

Modification proposal:	Balancing and Settlement Code (BSC) P359: 'Mechanised process for GC/DC declarations' (P359)		
Decision:	The Authority ¹ directs that this modification be made ²		
Target audience:	National Grid Electricity Transmission Plc (NGET), Parties to the BSC, the BSC Panel and other interested parties		
Date of publication:	17 August 2018	Implementation date:	28 February 2019

Background

The Generation Capacity (GC) and Demand Capacity (DC) must be declared for each BSC Season by the Lead Party for each Balancing Mechanism (BM) Unit in accordance with BSC Section K³. Together, the GC/DC values form part of the calculation of Credit Assessment Energy Indebtedness (CEI) and Credit Cover Percentage (CCP).

Following the submission of seasonal GC/DC values, if the Parties breach thresholds described in Section K3.4.3⁴, they must re-declare estimates of the BM Unit Metered Volume(s). Failure to re-declare can result in underestimated Credit Cover requirements. This can 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 Credit Cover Percentage (CCP) are understated) and then enter Payment Default.

Moreover, BSC Section K3.4.5 requires the Lead Party to re-declare 'as soon as reasonably practicable after [it] becomes aware, or ought reasonably to have become aware' of a breach of the thresholds. Without a requirement establishing how soon a re-declaration must be made, there is a concern and risk that Parties are not submitting timely GC/DC values following a breach.

The modification proposal

SSE plc raised P359 on 6 September 2017. P359 proposes to introduce an automated process for GC/DC submissions. The Modification seeks to improve the accuracy of GC/DC declarations following a breach by seeking to introduce a consistent, mechanistic method to be used for all re-declarations. P359 would also remove the requirement for BSC Parties to re-declare GC/DC values following a breach, as Elexon would administer the new mechanistic method.

Under the new process, the Central Registration Agent (CRA) would monitor Parties' BM Unit Metered Volume(s) to identify where these Volume(s) exceed the thresholds for the declared GC/DC. Following the identification of a GC/DC breach, CRA would calculate the estimated positive and/or negative BM Unit Metered Volume(s) for the breached BM Unit(s), in accordance with the method to be established and maintained by the BSC Panel. Once an estimated positive and/or negative BM Unit Metered Volume(s) is

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 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/>

⁴ Please note that K3.4.3 was amended following the implementation of BSC Approved Modification P357 on 22 February 2018.

calculated, CRA would notify the relevant Lead Party. Elexon would administer a challenge process, should a Lead Party wish to challenge the replacement GC/DC values⁵.

The proposer considers that the modification would better facilitate BSC objectives (c)⁶ and (d)⁷ in comparison to the current baseline.

BSC Panel⁸ recommendation

At the BSC Panel meeting on 14 June 2018, a majority of the BSC Panel considered that P359 would better facilitate the BSC objectives and the Panel recommended its approval. The majority of the BSC Panel agreed that the P359 Proposed Modification better facilitates Applicable BSC Objectives (c) and (d).

Our decision

We have considered the issues raised by the modification proposal and the Final Modification Report (FMR) dated 15 June 2018. We have also considered and taken into account the responses to the industry consultation(s)⁹ attached to the FMR¹⁰. We have concluded that:

- implementation of the P359 modification proposal will better facilitate the achievement of the applicable objectives of the BSC;¹¹ and
- directing that the modification P359 be made is consistent with our principal objective and statutory duties.¹²

Reasons for our decision

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

(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

We have noted the comments from the workgroup members and respondents that the proposed Modification will promote effective competition in the BSC arrangements, as it will improve the accuracy of GC/DC submissions. Accurate GC/DC submissions help to ensure that all Parties have access to better and more transparent information and are able to compete in the market on an equal basis.

⁵ The detailed solution can be found in the FMR Final Modification Report, under the business requirements (Appendix 1) and legal text (Attachment A), available at <https://www.elexon.co.uk/mod-proposal/p359/>

⁶ BSC Objective (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.

⁷ BSC Objective (d) Promoting efficiency in the implementation of the balancing and settlement arrangements.

⁸ 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: www.epr.ofgem.gov.uk

⁹ The majority of the responses to the industry consultations were supportive to the implementation of P359.

¹⁰ BSC modification proposals, modification reports and representations can be viewed on the Elexon website at www.elexon.co.uk

¹¹ As set out in Standard Condition C3(3) of NGET's Transmission Licence: <https://epr.ofgem.gov.uk>

¹² 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.

One Workgroup member believed that the Modification will not meet Applicable BSC Objective (c) as they considered that the solution disproportionately affects smaller Parties in terms of costs and resource because calculating GC/DC values on missing or erroneous Interim Information data is more likely to affect the credit position of a small Party than a large Party.

The Proposer noted that Parties may experience challenges with lodging credit regardless of their size, and that some small Parties had responded to the consultation positively. Further, the Proposal specifies that all Parties should be able to challenge any estimate calculated by Elexon. This challenge mechanism mitigates the risk that erroneous or missing data adversely affects the balancing and settlement arrangements.

We also believe this change will reduce compliance costs for BSC Parties by allowing a central, rather than manual, process to calculate appropriate replacement values. The implementation of P359 should ensure more accurate GC/DC values can be used to calculate credit exposures and, consequently, 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 consumers. This contributes to promoting effective competition as Parties have access to better and more transparent information and are able to allocate risk better and more efficiently.

(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 BSC arrangements. It will reduce the administrative burden on Elexon to pursue compliance by Parties where values are not submitted or tolerances are breached. One Workgroup member believed that the Modification does not better facilitate Applicable BSC Objective (d) because they consider any efficiency benefits from the automated solution are outweighed by GC/DC values being recalculated based on false or missing Interim Information data and the estimated value being imposed immediately after the identification of a breach.

The current arrangements for re-declaring GC/DC values can result in low levels of and/or inaccurate re-declared values which may lead to underestimated Credit Cover requirements which increases the risk of non-defaulting Parties facing costs. As noted above, the challenge mechanism should mitigate the risks associated with erroneous or missing data.

P359 offers a centralised and automated process with the estimates determined and re-declared by Elexon rather than by the Lead Party. This approach should reduce the administrative burden on BSC Parties as well as Elexon and increase the accuracy of submissions, as re-declarations would follow a common calculation based on the historical Metered Volume data available. Elexon intends to issue appropriate guidance on the new process and principles for re-declaring the GC/DC values will be provided, and we encourage this to be provided in a timely way.

Decision notice

In accordance with Standard Condition C3 of NGET's Transmission Licence, the Authority hereby directs that modification proposal BSC P359: *Mechanised process for GC/DC declarations* be made.

Mark Copley

Deputy Director, Wholesale Markets

Signed on behalf of the Authority and authorised for that purpose