

Modification proposal:	Balancing and Settlement Code (BSC) 358: 'Roll over of BSC Seasonal GC/DC' (P358)		
Decision:	The Authority ¹ directs that this modification be made ²		
Target audience:	National Grid Transmission Plc (NGET), Parties to the BSC, the BSC Panel and other interested parties		
Date of publication:	13 December 2017	Implementation date:	22 February 2018

Background

The Generation Capacity (GC) and Demand Capacity (DC) parameters are declared for each BSC Season³ in accordance with BSC Section K3.4⁴. They are self-declared by a BSC Party in 'good faith and as accurately as it reasonably can' for each Balancing Mechanism (BM) Unit. If no GC/DC declaration is made, the GC/DC values are set to zero with the majority of BSC Parties not making seasonal GC/DC submissions. However, where a BM Unit is expected to import or export, a zero GC/DC would underestimate the Credit Assessment Energy Indebtedness (CEI) component of the Credit Cover Percentage (CCP) calculation. Therefore, inaccuracy in the GC/DC parameters results in an understatement of required credit and, consequently, to incorrect CCP. A lower Credit Cover could insufficiently cover a BSC Party which was to enter a financial deficit. If such Party fails financially, this can leave unpaid Trading Charges for all other BSC Parties to pay through Default Funding Shares.

The modification proposal

P358 was raised by SSE plc on 6 September 2017. The Modification seeks to remove the requirement to default values to zero if no value is declared, and recognises the existing working practice where Elexon carries over BSC seasonal GC/DCs where no declaration is received. Parties can re-submit their GC/DC, if dissatisfied with the rollover value in accordance with existing mid-Season re-declaration processes (BSC Section K3.4.2).

The proposer considers that P358 better facilitates BSC Objective (d), as it will maintain improved accuracy of GC/DC submissions currently achieved through working practice, whilst reducing and minimising the administrative burden.

¹ References to the "Authority", "Ofgem", "we" and "our" are used interchangeably in this document. The Authority refers to GEMA, the Gas and Electricity Markets Authority. The Office of Gas and Electricity Markets (Ofgem) supports GEMA in its day-to-day work. This decision is made by or on behalf of GEMA.

² This document is notice of the reasons for this decision as required by section 49A of the Electricity Act 1989.

³ BSC Season shall be as follows: (i) BSC Spring shall be 1st March to 31st May inclusive; (ii) BSC Summer shall be 1st June to 31st August inclusive; (iii) BSC Autumn shall be 1st September to 30th November inclusive; and (iv) BSC Winter shall be 1st December to 28th (or 29th, as the case may be) February inclusive, provided that the first relevant BSC Season shall be the period from the Go-live Date to the end of the next following BSC Season; (b) a year means any period of 12 months; has the meaning given to that term in Section K3.4.9

⁴ The BSC Section K – Classification and Registration of Metering Systems and BM Units available at: <https://www.elexon.co.uk/the-bsc/bsc-section-k-classification-and-registration-of-metering-systems-and-bm-units/>

BSC Panel⁵ recommendation

At the BSC Panel meeting on 9 November 2017, the BSC Panel unanimously considered that P358 would better facilitate the BSC objectives and the Panel, therefore, recommended its approval. The BSC Panel unanimously agreed that the P358 Proposed Modification better facilitates Applicable BSC Objective (d)⁶.

Our decision

We have considered the issues raised by the modification proposal and the Final Modification Report (FMR) dated 10 November 2017. We have considered and taken into account the responses to the industry consultations⁷, which are attached to the FMR⁸. We have concluded that:

- implementation of the P358 modification proposal will better facilitate the achievement of the applicable objectives of the BSC;⁹ and
- directing that the modification P358 be made is consistent with our principal objective and statutory duties.¹⁰

Reasons for our decision

We consider this modification proposal will better facilitate BSC objective (d) and has a neutral impact on the other applicable objectives.

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

We have noted the comments from the workgroup members and respondents that the Proposed Modification will promote efficiency in the implementation and administration of the BSC arrangements as the Modification seeks to remove the requirement to default values to zero, if none is declared. We think that this could improve accuracy of GC/DC submissions and reduce both the administrative burden for Parties submitting GC/DC values as well as the exposure to credit default (bad debt) risk for BSC Parties.

Having submitted GC/DC values, a Party must re-declare its GC/DC values in order to remain compliant with the BSC should its Metered Volumes exceed the tolerance parameters specified in Section K3.4.3. We note that according to Elexon's analysis an under-statement of the DC parameter resulted in circa £6million of CEI error at the start of the Winter 2016/17 BSC Season. This created a higher risk of exposure to Default Funding Shares for BSC Parties in the event of payment default. In addition, further analysis by Elexon found that for Spring 2017 declarations, 67/279 (24%) of Suppliers re-declared, in the Summer 2017, 94/288 (33%) re-declared and finally for Autumn 2017, 132/288 (46%) re-declared.

⁵ The BSC Panel is established and constituted pursuant to and in accordance with Section B of the BSC and Standard Special Licence Condition C3 of the Electricity Transmission Licence available at: <https://www.ofgem.gov.uk/licences-codes-and-standards/licences/licence-conditions>

⁶ BSC Objective (d) Promoting efficiency in the implementation of the balancing and settlement arrangements.

⁷ The responses to the industry consultations were supportive to the implementation of P358.

⁸ BSC modification proposals, modification reports and representations can be viewed on the Elexon website at <https://www.elexon.co.uk/mod-proposal/roll-bsc-seasonal-gcdc/>

⁹ As set out in Standard Condition C3(3) of NGET's Transmission Licence: <https://epr.ofgem.gov.uk>

¹⁰ The Authority's statutory duties are wider than matters which the Panel must take into consideration and are detailed mainly in the Electricity Act 1989.

We consider that the solution will codify an existing working practice that maintains improved accuracy of GC/DC values submissions compared to the baseline requirement while reducing consequently the administrative burden for Parties submitting GC/DC values. We note that this modification will improve the accuracy of CEI component of the CCP calculation and will subsequently lower the risk of exposure to Default Funding Shares for BSC Parties in the event of payment default.

Decision notice

In accordance with Standard Condition C3 of NGET's Transmission Licence, the Authority hereby directs that modification proposal BSC P358: *Roll over of BSC Seasonal GC/DC* be made.

Ryan McLaughlin

Head of European Wholesale Markets, Wholesale Markets

Signed on behalf of the Authority and authorised for that purpose