

ISG170/01 – IMPACTS OF P306 'EXPANDING THE DEFINITION OF A 'LETTER OF CREDIT' TO INCLUDE REGULATED INSURANCE COMPANIES'

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Purpose of paper Information

Classification Public

Summary This paper notes that there has been no difference in how Parties lodge credit and no Approved Insurance Product's submitted as a result of Modification P306 'Expanding the definition of a 'Letter of Credit' to include regulated insurance companies.' This Modification enables individual Parties to use an insurance product as a form of security equivalent to a Letter of Credit. It also introduced the use of Fitch Ratings as an approved rating agency for Letters of Credit.

1. Process changes for Modification P306

- 1.1 EON UK raised Approved Modification P306 with the aim to increase the range of financial institutions capable of providing security that Parties can use to meet Credit Cover requirements set out in Section M of the BSC. P306 has created an option for BSC Parties to use an insurance product as a form of security equivalent to a Letter of Credit¹. This Modification also added Fitch Ratings to the list of approved rating agencies to further expand the pool of financial institutions able to provide security under the BSC.
- 1.2 The BSC Panel approved P306 as a Self-Governance Modification and ELEXON implemented it on 14 November 2014. The Final Modification Report and its associated documents can be found on the [ELEXON website](#).

2. Effect of P306 on lodged Credit

- 2.1 Before ELEXON implemented P306, it held a total of 84 Letters of Credit. All qualified with a long term debt rating of not less than single A by Standard & Poor's Corporation (S&P). Of the 84 letters, 74 were also qualified by Moody's Investors Service, Inc.
- 2.2 Since the implementation of P306 BSC Parties have submitted an additional eight Letters of Credit and terminated another eight. Parties that terminated Letters of Credit did not reissue them so there is no relationship with the new additions.
- 2.3 Of the new Letters of Credit four qualified with at least a single A rating by Fitch Ratings as well as by S&P and Moody's. All other letters were qualified by S&P and by Moody's but did not have a rating with Fitch.

¹ According to BSC Section X-1, A Letter of Credit is means an unconditional, irrevocable standby letter of credit substantially in the form set out in Annexes M-1, M-2 or M-3 (or such other form as the Panel may approve) in sterling in favour of the BSC Clearer by any United Kingdom clearing bank(s) or any other bank(s) which has (have) a long term debt rating of not less than single A by Standard & Poor's Corporation, Moody's Investors Service, Inc., Fitch Ratings Limited or such other bank(s) as the Panel may approve, and which shall be available for payment at a United Kingdom branch of the issuing bank. A single A by Standard & Poor's Corporation or Fitch Ratings Limited shall satisfy these requirements if appended with a '+' or '-'. A single A by Moody's Investors Service, Inc. shall satisfy these requirements if appended with a '1', '2' or '3';

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- 2.4 There has been no difference in the number of Letters of Credit that would have been approved pre and post implementation of Modification P306. Appendix 1 provides a summary of the numbers of Letters of Credit accepted by ELEXON since October 2014.
- 2.5 ELEXON will continue to monitor Letters of Credit and the submission of any Approved Insurance Products. We will report back to the committee in line with our plans to review P307 ([Amendments to Credit Default arrangements](#)) and P310 ([Revised Credit Cover for Exporting Supplier BM Units](#)) in January 2016.
- 2.6 P306 enables Parties to submit Approved Insurance Products as an alternative to a Letter of Credit or cash. To date ELEXON has not received any applications.

3. Recommendations

- 3.1 We invite you to:
 - a) **APPROVE** our plan to complete a further review in January 2016.

Appendices

Appendix 1 – Letters of Credit held per month

For more information, please contact:

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Appendix 1 Letters of Credit held per month

| Month Issued | No. of cancelled LCs in month | No. of new LCs received in Month | No. of LC received in month that qualify by Moody's | No. of LC received in month that qualify by S&P | No. of LC received in month that qualify by Fitch | No. of Insurance Products received in month | Total No. lodged |
|---------------------|-------------------------------|----------------------------------|---|---|---|---|------------------|
| Total as of Sept 14 | 0 | - | 74 | 84 | 73 | 0 | 84 |
| Oct 14 | 1 | 1 | 1 | 1 | 1 | 0 | 84 |
| Nov 14 | 1 | 3 | 3 | 3 | 1 | 0 | 86 |
| Dec 14 | 0 | 0 | 0 | 0 | 0 | 0 | 86 |
| Jan 15 | 2 | 1 | 1 | 1 | 1 | 0 | 85 |
| Feb 15 | 0 | 3 | 2 | 3 | 1 | 0 | 88 |
| Mar 15 | 4 | 0 | 0 | 0 | 0 | 0 | 84 |