Issue Form - BSCP40/04	Issue Number: 68 *(mandatory by BSCCo)*

Issue Title ***(****Mandatory by originator)*

Underestimation of Demand Capacity and Credit Cover Percentage

Issue Description *(Mandatory by originator)*

Demand Capacity (DC) is a parameter that is declared for each Balancing & Settlement Code (BSC) Season in accordance with BSC Section K 'Classification and Registration of Metering Systems and BM Units'. It is self-declared by a BSC Party in 'good faith and as accurately as it reasonably can' for each Balancing Mechanism Unit (BMU). It is declared as the expected negative (indicating Demand) metered volume with the maximum magnitude for a single Settlement Period falling within the BSC Season. The value is submitted along with a Generation Capacity (GC). These are used to calculate Production/Consumption Status, Credit Assessment Energy Indebtedness (CEI) and Credit Cover Percentage (CCP).

Inaccuracy in the DC parameter results in inaccuracy in the CCP. This can result in either an over-requirement or under-requirement in Credit Cover. The Issue raised in this case is the under-requirement of Credit Cover, which, if combined with a Supplier failure can delay an event of Default under the BSC. This extends the number of days for which all other BSC Parties are exposed to the failing Supplier's Energy Imbalance Cashflow.

Following declaration of the GC/DC parameters, monitoring is performed against Metered Volume. If the BMU exceeds the GC/DC by a specified tolerance limit, the BSC Party must re-declare the GC/DC. Current performance in DC submission is poor with only 34 out of 131 Suppliers declaring GC/DC for the BSC Winter 2016/17 Season. Further, the quality of DC estimations could be improved as under-statement of the parameter has resulted in £5.9m of CEI error at the start of the Winter 2016/17 BSC Season. Regulation of the process is challenging due to the current BSC rules which are ambiguous, such as the use of the term 'good faith'.

The Issue Group should note that although focused on DC, the overestimate of GC for BMUs with Supplier Export Credit Assessment Load Factor (SECALF) applied can also result in under-estimation in the CCP calculation.

Justification for Examining Issue *(Mandatory by originator)*

New Suppliers are able to bypass the Credit Cover requirements in the BSC by declaring zero DC when they are building a customer base. This can reach thousands of customers before the current lower DC limit of 2MW is triggered. Other Suppliers are able to maintain under-estimated DC values which also results in a lower Credit Cover requirement than should be required.

If one of the Suppliers fails, this can leave additional unpaid Trading Charges for all other BSC Parties to pay through Default Funding Shares.

Therefore, the purpose for examining this Issue is to understand how to enable and encourage better accuracy of DC declarations. Better accuracy can ensure Suppliers have at least the minimum Credit Cover required to cover 29 calendar days of Trading Charges. Once a

solution is identified and implemented the benefit of this will be realised in the event of a Supplier failure, where the BSC Default rules can be applied earlier to reduce exposure to unpaid Trading Charges.

To illustrate the materiality of exposure the industry has to such Supplier failures, we can consider the hypothetical situation of a new Supplier that declares zero DC. The new Supplier can gain 40,000 customers in a year and have a daily exposure of £35,000 per day, whilst avoiding the need for any Credit Cover.

Moreover, an event could also apply to a Supplier with a larger portfolio. For example, in the recent event of Supplier of Last Resort, the failing Supplier had ~160,000 customers.

It is evident that reducing the exposure of one failure would likely outweigh the cost of a simple BSC Modification to address the Issue, and so a cost-effective solution is possible and the Issue worth examining. However, care must be taken when assessing more complex solutions that require central system changes as these may not deliver a cost benefit.

Potential Solution(s) *(Optional by originator)*

Noting the value of a small Supplier failure event, the Issue Group should consider the complexity of solutions available. A simple solution can deliver benefits without changes to the BSC Systems.

Solutions for self-declaration and DC limits:

a) If the DC values continue to be self-declared, the lowest tolerance limit of 2MW should be lowered to 0.2MW with the 2% and 10MW limit remaining the same. This removes ~80% of the current allowed under-estimation but still allows for challenges in the accuracy of estimation.

   This requires a change to BSC Section K and a parameter edit for internal scripts. Additional resource is also required to process a higher volume of breach notices.

   The ELEXON Portal has an online form that removes the burden of paper/fax method that was in place when GC/DC was last reviewed. Lowering the limits would have less administrative burden now than it did before this change.

b) Zero DC submissions should not be allowed where a Party has a non-zero Metered Volume. This should be specified in the BSC. This solution would be subject to other changes (e.g. the lower 0.2MW limit) and would need to have consideration of the SECALF.

   This would require new Suppliers to recognise the requirements of BSC Section K on registering their first Metering System Identifier (MSID) rather than after months of operation.

c) The tolerance limits should be specified as parameters in the BSC to allow for the Imbalance Settlement Group (ISG) to review from time to time. This avoids the need for a Modification to be raised to change the BSC each time the tolerances need to be updated which saves time and effort.

Solution for system based declarations

d) DC declarations could be mechanistic with changes applied by ELEXON when DC is breached by more than the allowed tolerance. The frequency of this check would need to be determined. On each check, any BMUs exceeding DC could be reset to the maximum consumption in the last check period.

This could be delivered through manual processing or with a data entry script to Central Registration Agent (CRA), subject to impact assessment. This solution carries a risk for some BMUs that it could change the Profile Class (PC) status of the BMU of Trading Unit.

Solutions for Seasonal Declarations and re-declarations

e) The majority of BSC Parties do not make Seasonal GC/DC submission and if the current values are not exceeded then there is little benefit from the administrative burden of this submission. Applying a continuous monitoring process and enforcing a re-declaration of the values once the DC limit is breached, could be more accurate when moving through Autumn and Winter BSC Seasons. However, DC values would normally be decreased into Spring and Summer BSC Seasons so the downwards declaration process would need to be considered.

This could be delivered through a change to the BSC Section K and BSCP15 'BM Unit Registration' and would remove administrative burden for the seasonal declaration points. The Credit Assessment Load Factors (CALF) would continue to change each BSC Season.

f) If keeping the BSC Season declarations, the requirements of the BSC for mid-Season re-declaration need to be amended. Currently the rules required the GC/DC to be set to zero by the CRA. This would result in less accuracy for DC values than rolling over the current declaration.

This could be delivered through a change to the BSC Section K and BSCP15.

Solutions for reducing the magnitude of DC

g) Downwards re-declaration should be restricted with specific requirements. The BSC currently allows the magnitude of DC to be reduced up to two times per BSC Season. If a Party is struggling to provide Credit Cover it can currently declare zero DCs at will to reduce the requirement.

Alternatively, if a Party has breached the tolerance limits in the last 30 calendar days for a BM Unit it should not be allowed to declare a reduction. However, in some cases there can be valid reason, such as erroneous Meter reads, so consideration will need to be given to whether a material doubt style process is allowed as available under the Credit Default procedures. The current material doubt process is a formal way for trading parties to challenge their CCP where substantial evidence shows it does not give a true reflection of that Party's Energy Indebtedness as calculated by the Energy Contract Volume Aggregation Agent (ECVAA).

Solutions for the determination of an event of BSC Default

h) Failure to declare or re-declare is an event of BSC Default. However, the BSC uses ambiguous terms such as 'good faith'. ELEXON should be able to easily enforce the rules so any ambiguities need to be cleared up.

There needs to be a specific performance standard for timely resolution of a breach and for the determination of a persistent breach.

Once a breach is notified the re-declaration should be made within two Working Days. If a BMU is in breach for 10 calendar days in a month this would be an event of Default.

Innovation to improve administrative procedures

i) The ELEXON Portal could be developed to enable simple monitoring of peak production/consumption, automate notifications and provide one step re-declaration. This would help Suppliers to further avoid the administrative burden of lower tolerance limits. This does not require a BSC Modification or Change Proposal and can be impact assessed by ELEXON once the Issue Group has considered the solutions that should be progressed. However, a very low volume of declarations are currently made using this method and BSC Parties need to provide feedback on this method before further investment is made.

Proposer's Details

Name

Roger Harris

Organisation

ELEXON

Email Address

roger.harris@elexon.co.uk

Telephone Number

020 7380 4311

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