

# Report Phase Consultation Responses



## P306 'Expanding the Definition of a 'Letter of Credit' to include regulated insurance companies'

This Report Phase Consultation was issued on 12 September 2014, with responses invited by 26 September 2014.

What stage is this document in the process?

- 01 Initial Written Assessment
- 02 Definition Procedure
- 03 Assessment Procedure
- 04 Report Phase

### Consultation Respondents

Respondent	No. of Parties/Non-Parties Represented	Role(s) Represented
E.ON UK	4/0	Generator, Supplier, Interconnector User, Non Physical Trader
SSE	8/0	Generator, Supplier, Interconnector User
EDF Energy	10/0	Generator, Supplier
Haven Power Ltd	1/0	Supplier
IBM UK Ltd on behalf of ScottishPower	9/0	Generator, Distributor, Supplier, Non Physical Trader, Transmission Co., ECVNA, Supplier Agent, MVRNA

## Question 1: Do you agree with the Panel's initial view that P306 should be treated as a Self-Governance Modification?

### Summary

Yes	No	Neutral/No Comment	Other
5	0	0	0

### Responses

Respondent	Response	Rationale
E.ON UK	Yes	There are no anticipated adverse impacts on consumers, competition or BSC Parties.
SSE	Yes	None provided.
EDF Energy	Yes	There are no direct, material impacts on BSC Parties if P306 is passed; it merely provides an option for parties to lodge credit cover, which they are not obligated to take up.
Haven Power Ltd	Yes	As there are no direct impacts on BSC Parties we agree that P306 should be treated as a Self-Governance Modification.
IBM UK Ltd on behalf of ScottishPower	Yes	We agree that the Modification meets the Self-Governance criteria – specifically that the Modification will not change the current processes (other than to widen the pool of providers).

Question 2: Do you agree with the Panel's initial unanimous recommendation that P306 should be approved?

### Summary

Yes	No	Neutral/No Comment	Other
5	0	0	0

### Responses

Respondent	Response	Rationale
E.ON UK	Yes	P306 promotes effective competition by offering greater flexibility and additional options for BSC Parties to lodge Credit Cover under the BSC. This will enable them to provide collateral on their liabilities and lower the barriers for entering the market. It will also improve efficiency as adding additional options for lodging Credit Cover should result in less instances of default.
SSE	Yes	The modification will provide for greater choice when procuring collateral instruments to secure BSC liabilities, with potential cost savings for all market participants, at minimal cost.  SSE agrees therefore with the arguments expressed by both the workgroup and the BSC Panel in support of objectives c) and d).
EDF Energy	Yes	Yes. As regards applicable BSC objective c, the effective promotion of competition, the proposed solution will do this by offering greater flexibility and additional options for BSC Parties to lodge Credit Cover under the BSC. This will also promote competition between existing and new providers of a type of credit cover instrument – this is not the competition that BSC objective c directly relates to (competition in generation, sale, purchase and supply of electricity), but it does have the potential to ease participation in the wholesale electricity market.  As regards applicable BSC objective d, promoting efficiency in the implementation and administration of the balancing and settlement arrangements : P306 will marginally improve efficiency, as adding additional options for lodging Credit Cover should result in fewer instances of default, despite a slight rise in administration work.

Respondent	Response	Rationale
Haven Power Ltd	Yes	P306 helps objective (c) by promoting effective competition in Generation and Supply because of the potential lower cost of providing credit.
IBM UK Ltd on behalf of ScottishPower	Yes	The Modification better achieves the applicable Objective c, as increasing the pool of providers should drive down costs, savings which can then be used to fuel competition.

Question 3: Do you agree with the Panel that the redlined changes to the BSC deliver the intention of P306?

**Summary**

Yes	No	Neutral/No Comment	Other
5	0	0	0

**Responses**

Respondent	Response	Rationale
E.ON UK	Yes	The changes take into consideration the proposed change to the definition and looks to maintain clarity and consistency of interpretation.
SSE	Yes	None provided.
EDF Energy	Yes	<p>We note that Elexon has not, as we see it, been operating to the BSC, which required a 'single A' rating or better for any given bank to be allowed to provide a 'Letter of Credit'. Specifically, Elexon has been accepting the lower rating of 'A-', without resorting to a BSC Panel dispensation (BSC Panel has the power to make exceptions; this would have allowed the use of banks with the A- rating on a case-by-case basis). This is not the BSC requirement as we read it. We note that Elexon states in the report under consultation that it interprets "single A" as including A-, and that this has caused some confusion, with some parties recently revealing that they didn't have that interpretation of "single A".</p> <p>We do not wish to see deviations from the BSC in applying the credit rules – it is important that the BSC is administered correctly, and strictly, to a common understanding in this area. Having said this, as it happens, a move to a minimum rating of A- for the banks, is just acceptable to us - although a move to any lower rating than this would not be.</p> <p>We therefore agree with the text, including the additional text that "clarifies" (it would be rather more correct to say "alters") the minimum credit rating required for banks that, under the BSC as it stands today, provide a 'Letter of Credit' under the BSC.</p> <p>We also agree with allowing ratings from Fitch as a new permitted ratings agency (for all providers of this type of instrument), alongside Moodys and Standard and Poors and to an equivalent minimum</p>

Respondent	Response	Rationale
		rating, because insurers are more often rated by Fitch and not by the aforementioned.
Haven Power Ltd	Yes	These deliver the objectives of P306.
IBM UK Ltd on behalf of ScottishPower	Yes	None provided.

## Question 4: Do you agree with the Panel's recommended Implementation Date?

### Summary

Yes	No	Neutral/No Comment	Other
5	0	0	0

### Responses

Respondent	Response	Rationale
E.ON UK	Yes	An Implementation Date for P306 of 10 Working Days following an Authority decision, if the decision is made to approve P306, is sufficient.
SSE	Yes	None provided.
EDF Energy	Yes	An Implementation Date for P306 of 10 Working days after the Self-Governance Appeal Window closes, seems acceptable; there is no reason for more notice than this.
Haven Power Ltd	Yes	We agree that 10 Working Days after the Self-Governance Appeal window closes is a sensible Implementation time.
IBM UK Ltd on behalf of ScottishPower	Yes	A quick Implementation will deliver maximum benefits to smaller Parties.

## Question 5: Do you have any further comments on P306?

### Summary

Yes	No
0	5

### Responses

Respondent	Response	Rationale
E.ON UK	No	n/a
SSE	No	n/a
EDF Energy	No	n/a
Haven Power Ltd	No	n/a
IBM UK Ltd on behalf of ScottishPower	No	n/a