

What stage is this document in the process?

01 Initial Written Assessment

02 Definition Procedure

03 Assessment Procedure

04 Report Phase

## Request to raise a Modification Proposal

# Improving the accuracy of the Credit calculation

We are requesting that the BSC Panel raise a Modification Proposal to Include Half-hourly SVA (supplier) data in the II Settlement Run (5 working day after real-time) so that it can be used in the credit calculation.



ELEXON recommends  
The attached Modification be raised and is progressed to a 3 month Assessment Procedure



High Impact:  
**Parties and Party Agents:** Suppliers, Half-hourly Data Aggregators, Half-hourly Data Collectors  
**BSC Agents:** Supplier Volume Allocation Agent (SVAA), Settlement Administration Agent (SAA).

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## About this document:

This document is a Request to raise a Modification, which ELEXON will present to the Panel on 11 March 2010. The Panel will consider the recommendations and agree whether to raise a Modification and how it should be progressed.

If the Panel agree to raise this as a Modification Proposal then this paper should be treated as the Initial Written Assessment (IWA).

Further information is available in the Modification Proposal which appendix A to this document.



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### Any questions?

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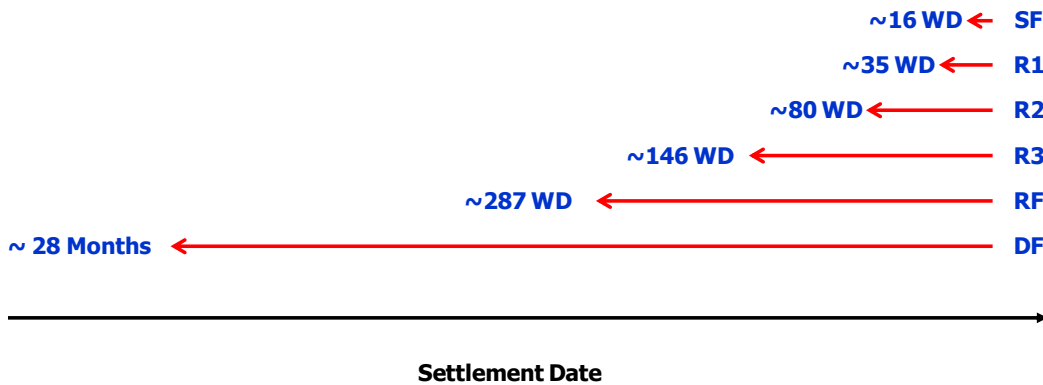
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# 1 Why Change?



## Settlement Runs

The Settlement Administration Agent (SAA) is one of the BSC Central Systems. It carries out Settlement runs at various times after the actual Settlement Day as more accurate information becomes available. Subsequent Settlement Runs provide a more accurate view of Settlement over time. The diagram below shows how many working days (WD) after real-time that the various Settlement Runs take place.



### What is a VAR?

A volume allocation run (VAR) is essentially a mini-settlement run carried out by CDCA or SVAA that feeds into the main Settlement Run carried out by the SAA.

Data from both Central Volume Allocation (CVA) and Supplier Volume Allocation (SVA) is used in these Settlement Runs. This data is sent by the Central Data Collection Agent (CDCA) and the Supplier Volume Allocation Agent (SVAA) respectively. Both these Agents carry out their own Volume Allocation Runs (VARs) and their output feeds into the SAA Settlement Run.

An Interim Information (II) run is carried out by the SAA 5 working days (WD) after real time and is for information only – Parties do not pay any invoices based on II data. The Settlement Final (SF) Run is carried out after approximately 16 WD and Parties pay invoices based on this data.

The CDCA carries out a VAR for each SAA Settlement Run, including II. At present the SVAA only carries out VARs from SF onwards.

## How does the Credit calculation work?

Trading Charge payments are made to or by Parties 29 days after a Settlement Day. Credit Cover ensures that ELEXON has enough collateral to cover these payments if Parties cannot make them. To work out the level of Credit Cover required, a Credit calculation is undertaken.

The Credit calculation estimates a Party's indebtedness for the 29 days between the Settlement Date and the date that payment is due (based on SF data). Where no actual Metered Volumes are available for the calculation, estimated data is used instead.

The credit calculation uses II data for estimating a large part of a Party's indebtedness; on average 22 of the 29 days of the Credit calculation is based on II data.

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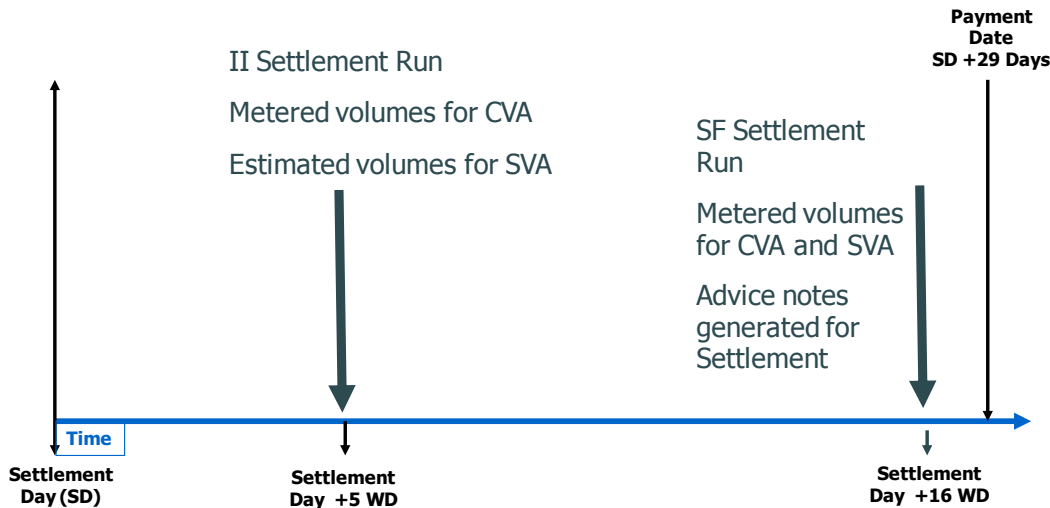
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## What's the issue?

Between the II Settlement Run and SF Settlement Run, actual Metered Volumes exist for CVA, but there are no Metered Volumes for the SVA market. The majority of Half Hourly SVA sites do have accurate Metered Volumes by 5 working days after the Settlement Day, but under the current operating model this data won't enter Settlement until SF. The SVA Metered Volumes therefore need to be estimated.



The SVA Metered Volumes are estimated by using actual Metered Volumes for a Settlement Period approximately 3 weeks earlier, i.e. if it was 12.00 on a Thursday, then a Settlement Period for a Thursday 3 weeks ago at 12.00 would be used.

A further part of the process for estimating SVA Metered Volumes relies on calculating and comparing a percentage of the Grid Supply Point Group Takes (GSPGTs) from previous and current GSPGT data.

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. 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 will not be accurately reflected in II data.
- Furthermore, if the data that has gone through Settlement includes bank holidays, this can also result in an inaccurate estimation of indebtedness. For example: If a Supplier has mainly business customers, then two Mondays can't be compared as like for like if one is a bank holiday. The current credit calculation doesn't take this discrepancy into account.
- With an increase in embedded generation in some Grid Supply Point (GSP) groups, the GSP Group Takes (GSPGTs) have been decreasing. As SVA II volumes are based on a percentage of GSPGT, this can make a large difference to SVA volumes especially when the volumes are not reflective of changes in an individual Suppliers' position. It is believed this issue will become more apparent as the level of embedded generation increases within GSP Groups.



### GSP group take (GSPGT)

The UK grid is divided into 14 distinct geographical areas (GSP groups) and the group takes are the net volumes that have been consumed / generated in each area.

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## How does this impact Parties?

Currently if a Party's indebtedness is under or overestimated, the Party doesn't have to lodge additional credit cover. Instead they can lodge material doubt. If a Party claims material doubt they must provide evidence that the credit calculation has incorrectly estimated their indebtedness (usually in the form of metered data flows). The claim is then investigated by BSCCo. This process increases both cost and risk.

Cost is increased as additional work is required from ELEXON to respond to the claims and to manually analyse data. But the majority of the work is carried out by the Party lodging material doubt. They need to gather the supporting evidence and re-submit data every time there is a change in data (usually every working day). Therefore each material doubt claim has a cost implication on both ELEXON and the Party.

Risk is increased, as during the existence of material doubt a Party will bypass the Credit calculation process whilst the claim is investigated. This makes it much more difficult to pick up a Defaulting Party. Thus a 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 were related to unrepresentative indebtedness calculations. Increasing the accuracy of the Credit calculations would reduce this figure.

## Issue 38

The Issue 38 'Potential Improvements to Credit Checking Rules to Support High Levels of Embedded Generation in North Scotland' Group was established in October 2009 to discuss issues associated with increased levels of embedded generation. Their recommendations were presented at the December 2009 Panel.

As part of their investigations the group considered the reduced accuracy of the Credit checking process. After identifying the issues described in this paper, it was the recommendation of the Group that a Modification be raised to mandate the reading and submitting of Half Hourly SVA Meters to allow SVAA to run a VAR in time for the II Settlement Run. The Group believe this would ensure that the most accurate data available is being used to calculate Supplier Metered Volumes, which would address issues associated with data estimation in the Credit calculation.

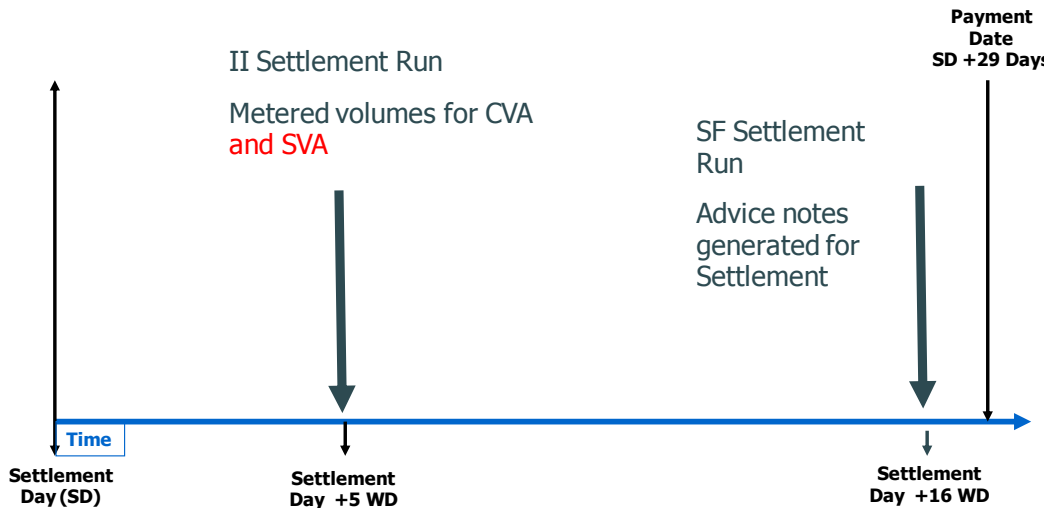
It was also believed by the Issue 38 Group that such a change should only seek to improve the accuracy of the Credit calculation, and there was no intention to amend the Imbalance Settlement process at this time. The Group felt that amending the Imbalance Settlement process should be considered if the implementation of this change proved to be successful.

## 2 Proposed Solution

### Using more accurate data for the II run

As noted above, the majority of Half Hourly SVA sites have accurate readings by 5 working days but, under the current operating model, this data doesn't enter Settlement until SF.

We recommend that the Panel raise a Modification Proposal to increase the accuracy of the Credit calculations by including actual Metered Volumes from SVA Half Hourly sites in the II Settlement Run.



Providing actual, rather than estimated, SVA Metered Volumes for use in the II run will result in a more accurate credit calculation and thus reduce the need for material doubt, saving time and effort for both ELEXON and BSC Parties.

As noted by the Issue 38 Group, such a change would be even more beneficial with the increased levels of embedded generation in some GSP Groups causing further concerns over the accuracy of the Credit checking process.

Following the recommendations of the Issue 38 Group, this modification is only intending to increase the accuracy of the Credit calculation to increase efficiency and reduce potential risk. The resulting II Settlement run data flows will still be for information only and parties would still not be billed on them. SF will still be the Settlement Run that Parties are invoiced on. Any further changes to the Imbalance Settlement process should be considered under a future Modification.

### What will change?

Currently the CDCA carry out an II VAR, whilst the SVAA does not. This Modification will require that the SVAA carry out an II VAR. The data from the SVAA and CDCA II VARs would then feed into the SAA II Settlement run.

To support this, Half Hourly Data Collectors and Data Aggregators will be required to provide Half-Hourly meter reads in time for SVAA to use them in an II VAR. Similarly, in the NHH market, Data Aggregators will be required to provide Half Hourly data to the SVAA in time for the II VAR run.

Currently, Data Aggregators must submit this data to SVAA within 14 working days of the Settlement Date. This Modification will mean they will have to provide this data significantly sooner (within 3 working days of the Settlement Date).



#### EACs and AAs

Non half-hourly meter readings are entered into Settlement. Data based on an actual reading is known as an Annualised Advance (AA), if it's based on an estimated value then it's known as an Estimated Annual Consumption (EAC).

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This Modification will also place greater importance on the submission of SVA HH data. The submission of Half Hourly data by Data Aggregators has performance levels attached to it and the Modification group will need to consider if these levels will need changing.

## Applicable Objectives

We believe this Modification would better facilitate **Applicable BSC Objective (d)** as:

- It increases the accuracy of the credit calculation, reducing the cost and risk of addressing any material doubt claims, therefore increasing the efficiency of the administration of the BSC.

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## 3 Proposed Progression

### Terms of Reference

Proposed Terms of Reference
The Modification Group will be formed from members of the SSMG. The Group will consider the following items:
The effect of the Modification on Applicable BSC Objectives (c) and (d) and any other relevant BSC Objective(s).
Are new performance levels for 100kW data needed?
How else could the credit calculation be made more accurate?
Will Parties want reports on the SVAA II VAR.
Whether an Alternative Modification is required.
The most effective implementation approach for the Modification, including whether the necessary Code Subsidiary Document changes are drafted in the Assessment Procedure or during implementation.

### Costs

Estimated progression costs based on proposed timetable	
Meeting costs (including Modification Group member expenses)	£1,500
Non-ELEXON legal and expert costs	£0
Service Provider impact assessment costs	£3,000
ELEXON resource	38 man days, equating to £11,350

### Timetable

Assessment activity	Date
Modification Group meeting 1	23 March 2010
Draft Requirements Specification	24 March – 08 April 2010
Industry Impact Assessment	09 - 23 April 2010
Modification Group meeting 2	27 April 2010
Draft consultation document	28 April – 04 May 2010
Assessment Procedure Consultation	05 - 19 May 2010
Modification Group meeting 3	25 May 2010
Draft Assessment Report	26 May – 03 June 2010
Submit Assessment Report to Panel	04 June 2010
Present Assessment Report to Panel	10 June 2010

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## 4 Likely Impacts

### Impact on BSC Systems and process

BSC System/Process	Potential impact
SAA	<ul style="list-style-type: none"> <li>The internal calculation will need to be changed to use HH SVA data in the II run.</li> </ul>
SVAA	<ul style="list-style-type: none"> <li>SVAA will need to be able to carry out a VAR at II and send the output to SAA.</li> </ul>

### Impact on BSC Parties and Party Agents

Suppliers should see a decreased requirement to lodge credit cover. HHDA's and HHDC's will have shorter timescales to submit data to SVAA. Non half-hourly Data Aggregators will also need to submit data to SVAA in shorter timescales.

### Impact on ELEXON

Area of 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 GSP group take data to SVAA for II
Annex S-2	Obligation on NHHDA's 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
BSCP536	If a change is made to performance levels for 100kW data.
SAA URS/ SD	To expect and use data from SVAA for II
SVAA URS/SD	To provide data to SAA for II
CDCA URS	To provide group take 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

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## 5 Recommendations

We invite the Panel to:

- NOTE that the current Credit calculations can be inaccurate leading to a number of material doubt claims being raised. This is inefficient and causes risk.; and
- AGREE to raise the Modification Proposal as included in Attachment A.

If the Panel agrees to raise the Modification Proposal, we also invite the Panel to:

- DETERMINE that the Modification Proposal progresses to the Assessment Procedure;
- AGREE the Assessment Procedure timetable such that an Assessment Report should be completed and submitted to the Panel at its meeting on 10 June 2010;
- DETERMINE that the Modification Group should be formed from members of the Settlement Standing Modifications Group; and
- AGREE the Modification Group's Terms of Reference.

## 6 Further Information

More information is included in the Modification Proposal form which is an attachment to this document.