Modification proposal:	**Balancing and Settlement Code (BSC) P253 and P265: Modifications to improve the accuracy of the Credit calculations**		
Decision:	The Authority[1] directs that proposal P253 be made and P265 not be made[2]		
Target audience:	National Grid Electricity Transmission Plc (NGET), Parties to the BSC and other interested parties		
Date of publication:	19 November 2010	Implementation Date:	3 November 2011 scheduled release

Background to the modification proposals

The BSC divides the electricity market into two segments:

- Central Volume Allocation (CVA) includes meter points connected to the transmission network; this includes large generators and some very large consumers.
- Supplier Volume Allocation (SVA) includes meter points connected to the distribution network; this includes most domestic and business supply points and localised small scale generation.

These two modifications seek to address inaccuracies in the credit calculation for the SVA market.

The inaccuracies in the SVA credit calculations

Under the BSC arrangements, Parties lodge credit with ELEXON in order to cover their Trading Charges[3] for the period between the Settlement Day[4] and the Initial Settlement Run (SF), carried out after 16 Working Days[5]. An Interim Information (II) run is carried out 5 Working Days after the Settlement Day and this is used to calculate their required Credit Cover.

Currently the II run uses only estimated data for the SVA market. At the time of the II run the only metered volumes available are for the total consumption for different Grid Supply Point Groups[6] (GSPGs). The total consumption of a GSPG is the Grid Supply Point Group Take (GSPGT). To estimate a supplier's consumption or production for a given half hour, the credit calculation looks back to the last half hour on the equivalent Settlement Day for which metered volumes are available. It then calculates a metered volume for each Party by scaling their volumes proportionately in relation to the GSPGT.

> **Example:** If a Settlement Day is a Monday then the calculation will look back to the Monday three weeks ago – the 'reference day'.
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> If the GSPGT on the reference day was 1,000MWh and the supplier's proportion was 10% (100MWh) then this will be used three weeks later for the Settlement Day. If the Settlement Day GSPGT is 500MWh, then it is assumed the supplier's consumption is 10% (in this case 50MWh). This calculation method is used as it is

[1] The terms 'the Authority', 'Ofgem' and 'we' are used interchangeably in this document. Ofgem is the Office of the Gas and Electricity Markets Authority.
[2] This document is notice of the reasons for this decision as required by section 49A of the Electricity Act 1989.
[3] Trading Charges are the various settlement charges levied in accordance with Section T of the BSC.
[4] All calendar day are Settlement Days.
[5] A Working Day is any day Monday to Friday that is not a public holiday.
[6] For the purposes of electricity settlement, GB is split into 14 discrete geographical areas called Grid Supply Point Groups.

effective for suppliers with a stable number of customers that have a known pattern of electricity consumption.

However, the modification group identified that this method can cause the following inaccuracies:

- There can be inaccuracies in the forecasting of data (particularly for embedded intermittent generation, e.g. wind generation). For example, the metered volumes for an embedded wind generator from three weeks ago may bear little relation to the metered volumes today.
- The estimation technique does not correctly forecast usage around a bank holiday. A bank holiday is treated as if it were a normal Working Day. This will create inaccuracies in the calculation, particularly for suppliers with a large portfolio of business customers.
- The estimation technique uses a percentage of GSPGT in its calculations. The GSPGT is a netted value of all the production and consumption in a GSPG. The increase in embedded generation in some GSPGs has resulted in GSPGTs approaching zero for some half hour periods. As the credit calculation uses a proportion of GSPGT there is the potential for greater inaccuracies as the GSPGT approaches zero. The credit calculation is also not designed to process negative GSPGT values (e.g. more production than consumption in a GSPG[7]).

Suppliers can make a claim to ELEXON if they consider that the credit calculation is misrepresentative of their actual indebtedness. This claim is called material doubt. A supplier must provide evidence of material doubt. ELEXON then conducts its own analysis to verify this claim. The material doubt process is time consuming for both suppliers and ELEXON. It is a manual process that is carried out once a day, as opposed to every half hour for the credit calculation. For this reason, the material doubt process may be less accurate than the credit calculation.

The modification proposals

Two potential solutions to the above issues have been identified:

P253: This modification is designed to address all the above identified inaccuracies in the credit calculation. Suppliers appoint agents to collect and process their customers' metered volumes into settlement; these agents are respectively called data collectors (DCs) and data aggregators (DAs). Currently DCs and DAs are not required to provide data into settlement until SF (16 Working Days after the Settlement Day). There is no requirement to provide any metered volumes by the II run (5 Working Days after the Settlement Day). P253 will place a requirement on metered volumes to be submitted into settlement by DCs and DAs before the II run[8].

This modification will remove the use of GSPGT in the credit calculation and use more recent metered volumes in the credit calculation (i.e. it will not use metered volumes from three weeks ago). It is considered by the modification group that this will address all of the above identified issues and therefore result in a more accurate credit calculation.

P265: This modification seeks to address the inaccuracies in the credit calculation associated with: (i) GSPGTs approaching zero; and, (ii) bank holidays. It does not

[7] The increase in embedded generation has resulted in a greater likelihood of a negative GSPGT.
[8] In this paragraph, metered volumes refers to any actual meter reads available. Where they are not available, it refers to the profiled consumption for that meter.

address the issue of inaccurate forecasting caused by the calculation looking back to three weeks ago.

This modification will change the credit calculation so that bank holidays are not compared to normal Working Days; they will be compared to the most recent Sunday for which metered volumes are available. It will also change how GSPGT is used in the credit calculation so that it is no longer a net value of production and consumption. Production and consumption will be treated separately so this should minimise large and sudden changes to a supplier's required credit cover.

Both changes will require changes to the BSC central systems, but P253 will also require changes to the systems of suppliers and supplier agents.

BSC Panel[9] recommendation

The BSC Panel considered that both P253 and P265 better facilitate the BSC objectives.

The majority view of the Panel is that P253 better facilitates the BSC objectives than P265, as it addresses all of the identified issues with the credit calculation.

The Authority's decision

The Authority has considered the issues raised by the modification proposal and the Final Modification Reports (FMRs) dated 15 October 2010. The Authority has considered and taken into account the responses to ELEXON's[10] consultation which are attached to the FMRs[11]. The Authority has concluded that:

1. implementation of either P253 or P265 will better facilitate the achievement of the relevant objectives of the BSC[12];
2. as it is not practicable to implement both P253 and P265, we consider that of the two, implementation of P253 would best meet the relevant objectives; and
2. directing that modification P253 be made is consistent with the Authority's principal objective and statutory duties[13].

Reasons for the Authority's decision

We agree with the views of the Panel and those Parties that expressed a view that P253 and P265 will better facilitate BSC objectives (c) and (d). We do not consider that the other objectives are applicable to these modifications.

Objective (c) - The promotion of effective competition in the supply of electricity

The current credit calculation leads to inaccuracies in assessing a Party's credit exposure. We consider that both modifications are likely to result in a more accurate credit calculation. Increased accuracy will reduce the need for Parties to lodge more credit cover than is necessary. It may also increase certainty in the credit calculation. This could allow Parties to better forecast their credit exposure and therefore decrease the risk of unexpectedly entering credit default. These changes may help promote competition,

[9] The BSC Panel is established and constituted pursuant to and in accordance with Section B of the BSC.
[10] The role and powers, functions and responsibilities of Elexon are set out in Section C of the BSC.
[11] BSC modification proposals, modification reports and representations can be viewed on the Elexon website at www.elexon.com
[12] As set out in Standard Condition C3(3) of NGET's Transmission Licence, see: http://epr.ofgem.gov.uk/document_fetch.php?documentid=4151
[13] 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.

most notably for small suppliers and new entrants some of whom may experience greater difficulty in lodging and/or increasing credit cover. Some small suppliers and new entrants may experience greater difficulty in obtaining letters of credit and may therefore have to lodge cash as credit cover. This presents an opportunity cost as tying up cash as credit cover prevents its use in other business functions. For this reason the lodging of credit cover may have a proportionally greater financial impact on small suppliers and new entrants.

One consultation respondent believed that these changes would not significantly alter the amount of credit cover that Parties lodged. We recognise that some Parties lodge significant amounts of credit cover so they do not have to constantly adjust it. Under these modifications, they may not choose to change their current behaviour. Other Parties, particularly some small suppliers and new entrants, may be more likely to adjust their credit cover amount in accordance with their potential indebtedness, as they could access the cash that would otherwise be held as credit cover. For these Parties, a modification to increase the accuracy of the credit calculation would be likely to affect the amount of credit cover they lodge.

We have also considered the potential impact of modification P253 on the DA and DC markets. We note from the DA and DC responses to the P253 consultation that these agents will incur costs from system changes if P253 is implemented. These costs range from negligible to £150,000 per supplier agent. However, we note the potential benefits of a more accurate credit calculation and on balance we consider that this cost is justifiable. In addition, we understand that supplier agents will typically be able to pass through these costs to suppliers - the main beneficiaries of this modification. We further note that, as with any modification that involves system changes, the costs for DAs and DCs are specific to each company and may range from negligible to significant. Given that the cost of change is specific to each supplier agent affected and we do not consider that the proposal unfairly prejudices any particular type of supplier agent.

We consider that both P253 and P265 would better facilitate objective (c). P253 is more likely to result in a more accurate lodging of credit to cover the risk of the party defaulting. This potential reduction in credit would, in particular, be felt by some small suppliers and new entrants. Therefore, we consider that P253 would promote competition to a greater extent, so facilitate this objective more than P265. This is in support of the majority views expressed by the modification group and the BSC Panel.

Objective (d) - The promotion of efficiency in the implementation and administration of the balancing and settlement arrangements

We consider both modifications will result in more accurate modelling of a Party's energy indebtedness and a more accurate credit calculation. Both modifications should therefore result in greater efficiency in the balancing and settlement arrangements.

The material doubt process is costly, both to ELEXON and the affected Party, and its manual nature means that it is inherently less precise than the central systems credit calculation. A more accurate credit calculation should result in fewer material doubt claims, thus increasing the efficiency of the credit calculation and decreasing the risk from the lack of precision in the material doubt process.

The P253 solution would require a change to the systems of DCs and DAs. The full extent of this cost is unknown, but as noted above is likely to vary between DCs and DAs and to be significant for some. Some modification group members considered that, because of this extra cost, P253 does not better facilitate objective (d). This argument has been used by some parties to make the case for P265 better facilitating this objective; as it delivers some of the benefits of P253 without impacting the industry's costs. This is a

minority view and the majority of modification group members and the BSC Panel consider that P253 better facilitates objective (d).

We consider that both modifications would better facilitate objective (d) but that P253 would better facilitate this objective than P265. We recognise that there is a greater cost in implementing P253, compared to P265, but we consider that, based on the cost savings highlighted in the FMRs for both modifications, the increased accuracy in the credit calculation is a significant benefit that justifies the greater cost in this instance.

Decision notice

In accordance with Standard Condition C3 of NGET's Transmission Licence, the Authority, hereby directs that modification proposal 'BSC P253: Improving the accuracy of the Credit calculation for SVA participants' be made on 3 November 2011.

Emma Kelso
Associate Partner, Retail and Market Processes

Signed on behalf of the Authority and authorised for that purpose.