

## P265 'Improving the Accuracy of the Credit Calculation (P253 Alternative solution)' Consultation Responses

Consultation issued on 14 September 2010

We received responses from the following Parties

What stage is this document in the process?

01 Initial Written Assessment

02 Definition Procedure

03 Assessment Procedure

04 Report Phase

Company	No BSC Parties / Non-Parties Represented	Role of Parties/non-Parties represented
IMServ Europe Limited	<b>0/5</b>	HHDC and DA, NHHDC and DA, HH and NHH MOP
TMA Data Management Ltd	<b>0/1</b>	HHDC, HHDA, NHHDC and NHHDA
Centrica	<b>10/0</b>	Supplier/ Generator/ Trader
Accenture (UK) Ltd. (for and on behalf of ScottishPower)	<b>7/0</b>	Supplier / Generator / Trader / Consolidator / Exemptible Generator / Distributor
National Grid	<b>1/0</b>	Transmission Company
EDF Energy	<b>10/0</b>	Supplier/ Generator/ Trader/ Consolidator/ Exemptable Generator/ Party Agent
RWE npower	<b>9/0</b>	Supplier/ Party Agent
The Renewable Energy Company Ltd	<b>1/0</b>	Supplier
EnDCo	<b>1/0</b>	Supplier

## Question 1: Do you agree with the Panel's view that the Proposed Modification should be approved?

### Summary

Yes	No	Neutral/Other
6	2	0

### Responses

Respondent	Response	Rationale
IMServ Europe Limited	Yes	-
TMA Data Management Ltd	Yes	Our support of P253 depends upon the cost/benefit analyses of both P253 and P265
Centrica	Yes	<p>P265 addresses two defects in the credit arrangements: inaccuracies due to bank holidays and GSP Group Take tending toward zero.</p> <p>The GSP Group Take approaching zero defect is one that can cause potentially significant errors in the credit cover calculation in certain circumstances which is not acceptable in the BSC. This requires swift rectification. P265 resolves this for a known and fixed cost.</p> <p>P265 would provide a more accurate view of credit exposure which avoids Parties under collateralising their risks in the event of a default and the industry will therefore minimise its unsecured loss. The more accurate calculation would also allow for reductions in the amount of credit lodged where this has been overestimated. These would have benefits under objective (c) and (d).</p>
Accenture (UK) Ltd. (for and on behalf of ScottishPower)	Yes	The Proposed Modification is better than the current Baseline on Objective (d). The removal of bank holiday-related credit spikes and an infinite requirement when the GSPNT tends to zero will reduce the number of manual investigations carried out by ELEXON throughout the year.
National Grid	Yes	National Grid agrees with the Panel's view that the Proposed Modification should be approved as it provides the option to address some of the issues raised in P253 and is also better than the current situation.
EDF Energy	No	P265 would meet the BSC objectives better than the current baseline, and in isolation we would support its approval. However, with the parallel existence of

Respondent	Response	Rationale
		<p>modification proposal P253, which is incompatible with P265, and which we believe would meet the BSC objectives better than the current baseline or P265, we consider it inappropriate to support approval of P265.</p> <p>Some significant improvement in credit calculation accuracy would be expected under P265. Difficulties or errors associated with small or negative GSP Group Take would be reduced. These improvements in accuracy should help better meet BSC Objective (c):</p> <ul style="list-style-type: none"> <li>• expected improved accuracy of the level of credit required to be provided by parties to protect other parties from the possibility of default,</li> <li>• expected administrative benefit of reduction in claims for manifest error,</li> <li>• eliminate difficulties in credit calculations associated with GSP Groups where embedded generation causes GSP Group take to be very small, zero or negative.</li> </ul> <p>The central implementation costs (£126k) are significant, but there are no ongoing central operational costs and there would be no additional costs for supplier agents. The number of manifest error claims would probably be less than present. However, overall the increase in net central administration costs would not better meet BSC objective (d).</p> <p>We think the benefits of improved accuracy (better meeting BSC objective (c)) and slightly reduced ongoing administration costs outweigh the disbenefit of the implementation cost, and that overall P265 would better meet the BSC Objectives.</p>
RWE npower	Yes	<p>RWE npower believes that P265 solves the key issues highlighted in the consultation namely Bank Holidays and where GSPGT approaches zero. P265 better facilitates Applicable BSC Objective (c) as by counteracting the current issues with the Bank Holidays it will assist in reducing the number of material doubt claims and thus create a level playing field for suppliers with differing portfolios, as it is B2B only suppliers who are generally more affected by the Bank Holiday calculation. BSC Objective (d) is better facilitated by the implementation of P265 as it resolves an issue which will only get bigger as more embedded generation connects, where the GSPGT approaches zero. By resolving this issue now it will give the industry the benefits now and in the future as further embedded generation connects to the system.</p>
The Renewable Energy Company Ltd	No	<p>There is a possibility that P265 could exaggerate embedded generation errors making it likely that we would have to lodge Material Doubt more frequently.</p>

## Question 2: Do you agree with the Panel's view that P253 is better than P265?

### Summary

Yes	No	Neutral/Other
5	4	0

### Responses

Respondent	Response	Rationale
IMServ Europe Limited	No	-
TMA Data Management Ltd	Yes	P253 deals with the issue caused by Embedded generation, which is not addressed by P265
Centrica	No	<p>It is Centrica's view that P265 would be the more pragmatic and cost effective solution to the existing and most pressing of the defects (GSP Group Take approaching zero). The Proposed Modification could be a goal to move toward in due course when it is clear that the benefits would exceed the costs.</p> <p>P265 does not require Party Agent implementation (and associated unidentified costs as per P253) and therefore would be superior to the P253 under BSC Objective (d).</p>
Accenture (UK) Ltd. (for and on behalf of ScottishPower)	No	P265 provides an appropriate and cost-effective solution to the problems as defined. The available Party costs are quite high, and provide a questionable cost benefit to the industry as a whole and to the specific agents impacted in particular. A central-systems only solution (i.e. P265), while not providing as complete a solution as P253, does provide a better balance of cost-benefit to the industry.
National Grid	Yes	National Grid agrees with the Panel's view that P253 is better than P265 as it addresses all three of the issues raised. However, we recognise that there will be impacts on the industry that will need to be considered in regards to P253 and the requirement to provide accurate data.
EDF Energy	Yes	As described in parallel response to P253: Subject to no unexpected or unreasonable supplier agent costs and no unexpected inaccuracy or incompleteness in data provided by data collectors for the proposed II volume aggregation, we think P253 has more benefits than P265 due to expected higher accuracy.

Respondent	Response	Rationale
		<p>Analysis conducted by Elexon supports the expectation of higher accuracy from P253:</p> <p>Currently, errors in estimated indebtedness for individual parties may be many £m in either direction at any given time (page 2-10 of attachment B analysis). This can either require excess credit or allow insufficient credit to be provided. Parties providing cover for the maxima and not changing with time are providing more cover than necessary. Parties varying their cover with time may be providing less cover than necessary.</p> <p>Further analysis of potential errors in data at II relative to later data (attachment B pages 11-15) indicates that for most suppliers, over the period studied, a 5% error in SVA data at II relative to later data would reduce the maximum error relative to the current method. For one party ("3.d"), an error greater than 2-3% at II could reduce accuracy relative to the current method, but for some parties maximum error would be reduced even with 10-20% volume errors at II. We think the level of accuracy required to improve the credit calculation relative to the current baseline exists, and refinements to default processes can be sought if accuracy turns out not to be as good as expected.</p> <p>Attachment B pages 17-25 show that errors associated specifically with bank holidays exist, but other errors not directly related to bank holidays occur all the time and are more significant.</p> <p>Attachment B page 51 summarises an over-provision of credit of £15.4m, an average underprovision per underproviding party of £0.2m, and an average exposure of industry due to under-provision allowed by the current method of £2.9m (maximum over £8m). These could be significantly reduced in a more accurate calculation like P253.</p> <p>Attachment B page 54 analysis of P265 summarises an over-provision of £14.9m, average underprovision per underproviding party £0.2m, and average exposure of industry £2.7m (maximum over £8m), relatively minor improvements relative to the current baseline.</p> <p>There is some uncertainty about the accuracy of individual SVA site meter data which would be used under P253 at about working day 3. We would expect actual data for most automatically read half-hourly sites, and estimated data for most if not all non-half-hourly sites. We would expect some estimation by half-hourly data collectors, and that data aggregators would use default EAC for remaining half-hourly sites with missing actual or estimated readings. For NHH sites, most are settled on EAC even at the initial settlement run (&lt;14 wd of 12 monthly read cycle would imply at least 96%) and settling even 100% on EAC should have better accuracy than the present method which takes no account of changes in profile or supplier portfolio. Unprocessed changes of supplier or agent will</p>

Respondent	Response	Rationale
		<p>introduce errors, but these should not be large relative to existing errors and would not in any case be captured by the current process or P265.</p> <p>GSP Group Take data collected by CDCA for II is reasonably accurate and the same under the current process, for P253 and for P265.</p> <p>We would hope and expect the accuracy in data from the P253 process would be better than that arising from the current and the P265 estimation method, both of which use 3 week old SVA Supplier volume share of GSP Group Take. The P265 proposal is very similar to the current process, only providing improvement in relation to market volume share shifts associated specifically with bank holidays. It would not improve processing for market volume shifts due to different behaviours over time of particular portfolios, or of changes in portfolios over time. Although there could be fluctuations in accuracy according to data collection performance at II under P253, there should be much less systematic error due to real shifts in volume share over time.</p> <p>P265, in using absolute values rather than net values of GSP Group Take when calculating supplier percentage shares, would not fully address errors arising in the current methodology from small or negative GSP Group Take. Significant inaccuracies could still arise in some circumstances.</p> <p>Because the main benefits arise through increased accuracy, the net benefit of P265 relative to P253 under BSC Objective (c) is therefore lower.</p> <p>Although there is uncertainty about the party agent costs to implement P253, even if as high as indicated by previous respondents, these would be recovered over only a few years by reduced credit requirements, and reduced risk of unsecured default. The central costs of the proposal are similar to those of P265. P265 would reduce the number of manifest error claims, but probably not as much as the proposal, and does not fully address the management of potential difficulties or errors arising from small or negative GSP Group Take. Overall, we think P265 would not better meet BSC objective (d) compared with the proposal.</p> <p>Overall, on the basis of available information, P265 would not better meet BSC objectives (c) or (d) compared with P253.</p>
RWE npower	No	<p>The expense to implement by Party Agents is a large disbenefit of P253 when compared to P265 along with the ongoing cost. RWE npower believes that P265 would be a more efficient and cost effective solution to the issues currently identified and thus better facilitates BSC Objective (d) than P253.</p>
The Renewable Energy Company Ltd	Yes	<p>P253 would improve the accuracy of the credit calculation for embedded generation as well as Bank Holidays. P265 offers improvements in accuracy for both Bank Holidays and as GSPGT approaches zero</p>

Respondent	Response	Rationale
		but would not improve estimation of embedded generation. It could potentially make errors due to changes in embedded generation larger.
EnDCo	Yes	<p>The main areas which provides good grounding of preference for P253 are:</p> <ul style="list-style-type: none"> <li>• We have seen a number of new build embedded generators come to us this year ranging from wind parks, solar parks and waste to incineration to name but a few. These types of generation are all dependent on variable factors which cannot be fully predicted from day to day, (in the case of credit cover 3 weeks to 3 weeks). The P265 modification seems like it would address some of the issues apart from providing accurate meter II data, however in the mid to long term as embedded generation increases it would seem this would only be a viable short lived solution. It also seems that in the future forecasting may further improve if smart meters were to make its way into the industrial and domestic market. The likelihood that smart meters will make its way into the market may already be good grounds for implementing P253 at this early stage which would take consideration of these actual volumes.</li> <li>• Providing competition in the market place by removing one of the barriers to entry for new suppliers. Over lodging collateral to account for inaccuracies in the way the credit calculation works is a likely set back for a new startup supplier, capital which could otherwise be used elsewhere for a more necessary purpose. It is likely that there may be many potential new electricity suppliers looking to enter the market place as renewable technologies becomes main stream. As the analysis done by the group shows the total saving the sample of suppliers, with a current overestimated position, would make under P253 is of material substance which pretty much looks to outweigh a single years cost of implementing the proposal.</li> <li>• Due to variability of meter volume, and on top of that adding an element of inaccuracy, smaller suppliers would have to source</li> </ul>

Respondent	Response	Rationale
		<p>relatively significant sums of unnecessary collateral at short notice.</p> <ul style="list-style-type: none"> <li>Reducing unnecessary Material Doubt Claims which costs time and money for Elexon and Suppliers to deal with.</li> </ul> <p>Downside of P253:</p> <p>The costs of applying P253 in comparison to P265 is far greater and the impact on DC and DA seems substantial as they will have to adhere to quicker time scales on a daily basis. Also resolving issues which otherwise may have taken days will have to be resolved very rapidly. P265 has an advantage over the P253 proposal in this area however i don't feel this will solve the issue inaccurate II data which is really what the group set out to do.</p>

### Question 3: Do you agree with the Panel's suggested Implementation Date?

#### Summary

Yes	No	Neutral/Other
7	0	1

#### Responses

Respondent	Response	Rationale
IMServ Europe Limited	Yes	-
TMA Data Management Ltd	Yes	-
Centrica	Yes	-
Accenture (UK) Ltd. (for and on behalf of ScottishPower)	Yes	-
National Grid	Yes	National Grid agrees with the Panel's suggested Implementation Date.
EDF Energy	Yes/No	Although we are comfortable with the suggested implementation timescale, using the same implementation period of approximately 1 year for P265 as for P253 seems unnecessary long. An



Respondent	Response	Rationale
		implementation consistent with the time needed to change central systems, with at least 3 months notice for parties to change any internal credit monitoring or forecasting processes, could be used.
RWE npower	Yes	RWE npower agrees with the proposed implementation date.
The Renewable Energy Company Ltd	Yes	

Question 4: Do you agree that the legal text delivers the intention of P265?

### Summary

Yes	No	Neutral/Other
6	0	2

### Responses

Respondent	Response	Rationale
IMServ Europe Limited	Yes	-
TMA Data Management Ltd	Yes	-
Centrica	-	-
Accenture (UK) Ltd. (for and on behalf of ScottishPower)	Yes	-
National Grid	Yes	National Grid agrees that the legal text delivers the intention of P265.
EDF Energy	Yes/No	Proposed Annex S-2 9.6.1(a) should read "according to". Proposed Section T4.2.2(d)(1) specifies a day d' for any day d, or (2) specifies a day d' for bank holiday days d. This ambiguity could be removed by placing (2) first, and specifying "otherwise" for (1).

Respondent	Response	Rationale
RWE npower	Yes	RWE npower believe that the legal text delivers the intention of P265.
The Renewable Energy Company Ltd	Yes	

## Question 5: Do you have any further comments on P265?

### Responses

Respondent	Response	Rationale
IMServ Europe Limited	-	See response to P253
TMA Data Management Ltd	No	-
Centrica	No	-
Accenture (UK) Ltd. (for and on behalf of ScottishPower)	Yes	As already stated above, we believe that the P265 solution provides a better cost-benefit case than the P253 solution. Known Agent costs are high with the majority of those costs falling on either the larger Suppliers or independent Agents, neither of which can be expected to directly benefit from a reduction in credit cover (i.e. we do not believe that there will be a consequential change in credit behaviour from the larger Parties). P265 provides a more equitable and acceptable outcome.
National Grid	No	-
EDF Energy	No	-
RWE npower	No	-
The Renewable Energy Company Ltd	No	