

Report Phase Consultation Responses

P326 'Introduction of a non-Working Day adjustment to the Credit Cover Percentage calculation'

This Report Phase Consultation was issued on 11 March 2016, with responses invited by 5 April 2016.



Phase

Initial Written Assessment

Definition Procedure

Assessment Procedure

Report Phase

Implementation

Consultation Respondents

Respondent	No. of Parties/Non-Parties Represented	Role(s) Represented
Opus Energy Ltd	1 / 0	Supplier
Centrica Plc	10 / 0	Generator, Supplier
Good Energy	1 / 0	Supplier, ECVNA, MVRNA
RWE Npower	1 / 0	Supplier
E.ON	1 / 0	Generator, Supplier, Interconnector User, Non Physical Trader, ECVNA, MVRNA
Everis obo ScottishPower	8 / 0	Generator, Distributor, Non Physical Trader, ECVNA, MVRNA
EDF Energy	8 / 0	Generator, Supplier, ECVNA, MVRNA

P326
Report Phase Consultation
Responses

6 April 2016

Version 1.0

Page 1 of 13

© ELEXON Limited 2016

Question 1: Do you agree with the Panel's initial unanimous recommendation that the P326 Proposed Modification better facilitates the Applicable BSC Objectives compared to the current baseline?

Summary

Yes	No	Neutral/No Comment	Other
5	2	0	0

Responses

Respondent	Response	Rationale
Opus Energy Ltd	Yes	<p>We believe that both the P326 Proposed Modification and the P326 Alternative Modification would better achieve BSC Objective 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.</p> <p>It would do this by reducing surplus credit held by parties due to an inaccuracy in the credit cover calculation. This inaccuracy is particularly felt by business suppliers who have lower weekend volumes and are therefore currently disproportionately affected.</p>
Centrica Plc	Yes	-
Good Energy	No	<p>The Proposed Modification does not better facilitate Applicable BSC Objective (c) because, although it will tend to reduce current overcollateralisation in the case of most parties, it arbitrarily disadvantages parties with negative CALF values – applicable to suppliers with significant embedded generation. This would be overcome if the proposed solution was optional rather than mandatory as proposed. Alternatively, the methodology in the CALF Guidance document for determining the alternative CALF values for Supplier BM Units with both Embedded Generation and demand could be revised to counteract the adverse impact of the Proposed Modification on negative CALF values.</p>
RWE Npower	Yes	<p>We agree that the Proposed Modification would be an improvement compared to the current baseline – however we do not believe it is the best of the options available.</p>
E.ON	Yes	<p>For the same reason addressed by the panel.</p>

Respondent	Response	Rationale
Everis obo ScottishPower	Yes	We agree that the Proposed Modification will help better achieve Objective C), allowing for the amount of Party indebtedness to be more accurately calculated. This has obvious benefits in ensuring that Parties are appropriately securitised.
EDF Energy	No	<p>The legal text does not actually describe the principle or practice of how DCF would be calculated, and ultimately leaves individual values entirely to the discretion of the BSC Panel (in proposed M1.5B.8). However, the clear intent set out in the proposal and consultation is to use DCF to effectively reduce the estimated demand for a BM Unit below its average on non-business days without making a corresponding increase above average on business days. Reducing the estimated volume in this way will systematically underestimate it on average, assuming participants submit accurate Demand Capacities. We don't think systematic under-estimation using non-business day DCFs should be used to correct for over-estimates arising from participant over-estimates of Demand Capacity, which is an unrelated source of error. Systematically reducing the estimated demand below average for some BM Units discriminates against those BM Units whose demand varies less with business and non-business days. They would not obtain the same level of average credit requirement reduction. This would act against BSC Objective (c) concerning competition.</p> <p>Further, although it is not set out in the legal text, the intention to limit the approach only to importing Supplier BM Units discriminates against CVA registered BM Units. We hope that a BSC Modification would not be necessary to persuade the BSC Panel to include non-SVA BM Units if a firm request with justification were provided.</p>

Question 2: Do you agree with the Panel's initial unanimous recommendation that the P326 Alternative Modification better facilitates the Applicable BSC Objectives compared to the current baseline?

Summary

Yes	No	Neutral/No Comment	Other
7	0	0	0

Responses

Respondent	Response	Rationale
Opus Energy Ltd	Yes	<p>We believe that both the P326 Proposed Modification and the P326 Alternative Modification would better achieve BSC Objective 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.</p> <p>It would do this by reducing surplus credit held by parties due to an inaccuracy in the credit cover calculation. This inaccuracy is particularly felt by business suppliers who have lower weekend volumes and are therefore currently disproportionately affected.</p> <p>We agree with the majority Workgroup view that the Alternative Modification presents Suppliers with more opportunities to change their behaviour in order to realise benefits.</p>
Centrica Plc	Yes	-
Good Energy	Yes	<p>The Alternative Modification will tend to reduce current overcollateralisation but without arbitrarily disadvantaging parties with negative CALF values, assuming the methodology in the CALF Guidance document for determining the alternative CALF values for Supplier BM Units with both Embedded Generation and demand is revised appropriately. This requires the Net Av. term used to derive Working Day CALFs and non-Working Day CALFs to be calculated using Average Net Metered Volumes for Working Days and non-Working Days respectively.</p>
RWE Npower	Yes	<p>We agree that the Alternative Modification would be an improvement compared to the current baseline and also believe it to be the superior option of the</p>

Respondent	Response	Rationale
		two available.
E.ON	Yes	For the same reason addressed by the panel.
Everis obo ScottishPower	Yes	We agree that the Alternative Modification will also help better achieve Objective C), allowing for the amount of Party indebtedness to be more accurately calculated. This has obvious benefits in ensuring that Parties are appropriately securitised.
EDF Energy	Yes	<p>The legal text does not actually describe the principle or practice of how WDCALF and NWDCALF would be calculated, but the clear intent set out in the consultation is to use them to create more accurate estimates of demand for a BM Unit on both working days and non-working days, and on average. The benefit of reducing excess credit requirements should outweigh the costs of implementing the proposal. The improved accuracy in estimating volumes for credit assessment should better meet BSC objective (c) concerning competition.</p> <p>Although it is not set out in the legal text, the intention to limit the approach only to importing Supplier BM Units discriminates against CVA registered BM Units, but we hope that a BSC Modification would not be necessary to persuade the BSC Panel to include non-SVA BM Units if a firm request with justification were provided.</p>

Question 3: Do you agree with the Panel's initial unanimous recommendation that the P326 Alternative Modification better facilitates the Applicable BSC Objectives compared to the P326 Proposed Modification?

Summary

Yes	No	Neutral/No Comment	Other
7	0	0	0

Responses

Respondent	Response	Rationale
Opus Energy Ltd	Yes	Although both solutions work, we are satisfied that analysis that Elexon has carried out alongside the P326 Workgroup that we attended demonstrates that the P326 Alternative Modification gives the best balance between accuracy and implementation costs. It is also noted, that at approximately £153,000, the central costs of the Alternative Modification are slightly lower than those for the Proposed Modification.
Centrica Plc	Yes	-
Good Energy	Yes	The Alternative Modification will not arbitrarily disadvantage parties with negative CALF values, assuming the methodology in the CALF Guidance document for determining the alternative CALF values for Supplier BM Units with both Embedded Generation and demand is revised appropriately, as explained above.
RWE Npower	Yes	The inherent weekday skew within the Proposed Modification methodology risks perversely incentivising by penalising suppliers who submit more accurate DCs each season and benefitting those who do not, which is adverse to Applicable BSC Objective (c). Suppliers who forecast their maximum demand more accurately should in general expect a more reflective BMCAIC as a result, and this would only be achieved by the Alternative Modification. The Alternative Modification is better principled with a sound theoretical basis in its independent consideration of working days and non-working days (thus ensuring that CALF values are only based on the relevant subset of data), and therefore has the greater potential improvement in accuracy, as well as being less discriminatory.

Respondent	Response	Rationale
E.ON	Yes	For the same reason addressed by the panel.
Everis obo ScottishPower	Yes	Assessment of the Alternative being better than the Proposed does require a certain leap in the dark, as the potential to derive greater benefits will only be realised with a subsequent behavioural change on the part of Parties (i.e. submitting more accurate DCs). While we cannot guarantee that such a change will happen, the Alternative does provide an incentive for those Parties who choose (or are able) to do so. Parties who are not able / willing to submit more accurate DCs will still benefit over the current baseline. This ability for Suppliers to gain an additional competitive advantage, by definition, realises a better achievement of Objective C than the Proposed.
EDF Energy	Yes	See comments in response to Questions 1 and 2.

Question 4: Do you agree with the Panel's initial majority view that P326 should be treated as a Self-Governance Modification?

Summary

Yes	No	Neutral/No Comment	Other
6	0	0	1

Responses

Respondent	Response	Rationale
Opus Energy Ltd	Yes	We strongly agree with the Panel's majority decision that P326 should be progressed as a Self-Governance Modification. P310 "Revised Credit Cover for Exporting Supplier BM Units" is a modification with similar subject matter, which was progressed as a Self-Governance Modification. In addition, Ofgem's initial proposals under Code Governance Review Phase 3 include increased use of the Self-Governance route.
Centrica Plc	Yes	-
Good Energy	Yes	Providing the Panel's final recommendation is that the P326 Alternative Modification better facilitates the Applicable BSC Objectives compared to the P326 Proposed Modification, we support P326 being treated as a Self-Governance Modification. However, we do not consider the Proposed Modification meets all the Self-Governance criteria because of its arbitrary adverse impact on negative CALF values affecting solely suppliers with significant embedded generation.
RWE Npower	Yes	-
E.ON	Yes	Agree with the Panel's view.
Everis obo ScottishPower	Yes	While we initially felt that this was a borderline case for Self-Governance, we are reassured by the Authority representative's comments at Panel. We believe that Self Governance should be the norm.
EDF Energy	-	The alternative proposal may meet the self-governance criteria, if the overall materiality is not considered significant, because it does not discriminate unfairly between BM Units. However, the original proposal creates undue discrimination between BM Units according to the load-shape of customers within it, and we are not convinced it meets the criteria for self-governance.

Question 5: Do you agree with the Panel that the redlined changes to the BSC deliver the intention of the P326 Proposed Modification?

Summary

Yes	No	Neutral/No Comment	Other
5	0	1	1

Responses

Respondent	Response	Rationale
Opus Energy Ltd	Yes	-
Centrica Plc	Yes	-
Good Energy	-	We do not have a view on this.
RWE Npower	Yes	-
E.ON	Yes	Agree with the Panel's view.
Everis obo ScottishPower	Yes	-
EDF Energy	-	We have not examined the legal text in detail, but it appears to facilitate the intention of P326 Proposed Modification, noting that much of the detail of determination of DCFs will be described by the BSC Panel in a separate document, but even this does not prevent the BSC Panel setting individual values of DCF entirely at its own discretion (in proposed M1.5B.8).

Question 6: Do you agree with the Panel that the redlined changes to the BSC deliver the intention of the P326 Alternative Modification?

Summary

Yes	No	Neutral/No Comment	Other
5	0	1	1

Responses

Respondent	Response	Rationale
Opus Energy Ltd	Yes	-
Centrica Plc	Yes	-
Good Energy	-	We do not have a view on this.
RWE Npower	Yes	-
E.ON	Yes	Agree with the Panel's view.
Everis obo ScottishPower	Yes	-
EDF Energy	-	We have not examined the legal text in detail, but it appears to facilitate the intention of P326 Alternative Modification as described, noting that much of the detail of determination of WDCALF and NWDCALFs will be described by the BSC Panel in a separate document.

Question 7: Do you agree with the Panel's recommended Implementation Date?

Summary

Yes	No	Neutral/No Comment	Other
7	0	0	0

Responses

Respondent	Response	Rationale
Opus Energy Ltd	Yes	The intention is that, following this Report Phase Consultation, the Panel will then make its final determination on P326 under Self-Governance on 14 April 2016. Because the proposed implementation date is 23 February 2017 as part of the February 2017 BSC Systems Release, this would allow sufficient time to manage implementation even if this were to include minor IT system changes (a minimum lead time of 6 months would be needed if any system changes are required).
Centrica Plc	Yes	Exelon is best placed to advise on this.
Good Energy	Yes	We accept the conclusion of the Workgroup that the February 2017 Release is the earliest viable Release that P326 can target based on the current progression timetable.
RWE Npower	Yes	We are happy that the 23 rd February 2017 is the earliest possible date that the change could be implemented from (with the full solution then taking full effect from 1 st March 2017), given the 31 week lead time for the Alternative Modification.
E.ON	Yes	Agree with the Panel's view.
Everis obo ScottishPower	Yes	-
EDF Energy	Yes	Implementation on 23 February 2017, with at least 7 months advance notice, gives ample time for any internal system or process changes.

Question 8: Would you seek to submit more accurate DC values for your BM Units in response to P326?

Summary

Yes	No	Neutral/No Comment	Other
2	2	2	1

Responses

Respondent	Response	Rationale
Opus Energy Ltd	-	-
Centrica Plc	Yes	-
Good Energy	No	We already strive to submit accurate DC values to avoid a) having to re-declare values mid-season, and b) our reported Credit Cover Percentage being overstated.
RWE Npower	Yes	We are currently working on the development of a new approach in order to improve the forecast of our DC values.
E.ON	No	It is our usual activity to continuously improve forecast accuracy. We do not just do this in response to P326. The DC values provided each quarter are always our latest best view based on the most up-to-date long term demand forecast.
Everis obo ScottishPower	-	Not responding as a Supplier
EDF Energy	-	Review of the processes for submitting accurate DC values might be undertaken in association with P326, but is more likely to be undertaken as a separate review issue.

Question 9: Do you have any further comments on P326?

Summary

Yes	No
2	5

Responses

Respondent	Response	Comments
Opus Energy Ltd	Yes	We support the P326 Alternative solution, due to the benefits it would create in terms of lower and more proportionate credit cover requirement on non-working days. This would help to promote effective competition in the market.
Centrica Plc	No	-
Good Energy	Yes	We consider that under the Proposed Modification the proposed solution should be optional because of its arbitrary adverse impact on negative CALF values, affecting solely suppliers with significant embedded generation. Alternatively, the methodology in the CALF Guidance document for determining the alternative CALF values for Supplier BM Units with both Embedded Generation and demand should be revised to counteract the adverse impact of the Proposed Modification on negative CALF values.
RWE Npower	No	-
E.ON	No	-
Everis obo ScottishPower	No	-
EDF Energy	No	None at this time. As remote meter reading and data processing expands and improves in future, earlier measurement and more accurate estimation should reduce the significance of Credit Assessment estimation methods.