Stage 04: Final Modification Report

What stage is this document in the process?

01 Initial Written Assessment

02 Definition Procedure

03 Assessment Procedure

04 Report Phase

P253: Improving the accuracy of the Credit calculation for SVA participants

P253 seeks to improve the accuracy of the credit calculation by including actual SVA (supplier) data in the II Settlement Run (5 working day after real-time) so that it can be used in the credit calculation.

The Panel recommends:
Approval of P253

High Impact:
Suppliers, Half Hourly Data Aggregators, Half Hourly Data Collectors, Non Half Hourly Data Aggregators, Supplier Volume Allocation Agent, Settlement Administration Agent

Medium Impact:
Central Data Collection Agent

Contents

About this document:

This document is a Final Modification Report, which was sent to the Authority on 15 October 2010, on behalf of the Panel. The Authority will consider the Panel's recommendations, and decide whether or not this change should be made.

This is the **main document**. It outlines the solution, impacts, costs, benefits and implementation approach for the change. It includes the Panel's final recommendation on whether the change should be approved.

Attachment A provides further supporting details of how the Modification Group's discussions led it to its views and recommendations to the Panel.

Attachment B contains the P253 analysis which informed the Group's and the Panel's views.

Attachment C contains the legal text.

Any questions?

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1 Summary

Why Change?

Parties have to lodge credit with ELEXON in order to cover their Trading Charges for the 29 day period between the Settlement Day and the Initial Settlement (SF) Run. To calculate the required Credit Cover, an Interim Information (II) run is carried out 5 Working Days after the Settlement Day.

Currently the II run uses Metered Volumes from the Central Volume Allocation (CVA) market, but only estimated data for the Supplier Volume Allocation (SVA) market. This method of estimating Metered Volumes at the II Settlement Run causes the following issues:

- There can be inaccuracies in the forecasting of SVA data (particularly embedded intermittent generation);
- The estimation technique does not correctly forecast usage around a Bank Holiday;
- The estimation technique uses a percentage of Grid Supply Point Group Takes (GSPGTs) in its calculations. An increase in embedded generation in some Grid Supply Points (GSPs) has resulted in GSPGTs approaching zero, making the credit calculations significantly inaccurate.

Solution

P253 would use actual Metered Volumes from SVA Half Hourly sites in the II Settlement Run. In order to do this:

- The Supplier Volume Allocation Agent (SVAA) would carry out an II Volume Allocation Run (VAR) and would then feed the data to the Settlement Administration Agent (SAA) for use in the II Run.
- Half Hourly Data Collectors (HHDCs) and Data Aggregators (HHDAs) would be required to provide Half Hourly Meter Reads in time for SVAA to use them in an II VAR.
- Non Half Hourly Data Aggregators would be required to provide aggregated Estimated Annual Consumption (EAC) values to the SVAA in time for the II VAR run.

Impacts & Costs

P253 impacts Suppliers, HHDAs, HHDCs, SVAA and the SAA. The estimated BSC Agent implementation cost is £110,000. There would also be an annual ongoing cost of £4,000. The ELEXON implementation cost is £43,200.

Implementation

The Modification Group and the Panel recommends that P253 is implemented on:

- 03 November 2011 if an Authority decision is received on or before 19 November 2010; or
- 23 February 2012 if the Authority decision is received after 19 November 2010 but on or before 23 February 2011.

The Case for Change

The Panel **unanimously** believes that P253 will **better facilitate the achievement of Applicable Objectives (c) and/or (d)** as it will:

- increase Parties' certainty and confidence in the credit calculation, reducing the need for Parties to lodge more credit than is required and therefore assisting new entrants and smaller Parties, who generally have more difficulties in lodging credit;
- improve the accuracy of the credit calculation, reducing unsecured credit risk and ensuring that Parties with embedded generation have their Energy Indebtedness calculated more accurately;
- resolve the current problems with estimating embedded generation and Bank Holidays, and in situations where GSPGT approaches zero; and
- lead to a reduction in the number of Material Doubt claims.

Related Changes – P265

Noting the potential cost to the industry (and specifically Data Aggregators and Data Collectors) of the Proposed Modification, the P253 Modification Group developed an Alternative solution which would only impact the BSC central systems. This solution addresses two of the three issues identified by the Proposed Modification, by:

- More accurately estimating Bank Holidays; and
- Making the credit calculations more robust to when the GSPGT approaches zero, by changing the algebra used by the SAA to estimate Metered Volumes for Supplier BM Units at the II Run.

This Alternative solution would only impact the SVAA and SAA, and has an estimated BSC Agent implementation cost of £125,500. However, it does not address the issue relating to accurately forecasting embedded generation. It also continues to rely on (albeit more accurate) estimated data rather than actual Metered Volumes.

The Group's unanimous view is that this Alternative solution is better than the current arrangements and should be the minimum change that is approved as a result of their investigation. However, the majority of the Group believes that the benefits of the Proposed Modification are greater than the benefits of the Alternative solution. As such, the Group could not carry this alternative solution forwards under P253.

As both solutions have been fully developed and have support, a member of the Group has raised P265 which is identical to the P253 potential Alternative solution. Further details on P265 can be found at ELEXON - Modification P265. This ensures that the Group's work is not wasted, and the Authority is able to consider both options for decision.

Recommendations

The Panel unanimously recommends that P253 is approved.

The Panel considers that both P253 and P265 are better than the current credit calculation, but as both are mutually exclusive, it currently considers that P253 more fully addresses the issues and is therefore the better solution.

2 Why Change?

How does the Credit Calculation currently work?

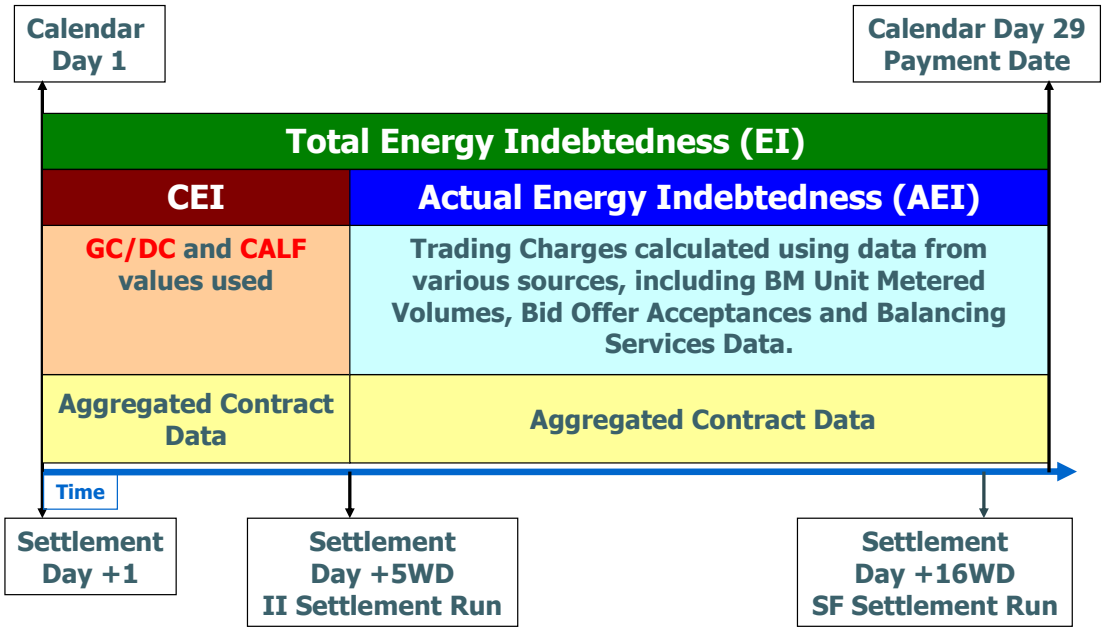
The Initial Settlement (SF) Run takes place 29 days after the Settlement Day. The SF Run determines what Trading Charges a Party owes, or is owed. Parties are required to lodge credit with ELEXON in order to cover their Trading Charges for the 29 day period between the Settlement Day and the SF Run. This ensures ELEXON has enough collateral to cover the Trading Charges if a Party cannot make them.

In order to estimate the amount of credit a Party may need to lodge, the BSC Systems calculates their Energy Indebtedness. This is an estimation of a Party's imbalance volume over the 29 day period.

For each Settlement Period, the Energy Indebtedness is made up of:[1]

- **Credit Assessment Energy Indebtedness (CEI)** – an estimate of Energy Indebtedness used until we gather metered data after 5 Working Days. It is based on each BM Unit's contractual position at Gate Closure, the estimated position based on the Credit Assessment Load Factor (CALF) and the capacity of the BM Unit called Generating Capacity (GC) or Demand Capacity (DC);
- **Actual Energy Indebtedness (AEI)** – an estimate of a Party's Trading Charges for a given Settlement Period. Once it has been calculated 5 Working Days after the Settlement Day, AEI replaces CEI.

Figure 1: High level example of the Credit Calculation



P253 is looking to change the way that we calculate Actual Energy Indebtedness, so it is worth looking more closely at how we calculate AEI.

Actual Energy Indebtedness

As noted above, AEI is an estimate of a Party's Trading Charges for a given Settlement Period. To calculate this estimate, the BSC Systems carry out an II Run 5 Working Days after the Settlement Day. For Central Volume Allocation (CVA) BM Units we have actual Metered Volumes which to calculate Trading Charges for the II Run. However, the Metered

[1] Energy Indebtedness for Credit Qualifying BM Units is calculated slightly differently. Please see our guidance note for further information.

Volumes for Supplier Volume Allocation (SVA) BM Units are not available, so we have to estimate SVA Metered Volumes.

We estimate the SVA Metered Volumes by looking at the proportion of GSPGT (the total energy consumed by a specific GSP Group) that a Supplier used on a similar day that has completed its SF Run (approximately 3 weeks previously to the Settlement Day). For example, if today is a Thursday then we would look back to a Thursday 3 weeks ago where the SF Run is complete. We then multiply this proportion by the GSPGT for the Settlement Period in question to get an estimated Metered Volume.

For more details of the current II Run calculation algebra, see Attachment A Section 1.

What's the issue?

This current method of estimating Supplier BM Unit Metered Volumes at the II Settlement Run causes the following issues:

- **There can be inaccuracies in the forecasting of SVA data** - some Half Hourly (HH) SVA sites (such as wind generation) don't follow a regular profile and can be unpredictable. This means that the electricity generated (or used) 3 weeks ago may not have a clear relationship with the current generation and therefore is not accurately reflected in II data.
- **The current method does not work for Bank Holidays** - a Supplier with mainly business customers would see considerably different Metered Volumes on Working Days and Bank Holidays. The current estimation method does not take this into account.
- **The increase in embedded generation in some GSP Groups is causing the GSPGTs to approach zero** – Since SVA Metered Volumes are based on a percentage of GSPGT, the reduction in GSPGT makes it increasingly likely that the Metered Volumes are not reflective of changes in an individual Supplier's position. This issue is likely to become more apparent as the level of embedded generation increases and the GSPGT for the calculation reference day approaches zero. As GSPGT approaches zero, the current algebra causes both the estimated BM Unit Metered Volumes used in the credit calculation and the associated credit cover requirement to tend towards infinity. This then leads to Suppliers raising material doubt claims as the Supplier BM Unit Metered Volume is clearly incorrect.

Material Doubt Claims

If a Party's indebtedness is under or overestimated, they can lodge a Material Doubt claim. An increase in the number of Material Doubt claims raised increases both cost and risk.

Cost increases as additional work is required from both the Party raising the claim and ELEXON to gather supporting evidence, re-submit data every time there is a change in data (usually every Working Day) and carry out analysis. Therefore each Material Doubt claim has a cost implication for both ELEXON and the Party.

Risk increases, as whilst the Material Doubt claim is investigated a Party will bypass the credit calculation process. This makes it much more difficult to pick up a Defaulting Party. Thus increasing the likelihood of exposing other Parties to the risk of a Party defaulting when they have a material doubt claim active.

Over the last year, 95% of all Material Doubt claims related to unrepresentative indebtedness calculations. Increasing the accuracy of the credit calculation would reduce this figure.

3 Solution

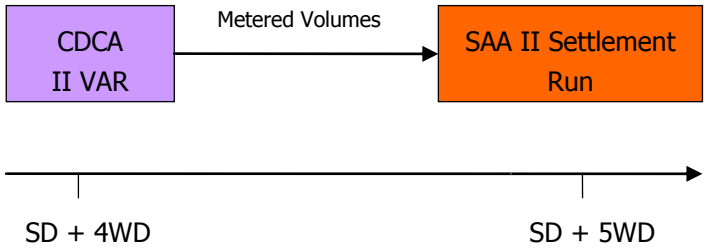
P253 suggests using actual Metered Volumes from SVA HH sites in the II Settlement Run. In order to do this:

- The SVAA would carry out an II VAR and would then feed the data to the SAA for use in the II Run.
- HHDCs and HHDAs would be required to provide HH meter reads in time for SVAA to use them in an II VAR.
- Non Half Hourly Data Aggregators (NHHDAs) would be required to provide aggregated Estimated Annual Consumption (EAC) values to the SVAA in time for the II VAR run.

What's the impact on BSC Systems?

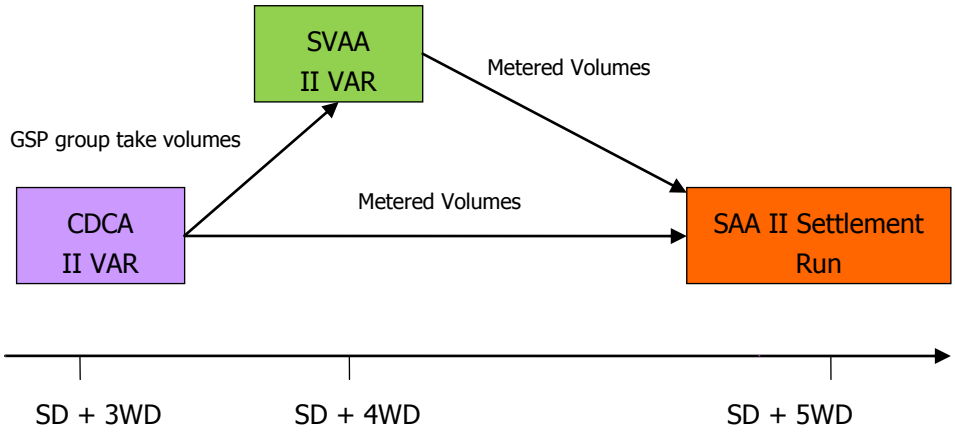
The current method for an II run is for the Central Data Collection Agent (CDCA) to conduct a VAR 4 Working Days after the Settlement Day and to send the Metered Volumes to the SAA. The SAA then carries out the II Run using its estimated SVA Metered Volumes and the actual Metered Volumes provided by the CDCA.

Figure 2: Current timetable for BSC Systems to complete II Run



P253 would amend this process so that the CDCA would complete a VAR 3 Working Days after the Settlement Day whilst providing GSGPT volumes to the SVAA. SVAA would then complete its VAR 4 Working Days after the Settlement Day. Both the CDCA and the SVAA would send their Metered Volumes to the SAA 5 Working Days after the Settlement Day, so they can commence the II Run.

Figure 3: Proposed P253 timetable for BSC Systems to complete II Run



You can find the detailed solution requirements in Attachment A.

What's the impact on Parties/Party Agents?

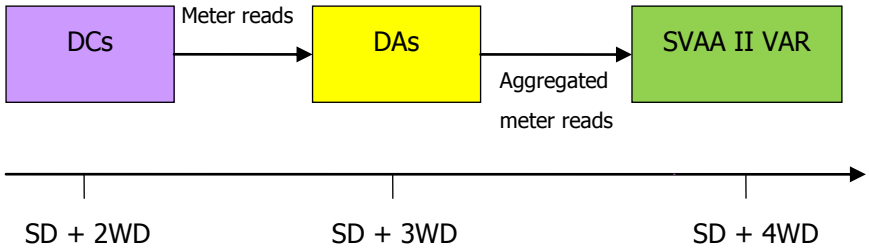
Currently, Data Aggregators must submit aggregated metered data to SVAA within 14 Working Days of the Settlement Day. P253 would significantly reduce that timescale.

The P253 solution requires Data Aggregators (DAs - both HH and NHH) to provide aggregated Metered Volumes to the SVAA within 3 Working Days of the Settlement Day, i.e. in time for the SVAA II VAR.

Although NHHDAs would not have any actual meter readings at this time, they would be required to provide aggregated EAC values to SVAA.

In order for the DAs to submit the Metered Volumes to the SVAA in time for the SVAA II VAR, HHDCs will be required to submit their HH Meter reads to the DAs 2 Working Days after the Settlement Day.

Figure 4: P253 Timetable for providing metered volumes to the SVAA



SVAA II Run reports – Obligations

The SVAA will not issue any II VAR reports (e.g. Supplier Settlement Reports, D0030 reports) to participants and the SVAA will suppress such reports.

There is **no obligation on DAs** to suppress any II reports that they receive and no obligation on DAs to issue any II reports to Suppliers.

If DAs do not have the capability to suppress any II reports, then there is no obligation to stop them sending such files onwards (subject to agreement/negotiation with their customers). Equally, if a Supplier specifically wants to receive II files then (subject to agreement/negotiation with their Agent) there is no obligation stopping them.

As noted above, you can find the detailed solution requirements in Attachment A.

Legal text

The draft P253 legal text is Attachment C. The Group and the Panel have reviewed this text and believe it delivers the intention of P253. One respondent commented as part of the Report Phase Consultation. The comment is detailed on page 19. We have agreed with the respondent that no update to the legal text is required.

4 Potential Alternative Solution – P265

Noting the potential cost to the industry (and specifically DAs and DCs) of the Proposed Modification, the P253 Modification Group developed an Alternative solution which would only impact the BSC central systems. This solution addresses two of the three issues identified by the Proposed Modification, by:

- More accurately estimating Bank Holidays; and
- Making the credit calculations more robust to when the GSPGT approaches zero, by changing the algebra used by the SAA to estimate Metered Volumes for Supplier BM Units at the II Run.

This Alternative solution would only impact the SVAA and SAA, and has an estimated BSC Agent implementation cost of £125,500. However, it does not address the issue relating to accurately forecasting embedded generation. It also continues to rely on (albeit more accurate) estimated data rather than actual Metered Volumes.

The Group's unanimous view is that this Alternative solution should be the minimum change implemented as a result of their investigation. It believes unanimously that the Alternative solution is better than the current arrangements and **better facilitates Applicable BSC Objective (d)** as it would:

- Reduce the number of Material Doubt claims raised due to Settlement Days where a Bank Holiday is currently used as a reference day, and where GSPGT approaches zero (a real problem which potentially could expose the industry to unlimited liabilities and will become more prevalent as the levels of embedded generation increase).

The majority of the Group also believes that the Alternative solution would **better facilitate Applicable BSC Objective (c)** as it would:

- Increase Parties' certainty and confidence in the credit calculation, reducing the need for Parties to lodge more credit than is required and therefore assisting new entrants and smaller Parties, who generally have more difficulties in lodging credit.

Why progressed as P265?

When comparing the Proposed and Alternative solutions the majority of the Group believed that the Proposed solution would resolve all 3 issues of forecasting embedded generation, GSPGT approaching zero and the use of Bank Holidays. It would be an enduring solution which would improve the credit calculation for all Settlement Periods. These Group members also believed that the Alternative solution was only a partial solution, as it only applies to particular points in time – Bank Holidays and moments when GSPGT approaches zero.

Under the BSC, Modification Groups can only progress an Alternative Modification where the majority of the Group's believe the Alternative Modification is better than the Proposed Modification. The Group noted that the potential P253 Alternative solution was clearly better than the current arrangements and it was disappointed that it could therefore not progress it alongside the Proposed Modification in order to allow Ofgem to consider both solutions.

ELEXON noted that a Party could raise the Alternative solution as a separate Modification Proposal. If they did this before the September 2010 Panel meeting then ELEXON could recommend to the Panel that the separate proposal is sent straight to the Report Phase, so that it can be progressed in parallel with the Proposed Modification.

As a result, a Party has subsequently raised **P265**. P265 is identical to the Alternative solution developed by the P253 Group. At its meeting on 9 September 2010 the Panel agreed to progress P265 directly to the Report Phase. We issued the P253 and P265 Report Phase Consultations in parallel, and you can download the P265 consultation documents from this link.

5 Impacts & Costs

Costs

ELEXON Cost		ELEXON Service Provider cost	**Total One-Off Implementation Cost**	ELEXON Service Provider cost
Man days	Cost	Implementation Cost		Ongoing Cost
180	£43,200	£110,000	£153,200	£4,000 annual

Indicative industry costs
Industry implementation costs and impacts are summarised on page 18.

Impacts

BSC Parties / Party Agents	
Type of Party / Party Agent	Potential impact
Supplier	There would be increased accuracy in the credit calculation and therefore their indebtedness would be more accurate. This would reduce the need for Material Doubt claims, thus reducing the costs incurred in making a claim.
Half Hourly Data Collectors	Would be required to submit meter reads to the DA by two Working Days before the SVAA II VAR. May be required to Re-Qualification if they need to make "material" changes to systems, processes or staff to meet the new P253 requirements.
Data Aggregators	Would be required to submit data to the SVAA 1 Working Day before the II VAR. May be required to undergo Re-Qualification if they need to make "material" changes to systems, processes or staff to meet the new P253 requirements.

Impact on Transmission Company
The Transmission Company noted no impact on its systems, security of supply or its ability to operate the Transmission System.

Impact on BSC Systems and process	
BSC System/Process	Potential impact
SAA	The SAA would be required to use HH SVA data in the II run.
SVAA	SVAA would be required to accept GSPGT volumes from CDCA and use them in the II VAR. SVAA would be required to carry out a VAR at II and send the

Impact on BSC Systems and process	
BSC System/Process	Potential impact
	output to the SAA.
CDCA	CDCA would be required to submit GSPGTs to SVAA before the II VAR.

Impact on BSC Agent/service provider contractual arrangements	
BSC Agent/service provider contract	Potential impact
BSC Agents	None identified.

Impact on ELEXON	
Area of ELEXON's business	Potential impact
Credit cover management	The improved credit calculation should decrease the number of Material Doubt claims ELEXON has to assess.

Impact on Code	
Code section	Potential impact
R5	CDCA to provide GSPGT data to SVAA for II.
Annex S-2	Obligation on NHHDAs to provide data to SVAA for II.
T4	Remove need for estimating HH SVA data.
T5	SVAA to send data to SAA.
U2	Change timing of VARs to include II.

Impact on Code Subsidiary Documents	
CSD	Potential impact
BSCP01	Change to VAR frequency.
BSCP502/503	Change in timescales to get II data to SVAA.
BSCP508/509	SVAA to carry out an II VAR and provide data to SAA.
SAA URS/ SD	To expect and use data from SVAA for II.
SVAA URS/SD	To provide data to SAA for II.
CDCA URS/SD	To provide GSPGT to SVAA for II.
IDD Part 2	II data for SVAA run.

Impact on other Configurable Items	
Configurable Item	Potential impact
SAA/SVAA Settlement Calendar	Add in VAR dates.

6 Implementation

The Group and the Panel recommend that P253 should be implemented on:

- **3 November 2011** if an Authority decision is received on or before **19 November 2010**; or
- **23 February 2012**, if the Authority decision is received after **19 November 2010** but on or before **23 February 2011**.

7 Cost-Benefit Analysis

The Group undertook a detailed Cost-Benefit Analysis of P253. You can find further information about this analysis in Section 4 of Attachment A. You can also find more detail on how we calculated the benefits in Attachment B pages 50 to 53.

The analysis showed the following benefits:

1) If P253 is implemented, then for Parties whose Energy Indebtedness is currently overestimated (when compared to the P253 solution) there would be a total annual saving of **£154,138** in the cost of credit for those Parties.

2) For those Parties for which the amount of credit cover required was under estimated using the current credit calculation when compared to P253, the average underestimation was **£234,481**. This would be the average amount that the industry might lose should one of these Parties enter administration.

   This is a worst case scenario. It assumes that a Party would go into administration when it is at the point of maximum under-estimation. The risk of a Party going into administration is low, although it does occur.

3) If a Party reduced its credit cover before entering Section H Default at a point when the error in the credit calculation was most favourable to that Party (i.e. the calculation was underestimating its credit requirement), then the average exposure to the industry would be **£2,990,091**. As with Benefit 2, this is a worst case scenario and the risk of a Party acting in this way is low.

Conclusion

The majority of the Group believes that the estimated benefits of the Proposed Modification clearly outweigh the known costs. The conclusions these members made are:

- If Parties whose Energy Indebtedness is currently overestimated are prepared to reduce their credit cover to maintain the same Credit Cover Percentage (50%), then those annual savings would outweigh the single year of BSC Agent implementation costs **(£154,138 per year credit cost savings, compared to a one off £110,000 implementation cost plus an annual £4,000 ongoing cost**).
- Furthermore, if a Party who currently has an underestimated Energy Indebtedness goes into administration, it is possible the industry could lose an average of **£234,481**. The Group notes this is a worst case scenario.
- In addition, if a Party undertook a strategy to reduce its credit cover before entering Section H Default at a point when the error in the credit calculation was most favourable to that Party, then the average exposure of the industry would be **£2,990,091**. The Group notes this is also a worst case scenario.

A minority of the Group believes the estimated benefits of the Proposed Modification would not outweigh the known costs. These members are concerned that the Group has not identified the full industry costs, although it has made every effort has to do so. They believe the assumed benefits are not overwhelming enough to outweigh the potential costs.

8 The Case for Change

Why will P253 be better than the existing BSC arrangements?

The **majority** of the Modification Group believes the Proposed Modification **would better facilitate Applicable BSC Objective (c)** as:

- P253 gives Parties a more accurate view of their credit exposure, increasing certainty and confidence in the credit calculation. This would reduce the need for Parties to lodge much more credit than is required and would give Parties an opportunity to reduce their cover, thus reducing their credit costs. This would increase competition as new entrants and smaller Parties, who generally have more difficulties lodging credit, would need to go less 'long' when lodging credit.
- There would be a reduction in unsecured credit risk which is both a benefit against (c) and (d). It would be a benefit under (c) as all Parties would have their Energy Indebtedness more accurately calculated.
- The Energy Indebtedness of Parties with embedded generation would be calculated more accurately.

The **majority** of the Modification Group believes the Proposed Modification **would better facilitate Applicable BSC Objective (d)** as it would:

- Improve the accuracy of the credit calculation:
    - For embedded generation;
    - On Bank Holidays and for Settlement Days where a Bank Holiday is currently used as a reference day; and
    - Where GSPGT approaches zero. This is a real problem which will become more prevalent as the levels of embedded generation increase.
- Reduce the number of instances where Material Doubt needs to be raised when the GSPGT tends to zero. There would be a general increase in the accuracy of the credit calculation, leading to fewer manual interventions by ELEXON and its Agents in the credit process.
- Lead to a reduction in unsecured credit risk which is both a benefit against (c) and (d). It would be a benefit under (d) as the Default process is a manual and time consuming process for ELEXON to administer.
- More accurately model the changes in Energy Indebtedness around the contract change periods.

A **minority** of the Group believes the Proposed Modification **would not better facilitate Applicable BSC Objective (d)** as:

- P253 appears to be potentially expensive for Party Agents to implement, who would have to provide HH Metered Volumes and EACs in shorter timescales. However, participants have only alluded to these costs, and no actual firm estimates were returned to the Impact Assessment.
- The Proposed Modification would have a £4,000 ongoing cost to store the additional data.

Is further analysis required?

One Panel Member noted that a respondent to the Group's Assessment Consultation had questioned whether further analysis was required. ELEXON explained that the respondent was noting that in situations where a Party Agent cannot provide a meter reading the estimated value is zero. The respondent questioned whether the Group had properly considered the effect of this. ELEXON noted that the Group had considered this question and decided on reflection that no further analysis was required. The Group had already undertaken sensitivity analysis (see Attachment B) which demonstrated that, even with an error of 5% over all readings, the P253 solution was still more accurate than the current arrangements. The Group also noted that a natural incentive existed for Suppliers with embedded generation to submit meter readings, as by submitting estimates of zero the Supplier's Energy Indebtedness would increase.

A Panel Member noted that a respondent had questioned whether the Cost-Benefit Analysis overstated the benefit of the Proposed Modification. ELEXON noted that the Group had considered this point and decided to add a health warning on Benefits 2 and 3, to clarify that these benefits arose from avoiding worst case scenarios. However, some Group members had also commented that Parties who are about to enter administration are likely to be experiencing a worst case scenario, and so the Cost-Benefit Analysis was correct to consider this.

Lack of industry costs

The Panel was disappointed at the lack of industry costs received as part of the Impact Assessment and Assessment Consultation. ELEXON noted that the Group had made every endeavour to obtain industry costs, and indeed the small number of costs received was better than the usual response for similar Modification Proposals. The Panel considered that P253 had obvious (and quantified) benefits, compared with what were currently uncertain and in many cases unquantified participant implementation costs. It noted that some respondent had indicated minor costs, which potentially cast doubt on some of the higher estimated quoted by participants. A Panel Member noted that, with the introduction of Smart Metering, it would also become easier to get real data quicker. The Panel requested that ELEXON make a further request for Party Agent costs as part of the Report Phase Consultation but that, in the absence of any extra participant cost information, its initial view was that P253 should be approved.

Problems of increasing embedded generation

A Panel Member noted that P253 would address some of the credit calculation issues related to embedded generation. This was particularly important as the amount of embedded generation would only increase, so the current problems were likely to get worse if nothing was done. ELEXON noted that the Modification Group had come to the same conclusion.

Added confidence in the credit calculation

One Panel Member noted they were always slightly dubious of suggestions made as part of credit Modification Proposals that over-collateralised Parties would reduce their credit cover if the calculation was made more accurate. Of far more importance was the

improvement in risk management which P253 would bring in respect of under-collateralisation. ELEXON noted that the Group had identified an improvement in risk management as one of the more intangible benefits of P253.

Panel's initial views against the Applicable BSC Objectives

The Panel unanimously believed that P253 would better facilitate the Applicable BSC Objectives when compared to the current arrangements.

Panel Members identified benefits against **Applicable BSC Objectives (c) and/or (d)** for the same reasons as noted in Section 8, although not all Panel Members agreed with all arguments. Some Panel Members did not agree with the Group's identified benefits to Objective (c), believing that the benefits were ones of risk management under Objective (d).

One Panel Member did not give views against the Objectives, as they had been a member of the P253 Modification Group.

Comparison of the benefits of P253 and P265

One Panel Member requested a comparison of the total quantified potential benefits of P253 compared with P265. The potential benefits are as follows:

Benefits of P253 and P265		
Benefit	P253	P265
Reduction in credit costs for over-secured Parties when compared to current baseline	**£154k**	**£5k**
Reduction in possible exposure from an under-secured Party going into administration (worst-case scenario)	**£234k**	**£75k**
Reduction in possible exposure from a Party reducing its credit cover before entering Section H Default (worst-case scenario)	**£3.0m**	**£0.3m**

However, ELEXON noted caution in directly comparing the potential benefits of P253 and P265. As the P253 solution uses actual Metered Volumes we can be far more confident that the P253 calculation would correctly calculate Parties' Energy Indebtedness, and hence more confident in the benefits. Even though P265 would improve the estimate of credit, it would still be using an estimate, and may still be prone to over or under estimating Parties' Energy Indebtedness.

Panel's comparison of P253 and P265

P253 and P265 are mutually exclusive solutions (i.e. only one can ultimately be approved and implemented). Of those members who have expressed a view, the Panel initially prefers **P253** compared to P265. The Panel believes that, despite the additional industry implementation costs, P253 provides a better and more enduring solution than P265. It addresses all of the identified issues, and benefits the calculation in each Settlement Period through the use of actual data. P265 would only address 2 of the 3 issues, and only offers benefit at certain specific times such as Bank Holidays and when GSPGT approaches zero. It would still use (albeit more accurate) estimated data.

The Panel notes that this preference is not part of its formal recommendations to the Authority, but may be useful to the Authority in deciding between the two changes.

10 Report Phase Consultation Responses

Summary

The Report Phase Consultation received 14 responses (although one respondent only responded to the question regarding impacts and one respondent answered the first two questions). The responses showed a distinct split between those who believe the benefits of P253 will outweigh the costs and those who do not. The table below summarises the respondents' views. The responses can be viewed here.

Report Phase Consultation responses			
Question	Yes	No	Neutral/ other
Is P253 better than the current arrangements?	7	5	1
Is P253 better than P265?	6	5	2
Do you agree with an Implementation Date?	10	1	1
Does the legal text deliver the intention of the Proposed?	8	0	4
Are you impacted?	2	1	10
Do you have any other comments?	5	7	0

Is P253 better than the current arrangements?

Seven of the 13 respondents who answered this question believed P253 was better than the current arrangements. Those respondents that cited Objectives based their views on P253 better facilitating Applicable BSC Objectives (c) and (d). The arguments used were similar to the majority views of the Modification Group and the Panel (see Section 8 and 9). One respondent who supported the change believed the main benefit would be under Applicable BSC Objective (c) as Parties would be subject to credit requirements closer to their true indebtedness. They noted however, that central implementation costs meant P253 would probably not better facilitate Applicable BSC Objective (d).

Five respondents did not believe P253 was better than the current arrangements. Respondents cited the potentially significant implementation costs to Party Agents which would not be outweighed by benefits to Suppliers. Two respondents commented that P253 would have significant implementation costs on Party Agents but no benefits to the Party Agents themselves (which would fall entirely on Parties).

One respondent noted they previously suggested (in the Assessment Consultation) that the Modification Group should conduct analysis on what percentage of SVA HH generation sites would be able to provide Metered Volumes within the P253 timescales. The Group had considered their request and agreed that no further analysis was required as they had already discovered that the majority of respondents would be able to provide over 90% of metered volumes within the P253 timescales. And in addition, there were sufficient incentives to provide metered volumes (rather than estimates which could increase a Supplier's Energy Indebtedness. The respondent commented that whilst there may be natural incentives for Suppliers, these incentives did not filter down to Party Agents and are quite likely absent from any existing commercial arrangements between Agents and Suppliers. The Group had already considered this argument and believed that specific incentives should not be introduced as the SVAA II Run would not be a Settlement Run and that the natural incentives would suffice. The analysis conducted showed that even if the P253 solution was 5% less accurate than the SF Run this would still be more accurate than the current credit calculation.

Are there any trends?

It is worth considering whether different types of respondent considered P253 to be better than the current arrangements.

Report Phase Consultation responses			
Is P253 better than the current arrangements?	Yes	No	Neutral/ other
Large Parties	1	3	0
Small Parties	2	0	0
HH and NHH Party Agents	2	2	0
NHH Party Agents	1	0	1
Other (National Grid)	1	0	0

The responses show that:

- small Parties (in this case small Suppliers), both of whom noted embedded generation in their portfolio, view that P253 would assist their credit calculation when compared to the current arrangements;
- the majority of large Parties do not believe P253 is better than the current arrangements. Two respondents suggested that Parties would not adjust their credit position as a result of P253, and therefore part of the assumed benefit would not occur;
- NHH Party Agents, who are not greatly impacted by P253 either agree or are neutral to the change;
- HH Party Agents have a split view. Two disagree that P253 would be better than the current arrangements as they would incur implementations costs with no benefit (which would fall on Parties). However, two HH Party Agents (one of whom noted implementation costs of £150,000) agree that P253 would be better than the current arrangements.

Is P253 better than P265?

Six of the 13 respondents to the question agreed with the Panel's provisional recommendation that P253 was better than P265, and five did not, with two being neutral.

Are there any trends?

The table below shows nearly exact correlation between respondents would believe P253 is better than the current arrangements and those who prefer P253 over P265. The only difference being that one NHH Party Agent who believed P253 was better than the current arrangements but was neutral on whether they preferred P253 or P265.

Report Phase Consultation responses			
Is P253 better P265?	Yes	No	Neutral/ other
Large Parties	1	3	0
Small Parties	2	0	0
HH and NHH Party Agents	2	2	0
NHH Party Agents	0	0	2
Other (National Grid)	1	0	0

The responses show that:

- small Parties (in this case small Suppliers), both of whom noted embedded generation in their portfolio, view that P253 would assist their credit calculation when compared to the current arrangements;
- the majority of large Parties prefer P265 over P253. Those in favour of P265 believe it offers the better cost-benefit as, despite the lower benefits of P265 when compared to P253, the overall implementation costs will be lower for P265 than P253. The respondent that preferred P253 noted that although P265 would prevent Energy Indebtedness tending towards infinity, that did not mean the calculation would be as accurate as P253. There would still be inaccuracies as P265 used an estimated calculation;
- NHH Party Agents, who are not greatly impacted by P253 and should not be impacted at all by P265 are neutral;
- HH Party Agents have the same split view as the question above. Those that support P265 do so because it would have minimal implementation costs.

What are the costs?

A number of respondents provided implementation costs. The majority of HH Parties and Party Agents reported significant implementation costs or impacts. However, one respondent reported much lower implementation costs. NHH Party Agents reported much lower implementation costs.

Report Phase Consultation responses			
Organisation	HH	NHH	Impact/Implementation cost
UPL	No	Yes	**£1,000**
Siemens Metering Services	Yes	Yes	**£2,870 - £4,650**
IMServ Europe Limited	Yes	Yes	**170 to 250 man days + ongoing Data Transfer Network and storage costs**
TMA	Yes	Yes	**£150,000**
Lowri Beck Services Limited	No	Yes	**No major costs or impacts**
Accenture (on behalf of ScottishPower)	Yes	Yes	**£100,000 to £150,000**
RWE npower	Yes	Yes	**Significant Party and Party Agent costs**
E.ON Energy Services	No	Yes	**Little direct impact**
EDF	No	Yes	**£8,000**

Man day effort estimates not implementation costs

One respondent commented that submitting estimated implementation costs would be divulging commercially sensitive information. They noted that they could provide costs to Ofgem in confidence, but that this would not allow the Panel to consider the impact on their organisation. As a compromise they requested the Panel consider the implementation effort in man days. This was between 170 to 250 man days. To assist the Panel's understanding ELEXON has converted these man day effort estimates into implementation costs using the standard industry day rate of £605/man day. This gives an indicative implementation cost for this Party Agent of **£103k to £151k**.

Panel consideration of indirect implementation costs

One respondent commented that the Panel should consider more than just the direct implementation costs. They should also take into account the indirect costs of implementing a Modification. This can cause the postponement or delay of business critical development and operational work as resources are transfers to work on implementing a Modification. This is particularly important for P253 where Party Agents may have significant implementation costs, but the benefit would be felt by Parties.

Conclusions

From the Report Phase Consultation responses we can conclude:

1. Small Parties with embedded generation support P253 over P265 as it will improve their credit calculation. P265 will not improve the credit calculation for embedded generation.
2. Some larger Parties note the significant industry implementation costs of P253, do not believe they will adjust their credit position as a result of P253 and therefore prefer the lower cost P265 solution.
3. However, one large Party believes the P253 solution will provide greater benefit to the industry over the long run when compared to P265.
4. NHH Party Agents are not heavily impacted by P253 or P265.
5. The HH Party Agents have mixed views. Some prefer P253 as it more fully addresses the problems with the credit calculation. Others are concerned there would be significant Party Agent implementation costs for no benefit and therefore support P265 which has much lower implementation costs.

Legal text comments

On respondent noted the follow:

"Annex S-2 10.1.1 states "For each Settlement Period in any Settlement Day and for each Supplier BM Unit, the SVAA shall determine or re-determine the BM Unit Allocated Demand Volumes and provide the same to the SAA and to each other person entitled thereto in accordance with BSCP508: (a) on each occasion on which an Interim Information Volume Allocation Run, Initial Volume Allocation Run or a Timetabled Reconciliation Volume Allocation Run is required…". We understood that the changes would relate specifically to provision of data by SVAA to SAA for the II run, and that provision of data to other persons would be optional."

ELEXON discussed the comment with the respondent and agreed that no change was required as the data in question only passes from the SVAA to the SAA, and that this would be specified in BSCP508, rather than the BSC.

Other comments

What is the value of early NHH aggregation?

One respondent questioned the value of NHHDAs submitting EAC/AAs which would be virtually all EACs (i.e. estimated data) rather than AAs (where a meter reading has been recorded). The Modification Group had previously considered this question. They agreed that even 100% EACs would be more accurate than the current estimation processes.

Should Party Agents issue II Volume Allocation Run reports to all Suppliers?

A number of respondents stated they would have preferred that the P253 solution included an obligation for Data Aggregators to send II Volume Allocation Run reports to Suppliers as well as the SVAA. Respondents commented that issuing the reports to all Suppliers and the SVAA, rather than just the SVAA, would simplify their software changes. The Modification Group discussed this requirement and concluded that P253 would be the minimum reporting solution – i.e. send reports only to the SVAA. However, there was nothing stopping Data Aggregators implementing a solution which issued reports to some or all Suppliers.

Will there be a Qualification impact

One Party noted that they believe P253 will require Party Agents to undergo re-Qualification. ELEXON can confirm that the Party Agents may be required to undergo Re-Qualification if they need to make "material" changes to systems, processes or staff to meet the new P253 requirements.

11 Panel's Final Views and Recommendations

Final views against the Applicable BSC Objectives

The Panel confirmed their initial recommendation that P253 is better than the current arrangements. Panel Members identified benefits against **Applicable BSC Objectives (c) and/or (d)** for the same reasons as noted in Section 8, although not all Panel Members agreed with all arguments. Some Panel Members did not agree with the Group's identified benefits to Objective (c), believing that the benefits were ones of risk management under Objective (d).

One Panel Member did not give views against the Objectives, as they had been a member of the P253 Modification Group.

Recommendation

The Panel unanimously recommends that P253 should be approved.

The Panel also prefers P253 to P265.

Panel's comparison of P253 and P265

Of those members who have expressed a view, the Panel confirmed their initial recommendation that they prefer **P253** compared to P265. Panel members commented that P253 was demonstrably better than P265 as it would deal with the credit calculation issues caused by embedded generation, which P265 would not. As the amount of embedded generation would increase over time P253 also offered a future proofed solution.

The Panel noted that this preference is not part of its formal recommendations to the Authority, but may be useful to the Authority in deciding between the two changes.

Recommendations

Having considered the P253 draft Modification Report, the BSC Panel recommends:

- that P253 should be made;
- an Implementation Date for P253 of
    - 03 November 2011 if an Authority decision is received on or before 19 November 2010; or
    - 23 February 2012 if the Authority decision is received after 19 November 2010 but on or before 23 February 2011;
- the proposed text for modifying the Code, as set out in the Modification Report; and
- that the Panel prefers P253 when compared to P265.

12 Further Information

More information is available in:

Attachment **A**: Detailed Assessment

Attachment **B**: P253 Analysis

Attachment **C**: Proposed Modification legal text

All other related documents are available on the P253 page of the ELEXON website.