

What stage is this document in the process?

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

Stage 03: Assessment Procedure Consultation

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

P306 proposes to expand the definition of a 'Letter of Credit' to include equivalent forms of security provided by financial institutions, other than banks. P306 also seeks to add to the list of approved rating agencies and potentially relax the required credit rating for providers of security. This Modification aims to increase the range of providers capable of meeting the BSC requirements relating to the provision of security that is available to BSC Parties.

This Assessment Procedure Consultation for P306 closes:

5pm on Friday 15 August 2014

The Workgroup may not be able to consider late responses.



The Workgroup initially recommends **approval** of P306

This Modification is expected to impact:

- ELEXON
- BSC Parties

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Any questions?

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About This Document

The purpose of this P306 Assessment Procedure Consultation is to invite BSC Parties and other interested parties to provide their views on the merits and impacts of P306. The P306 Workgroup will then discuss the consultation responses, before making a recommendation to the BSC Panel at its meeting on 11 Sept 2014 on whether or not to approve P306.

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. It also summarises the Workgroup's key views on the areas set by the Panel in its Terms of Reference, and contains details of the Workgroup's membership and full Terms of Reference.
- Attachment A contains the draft redlined changes to the BSC for P306.
- Attachment B contains the specific questions on which the Workgroup seeks your views. Please use this form to provide your response to these questions, and to record any further views or comments you wish the Workgroup to consider.

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Why Change?

The credit ratings of several licensed banks have been downgraded over 2012/13. This has resulted in reduced numbers of financial institutions with an adequate credit rating to provide security to BSC Parties. A smaller pool of prospective security providers, and the potential for further downgrading, is unlikely to incentivise banks and similar entities to maintain or reduce charges for providing security.

Solution

This Modification proposes that the definition of a 'Letter of Credit' under the BSC is expanded to include insurance products that are effectively equivalent to a 'Letter of Credit'. The Workgroup are also considering reducing the required credit rating and adding in Fitch Ratings as an approved rating agency under the definition of a 'Letter of Credit'.

Impacts & Costs

The Workgroup do not anticipate any direct impacts on BSC Parties as P306 will allow Parties to have additional options for lodging Credit Cover under the BSC.

Implementation

The Workgroup initially recommends an Implementation Date for P306 of:

- 10 Working Days following an Authority decision

Recommendation

The Workgroup believes that P306 will better facilitate Applicable BSC Objectives (c) and (d) and therefore, initially unanimously recommends that P306 should be approved.

What is Credit Cover?

Under the BSC, payments to and from BSC Parties for Trading Charges arising on a particular Settlement Day are made, on average, 29 calendar days following that Settlement Day. This means that at any given time Parties may have debts (or be due payments) in respect of Trading Charges incurred.

The purpose of Credit Cover is to ensure that, should a Party default, sufficient collateral is available to pay these debts. If a Party does not have sufficient Credit Cover they will enter into Credit Default.

The BSC currently requires Parties to lodge Credit Cover against its Energy Indebtedness, as detailed in [BSC Section M 1.2.1](#). This provision allows for cover to be in the form of either a 'Letter of Credit' or cash.

What is a 'Letter of Credit'?

In the case of the BSC a 'letter of Credit' means an unconditional, irrevocable standby letter of credit in the form set out in [BSC Section M Annexes M-1, M-2, M-3](#) or as such other form as approved by the BSC Panel.

Under the BSC, banks that are able to supply "Letters of Credit" are defined as being one of the following:

- Any United Kingdom clearing bank(s); or
- Any other bank(s) which has (have) a long term debt rating of not less than a single rating of A¹ by [Standard & Poor's Corporation](#) or by [Moody's Investors Services Inc.](#); or
- Any other bank(s) as the Panel may approve.

What is the Issue?

During 2012 and 2013 Moody's Investors Services Inc. ('Moody's') and Standard & Poor's Corporation ('Standard & Poor's') downgraded their credit rating of several licensed banks. This reduced the number of financial institutions with an adequate credit rating to provide security on behalf of Parties under the BSC.

A smaller pool of prospective security providers, and the potential for further downgrading, is unlikely to incentivise banks and similar entities to maintain or reduce charges for providing security. The Proposer considers that smaller companies may find it cheaper to lodge cash than negotiate a Letter of Credit with banks.

¹ An 'A' rating means a "Strong capacity to meet financial commitments, but somewhat susceptible to adverse economic conditions and changes in circumstances".

Proposed solution

Energy UK raised [P306 'Expanding the Definition of a 'Letter of Credit' to include regulated insurance companies'](#) on 4 June 2014.

This Modification proposes that the definition of a 'Letter of Credit' under the BSC is expanded to include regulated insurance companies that can provide products similar to a 'Letter of Credit' (usually provided by a bank) for example, performance bonds.

This expansion will provide individual BSC Parties with additional options in which to provide Credit Cover under the BSC.

The P306 Proposer and Workgroup have agreed that the BSC definition of a 'Letter of Credit' should be amended to:

- include insurance products that are effectively equivalent to a 'Letter of Credit' under the BSC and that such products must:
 - be provided by a regulated insurance company with not less than a **single 'A' credit rating** (or a credit rating equal to a single 'A'), which is equivalent to that required of a bank to be able to provide a 'Letter of Credit'; and
 - be provided with a guarantee that funds will be released within **Three Working Days** of a claim being presented, i.e. in the same target timescales as a 'Letter of Credit'. This is due to the time sensitive nature of the credit default and 'Letter of Credit' claiming processes.

The P306 Proposer and Workgroup also consider that the BSC definition of a 'Letter of Credit' should be amended to:

- increase the number of approved rating agencies by adding [Fitch Ratings](#) ('Fitch'), a global leader in credit ratings and research alongside Standard & Poor's and Moody's. Therefore, the approved rating agencies under the definition of a 'Letter of Credit' would be Standard & Poor's, Moody's and Fitch.
 - banks rated by Fitch will need to meet the equivalent rating requirements under the BSC (i.e. the rating required for Standard & Poor's or Moody's rated banks); and
- reduce the credit rating required under the definition of a 'Letter of Credit' from a single 'A' rating to:
 - ['BBB' by Standard and Poor's](#);
 - ['Baa' by Moody's](#); and
 - ['BBB' by Fitch](#).

Following further consideration, including taking into account all consultation responses received, the solution may be modified to include only one of these two measures to relax the rating requirement (i.e. either inclusion of Fitch or reduction of the required credit rating). The Workgroup welcomes industry views on this.

Legal text for P306 solution

Further information on the P306 solution can be found in the draft Legal Text in Attachment A.

How would adding Fitch Ratings or reducing the required credit rating expand the pool of banks able to provide security to BSC Parties?

Banks are not always rated by all rating agencies. It is also possible that one bank may receive different ratings between agencies. Under the current arrangements, a bank is able to provide security to Parties if one rating it has received by an approved rating agency meets the requirements under the BSC. This is true even when the bank has received a rating from another agency that is below the required credit rating level.

Expanding the number of approved rating agencies under the BSC will increase the number of banks which BSC Parties can use to lodge Credit Cover. By adding Fitch as an approved rating agency under the definition of a 'Letter of Credit', the pool of qualified 'A' rated banks will expand from 60 to 81.

If the required credit rating were to be reduced (without expanding the number of approved rating agencies) from a single rating of 'A' to 'BBB' for Standard and Poor's and 'Baa' for Moody's, the pool of qualified banks will expand from 60 to 73.

If both of the above changes are made to the definition of a 'Letter of Credit' (i.e. adding Fitch as an approved rating agency and reducing the required credit rating) the pool of qualified banks will expand from 60 to 101.

Minimum Rating	Fitch Ratings Excluded	Fitch Ratings included
Single A	60 qualified banks <i>(current baseline)</i>	81 qualified banks
BBB or Baa <i>(depending on the rating agency)</i>	73 qualified banks	101 qualified banks

It is worth noting that Fitch is already an approved rating agency under the [Treasury Policy](#)². However, they are not referenced in relation to Credit Cover under the BSC.

Assessment Consultation Questions

Do you agree with the Workgroup's view that the list of approved rating agencies under the definition of a 'Letter of Credit' should be expanded to include Fitch Ratings?

Do you agree with reducing the required credit rating to expand the pool of banks able to provide a 'Letter of Credit'?

The Workgroup invites you to give your views using the response form in Attachment B

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² The Treasury Policy sets out the appropriate parameters as deemed fit by the Board for ELEXON's banking arrangements, in order to minimise counterparty risk, while delivering a reasonable rate of return on the ELEXON Group cash balances and being able to meet the organisation's financial obligations.

Interactions with other industry changes

CMP228

The Connection and Use of Systems Code (CUSC) definition of “Qualified Bank” requires the entity providing a Performance Bond or Letter of Credit to a company to meet the general description of being a ‘bank’, which might imply that the entity is expected to hold a UK banking licence. CUSC Modification Proposal (CMP) [228 ‘Definition of ‘Qualified Bank’](#) was raised to make changes to the definition of ‘Qualified Bank’ to include ‘trade credit insurance company’, thereby increasing the number of prospective providers of security available to users.

On 28 February 2014 the CUSC Panel approved CMP228 as Self-Governance. CMP228 has since been implemented on 7 July 2014. There is no link between P306 and CMP228, but the two proposals have similar objectives and solutions.

P307 and P308

This Modification has been raised alongside two other Modifications relating to the credit arrangements. However, while these Modifications are all looking at the credit arrangements, each is looking at a different aspect of the process and proposing independent solutions:

- P307 ‘Amendments to Credit Default arrangements’ proposes to amend the timings, triggers and thresholds in relation to Credit Default, in particular expanding the duration of the Query Period and amending the triggers and thresholds for entering Credit Default, specifically with respect to the Cure Periods and the 80%, 90% and 100% thresholds.
- P308 ‘Alternative security product for securing credit under the BSC’ proposes to introduce a centrally provided alternative security product as an alternative method for securing credit under the BSC, which Parties could use in place of the existing requirements to provide Credit Cover individually.

All three Modifications can be progressed and implemented independently of each other; P306 could be implemented both with and without P307 or P308, and the solution it proposes would not impact the solutions proposed by the others. The three Workgroups will be mindful of the progression of the other Modifications as they each develop their solutions.

4 Impacts & Costs

Estimated central implementation costs of P306

The estimated ELEXON effort to implement P306 will be minimal. ELEXON will update the relevant documents impacted by the solution and oversee its implementation. The exact costs will be confirmed as part of the assessment of P306.

Potential industry costs of P306

The P306 Workgroup does not anticipate any direct impacts on BSC Parties or Party agents due to the implementation of the Modification. Therefore, it is not expected that the industry will incur any costs in implementing P306.

Assessment Consultation Question

Will P306 impact your organisation?

The Workgroup invites you to give your views using the response form in Attachment B

Assessment Consultation Question

Will your organisation incur any costs in implementing P306?

The Workgroup invites you to give your views using the response form in Attachment B

P306 Impacts

Impact on BSC Parties and Party Agents

We do not anticipate any direct impacts on participants due to the implementation of this Modification (though participants will have additional options in which to provide Credit Cover under the BSC).

Impact on Transmission Company

We do not anticipate there to be an impact on the Transmission Company associated with the implementation of P306.

Impact on BSCCo

Area of ELEXON	Potential Impact
Release Management	ELEXON will be required to implement this Modification.

Impact on BSC Systems and processes

It is not anticipated that system changes will be required due to the implementation of P306. As the solution develops this will be confirmed as part of the Modification's Assessment.

Impact on Code	
Code Section	Potential Impact
Section M	Changes are required to implement this Modification.
Section X Annex X-1	

5 Implementation

Recommended Implementation Date

The Workgroup initially recommends an Implementation Date for P306 of:

- 10 Working Days following an Authority decision

The Workgroup do not anticipate any direct impacts on BSC Parties as P306 will expand the options available for Parties to lodge Credit Cover and will not introduce any obligations on Parties. The Workgroup therefore agreed that the above Implementation Date would be appropriate.

Assessment Consultation Question

Do you agree with the Workgroup's proposed Implementation Date?

If not, please provide rational and advised of any lead times associated with the implementation of P306.

The Workgroup invites you to give your views using the response form in Attachment B

What are the current processes for claiming funds under the BSC?

The Workgroup considered the current default and claiming processes under the BSC. In summary these processes, including associated timescales, are as follows:

- Default Process
 - 3 Working Days (WDs) after Default: If funds have not been paid and advise notice is issued to the Party in question by ELEXON giving a due date for payment;
 - Due Date + 1 WD: If payment is not received within 1 Working Day of the payment due date ELEXON will contact the Party in question; and
 - Due Date + 3 WD: If payment is not received within 3 Working Days of the payment due date ELEXON will make a claim on the Party's Credit Cover.
- Claim on a 'Letter of Credit' (approximately 1 WD to complete claiming process)
 - Funds Administration Agent (FAA) produces claim documents;
 - claiming documents are then couriered between ELEXON, Barclays Bank and the bank that issued the 'Letter of Credit'.
 - funds received by ELEXON; and
 - Credit Cover for Party in question is reduced by ELEXON to reflect the receipt of funds.
- Claim on cash (approximately 1 WD to complete claiming process)
 - FAA Transfer funds from reserve account;
 - Funds received by ELEXON; and
 - Credit Cover for Party in question is reduced by ELEXON to reflect the receipt of funds.

ELEXON advised the Workgroup that the claim documents produced by the FAA for claiming on a 'Letter of Credit' require original signatures by the appropriate individuals, as noted above. The Workgroup considered why original signatures are required to make a claim, noting that it would be easier to email documents for electronic confirmation and send the signed copy in the post shortly after. A Workgroup member commented that it is normal practice for banks to accept documents electronically. However, the Workgroup noted that ELEXON's bank (Barclays) will only accept the original documents because of the risk of people converting PDFs or using Photoshop to recreate these documents.

What will be the process for making a claim on a bond?

The Workgroup noted that a claim on a security bond would be made by ELEXON, not the associated Party. There would likely be a list attached to the bond specifying the people with the authority to make a claim for funds to be released. The Workgroup noted that both a bond issued by an insurance company and a 'Letter of Credit' issued by a bank can be considered 'guarantees of payment'.

The Workgroup considered that services similar to the kind of security proposed by P306 exist. For example, a company may take out non-payment insurance in case a contractor does not pay their bill and leaves the company unable to pay off debts. However, a 'Letter of Credit' is a demand instrument (i.e. once all signatures are laid in front of a bank they must pay) meaning there may be some risk of insurance companies not being able to pay out funds as fast as a bank.

What risks are associated with longer timescales for the release of claimed funds?

The claiming process for both cash and a 'Letter of Credit' are time sensitive and the longer it takes to obtain the required funds the more risk there is of the relevant Party continuing to default. A Workgroup member noted that arguably, as long as ELEXON are satisfied that a form of security is valid it should not matter whether it is from a Bank (a Letter of Credit) or a regulated insurance company (for example, in the form of a bond). The member suggested that the underlying issue is around Parties providing bridging funds to make sure that, while money is being released, the Party in question does not continue to default.

If a Party defaults and is unable to cover the debt in time (i.e. it has insufficient Credit Cover), funding shares are taken from all other BSC Parties in proportion to their market share. However, these shares are returned to Parties if the required funds are received from the defaulting Party.

ELEXON does have an overdraft provision of £1 million (M), which could in principle, be used to provide bridge funding for defaults up to £1M. However, there will be interest and charges associated with utilising this overdraft.

A Workgroup member noted that if the default amount exceeds the full overdraft facility there are no further fall back funds, meaning the only recourse would be to seek funding shares from other Parties. Therefore, there will be a risk of relying on ELEXON's overdraft limit if there are long timescales associated with releasing funds claimed on an insurance product. The Workgroup considered that ELEXON's overdraft facility will not be an effective means of providing bridge funding to facilitate default claims.

The Workgroup believe that it is likely to usually take longer than three Working Days to receive funds following a claim to an insurance company. The Group discussed whether this risk would mean that consideration should be given to putting a cap on the amount of credit that could be lodged in a bond or other insurance product. Meaning that up to a certain limit it would be acceptable for claims to take longer than three Working Days because the provision of bridge funding would not be too onerous. However, a member argued that this would not be beneficial to competition as larger players may not be able to lodge a significant amount of Credit Cover through an insurance company if such a limit is imposed. The member added that smaller players might be able to cover all or most of their liability using such cover, depending on the limit that is set. However, larger players are more likely to afford a 'Letter of Credit'.

The Workgroup therefore considered whether a timescale restriction might be a more appropriate approach to managing the risk. For example, specifying that a Party can only lodge credit in the form of security from a regulated insurance company if the funds will be released within three Working Days of a claim being made. This approach will leave the product type used open to the industry, i.e. a Party could use a product of its choice as long as Elexon and the FAA are satisfied that the funds will definitely be released and in

the required timescales to limit the risk of continued default. The Workgroup agreed that this approach is preferable.

A Workgroup member questioned whether insurance companies will be able to tailor their products to meet a three Working Day timescale. Another member noted that large utility companies have been approached in the past by insurance companies with which they already have a relationship. The insurance companies have enquired whether these large utility companies would be willing to use some of their other products to lodge credit. Therefore, the member believes that it is possible to tailor products to a companies' individual needs (for example, a required timescale obligation) given such products would be corporate products. There may be a premium price associated with tailoring such a product but it would be up to the Party to determine whether or not that price would be competitive with the price of taking out a 'Letter of Credit' or lodging cash.

The Workgroup considered that as long as a product can be presented to ELEXON and the FAA in which funds can be collected in line with the current timescales (i.e. three Working Days) they cannot see a problem with allowing the industry to use such products under the BSC.

The Workgroup agreed that it prefers a solution which contains a time limit for the release of funds and that three Working Days would be appropriate. However, the Workgroup wishes to obtain industry views on this to ensure its members make a fully informed decision on P306. Therefore, the Workgroup seeks to know whether industry participants agree with the view that a 3 Working Day time limit for the release of funds would be pragmatic or whether a longer time scale is preferred. This means giving a longer period for the payment of claims noting that the industry may need to accept that that bridging funds might be required while claims are made. Such bridging funds would be delivered via levying funding shares on market participants.

In summary, the Workgroup initially agreed that adding a timescale for the release of funds would be an appropriate way forward. The Workgroup agreed that this timescale should be in line with the current processes for claiming on a 'Letter of Credit'; which are targets at three Working Days for the funds to reach ELEXON's account after they have been claimed. The Proposer agreed with the Workgroup's views.

Assessment Consultation Question

Do you agree with the Workgroup's view that funds claimed through an insurance product should be released within 3 working days of the claim being made? *If not, would you prefer a longer timescale, accepting the risk that all Parties may need to cover bridging funds via payment of funding shares?*

[The Workgroup invites you to give your views using the response form in Attachment B](#)

A Workgroup member voiced a concern around risks to other BSC Parties if one Party defaults and is unable to front the bridging funds, meaning that default funding shares would be taken (based on annual market shares).

ELEXON noted that if a claim was made on a 'Letter of Credit' which did not cover the debt, the funds would be recovered through default funding shares regardless. Therefore, the only risk added by introducing products issued by insurance companies is if the products hold more risk resulting in more defaults.

What types of 'Letters of Credit' can be provided by a Bank?

The Workgroup considered the types of 'Letters of Credit' that can be obtained from a bank and whether or not an insurance company can provide the same things. A bank can provide a number of different types, including a Standby Letter of Credit, but insurance companies cannot provide any kind of 'Letter of Credit'.

Insurance companies can provide bonds which are in line with a guarantee of credit, and when looking to issue a bond will assess the credit rating of the company requesting it. They will not issue a bond to a company that would be a risk to them. It was noted that there may be a level of risk with using bonds as these can sometimes require proof of funds to be provided by the company taking the bond out. Also, based on ELEXON's research, performance bonds are usually used if one cannot deliver a product rather than to lodge credit. Credit cover may therefore be an unusual application of bonds, but under the P306 it would be up to insurance companies and Parties to see if they can develop viable products that would meet the credit requirements of the BSC.

What changes are required to the BSC?

The FAA checks all 'Letters of Credit' submitted, and BSC Section M lays out the format options that the industry can use when submitting a 'Letter of Credit'. The Workgroup considered whether a new format would be required or if the existing three could be suitably amended.

A Workgroup member stated that it is important to make sure that 'Letters of Credit' coming in are in a uniform format. The member did not believe there was a need for a separate letter format to be created. ELEXON advised the Workgroup that it would look into which would be more appropriate, depending on the current letter formats in the Code.

Along with other changes to the BSC to implement P306, ELEXON has opted to add a new Annex M-4 to BSC Section M. This will list the requirements that an insurance product (issued by a regulated insurance company) must fulfil in order for it to be considered by ELEXON and the FAA as an approved form of Credit Cover. Further information can be found in the draft redlining in Attachment B.

A Workgroup member noted that banks are quite strictly regulated which is why there is the ability under the BSC to have 'Letter of Credit' formats. The member asked whether or not insurance companies are as strictly regulated. ELEXON advised the Workgroup that there are two regulators that oversee the insurance industry:

- The Financial Conduct Authority (FCA) regulates the financial services industry in the UK. Their aim is to protect consumers, ensure the industry remains stable and promote healthy competition between financial services providers; and
- The Prudential Regulation Authority (PRA) is a part of the Bank of England and is responsible for the prudential regulation and supervision of banks, building societies, credit unions, insurers and major investment firms. It sets standards and supervises financial institutions at the level of the individual firm.

The Rules and guidelines that insurance companies need to follow can be found in the [Insurance: Conduct of Business Sourcebook](#) (ICOBS). Firms that breach these rules can be fined and also have their licence revoked.

The Workgroup considered whether it would be necessary for companies providing security to Parties via insurance products to be investigated to confirm their ability to provide credit. The Workgroup concluded that if an insurance company had an acceptable credit rating there is no need for further investigation into its ability to provide a 'Letter of Credit' equivalent product, similar to the credit rating requirement for banks under the current Letter of Credit arrangements. ELEXON will look into the credit ratings of insurance companies on behalf of the Workgroup and see if there are any differences with how banks are rated. The Workgroup agreed that an equivalent credit rating level to that imposed upon banks providing a Letter of Credit should apply to an organization that is not a bank providing a 'Letter of Credit' equivalent product.

Are there any other options for expanding the pool of banks that can provide a 'Letter of Credit' under the BSC?

ELEXON advised the Workgroup that banks that are able to supply 'Letters of Credit' under the BSC are defined as being one of the following:

- Any United Kingdom clearing bank(s); or
- Any other bank(s) which has (have) a long term debt rating of not less than a single rating of 'A' by Standard & Poor's Corporation or by Moody's Investors Services Inc.; or
- Any other bank(s) as the Panel may approve.

ELEXON noted that the pool of banks could be expanded in two ways.

Adding Fitch as approved rating agency

The first way to expand the pool would be by adding Fitch Ratings as an approved rating agency. Currently a bank needs the appropriate credit rating under Standard & Poor's and Moody's. However, if the definition was expanded to include banks with appropriate credit ratings by Standard & Poor's, Moody's and Fitch, the pool of banks the industry could use would expand from 60 to 81 (if the appropriate rating was kept at 'not less than a single rating of A').

A Workgroup member noted that, in the past, Fitch was associated more with sovereign ratings. However, Fitch has grown into more of a corporate rating agency and would therefore be an appropriate rating agency to add to the current list. ELEXON added that Fitch is already an approved rating agency under the Treasury Report but not for the purposes of providing a 'Letter of Credit' under the BSC. Another member advised the Workgroup that, in the past, the Panel has approved 'Letters of Credit' from Fitch rated banks on a case by case basis.

The Workgroup agreed that it would be pragmatic to add Fitch Ratings as an approved rating agency for the purposes of providing 'Letters of Credit' under the BSC. The Proposer also agreed with this view.

Lowering the required credit rating for banks providing 'Letters of Credit'

ELEXON advised the Workgroup that there would also be the option of lowering the required credit rating for banks providing 'Letters of Credit'. ELEXON suggested that if this

rating requirement was lowered it should be lowered to the next step down from the current single 'A' rating, as detailed in Section 2 of this document.

A Workgroup member noted that there may be some risks involved with lowering the required credit rating. However, the member thought it would be best to ask the industry if they would prefer to lower the rating and/or add Fitch Ratings to expand the pool of banks able to provide a 'Letter of Credit' under the BSC. The Proposer and other Workgroup members agreed with this view.

What is the most appropriate implementation approach for P306?

The Workgroup do not anticipate any direct impacts on Parties as a result of P306 being implemented. This Modification seeks to provide individual BSC Parties with additional options by which to provide Credit Cover under the BSC and to expand the pool of potential banks able to provide a 'Letter of Credit'.

The Workgroup are therefore recommending an Implementation Date for P306 of 10 Working Days following an Authority decision, if the decision is made to approve P306.



Workgroup's initial views on the Applicable BSC Objectives

The following table contains the Proposer and the Workgroup's views against each of the Applicable BSC Objectives:

Does P306 better facilitate the Applicable BSC Objectives?		
Obj	Proposer's Views	Other Workgroup Members' Views ³
(a)	• Neutral – No impact.	• Neutral – No impact.
(b)	• Neutral – No impact.	• Neutral – No impact.
(c)	• Yes – The proposed solution will promote effective competition by offering greater flexibility and addition 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.	• Yes (unanimous) – Agree with Proposer.
(d)	• Yes – The proposed solution will marginally improve efficiency as adding additional options for lodging Credit Cover should result in less instances of default, despite a slight rise in administration work.	• Yes (unanimous) – Agree with Proposer.
(e)	• Neutral – No impact.	• Neutral – No impact.

Recommendation

The P306 Workgroup initially unanimously recommends that P306 be approved.



What are the Applicable BSC Objectives?

(a) The efficient discharge by the Transmission Company of the obligations imposed upon it by the Transmission Licence

(b) The efficient, economic and co-ordinated operation of the National Electricity Transmission System

(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

(d) Promoting efficiency in the implementation of the balancing and settlement arrangements

(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]

Workgroups initial views on the proposed solution

The Workgroup initially unanimously believes that the P306 proposed solution would better facilitate Applicable BSC Objectives (c) and (d), for the reasons given above.

Therefore, the Workgroup initially unanimously recommends that P306 should be approved.

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³ Shows the different views expressed by the other Workgroup members – not all members necessarily agree with all of these views.

Workgroup's Terms of Reference

Specific areas set by the BSC Panel in the P306 Terms of Reference
What is the most appropriate definition for a 'Letter of Credit' under the BSC?
Should regulated insurance companies be able to provide a 'Letter of Credit'?
Are changes needed to the credit ratings required to provide a 'Letter of Credit'?
What influence does the Panel's ability to consider 'Letters of Credit' on a case by case basis have on the P306 solution?
What unintended consequences could arise from the changes proposed by P306 and how can such risks be managed?
What amendments would need to be made to the credit monitoring processes to account for the changes proposed by P306?
Does P306 meet the Self-Governance criteria?
What is the most appropriate implementation approach?
What changes are needed to BSC documents, systems and processes to support P206 and what are the related costs and lead times?
Are there any alternative Modifications?
Does P306 better facilitate the Applicable BSC Objective better than the current baseline?

Assessment Procedure timetable

P306 Assessment Timetable	
Event	Date
Present Initial Written Assessment to Panel	12 Jun 14
Workgroup Meeting	09 Jul 14
Assessment Procedure Consultation	25 Jul 14 – 15 Aug 14
Workgroup Meeting	W/B 18 Aug 14
Present Assessment Report to Panel	11 Sep 14
Report Phase Consultation	12 Sep 14 – 26 Sep 14
Present Draft Modification Report to Panel	09 Oct 14
Issue Final Modification Report to Authority	10 Oct 14

Workgroup membership and attendance

P306 Workgroup Attendance		
Name	Organisation	17 Jul 14
Members		
Dean Riddell	ELEXON (<i>Chair</i>)	✓
Talia Addy	ELEXON (<i>Lead Analyst</i>)	✓
Leonida Bandura	P306 (<i>Proposer</i>)	✓
Andrew Colley	SSE	✓
Karl Maryon	Haven Power	✓
Gary Henderson	IBM	✗
Dimutho Wijetunga	Npower	☎
Lisa Waters	Waters & Wye Associates	✓
Tryfon Tzelis	E.ON	✓
Attendees		
Beth Connew	ELEXON (<i>Design Authority</i>)	✓
Tina Wirth	ELEXON (<i>Lead Lawyer</i>)	✓
Darren Draper	ELEXON (<i>finance</i>)	✓
Kyle Martin	Energy UK	✓

Appendix 2: Glossary & References

Glossary of defined terms

Acronyms and other defined terms used in this document are listed in the table below.

Glossary of Defined Terms	
Acronym	Definition
CMP	CUSC Modification Proposal
CUSC	Connection Use of Systems Code
FAA	Funds Administration Agent
FCA	Financial Conduct Authority
PRA	Prudential Regulation Authority
ICOBS	Insurance: Conduct of Business Sourcebook.

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
4	BSC Sections website	http://www.elexon.co.uk/bsc-related-documents/balancing-settlement-code/bsc-sections/
4	Standard & Poor's website	http://www.standardandpoors.com/en_EU/web/guest/home
4	Moody's website	https://www.moody.com/
5	P306 page of ELEXON website	http://www.elexon.co.uk/mod-proposal/p306/
5	Fitch Ratings website	https://www.fitchratings.com/web/en/dynamic/fitch-home.jsp
5	Standard & Poor's credit ratings	http://www.standardandpoors.com/ratings/definitions-and-faqs/en/us
5	Moody's credit ratings	https://www.moody.com/researchdocumentcontentpage.aspx?docid=PBC_79004
5	Fitch credit ratings	https://www.fitchratings.com/jsp/general/RatingsDefinitions.faces?context=5&detail=507&context_In=5&detail_In=500
7	CMP228 website	http://www2.nationalgrid.com/UK/Industry-information/Electricity-codes/CUSC/Modifications/CMP228/
14	Insurance: Conduct of Business sourcebook website	http://fshandbook.info/FS/html/FCA/ICOBS