

Phase

Initial Written Assessment

Definition Procedure

Assessment Procedure

Report Phase

Implementation

P345 'Reducing the CAP change notice period and improving its flexibility'

Following discussion by the Credit Committee and BSC Panel, P345 seeks to reduce the notice period for changes to the Credit Assessment Price (CAP) from 20 Working Days to 15.

This Modification would also enable the notice period to be changed in future without a Modification, as long as it remains above a minimum value set out in the BSC and such a change is consulted upon.



The BSC Panel initially recommends **approval** of P345

This Modification is not expected to impact BSC Parties or any other participants

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About This Document

This is the P345 Draft Modification Report, which ELEXON will present to the Panel at its meeting on 14 July 2016. It includes the responses received to the Report Phase Consultation on the Panel's initial recommendations, including a recommendation that P345 should be progressed as a Self-Governance Modification. The Panel will consider all responses and will decide whether or not this change should be made.

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.
- Attachment A contains the draft redlined changes to the BSC for P345.
- Attachment B contains the full responses received to the Panel's Report Phase Consultation.



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Why Change?

The BSC requires that 20 Working Days' notice is given before changes to the value of CAP take effect. This notice period limits the extent to which the CAP can quickly reflect recent data and market conditions. In addition, since the notice period is specified in the BSC a Modification is required to change it, which limits the flexibility of the CAP review process.

Solution

P345 would move the CAP change notice period parameter from the BSC to the CAP Review Guidance Document and reducing the notice period from 20 Working Days to 15 Working Days. It would also introduce a backstop CAP change notice period of 10 Working Days into the BSC and a requirement that any change to the CAP change notice period must be consulted upon and is subject to the agreement of the Panel.

Impacts & Costs

This is a document only change with minimal implementation impact on ELEXON. There are no impacts on central systems or on BSC Parties or other participants.

Implementation

The Panel recommends an Implementation Date for P345 of 10 Working Days following approval.

Recommendation

The Panel unanimously agreed an initial recommendation that P345 would better facilitate Applicable BSC Objectives (c) and (d) and should therefore be approved. The Panel also unanimously agreed that P345 should be progressed as a Self-Governance Modification.

Background

Credit Committee recommendations

In February 2016 the Credit Committee discussed options to improve the CAP review and implementation processes. With the agreement of the BSC Panel the Credit Committee subsequently consulted on several options, including reducing the notice period for implementing a new CAP value from 20 Working Days to 15 Working Days.

All four respondents to the Credit Committee's consultation supported shortening the notice period for implementing a new CAP value. One respondent suggested shortening the notice period further in the future to make the process even more flexible.

The Credit Committee therefore proposed a series of amendments to the CAP review process to the Panel, including recommending reducing the notice period for implementing a new CAP value to 15 Working Days.

Panel considerations

The Panel considered the Credit Committee's recommendations at its meeting on 10 March 2016. The Credit Committee's recommendations and supporting information were set out in paper [250/15 'Proposed Changes to the CAP Process'](#).

The Panel approved the Credit Committee's recommended changes and noted that a BSC Modification would need to be raised to amend the notice period for implementing a new CAP value.

While changes to the CAP calculation require the Credit Committee to seek the Panel's approval, most of the Credit Committee are also Panel Members. The Panel considered whether a lack of industry responses to Credit Committee consultations coupled with little industry representation at the Credit Committee meetings was an issue. It noted, however, that the Credit Committee had agreed to consult on any recommended changes to the CAP calculation, which ensures industry participants have an opportunity to raise any concerns.

To facilitate the execution of the change a Panel Member agreed to raise the requisite Modification, with the assistance of ELEXON in drafting the Modification Proposal and legal text and the Panel's review of the proposal.

The Panel considered that it might prove beneficial to reduce the notice period further in future to provide additional flexibility and that it would be sensible to provide some scope for this to be done without a Modification being required, but that appropriate oversight and industry consultation should be required.

The Panel therefore determined that the Modification to reduce the notice period for implementing a new CAP value from 20 Working Days to 15 Working Days should also:

- Enable the CAP change notice period to be changed without a Modification by moving this parameter from the BSC to the CAP Review Guidance Document;
- Require that any change to the notice period must be consulted upon and is subject to the agreement of the Panel; and
- Retain a backstop notice period of 10 Working Days in the BSC so that the period cannot be reduced below this minimum value without a Modification.

What is the issue?

CAP is used in the calculation of Actual Energy Indebtedness (AEI). The Credit Committee considers changing the CAP value if the difference between the CAP and a reference price breaches a predetermined value, as set out in the CAP Review Guidance Document.

At present, BSC Section M 'Credit Cover and Credit Default' includes a requirement that the effective date of any change to the CAP shall not be earlier than 'the 20th Business Day following the date of notification' of the change. In practice, this means that implementing a new CAP value takes on average six weeks from the breach to the implementation.

Recent volatility in market prices means a more flexible process for changing the CAP would enable it to better reflect reference electricity prices. Reducing the notice period for changing the CAP would enable it to be changed more quickly, which would allow the CAP to reflect more recent data and better react to market conditions. The benefit of a revised CAP value being applied in the calculation of AEI would also be delivered more quickly.

In addition, since the notice period is currently specified in the BSC a Modification is required to change it. This limits the flexibility of the CAP review process because a Modification is required for any change to this parameter.

[P345 'Reducing the CAP change notice period and improving its flexibility'](#) was raised by SSE plc on 2 June 2016 to implement the solution agreed by the Panel following its consideration of the Credit Committee's recommendations.

Proposed solution

P345 would amend the BSC and the CAP Review Guidance Document by:

- Moving the CAP change notice period parameter from the BSC to the CAP Review Guidance Document;
- Reducing the CAP change notice period from 20 Working Days to 15 Working Days;
- Requiring that any change to the CAP change notice period must be consulted upon and is subject to the agreement of the Panel; and
- Introducing a backstop CAP change notice period of 10 Working Days into the BSC, i.e. a Modification would be required to reduce the notice period to less than 10 Working Days.

Implementation of this solution is a document only change, with no associated system changes.

Legal text

The draft legal text to implement P345 is set out in Attachment A. As well as changes to BSC Section M 'Credit Cover and Credit Default', the required changes to the CAP Review Guidance Document are also included in the attached legal text.

4 Impacts & Costs

This Modification is a document-only change to amend the BSC and the CAP Review Guidance Document.

Implementation of P345 will have no impact on BSC Parties, the Transmission Company, ELEXON or BSC Systems. It has no system impacts and no impact on BSC Agents.

The central implementation impact for ELEXON is estimated to be one ELEXON man day of effort to implement the document changes (equating to approximately £240).

Impact on Code

Code Section	Potential Impact
Section M 'Credit Cover and Credit Default'	Changes required to implement the P345 solution (set out in full in Attachment A).

Impact on other Configurable Items

Configurable Item	Potential Impact
CAP Review Guidance Document	Changes required to implement the P345 solution (set out in full in Attachment A).

5 Implementation

Recommended Implementation Date

The Panel recommends an Implementation Date for P345 of 10 Working Days following approval, i.e. following the 15 Working Day period for appealing Self-Governance Modification decisions.

Changes are required only to the BSC and the CAP Review Guidance Document. The changes have minimal impact to implement and the introduction of increased process flexibility would be beneficial.

Initial discussions

The Panel noted that it had considered and approved the Credit Committee's recommendations, including that the CAP change notice period should be reduced, at its meeting on 10 March 2016.

A Panel Member who was also the Proposer of P345 abstained from giving views on the Modification to avoid any possible perception of a conflict of interest.

Initial views

The Panel unanimously agreed that P345 meets the criteria for a Self-Governance Modification, that the draft legal text would deliver P345 and an Implementation Date for P345 of 10 Working Days following approval.

Applicable BSC Objectives

The Panel unanimously agreed an initial recommendation that P345 would better facilitate Applicable BSC Objectives (c) and (d).

The Panel considered that P345 would better facilitate Objective (c) because:

- Particularly in light of recent high volatility in market prices, reducing the CAP change notice period will enable the Credit Committee to react more quickly to sudden changes in market prices, allowing CAP to reflect System Prices more accurately, which will enable more accurate calculation of Parties' indebtedness and consequently Credit Cover requirements.
- Faster and more efficient calculation and securitisation of energy indebtedness will tend to promote effective competition in the generation and supply of electricity, because under or over securitisation of indebtedness will be corrected more quickly, both reducing unnecessary collateral burdens and minimising Parties' exposure to bad debt.

The Panel considered that P345 would better facilitate Objective (d) because moving the notice period from the BSC to the CAP Review Guidance Document (while retaining a minimum notice requirement in the BSC) allows it to be changed without a Modification, while requiring industry consultation and Credit Committee and Panel oversight.



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]

(f) Implementing and administering the arrangements for the operation of contracts for difference and arrangements that facilitate the operation of a capacity market pursuant to EMR legislation

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7 Report Phase Consultation Responses

Three responses were received to the P345 Report Phase consultation.

You can find the full responses in Attachment B.

Summary of P345 Report Phase Consultation Responses			
Question	Yes	No	Neutral/ No Comment
Do you agree with the Panel's initial unanimous recommendation that P345 should be approved?	3	0	0
Do you agree with the Panel that the redlined changes to the BSC and CSDs deliver the intention of P345?	2	0	1
Do you agree with the Panel's recommended Implementation Date?	3	0	0
Do you agree with the Panel's initial view that P345 should be treated as a Self-Governance Modification?	3	0	0
Do you have any further comments on P345?	1	2	0

Respondent's views

All three of the respondents to the P345 Report Phase Consultation agreed with the Panel's initial unanimous recommendation that P345 should be approved. One of the two respondents provided a comment suggesting that it may provide more clarity for Parties who are less familiar with the Code and CSDs, to signpost the CAP Review Guidance document within Section M of the Code. No new arguments were put forward.

One respondent noted that it is appropriate that the Credit Committee is able to adjust CAP more flexibly to reflect near-term price trends.

Low level of response to the consultation

The low level of response to the consultation does not prevent the Panel from making a decision on P345.

8 Recommendations

We invite the Panel to:

AGREE that P345:

- **DOES** better facilitate Applicable BSC Objective (c); and
- **DOES** better facilitate Applicable BSC Objective (d);

DETERMINE (in the absence of any Authority direction) that P345 is a Self-Governance Modification Proposal;

APPROVE P345;

APPROVE an Implementation Date for P345 of 10 Working Days following approval;

APPROVE the draft legal text for P345; and

APPROVE the P345 Modification Report.

Appendix 1: Glossary & References

Acronyms

Acronyms used in this document are listed in the table below.

Acronym	
Acronym	Definition
AEI	Actual Energy Indebtedness
BSC	Balancing and Settlement Code
CAP	Credit Assessment Price
IWA	Initial Written Assessment

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 Panel paper 250/15 'Proposed Changes to the CAP Process' on the Panel Meeting 250 page of the ELEXON website	https://www.elexon.co.uk/meeting/bsc-panel-250/
6	Modification P345 page on the ELEXON website	https://www.elexon.co.uk/mod-proposal/p345/