0) 1738 457377</i>
Workgroup Report presented to Panel	14 Dec 17	
Report Phase Consultation	8 Jan 18 – 26 Jan 18	
Draft Modification Report presented to Panel	8 Feb 18	
Final Modification Report submitted to Authority	9 Feb 18	

1 Summary

Issue 68

[Issue 68 'Underestimation of Demand Capacity'](#) was raised by ELEXON on 28 March 2017. It sought to investigate the under-requirement of Credit Cover due to inaccurate Demand Capacity (DC) declarations and how to develop a solution to minimise the effect of these inaccuracies in the calculation of Credit Assessment Energy Indebtedness (CEI) and Credit Cover Percentage (CCP).

As part of Issue 68, the Issue Group considered whether the Generation (GC) and DC declarations process could be more mechanistic, with changes applied by ELEXON when the GC and DC is breached by more than the allowed tolerance. The Issue Group suggested that such an approach would increase the accuracy of submission, and reduce the administrative burden on BSC Parties.

What is the issue?

Following a breach of a declared GC or DC value, Parties are required to re-declare a GC or DC value for the relevant BMU. Failure to do so can perpetuate an inaccurate GC or DC value being used to calculate CEI and CCP. Furthermore, because the BSC does not specify an exact amount of Credit Cover that Parties must provide, inaccurate or understated GC or DC values can result in Parties lodging less credit than their actual behaviour ought to require. It is left to Parties to decide on the level of cover that they wish to put in place, provided that their CCP stays below the Credit Default levels set out in Section M of the BSC.

Failure to declare or re-declare is an event of BSC Default.

However, adherence with the process for re-declaring GC and DC values is challenging due to the current BSC rules which are ambiguous. For example, the use of the term 'good faith' is subjective and does not provide clear direction to the Party as to what is reasonable (nor the Panel or ELEXON) in terms of monitoring and enforcement.

Furthermore, we are concerned that Parties are not submitting accurate and timely GC and DC values following a breach.

What is the proposed solution?

This Modification seeks to introduce a new mechanised process for GC and DC declarations following a breach of Section K3.4.3, whereby a GC or DC value would be centrally estimated using historical metered data and submitted to the CRA on behalf of the Lead Party.

Further, this Modification also proposes to amend the BSC so that DC submissions with a value of zero are not accepted where a Party has a non-zero/negative historical Metered Volume.

2 Governance

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 introduction of a new process for submitting GC and DC declarations.

Requested Next Steps

This Modification should:

- Be assessed by a Workgroup and submitted into the Assessment Procedure.

3 Why Change?

Context

Under the BSC arrangements, payments to and from Trading Parties in respect of Trading Charges arising on any particular Settlement Day are typically made 29 calendar days later. Thus, at any given time, Parties may have debts (or be due payments) for Trading Charges incurred over the previous 29 days. Each Party is required to lodge Credit Cover to cover this period, to ensure that, should it default, it has sufficient collateral available to pay off its debts. Otherwise the bad debts are shared across all other BSC Parties by requiring them to pay a Default Funding Share.

The BSC does not stipulate the amount of Credit Cover that Parties must provide. Instead it is left to Parties to decide on the level of cover that they wish to provide.

BSCCo, in conjunction with its Agents, performs a credit check process every half hour to ensure that each Party's accumulated debt over the 29 day period does not exceed the amount of Credit Cover that they have provided. If a Party has insufficient funds lodged to cover this debt, it will receive a Credit Default notice.

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

What is the issue?

Due to the ambiguous wording within the BSC, Parties are not submitting accurate and timely GC and DC values. This results in under calculation of Credit Cover compared to actual operation, which increases risk that if a Party defaulted on payment, then Default Funding Parties would have to cover bad debts.

Furthermore, due to the ambiguous wording, new Suppliers are able to bypass the Credit Cover requirements in the BSC 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.

4 Code Specific Matters

Technical Skillsets

GC/DC processes and their relationship with the Credit arrangements.

Knowledge of BSC systems,

Reference Documents

BSC Section K 'Classification and Registration of Metering Systems and BM Units'

5 Solution

Proposed Solution

We believe that the accuracy and subjectivity of GC and DC declarations following a breach would be improved if a consistent, objective and mechanistic method were used for all re-declarations. Furthermore, BSC Parties should be relieved of the burden of re-declaring GC and DC values following a breach by requiring ELEXON to administer the mechanistic method.

The Modification proposes to introduce the following process:

1. When a Party breaches by more than the allowed tolerance outlined in BSC Section K3.4.3, ELEXON will estimate its GC/DC based on the Metered Volume data available, that is, the figure used would be the maximum GC/DC
2. ELEXON will then provide the figure to the Lead Party i.e. to an appropriate Authorised Person, e.g. a Category A.
3. Should the Party wish to challenge the default value, the Party would need to respond within two Working Days (WDs). To challenge, the Party would need to provide evidence, for example, to demonstrate that the metering data is incorrect.
4. Should the Party not wish to challenge, the revised GC/DC value is submitted to CRA.

Please note that this solution would also require a definition for 'GC/DC Breach'. The proposed definition of 'GC/DC Breach' is 'on any Settlement day in which a BMU has a Meter volume of greater magnitude than the GC or DC, from one or more Settlement period(s)'.

The Modification also seeks to amend the BSC so that GC/DC submissions with a value equal to zero are not accepted where a Party has a non-zero/negative Metered Volume.

6 Impacts & Other Considerations

Impacts

This Modification will impact any BSC Party with a production and consumption BMU and ELEXON.

This Modification will require changes to BSC Section K 'Classification and Registration of Metering Systems and BM Units.

Does this modification impact a Significant Code Review (SCR) or other significant industry change projects, if so, how?

No. 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.

Consumer Impacts

No direct impact.

Environmental Impacts

No direct impact.

7 Relevant Objectives

Impact of the Modification on the Relevant 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	Positive
(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

Rationale

This modification better facilitates Applicable BSC Objective (c) as it will,

- (i) minimise compliance costs for BSC Parties by allowing a central process to calculate appropriate replacement values, rather than enforcing compliance through an onerous manual process;
- (ii) ensure better accuracy of GC/DC values used to calculate credit exposures and as a consequence, support a more efficient allocation of risk and the cost to secure it. This in turn should help to minimise potential bad debt liabilities accruing which would ultimately be passed on to the consumer.

This Modification also better facilitates Applicable BSC Objective (d) as it will improve the accuracy of GC/DC submissions and reduce the administrative burden on BSCCo staff to enforce compliance where values are not submitted or tolerances are breached.

8 Implementation Approach

This Modification is proposed for implementation on **28 June 2018**, as part of the June 2018 BSC Systems Release, as this is the next available release.

9 Legal Text

The Proposer does not believe that writing legal text without a more detailed design solution is efficient.

10 Recommendations

Proposer's Recommendation to the BSC Panel

The BSC Panel is invited to:

- Agree that P359 be sent into the Assessment Procedure for assessment by a Workgroup.