

# Initial Written Assessment

## P359 'Mechanised process for GC/DC declarations'

This Modification seeks to introduce a new mechanised process for Generation Capacity and Demand Capacity declarations.



ELEXON recommends P359 is progressed to the Assessment Procedure for an assessment by a Workgroup

This Modification is expected to impact:

- Generators
- Suppliers
- Interconnector Users
- ELEXON

**ELEXON**

### Phase

Initial Written Assessment

Definition Procedure

Assessment Procedure

Report Phase

Implementation

270/06

P359

Initial Written Assessment

14 Sept 17

Version 1.0

Page 1 of 11

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## Contents

<b>1</b>	<b>Why Change?</b>	<b>3</b>
<b>2</b>	<b>Solution</b>	<b>4</b>
<b>3</b>	<b>Areas to Consider</b>	<b>6</b>
<b>4</b>	<b>Proposed Progression</b>	<b>7</b>
<b>5</b>	<b>Likely Impacts</b>	<b>8</b>
<b>6</b>	<b>Recommendations</b>	<b>10</b>
	<b>Appendix 1: Glossary &amp; References</b>	<b>11</b>

## About This Document

This document is an Initial Written Assessment (IWA), which ELEXON will present to the BSC Panel on 14 September 2017. The Panel will consider the recommendations and agree how to progress P359.

There are two parts to this document:

- This is the main document. It provides details of the Modification Proposal, an assessment of the potential impacts and a recommendation of how the Modification should progress, including the Workgroup's proposed membership and Terms of Reference.
- Attachment A contains the P359 Proposal Form.



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270/06

P359

Initial Written Assessment

14 Sept 17

Version 1.0

Page 2 of 11

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# 1 Why Change?

## Background

Following submission of seasonal Generation Capacity (GC) and Demand Capacity (DC) values, Parties must re-declare them if they breach thresholds in Section K3.4.3. These are 2% of GC or 10 Megawatt (MW), and 2% of the magnitude of DC or 10 MW.

GC and DC values must reflect the expected maximum magnitude positive and negative metered volume for the Balancing Mechanism Unit (BMU) in the relevant BSC Season. Lead Parties must determine these values when they 'become aware' and 'in good faith and as accurately as [they] reasonably can'.

## Issue 68

[Issue 68 'Underestimation of Demand Capacity'](#) was raised by ELEXON on 28 March 2017. It sought to investigate the under-requirement of Credit Cover due to inaccurate DC declarations and how to develop a solution to minimise the effect of these inaccuracies in the calculation of the Credit Assessment Energy Indebtedness (CEI) and Credit Cover Percentage (CCP).

As part of Issue 68, the Issue Group considered whether the GC and DC re-declaration processes could be more mechanistic, with estimates determined and re-declared by ELEXON when the GC and DC is breached by more than the allowed tolerance, rather than by the Lead Party. Such an approach would reduce the administrative burden on BSC Parties, and increase the accuracy of submission, as re-declarations would follow a common calculation based on the historical Metered Volume data available.

This Modification is being raised based on one of the recommended solutions from Issue 68.

## What is the issue?

Following a breach of a declared GC or DC value, Parties are required to re-declare a GC or DC value for the relevant BMU. Failure to do so can perpetuate an inaccurate GC or DC value being used to calculate CEI and CCP, as the breached value is retained until a re-declaration is made.

As the BSC does not specify an exact amount of Credit Cover that Parties must provide, inaccurate or understated DC values can result in Parties lodging less credit than their actual behaviour ought to require. This is because Parties are left to decide on the level of cover that they wish to provide in order to stay below the Credit Default levels. Therefore, failure to redeclare GC/DC values can result in inaccurate CCP which may increase the risk of non-defaulting Parties paying Default Funding Shares, should a Party not lodge sufficient credit cover (e.g. because their DC and CCP are understated) and then enter Payment Default.

Moreover, the BSC Section K3.4.5 requires the Lead Party to re-declare 'as soon as reasonably practicable after [it] becomes aware'. Without a clear requirement, there is a concern that Parties are not submitting timely GC and DC values following a breach.

Adherence with the process for re-declaring GC and DC values is challenging due to the current BSC rules which are ambiguous. For example the use of the term 'good faith' is



### What is Generation and Demand Capacity?

Each BM Unit has a Generation Capacity (GC) and a Demand Capacity (DC). This is the maximum expected net Generation and Demand for that BM Unit in the current BSC Season.

These values are declared seasonally. Parties can make resubmissions during the Season if they breach these declared values

270/06

P359

Initial Written Assessment

14 Sept 17

Version 1.0

Page 3 of 11

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subjective and does not provide clear direction to the Party as to what is reasonable; or the Panel or ELEXON in terms of monitoring and enforcement.

## 2 Solution

### Proposed solution

SSE Ltd raised [P359 'Mechanised process for GC/DC declarations'](#) on 6 September 2017.

This Modification has been raised to address a concern that the current arrangements for re-declaring GC and DC values are ambiguous and are resulting in low levels of re-declared GC/DC values. Failure to re-declare can result in underestimated credit cover requirements.

Therefore this Modification Proposal seeks to introduce a new mechanised process for GC and DC re-declarations following a breach of Section K3.4.3.

The Proposer believes that the accuracy and subjectivity of GC and DC declarations following a breach would be improved if a consistent, objective and mechanistic method were used for all re-declarations. Furthermore, BSC Parties should be relieved of the burden of re-declaring GC and DC values following a breach by requiring ELEXON to administer the mechanistic method.

This Modification proposes to introduce the following process:

1. When a Party breaches by more than the allowed tolerance outlined in BSC Section K3.4.3, ELEXON will estimate BMU's GC/DC based on the historical Metered Volume data available.
2. ELEXON will then provide the figure to the Lead Party i.e. to an appropriate Authorised Person, for example, a Category A Authorised Person.
3. Should the Party wish to challenge the default value, the Lead Party would need to respond within two Working Days (WDs). To challenge, the Lead Party would need to provide evidence, for example, to demonstrate that there are inaccuracies in the data used in the calculations.
4. Should the Party not wish to challenge, the revised GC/DC value is submitted to Central Registration Agent (CRA) for use in the Credit Cover calculations.

As a definition for 'GC/DC' Breach' does not exist within the BSC, the solution will also require a definition for 'GC/DC Breach'. The proposed definition of 'GC/DC Breach' is 'on any Settlement day in which a BMU has a Metered Volume of greater magnitude than the GC or DC, from one or more Settlement period(s)'.

The Modification also seeks to amend the BSC so that the CRA rejects GC submissions with a value equal to zero, where the BMU has a non-zero positive historical Metered Volume. Similarly, the CRA should reject a DC declaration equal to zero if the BMU has non-zero negative historical Metered Volume. This is because a Party declaring a GC or DC equal to zero for a BMU that has historical Metered Volume is likely to be inaccurate.

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270/06

P359  
Initial Written Assessment

---

14 Sept 17

---

Version 1.0

---

Page 4 of 11

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## Applicable BSC Objectives

### Proposer's views against Objectives (c)

This Modification better facilitates Applicable BSC Objective (c) as it will,

- (i) minimise compliance costs for BSC Parties by allowing a central process to calculate appropriate replacement values, rather than enforcing compliance through an onerous manual process;
- (ii) ensure better accuracy of GC/DC values used to calculate credit exposures and as a consequence, support a more efficient allocation of risk and the cost to secure it. This in turn should help to minimise potential bad debt liabilities accruing which would ultimately be passed on to the consumer.

### Proposer's views against Objectives (d)

This Modification also better facilitates Applicable BSC Objective (d) as it will improve the accuracy of GC/DC submissions and reduce the administrative burden on BSCCo staff to enforce compliance where values are not submitted or tolerances are breached.

## Implementation approach

This Modification is proposed for implementation on **28 June 2018**, as part of the June 2018 BSC Systems Release, as this is the next available release.



### 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

(g) Compliance with the Transmission Losses Principle

270/06

P359

Initial Written Assessment

14 Sept 17

Version 1.0

Page 5 of 11

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### 3 Areas to Consider

In this section we highlight areas which we believe the Panel should consider when making its decision on how to progress this Modification Proposal, and which a Workgroup should consider as part of its assessment of P359.

The Workgroup will focus on the following areas:

- What should be the definition of a GC and DC breach, which triggers the calculation and re-declaration of the GC and/or DC?
- How should ELEXON use Metered Volume data to determine GC and DC values for a BMU?
- How can parties dispute ELEXON's calculated value and/or apply alternative volumes?
- Should the CRA reject all GC/DC submissions with a value equal to zero where the BMU has a non-zero positive/negative historical Metered Volume?
- What action should be taken, should a Party submit a GC or DC value equal to zero, even though they have a non-zero/negative Metered Volume?

The table below summarises the areas we believe a Modification Workgroup should consider as part of its assessment of P359:

Areas to Consider
What should be the definition of a GC and DC breach, which triggers the calculation and re-declaration of the GC and/or DC?
How should ELEXON use Metered Volume data to determine GC and DC values for a BMU?
How can parties dispute ELEXON's calculated value and/or apply alternative volumes?
Should the CRA reject all GC/DC submissions with a value equal to zero where the BMU has a non-zero positive/negative historical Metered Volume?
What action should be taken, should a Party submit a GC or DC value equal to zero, even though they have a non-zero/negative Metered Volume?
What changes are needed to BSC documents, systems and processes to support P359 and what are the related costs and lead times?
Are there any Alternative Modifications?
Should P359 be progressed as a Self-Governance Modification?
Does P359 better facilitate the Applicable BSC Objectives than the current baseline?

270/06

P359  
Initial Written Assessment

14 Sept 17

Version 1.0

Page 6 of 11

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## 4 Proposed Progression

### Next steps

The Proposer recommends that this Modification Proposal *should not be treated as Self Governance* on the basis that making the change will have a material impact on the Code's governance procedures (Self-Governance Criteria (v)), through the introduction of a new process for submitting GC and DC declarations.

### Workgroup membership

We recommend that the P359 Workgroup should consist of participants who have expertise in declaring GC/DC or BSC Credit Cover processes, and knowledge of the BSC CRA systems.

### Timetable

We recommend that P359 undergoes a three month Assessment Procedure, with the Assessment Report being presented to the Panel at its meeting on 14 December 2017.

We recommend that the Panel agrees a 15 WD Assessment Procedure consultation period.

Proposed Progression Timetable for P359	
Event	Date
Present Initial Written Assessment to Panel	14 Sept 17
Workgroup Meeting	W/B 2 Oct 17
Workgroup Meeting	W/B 23 Nov 17
Assessment Procedure Consultation (15 WD)	30 Oct 17 – 17 Nov 17
Workgroup Meeting	W/B 27 Nov 17
Present Assessment Report to Panel	14 Dec 17
Report Phase Consultation	8 Jan 18 – 26 Jan 18
Present Draft Modification Report to Panel	8 Feb 18
Issue Final Modification Report to Authority	9 Feb 18



### What is the Self-Governance Criteria?

A Modification that, if implemented:

(a) is unlikely to have a material effect on:

(i) existing or future electricity consumers; and  
(ii) competition in the generation, distribution, or supply of electricity or any commercial activities connected with the generation, distribution, or supply of electricity; and  
(iii) the operation of the national electricity transmission system; and  
(iv) matters relating to sustainable development, safety or security of supply, or the management of market or network emergencies; and  
(v) the Code's governance procedures or modification procedures; and

(b) is unlikely to discriminate between different classes of Parties.

270/06

P359

Initial Written Assessment

14 Sept 17

Version 1.0

Page 7 of 11

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## 5 Likely Impacts

### Impact on BSC Parties and Party Agents

Party/Party Agent	Potential Impact
Generator	Parties that submit GC and DC values may require process changes, to implement this Modification. For example, to monitor and challenge values.
Supplier	
Interconnector User	

### Impact on Transmission Company

No identified impact.

### Impact on BSCCo

Area of ELEXON	Potential Impact
Settlement Operations	ELEXON will need to make changes to its internal systems, processes and guidance documents.

### Impact on BSC Systems and processes

BSC System/Process	Potential Impact
CRA	Changes may be required to implement this Modification.

### Impact on BSC Agent/service provider contractual arrangements

BSC Agent/service provider contract	Potential Impact
None anticipated based on current understanding of solution.	

### Impact on Code

Code Section	Potential Impact
Section K	Changes may be required to implement this Modification.
Annex X-1	

### Impact on Code Subsidiary Documents

CSD	Potential Impact
BSCP15	Changes may be required to implement this Modification.

### Impact on other Configurable Items

Configurable Item	Potential Impact
None anticipated based on current understanding of solution.	

270/06

P359

Initial Written Assessment

14 Sept 17

Version 1.0

Page 8 of 11

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## Impact on Core Industry Documents and other documents

Document	Potential Impact
Ancillary Services Agreements	No direct impacts identified.
Connection and Use of System Code	
Data Transfer Services Agreement	
Distribution Code	
Distribution Connection and Use of System Agreement	
Grid Code	
Master Registration Agreement	
Supplemental Agreements	
System Operator-Transmission Owner Code	
Transmission Licence	
Use of Interconnector Agreement	

## Impact on a Significant Code Review (SCR) or other significant industry change projects

We do not believe this Modification will impact the two open SCRs:

- [Electricity Settlement Reform](#)
- [Targeted Charging Review](#)

The Proposer requests that this Modification be exempt from the Significant Code Review process.

Ofgem was notified that this Modification was to be raised on 6 September 2017 and that it was ELEXON and the Proposer's view that this Modification should be a SCR Exempt Modification Proposal.

## Impact on Consumers

No direct impact identified.

## Impact on the Environment

No direct impact identified.

270/06

P359  
Initial Written Assessment

14 Sept 17

Version 1.0

Page 9 of 11

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## 6 Recommendations



We invite the Panel to:

- **AGREE** that P359 progresses to the Assessment Procedure;
- **AGREE** the proposed Assessment Procedure timetable;
- **AGREE** the proposed membership for the P359 Workgroup; and
- **AGREE** the Workgroup's Terms of Reference.

### Recommendation

We recommend the Panel submits P359 to a three month Assessment Procedure.

270/06

P359  
Initial Written Assessment

14 Sept 17

Version 1.0

Page 10 of 11

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## Appendix 1: Glossary & References

### Acronyms

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

Acronym	
Acronym	Definition
BMU	Balancing Mechanism Unit
BSC	Balancing and Settlement Code
CEI	Credit Assessment Energy Indebtedness
CCP	Credit Cover Percentage
CRA	Central Registration Agent
DC	Demand Capacity
GC	Generation Capacity
IWA	Initial Written Assessment
WD	Working Day

### 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
3	Issue 68 page on the ELEXON website	<a href="https://www.elexon.co.uk/smg-issue/issue-68/">https://www.elexon.co.uk/smg-issue/issue-68/</a>
4	P359 page on the ELEXON website	<a href="https://www.elexon.co.uk/mod-proposal/p359/">https://www.elexon.co.uk/mod-proposal/p359/</a>