P359 'Mechanised process for GC/DC declarations'

This Assessment Procedure Consultation was issued on 19 March 2018, with responses invited by 6 April 2018.

Consultation Respondents

Respondent	No. of Parties/Non-Parties Represented	Role(s) Represented
Corona Energy	1/0	Supplier
Drax Group PLC	2/0	Generator, Supplier
Flow Energy	1/0	Supplier
Good Energy	1/0	Supplier
Npower	3/1	Generator, Supplier, Non Physical Trader, Supplier Agent
Scottish Power	4/2	Generator, Supplier, Interconnector User, Non Physical Trader, ECVNA,
SmartestEnergy	1/0	Supplier
SSE PLC	3/0	Generator, Supplier, Interconnector User

Question 1: Do you agree with the Workgroup's initial unanimous view that P359 does better facilitate the Applicable BSC Objectives than the current baseline?

Summary

Yes	No	Neutral/No Comment	Other
7	1	0	0

Responses

Respondent	Response	Rationale
Corona Energy	Yes	An automated adjustment of DC values will reduce the administrative burden on suppliers and improve accuracy in the credit calculation process, reducing credit risk. This will improve relevant objective (c). There is also a marginal improvement to relevant objective (d) as it reduces Elexon staff requirements.
Drax	Yes	<u>Applicable BSC Objective (c)</u> P359 will better facilitate applicable objective (C) as it will: • Minimise the administrative burden placed on parties and reduce the associated compliance costs by introducing a central process to calculate appropriate replacement GC/DC values following a breach. • Ensure more accurate GC/DC values are used to calculate credit exposures. This should minimise potential bad debt liabilities accruing which would ultimately be passed on to the consumer. <u>Applicable BSC Objective (d)</u> P359 will better facilitate applicable objective (D) as it will: • Minimise the administrative burden placed on Elexon by improving the accuracy of GC/DC submissions and introduce a mechanised process following a breach. • Currently, Elexon staff must email all parties that have breached and request revised GC/DC values.
Flow Energy	Yes	N/A

Respondent	Response	Rationale
Good Energy	No	A - Neutral B - Neutral C – Negative – The proposed modification will place significant additional burden upon smaller parties. This is because i) GC/DC values that are adjusted on the basis of missing or erroneous data is likely to have a significantly greater impact on the credit position of a small party. (This is because a single generator or demand site will make up a greater percentage of the overall volume of a small party than a large party). The costs of lodging additional credit whilst the challenge is carried out will have a significantly greater impact on smaller parties. Our own analysis, based on historical data, shows that data errors could swiftly increase our credit cover requirement by up to [REDACTED]. This is a potentially significant cost for smaller suppliers. ii) Smaller parties are more likely to struggle to dedicate the necessary resources to challenge an automatic adjustment based on missing/erroneous data and where they are able to do so the impact on their cost base will be proportionately higher. iii) Although there are industry standards on agents requiring a certain level of performance with regard to SF data, there are no such standards with regard to II data. This means that such standards are entirely dependent upon the strength of the contract that the party is able to negotiate. Smaller parties have significantly less influence when negotiating contracts with agents regarding levels of service than larger parties who are better able to protect themselves against the risks of erroneous/missing data. To suggest that data errors may be easily avoided through more effective contract negotiation is not valid in respect to smaller parties. There are already strong commercial incentives on small suppliers to negotiate the best contracts that they are able. iv) Missing data can be the result of exogenous factors, not covered by agent contracts. Eg. Physical meter failure or power outage owing to network maintenance. In addition, a number of meters for renewable sites are reliant upon manual reads, owing to their remote location meaning there is not sufficient signal coverage for automated reads. D – Negative – This will lead to GC/DC values being automatically recalculated, often based on false/missing data.

Respondent	Response	Rationale
		E - Neutral F - Neutral G - Neutral
Npower	Yes	We agree that this Modification is necessary and required. We also agree with the Workgroup's views that the change will better facilitate the application BSC objectives. Our understanding of this change is that the process itself is not really changing. Currently there are set maximum capacities for each of the BSC parties before the season based on a DF forecast. If there is a breach of 2% or 10MW then we would need to re-declare in an appropriate time frame. At present npower aims for 2 day turnaround. The new process will be more automated and therefore will require a validation step. Elexon will send an email stating if a party has breached but will also provide an alternative which can sometimes be based on last year's value for the season, if higher. The BSC parties will then have 2 days to challenge the value, presumably by responding to Elexon's email.
Scottish Power	Yes	By ensuring that all BSC Parties provide the correct value of credit cover and do not expose other Parties to potential costs of credit default, P359 will better facilitate competition - Applicable BSC Objective C. P359 clarifies the timescales and process for re-declaring GC/DC values and ensures that these values are submitted timeously. This improves the efficiency of operation of the credit arrangements better facilitating Applicable BSC Objective (d)
SmartestEnergy	Yes	The proposal is more efficient and ensures fairer play between parties therefore it meets objectives of efficiency and competition.
SSE	Yes	Currently the BSC is ambiguous in requiring Parties to redeclare their DC and GC values, which can result in an underestimation of credit cover requirements and increase the risk that BSC Parties are required to pay default funding liabilities. This is demonstrated by the low level of compliance currently being achieved in respect of redeclarations, as detailed within the Assessment Report.

Respondent	Response	Rationale
		SSE believe that the solution will improve the accuracy DC/GC values, providing a better assessment of credit cover requirements and thus supporting more efficient allocation of risk and the cost to secure it. Equally, the solution will reduce the compliance burden that might otherwise be required of Parties to ensure accurate redeclarations, as well the administrative burden placed upon BSCCo to pursue non-compliances. SSE therefore believe that the proposal will better facilitate applicable objectives c) and d).

Question 2: Do you agree with the Workgroup that the draft legal text in Attachment A delivers the intention of P359?

Summary

Yes	No	Neutral/No Comment	Other
5	0	3	0

Responses

Respondent	Response	Rationale
Corona Energy	No comment	We have not reviewed the legal text
Drax	Yes	We agree that the legal text accurately and coherently implements the solution of P359.
Flow Energy	Yes	N/A
Good Energy	No comment	No response
Npower	Yes	We are happy the draft legal text delivers the intention of this Modification.
Scottish Power	Yes	-
SmartestEnergy	No comment	-
SSE	Yes	The legal text appears to deliver the intent of the solution.

Question 3: Do you agree with the Workgroup's recommended Implementation Date?

Summary

Yes	No	Neutral/No Comment	Other
7	1	0	0

Responses

Respondent	Response	Rationale
Corona Energy	Yes	Yes. We agree with the workgroup that this modification needs to be implemented in good time and it would be disappointing if the November implementation is missed owing to a slow response time from the authority.
Drax	Yes	We believe that the recommended implementation date is achievable but would benefit from a prompt decision by the Authority on the approval/rejection of this modification.
Flow Energy	Yes	N/A
Good Energy	No	We do not believe this modification should be implemented.
Npower	Yes	We accept the implementation date.
Scottish Power	Yes	We agree with the Workgroup's recommended Implementation Date for P359 of 1 November 2018, as part of the November BSC Systems Release as the earliest practical date.
SmartestEnergy	Yes	-
SSE	Yes	-

Question 4: Do you agree with the Workgroup that there are no other potential Alternative Modifications within the scope of P359 which would better facilitate the Applicable BSC Objectives?

Summary

Yes	No	Neutral/No Comment	Other
7	0	1	0

Responses

Respondent	Response	Rationale
Corona Energy	Yes	NA
Drax	Yes	We have not identified another solution that would better facilitate the applicable BSC objectives.
Flow Energy	Yes	N/A
Good Energy	No comment	No response.
Npower	Yes	No other potential alternatives to discuss.
Scottish Power	Yes	-
SmartestEnergy	Yes	-
SSE	Yes	-

Question 5: Do you believe that P359 does not meet the Self-Governance Criteria and therefore should not be progressed as a Self-Governance Modification?

Summary

Yes	No	Neutral/No Comment	Other
8	0	0	0

Responses

Respondent	Response	Rationale
Corona Energy	Yes	This modification will have a material impact on a number of parties, in particular smaller suppliers, and so it is not suitable for self-governance decisions.
Drax	Yes	P359 does not meet Self-Governance criteria (a) (v) since there would be changes to the code's governance procedures through the introduction of a new process for submitting GC and DC values. We also believe P359 does not meet Self-Governance Criteria (a) (ii) as the automatic setting of GC/DC may materially affect the commercial activities (i.e. lodging credit) of BSC parties.
Flow Energy	Yes	N/A
Good Energy	Yes	It does not meet the criteria for a self-governance proposal.
Npower	Yes	N/A
Scottish Power	Yes	Due to the potential impact on BSC Parties' credit cover requirements we agree that P359 does not meet the Self-Governance Criteria.
SmartestEnergy	Yes	-
SSE	Yes	For the reasons stated in the Assessment Consultation.

Question 6: Do you believe that the II data should be used to monitor for GC/DC breaches?

Summary

Yes	No	Neutral/No Comment	Other
7	1	0	0

Responses

Respondent	Response	Rationale
Corona Energy	Yes	We do have some sympathy with the concerns raised regarding the accuracy of II data and we do expect that in some cases the II data will result in spurious breaches for customers will large numbers of Non-half hourly meters. Use of II data will mean that inappropriate DC values will be correct much earlier than if SF data is used. The appeal mechanism should provide sufficient protection from exceptional breaches and we do note that suppliers have the ability to reduce their DC values twice in any BSC season.
Drax	Yes	Based on the analysis provided by Elexon, we believe the use of II data will enable more efficient monitoring and ensure the correct amount of credit cover is lodged in a timely fashion. Thereby reducing all Parties' exposure to the risk of contributing to Default Funding Shares. Using SF Data increases the number of days until the first check by an average of 16 days compared to using II data. Delaying the first check will increase the number of days an incorrect DC/GC value is used in the Credit Calculation before it is identified and updated. ELEXON's analysis illustrated that waiting for SF data would mean approximately 26% of all Settlement Days across a year would not be monitored, compared to only 9% of Settlement Days if II data was used. The analysis also indicated that out of the total DC and GC Breaches between September 2016 and August 2017, only 4% of breaches occurred at II and not SF. Considering the substantial disadvantages of using SF data that are mentioned above, we do not consider 4% to be enough to justify using SF data rather than II.

Respondent	Response	Rationale
Flow Energy	Yes	We agree that enabling ELEXON to identify and update GC/DC values on a more frequent basis would result in more reflective credit requirements and should subsequently mitigate the risk of parties contributing to default funding shares. Based upon the analysis provided by ELEXON, between September 2016 and August 2017 - only 4% of total DC/GC breaches occurred at 'II' and not 'SF'. If we also take in to account that 26% of days would not be monitored at SF compared to 9% at 'II', we consider the 'II' run to be more beneficial for the intent of this proposal. We also support the notion of conducting daily or every other day GC/DC checks, although understand that this wasn't the initial intent of the P359. We would not want it to create an additional administrate burden to ELEXON or cost to BSC parties.
Good Energy	No	The likelihood of GC/DC values being re-declared based on erroneous/missing data makes the continued use of II data inappropriate. SF data would provide a more accurate reflection of parties' activities. The results of the ELEXON analysis on the frequency and materiality of outliers between II and SF show that only 4% of DC breaches occurred at II but not SF. We have repeated the analysis using the Elexon methodology, but extending the analysis over a 4 year period rather than the 1 year of the ELEXON analysis and find that for Good Energy the proportion of DC breaches occurring at II but not SF is much higher, at 20%.
Npower	Yes	Happy for II data to be used for breaches as this is the general recommendation. Npower manage this process well so unlikely to see a material difference if II data is used instead of SF.
SmartestEnergy	Yes	-
Scottish Power	Yes	Using the data available at the earliest opportunity (II data) enables earlier identification of GC and DC breaches. Elexon's analysis showed that only 4% of breaches identified at II would not appear at SF as opposed to 8% of breaches which would not be identified until SF 11 working days later. Later identification of breaches increases the risk of potential credit default.
SSE	Yes	SSE believe that use of II data provides a more comprehensive coverage for compliance checks

Respondent	Response	Rationale
		within the applicable credit assessment window that applies to each BSC Season. In particularly we note the significant difference in % coverage between II and SF data and that 26% of periods within a BSC Season would not be checked utilising SF data. Given the analysis presented comparing potential non-compliances at II vs SF, SSE believe that delaying the compliance check to use SF data would result in an unnecessarily high number of settlement periods within a Season remaining unchecked, thereby increasing the risk of default funding liabilities accruing to BSC Parties, relative to utilisation of II data.

Question 7: Should BSC Parties have longer than two Business Days to challenge the breach?

Summary

Yes	No	Neutral/No Comment	Other
1	7	0	0

Responses

Respondent	Response	Rationale
Corona Energy	No	We believe two business days provides sufficient notice.
Drax	No	We believe that two business days should give parties' ample time to read the email notifying them of a breach and decide whether they wish to challenge the estimated value provided in the email notification. Parties should be responsible for keeping their list of authorised persons up-to-date and ensuring they have several people who are category F authorised. This will make certain that in the event of a breach, there will be somebody in the office who can decide whether to administer a challenge.
Flow Energy	No	We feel that this is an established part of the GC/DC process, however, we reserve sympathy for smaller or new market entrants where they may be reliant upon a short number of 'experts' who may be away over a given period.
Good Energy	Yes	A greater period of time to challenge a breach would reduce the negative impact on small parties and therefore better support objective C.
Npower	No	Although previously breaches have been dealt with in good faith and as accurate as possible, npower have always worked towards a 2 day target so this would not have a big impact. We would like to clarify what happens after the challenge process if the deadline is not met?
Scottish Power	No	A two business day window for Parties to challenge the breach appears appropriate.
SmartestEnergy	No	-
SSE	No	SSE believe that 2 Business Days sufficiently balances the time needed to investigate a breach and submit a challenge against the need to

Respondent	Response	Rationale
		efficiently remedy non-compliances to ensure as accurate a value as possible is being utilised within credit assessment calculations.

Question 8: Do you have any further comments on P359?

Summary

Yes	No
3	5

Responses

Respondent	Response	Comments
Corona Energy	No	
Drax	Yes	Further clarity should be developed regarding what reasoning could be used by parties to successfully challenge the estimated value. For example, if a value from the relevant BSC season from 12 months ago is used to estimate a suppliers DC, but the suppliers portfolio has decreased over the 12 months, they could be lodging more credit cover than is necessary. Another example could be using a DC value taken from the relevant BSC season from 12 months ago which is abnormally high, this could be a result of referencing an uncharacteristic cold snap from that BSC season. This would result in the supplier lodging an unrealistic amount of credit cover. Following a breach, the implementation of the replacement GC/DC values will take effect from the beginning of the next Business Day. This gives the lead party a limited amount of time to make the necessary adjustments to the level of credit cover to prevent possible collateral issues. Given there could be a significant difference between the current DC value and the estimated value, should an example similar to the two above occur, we think some information on the potential magnitude of credit cover adjustments would be beneficial.
Flow Energy	Yes	Like many other suppliers, we encountered a breach for some BMUs during the first few days of the spring 2018 season. I believe there were over 300 breaches over the same period and the consequences could have been material for some suppliers if they were not sufficiently covered and were liable for the particularly high Imbalance Prices that peaked at £990/MWh. Whilst this was an anomaly and P359 focuses on an automated DC/GC process, we would urge ELEXON to show common sense and offer support for

Respondent	Response	Comments
		suppliers who may need to subsequently lodge additional credit or the impact that increasing BMUs will have on their CCP should such unprecedented incident happen again.
Good Energy	Yes	It is not possible to carry out a full internal impact assessment of this modification without having more information regarding what Elexon will require for a challenge to be upheld. This modification should give greater consideration to what might be considered a viable level of evidence that a breach has occurred as the result of a data error. This is an essential piece of information to carry out a full analysis of the impact.
Npower	No	-
Scottish Power	No	-
SmartestEnergy	No	-
SSE	No	-