

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).



The BSC Panel 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 Final Modification Report, which ELEXON has submitted to the Authority on behalf of the BSC Panel. It includes a summary of the Panel's Report Phase Consultation and associated industry responses. The Authority will consider this report and will decide whether to approve or reject P358.

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 approved redlined changes to the BSC for P358.
- Attachment B contains the full responses received to the Panel's Report Phase Consultation.

P358
Final Modification Report

10 November 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](#).

Background

GC/DC are parameters that are declared for each BSC Season in accordance with BSC Section K3.4. They are self-declared by a BSC Party in 'good faith and as accurately as it reasonably can' for each Balancing Mechanism (BM) Unit. The parameters 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 GC/DC 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.

What is the issue?

New Suppliers are able to avoid lodging any Credit Cover by declaring zero DC when they are building a customer base. This can reach thousands of customers before the current lower GC/DC limit of 2MW is breached. Parties must re-declare values if they breach ¹thresholds defined in Section K3.4.3.

Lead Parties must determine these values when they 'become aware' and 'in good faith and as accurately as [they] reasonably can'. Failure to do so can perpetuate an inaccurate DC value being used to calculate Credit Assessment Energy Indebtedness (CEI) and CCP, as the breached value is retained until a re-declaration is made. Other Suppliers are able to maintain under-estimated DC values which also results in a lower Credit Cover, which could insufficiently cover the Party if they were to enter a financial deficit. If such a Supplier fails financially, this can leave unpaid Trading Charges for all other BSC Parties to pay through Default Funding Shares.

ELEXON's analysis of 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, as following ELEXON's analysis, an under-statement of the DC parameter resulted in circa £6million of CEI error at the start of the Winter 2016/17 BSC Season. This 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 Spring 2017 declarations, 67/279 (24%) of Suppliers re-declared, in the Summer 2017, 94/288 (33%) re-declared and finally for Autumn 2017, 132/288 (46%) re-declared.

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

¹ [P357 'Removal of GC/DC tolerance parameters from BSC Section K'](#) seeks to remove the tolerance parameters from the Code, in order to provide greater flexibility for the values to be determined by the BSC Panel. this Modification will avoid the need for a Modification to be raised each time the tolerances need to be updated.

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'](#). The amended values are received by the Central Registration Agent (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.

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 due to the Party failing to declare a seasonal GC/DC, then the Party would have a greater credit requirement than if values were 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 more accurate CEI and CCP calculations. By removing the administrative burden that asks Parties to comply with the obligation to provide a submission, we are instead proposing to allow their current values to rollover from Season to Season. However, the current levels of failure to declare, coupled with the default value of zero leads to an understatement of required credit.

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 to prevent any challenge to a rolled-over value. Instead, Parties can re-submit their GC/DC if dissatisfied with the rollover value in accordance with existing mid-Season re-declaration processes (BSC Section K3.4.2).

Are there any alternative solutions?

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

Legal text

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

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.

The central implementation costs will be approximately £240 (one ELEXON WD) 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. There may be changes to some Party's internal processes. We have followed up with respondents to the Report Phase Consultation, one Party noted this Modification will have little to no impact on them.
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
We anticipate no material impact on BSC Systems and processes.

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. Ofgem confirmed that P358 would be exempt from the SCR process during BSC Panel meeting 270.

Impact on Consumers

No direct impacts on consumers.

Impact on the Environment

No direct impact on the environment.

5 Implementation

Recommended Implementation Date

The Proposer, along with the Panel 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.



Applicable BSC Objectives

The impact of the P358 solution 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

In the view of the Proposer and as agreed by ELEXON, this Modification will better facilitate BSC Objective (d). The solution to the Modification Proposal seeks to improve the current governance arrangements and make them more efficient by enabling more flexible review and amendment of tolerance limits in line with market changes. This avoids the need for a Modification to be raised each time the tolerances need to be updated.

Self-Governance

ELEXON agrees with the Proposer's view that this Modification Proposal should not be treated as Self-Governance, on the basis that implementing the solution to this change will amend the scenarios for which a Modification Proposal under the Code is required as per Self-Governance criterion (a)(v).

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 ELEXON working practice for declaration will continue to be used (which this Modification seeks to formalise) and although this 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 roll-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 of the accuracy when rolling over as a Winter value could be too high for Spring. 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.

The Panel unanimously:

- a) **AGREED** that P358 be progressed directly to the Report Phase;
- b) **AGREED** that P358 DOES better facilitate Applicable BSC Objective (d);
- c) **AGREED** an initial recommendation that P358 should be APPROVED;
- d) **AGREED** an initial Implementation Date 22 February 2018 if an Authority decision is received on or before 22 December 2017;
- e) **AGREED** the draft legal text;
- f) **AGREED** that P358 should not be treated as a Self-Governance Modification; and
- g) **NOTED** 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 9 November 2017.

The BSC Panel did not request that any further non-standard questions be added to the Report Phase Consultation for P358. The questions posed to industry as part of the Report Phase Consultation are displayed in the table below:

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.

8 Report Phase Consultation Responses

This section summarises the responses to the Panel's Report Phase Consultation on its initial recommendations. You can find the full responses in Attachment B.

Summary of P358 Report Phase Consultation Responses				
Question	Yes	No	Neutral/ No Comment	Other
Do you agree with the Panel's initial unanimous recommendation that P358 better facilitates Applicable BSC Objective (d)?	5	0	0	0
Do you agree with the Panel's initial unanimous recommendation that P358 should be approved?	5	0	0	0
Do you agree with the Panel that the redlined changes to the BSC deliver the intention of P358?	5	0	0	0
Do you agree with the Panel's recommended Implementation Date?	5	0	0	0
Do you agree with the Panel's initial view that P358 should not be treated as a Self-Governance Modification?	5	0	0	0
Do you have any further comments on P358?	1	2	2	0

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

All five respondents agreed this Modification would better facilitate Applicable BSC Objective (d). Reasons noted by respondents included, improved accuracy of GC/DC submissions, a reduction in the administrative burden for Parties submitting GD/DC values and that consequently the exposure to credit default (bad debt) risk is reduced for BSC Parties.

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

All five respondents agreed P358 should be approved, noting the same reasons they agree P358 better facilitates Applicable BSC Objective (d).

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

All five respondents agreed with the Panel that the redlined changes to the BSC deliver the intention of P358. Two respondents commented that these changes are needed to deliver the solution of P358.

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

All five respondents agreed with the implementation date for P358, with three respondents commenting. Two respondents noted this date gives Parties sufficient time to implement changes, while the third highlighted that it is a suitable date as there are no expected material risks to this Modification.

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

All five respondents agreed P358 should not be treated as a Self-Governance Modification. Three commented stating this Modification does not meet the criteria for Self-Governance.

Do you have any further comments on P358?

One respondent commented that "It was not that it is not clear to us (them) whether mention of the lower DC limit of 2 Megawatts (MW) in the document is a red herring or not." ELEXON has spoken with the respondent and has included more information as per requested, on page 4 of this document, under the heading 'What is the issue'.

9 Panel's Final Discussions

There were no comments made during the presentation of the P358 Draft Modification Report at the Panel's meeting on 9 November 2017 ([Panel 272/06](#)).

The Panel unanimously:

- a) **AGREED** that the P358 Proposed Modification:
 - DOES better facilitate Applicable BSC Objective (d);
- b) **AGREED** a recommendation that the P358 Proposed Modification should be **approved**;
- c) **APPROVED** an Implementation Date for the Proposed Modification of:
 - 22 February 2018 if an Authority decision is received on or before 22 December 2017;
- d) **APPROVED** the draft legal text for the Proposed Modification; and
- e) **APPROVED** the P358 Modification Report.

10 Recommendations

The BSC Panel recommends to the Authority:

- That the P358 Proposed Modification should be **approved**;
- An Implementation Date for the P358 Proposed Modification of:
 - 22 February 2018 if an Authority decision is received on or before 22 December 2017;
- The BSC legal text for the P358 Proposed Modification.

Appendix 1: Estimated Progression Effort

The following tables contain the estimated effort in progressing P358:

Progression Effort	
Participant	Effort (working days)
ELEXON	6
Total	6

Consultation Response Effort	
Consultation	No. of responses
Report Phase Consultation	5
Total	5

Appendix 2: 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
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/
3	BSC Sections page on the ELEXON website	https://www.elexon.co.uk/bsc-related-documents/balancing-settlement-code/bsc-sections/
4	Credit page on the ELEXON website	https://www.elexon.co.uk/operations-settlement/credit/
4	P357 page of ELEXON website	https://www.elexon.co.uk/mod-proposal/p357/
5	BSCPs page on the ELEXON website	https://www.elexon.co.uk/bsc-related-documents/related-documents/bscps/

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/
15	Panel 272 page on the ELEXON website	https://www.elexon.co.uk/meeting/bsc-panel-271/