
Meeting name	BSC Panel
Date of meeting	12 February 2009
Paper title	Standing Issue 36 Report
Purpose of paper	For Decision
Synopsis	The Panel raised Standing Issue 36 'Party Failure and Default' on 18 November 2008. You asked the Issue Group to consider whether improvements could be made to the processes and timings for dealing with Defaulting and failing Parties, so that the industry's exposure to potential bad debt could be reduced. In this paper we summarise the Group's conclusions, and provide its full discussions in Attachment A. On the basis of these discussions, the Group recommends that Issue 36 can be closed.

1 Objectives

1.1 As a result of recent Defaults under the BSC, and the resulting industry exposure to the Defaulting Parties' debts, you put the following questions to the Issue 36 Group:

- Does the Code allow the Panel's Default powers to be triggered sufficiently early?
- Are there any additional actions that should be undertaken relating specifically to the various mechanisms for a Party 'exiting' the BSC arrangements (for example actions specific to entering into administration, or a trade sale)?
- Is it appropriate to treat Energy Contract Volume Notifications (ECVNs) and Metered Volume Reallocation Notifications (MVRNs) differently under the Default process? Currently a trade sale or Supplier of Last Resort will automatically clear MVRNs and Bid Offer Acceptances because they are BM Unit-based; however the Panel is required to agree to clear ECVNs.
- Should energy volumes for failed Parties be cashed-out at a neutral price?
- Are there any further lessons to be learnt from the recent Party failures?

1.2 The Group met on 15 December 2008 to consider these questions.

2 Summary of discussion

2.1 The Group's discussion focused on the following suggestions for reducing the existing risk of uncapped industry exposure to a bad debt:

- **Introducing a 'pre-Default' process** with earlier, more subjective triggers (which could include an affiliate of the Party being in financial difficulty) and a limited range of discretionary Panel powers such as:
 - Asking the Party to post extra credit;
 - Shortening the Party's window between breaching Credit Cover and entering Credit Default;
 - Lowering the Party's Credit Cover Percentage threshold for a Credit Default;

- Preventing the Party from reducing its Credit Cover to the Minimum Eligible Amount; and/or
- Preventing the Party from trading in a way which increases its indebtedness.
- Introducing **greater co-ordination between the different industry codes**, so that a Default under one code triggers a Default in all codes to which the Party is a signatory.
- Cashing out volumes for a failing Party at a **'neutral' price** (e.g. the Reverse Price).
- **Underwriting the risk of bad debt** in a different way, for example:
 - Replacing Credit Cover with commercial insurance or a mutualised bond scheme;
 - Raising the amount of Credit Cover which Parties are required to post; or
 - Obtaining some form of security from all Parties in order to achieve a higher priority ranking for ELEXON as a preferential creditor if a Party becomes insolvent.

3 Conclusions

3.1 The Group reached the following conclusions:

- The key consideration in all of these suggestions would be striking an appropriate balance between security and competition.
- There could be merit in a 'pre-Default' process if this reduces industry exposure. However, it could be hard to justify any subjective triggers, and there may be complicated legal issues with such a process. To date, no Party has indicated that they would be willing to sponsor a Modification Proposal in this area.
- Greater co-ordination of code default processes is unlikely to be beneficial.
- Cashing out volumes for a failing Party at a 'neutral' price would not reduce the overall industry exposure to the Party's bad debt (this conclusion was based on analysis which we undertook at the Group's request).

3.2 The Group has no strong appetite for investigating alternative securitisation methods to Credit Cover. Some members have queried whether there should be a general review of the credit calculation; however, no specific proposals have been suggested and it is therefore not clear that this would raise any new issues/arguments to those covered in other recent credit reviews (e.g. Issue 22 and P215).¹ We have recommended to the Group that, if any specific credit proposals are identified, these would be best discussed through a separate Standing Issue.

3.3 On balance, the Group has agreed that there are no simple solutions to reducing the risk of a bad debt, and that Issue 36 can be closed.

3.4 Attachment A contains the Group's full discussions, including the neutral price analysis results.

¹ Issue 22 'Indebtedness' and P215 'Revised Credit Cover Methodology for Generating BM Units'.

4 Recommendations

4.1 The Panel is invited to:

- a) **NOTE** the Issue 36 Group's discussions and conclusions; and
- b) **AGREE** that Issue 36 can be closed.

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List of attachments

Attachment A – Issue 36 Group's detailed discussions

Issue 36 Group's detailed discussions

1. Issues with existing Section H Default Process

ELEXON gave a presentation on the existing Default triggers and timetable, including the powers available to the Panel under Section H of the Code and the interaction with Ofgem's Supplier of Last Resort (SoLR) process.

ELEXON advised that the issues it had experienced during operation of the process included:

- **Gap between Section H and SoLR:** For a failing Supplier, there is a gap between one trigger of the Section H Default process (Supplier admits that it is unable to pay its debts) and the trigger for Ofgem's SoLR process (Supplier enters administration). Until the SoLR process is initiated, the Panel has limited ability to cap the industry's exposure. Although it can prevent the Supplier registering new customers its existing customers will continue to use energy. Ofgem also needs 24-hours' notice to revoke the Supplier's licence.

The Group noted that a change to Ofgem's SoLR process would be needed to fully address this gap, but that ELEXON communicates with Ofgem to ensure that it is minimised as far as possible in practice.

- **'Train-crash scenario':** ELEXON occasionally finds itself in the position of watching a Party's indebtedness mount up, but being unable to act until a Section H Default trigger event occurs. One scenario where this can happen is when the Party is not in administration, is initially able to pay its debts, but becomes exposed to indebtedness and eventually Credit Default as a result of its counter-parties cancelling contracts. Counter-parties are likely to cancel contracts where they perceive the Party to be a risk (e.g. if an affiliate of the Party is in administration). However, unless the Party itself declares that it is unable to pay its debts, goes into administration or enters Credit Default no action can be taken under the Code to cap its indebtedness. Another scenario is where a Party refuses to admit that it cannot pay its debts and nothing can be done until it meets one of the other triggers for a Default.

The Group considered several potential ways of resolving this issue through a 'pre-Default' process and/or a neutral cash-out price (see Sections 2(a) and 2(b) below).

- **Ability to game Minimum Eligible Amount:** Section M of the Code allows a Party to reduce its Credit Cover to the Minimum Eligible Amount providing it is not in Section H Default. It is possible for a failing Party to game this ability by reducing its Credit Cover shortly before going into Default, resulting in industry exposure to the Party's indebtedness.

The Group considered a potential way of resolving this issue through a 'pre-Default' process (see Section 2(a) below).

- **Limitations of Section N:** Section N12 of the Code allows ELEXON to pursue a Defaulting Party for its debts. However, this is a long process involving industry consultation, Panel agreement and application to the courts. Although money is occasionally obtained, ELEXON is an unsecured creditor and therefore not a priority for administrators.

The Group considered several potential ways in which debt could be underwritten or recovered differently (see Section 2(c) below).

- **Direct Debits:** Banks have 4-5 days to bounce and reclaim Direct Debits where a Party has insufficient funds to honour the payment. This extends the time before ELEXON knows that a Payment Default has occurred.

The Group noted that this was simply a consequence of allowing Direct Debit payments.

- **Transfer of BM Unit versus Metering System:** Where a 'main' Supplier has appointed another Supplier as Registrant for one or more Metering Systems, and that second Supplier in turn acts as Registrant for Metering Systems belonging to a number of other Parties, a Default and subsequent trade sale or SoLR for the main Supplier can require the transfer of specific Metering Systems to a new Supplier rather than the Registrant's whole Supplier BM Unit. Where it is the Registrant Supplier which is the subject of a trade sale/SoLR, its whole Supplier BM Unit would be transferred and the other Parties notified of the transfer of their Metering Systems. Although this process works well, it represents a workaround as the Code only contemplates a transfer of whole BM Units.

The Group noted that an effective workaround is in operation, and did not believe any change was required.

Other issues raised by the Panel and/or considered by the Group were:

- **Different treatment of ECVNs and MVRNs:** If a Defaulting Party transfers its BM Units to another Party (either through a trade sale or as a SoLR), any Metered Volume Reallocation Notifications (MVRNs) associated with those BM Units are automatically cancelled because these represent a physical attribute of the BM Units. Energy Contract Volume Notifications (ECVNs) are not automatically nullified, and can only be cancelled through a Panel resolution. ELEXON explained that this is because ECVNs are at the Energy Account level, and because the Panel has the discretion whether or not to disapply ECVNs. The Panel can decide to leave all ECVNs in place, cancel all ECVNs, or only cancel those which increase the Party's indebtedness (in effect, controlling its trading). The aim of any Panel resolution would be to cap industry exposure as far as it is able, while allowing the Party an opportunity to trade out of its difficulties and reduce that exposure.

The Group agreed that the existing treatment of ECVNs and MVRNs remains appropriate.

- **Visibility of industry exposure:** Until a Party formally enters Section H Default and the Panel has met to consider the most appropriate resolutions, ELEXON is bound by confidentiality not to notify the wider industry of the Party's financial difficulties and the resulting potential exposure even if ELEXON believes that a Default could occur. Notifying the industry before this point would adversely affect the Party's reputation, and could lead to its counter-parties cancelling contracts. This could push the Party into Default where it might otherwise have been able to trade out of its situation – potentially worsening the industry's exposure. Once a Default has occurred and the Panel has met, ELEXON notifies the industry of the Default and the resulting resolutions. In response to industry requests, ELEXON has also recently started to notify Parties at this point of its best estimate of the potential industry exposure. However, such statements are heavily caveated as they rely on estimated data, and therefore retain a degree of uncertainty.¹

The Group agreed that confidentiality was important, to avoid pushing a Party into Default which could otherwise have avoided that situation. However, it agreed that security for the industry was also important and that there needed to be a balance

¹ A Party's approach to trading may change when it is in financial difficulty. Therefore, historic patterns of behaviour may not accurately predict future behaviour. In addition, the credit arrangements only cover 29 days. When a Party is in Default, it may continue to accrue debts beyond this period.

between the two. The Group considered several potential methods for reducing industry exposure and the potential pros and cons for competition (see Section 2).

- **Co-ordination of Defaults under different codes:** Other industry codes such as the Unified Network Code (UNC) and Distribution Connection and Use of System Agreement (DCUSA) have their own Default triggers and processes. As a result, there can be a time lag between a Party Defaulting under different codes. ELEXON has recently reviewed its working practices for communicating with other code administrators regarding Defaults (UNC, DCUSA, Master Registration Agreement, Connection and Use of System Code), to ensure that appropriate notification channels are in place. It queried whether there would be merit in greater co-ordination of Default triggers across the codes – potentially such that a Default under one code would constitute an automatic Default under all the codes to which the Party is a signatory. However, it noted that a Party can register under different names in each code, making it difficult to establish whether they are the same legal entity.

The Group considered that other codes where a Default could result in a material industry exposure were the UNC and DCUSA. However, it was unconvinced that linking different codes' Default triggers would be beneficial. It agreed that, if this was to be pursued, careful consideration would be needed to ensure that each trigger under a given code was appropriate grounds for a Default under the other codes. A member suggested that this could be considered as part of Ofgem's governance review through the Code Administrator Working Group (CAWG).² Another member believed that a Party's breach of one code could be considered a breach of its licence (and therefore all the codes), but noted that this was not currently contemplated by the BSC.

2. 'Stopping the train crash' – suggestions for reducing exposure

a) 'Pre-Default' process

Aim: The Group noted that the existing triggers for a Section H Default are objective and event-driven (e.g. Payment/Credit Default, administration), and that by the time these occur a failing Party may already have run up significant indebtedness. It considered whether introducing a 'pre-Default' process with earlier, more subjective triggers could reduce the risk of other Parties being exposed to a bad debt.

Practicalities: Members suggested that a 'pre-Default' process could be triggered where ELEXON has reasonable grounds to believe that a Party may be in financial difficulty. Such grounds could include:

- Industry rumour;
- An unusual pattern of trading behaviour;
- Data from credit rating agencies or Companies House;
- The Party's parent/holding company or an affiliate/subsidiary being in administration;
- Trading Charges and/or BSCCo Charges being paid later than is usual for the Party; and/or
- An indebtedness which is near to breaching the Party's Credit Cover.

Once a 'pre-Default' trigger event had occurred, the Panel would have a limited range of powers which it could apply to the Party at its discretion. These could include:

- Asking the Party to post extra credit;
- Shortening the Party's window between breaching its Credit Cover and entering Credit Default;

² However, the CAWG has since almost concluded its work, and has not discussed this matter.

- Lowering the Party's Credit Cover Percentage threshold for a Credit Default (e.g. to 50%);
- Preventing the Party from reducing its Credit Cover to the Minimum Eligible Amount; and/or
- Preventing the Party from trading in a way that increases its indebtedness (i.e. cancelling ECVNs).

A member suggested that (to reduce the risk of a Party's reputation being affected by rumours which later turn out to be unfounded) the fact of a Party's 'pre-Default', and any Panel resolutions, should be kept confidential as long as the Party complied with the resolutions. Refusal to comply (e.g. refusal to increase credit) would constitute a formal Section H Default which would be notified to the industry. All other existing triggers for a Default would remain unchanged.

The introduction of a 'pre-Default' process would require a Modification Proposal. The precise triggers and powers to apply would need to be considered as part of any proposal. A Modification Group would also need to establish the impacts and costs for ELEXON, the Panel, BSC Agents and Parties.

The Group considered whether the Panel could establish a pre-Default monitoring group to identify and advise the industry of a Party's potential exposure (e.g. where an affiliate is in administration). However, it agreed that this in itself would have little benefit if the Panel was unable to take action to limit the exposure.

Potential benefits	Potential disadvantages
<ul style="list-style-type: none"> • Could cap indebtedness before this exceeds a Party's Credit Cover and exposes the industry to a bad debt • Could stop the 'train crash scenario' where ELEXON/industry watches events unfolding but is unable to take action until a Default occurs • Could prevent a failing Party being able to game its ability to reduce credit to the Minimum Eligible Amount 	<ul style="list-style-type: none"> • Subjective evidence could be difficult to substantiate and may later turn out to be incorrect or misleading • Credit agency data may only be updated once a year, so decisions based on such data could be unsound • A move to subjective criteria would be a major change in philosophy and would need to be justified against the Applicable BSC Objectives • Taking early action could potentially worsen the Party's position/reputation and prevent it from being able to avoid a Default • Companies set up subsidiaries as separate legal entities in order to contain the risk of a particular business enterprise failing – taking action against a Party for the actions of an affiliate could be seen as anti-competitive and against the principle of a 'separate legal personality' • One Party may have several hundred affiliates located world-wide – for ELEXON to regularly monitor the financial solvency of all Parties' affiliates could be impractical/costly • Although an obligation could be placed on each Party to notify ELEXON of an affiliate's insolvency, there could be little incentive to do so if this results in the Party's Default • The window between breaching Credit Cover and a Credit Default provides an opportunity to lodge more credit – shortening this could be seen as anti-competitive and could have unintended consequence for Interconnectors • May not in itself reduce industry's exposure to a failing Supplier, as its customers will continue to use energy and increase its indebtedness until it enters administration and Ofgem's SoLR process • Industry may be uncomfortable with the Panel passing resolutions 'behind closed doors', due to the lack of certainty/ visibility

Conclusion: The Group considered that there could be merit in a Modification Proposal to introduce a 'pre-Default' process if this would reduce the risk of industry exposure. However, the Group acknowledged that any subjective triggers could be hard to justify and that there may be complicated legal issues with such a process.

(b) Neutral cash-out price

Aim: The Group noted that a Party in financial distress may have limited trading options if it is unable to find counter-parties and becomes exposed to system imbalance prices. This may exacerbate its indebtedness (especially for a Supplier, who cannot stop its customers using energy) and therefore the industry's exposure to the Party's bad debt. The Group considered whether cashing-out volumes for the specific failing Party at a 'neutral' price (e.g. the Reverse Price) could reduce exposure for other Parties.

Practicalities: The neutral price would be intended to only cover the marginal cost of generation. The Party's indebtedness would still increase as it used energy, but at a lower cost than if it was exposed to full system prices. Other Parties' Default Funding Share payments (which are used to recover the bad debt from all other Parties according to market share) would therefore be lower. The Group agreed that the aim was to reduce other Parties' exposure to a bad debt, and not to absolve a failing Party from its responsibility for that debt. ELEXON and the Panel would therefore continue to pursue the Party concerned (and any administrators if appointed) for its whole debt based on the full system, rather than the neutral, price.

It was suggested that the trigger for applying the neutral price would be the Party entering Section H Default, but that the price could be applied from the first Settlement Period in which the Party breached its Credit Cover. This would be before it formally entered Default, due to the window allowed to post extra credit, but would represent the point at which the industry first became exposed to the Party's bad debt.

The introduction of a process for calculating and applying a neutral price would require a Modification Proposal. The full impacts on BSC Systems and processes would need to be considered by a Modification Group as part of the proposal's progression.

Potential benefits	Potential disadvantages
<ul style="list-style-type: none"> Could help prevent a 'train crash scenario' by limiting industry's exposure from the point at which this first occurs Could give predictability to the remaining bad debt 	<ul style="list-style-type: none"> Would the neutral price fully cover the marginal cost of generation? Would the difference in price simply come out somewhere else in Parties' cash flows – e.g. through the Residual Cashflow Reallocation Cashflow (RCRC) or Balancing Services Use of System (BSUoS) charges?

Conclusion: The Group agreed to request a historic worked example from ELEXON of whether a neutral price would have reduced industry exposure, and to consider this before taking a view on whether it would support further development of this approach under a Modification Proposal.

Appendix 1 contains a summary of ELEXON's analysis. The analysis shows that using a neutral price would not reduce the overall industry exposure, as the savings made in Parties' Default Funding Share payments would be taken from the RCRC payments to the industry.

The Group has therefore agreed that there would not be benefit in developing this option further.

(c) Other ways of underwriting risk

Aim: The Group agreed that the overriding issue for the industry was that Parties are currently unable to hedge against the risk of another Party's Default. As a multilateral agreement, all BSC signatories are exposed to a potential bad debt from Parties whose risk profile they would not normally accept for bilateral trades. While the Group accepted that a risk of businesses failing is part of the normal function of any market, it agreed that the key question was whether this risk could be capped or made predictable. A member suggested that there were potentially other, more radical, ways of trying to underwrite the risk of industry debt – some of which had previously been considered under Issue 22 (see Panel paper [117/01e](#)).

Practicalities: The suggested alternative risk-management solutions were:

- 1) **Replacing Credit Cover with commercial insurance or a mutualised bond scheme.** The option of commercial insurance was previously considered by the Issue 22 Group, whose preliminary approaches to insurance brokers suggested that such a scheme might be viable. Due to the cost of obtaining consultancy from these brokers to work up more detailed ideas, the Issue 22 Group concluded that this should only be undertaken if a Modification Proposal was raised. The Issue 36 Group noted that a bond scheme had not been considered previously. A member suggested that this could be run in a similar way to a pension scheme.

Potential benefits	Potential disadvantages
<ul style="list-style-type: none"> • May help give predictability to exposure, as Parties would effectively pay a set amount in advance as an insurance premium or bond payment • Could a bond scheme be run centrally by ELEXON, avoiding the cost of an external insurance company? 	<ul style="list-style-type: none"> • Would brokers be willing to take on such a scheme in the current financial climate? • Parties would still be required to pay a premium for the scheme – while this could give some predictability, any insurance may only cover debt up to a certain amount and therefore not entirely remove the risk of exposure • Similarly, there could still be a risk that payments into a bond scheme may not be sufficient to cover a bad debt – what happens when the bond funds are exhausted? Would other posted collateral still be required? • Would effectively become part of BSC costs if premiums/payments not refunded on leaving the code – could be seen as a barrier to entry?

- 2) **Raising the amount of Credit Cover which all Parties are required to post.** The option of requiring Parties to lodge a minimum level of Credit Cover was previously considered but discounted by the Issue 22 Group.

Potential benefits	Potential disadvantages
<ul style="list-style-type: none"> • Reduces potential industry exposure to bad debt 	<ul style="list-style-type: none"> • If the amount of credit is not related to the Party's contractual position or estimated indebtedness, this could be viewed as anti-competitive and/or a barrier to entry for smaller Parties • The minimum level may need to be high, as Trading Charges can mount up quickly if a Party is in difficulty • There would still be a risk that the credit lodged is insufficient to cover the whole of a Party's bad debt

- 3) **Making ELEXON a secured creditor.** A member suggested that one solution could be to obtain some form of security from Parties in order to achieve a higher priority ranking for ELEXON as a creditor if a Party becomes insolvent.

Potential benefits	Potential disadvantages
<ul style="list-style-type: none">• Could make it easier for ELEXON to recover debts from administrators	<ul style="list-style-type: none">• Could be viewed as a barrier to entry

Conclusion: There was no clear majority view within the Group as to whether any of these alternative methods of securitisation should be assessed further. The progression of any of the methods would require a Modification Proposal, and the full impacts and costs to ELEXON, BSC Agents and Parties would need to be considered by a Modification Group.

Appendix 1 – Results of neutral price analysis

Aim of analysis

This analysis investigates the impact of using an **alternative 'neutral' imbalance price** for Parties who:

- Are in Section H Default; and
- Have used up all their Credit Cover.

A Party in the last stages of trading (if it is a Supplier or a non-physical trader who is 'left short') usually becomes fully exposed for its customers' energy volume. This energy is then paid for at the System Buy Price, and can lead to the build up of a large debt. The debt is eventually paid for by other Parties according to each Party's Default Funding Share.

The analysis aims to determine whether applying an alternative 'neutral' price to a Defaulting Party's energy volume in Settlement would reduce the overall debt and final bill to the industry.

Note: If a different imbalance price is used for a Defaulting Party, it could still be important to calculate the Party's debt under normal (no neutral price) rules, so that ELEXON can pursue the Party or its administrators for the full amount. The intention of the neutral price would therefore be to reduce other Parties' exposure, not the Defaulting Party's liability.

Approach

The analysis uses **three alternative 'neutral' imbalance prices**:

- The Reverse Price;
- The System Sell Price; and
- A zero price.

ELEXON has applied each of these alternative prices to the 'real life' example of **Electricity 4 Business** (ECO), which went into administration in October 2008. In its last days of trading, ECO was fully exposed to the System Buy Price and accrued a substantial debt from the resulting imbalance charges.

The analysis uses actual Settlement data from the **23 October 2008 Settlement Day**, as this was ECO's final day of trading. Initially, ELEXON modelled a single Settlement Period (Period 16 on 23 October 2008). However, this limited the impact of using the Reverse Price or System Sell Price as these two prices were identical during that particular Settlement Period. ELEXON therefore subsequently modelled the entire Settlement Day to get a better overall view of the impact of the different price options. Both sets of results are presented for information.

To model the effects of the three 'neutral' price options, ELEXON has:

- 1 Calculated an adjusted imbalance charge for ECO by applying the new 'neutral' price to ECO's imbalance volume;
- 2 Calculated the imbalance charge for the other Parties in the normal way, using the relevant imbalance volume and System Price for each Party;
- 3 Calculated an adjusted net market imbalance charge for use as the new Residual Cashflow Reallocation Cashflow (RCRC) pot; and
- 4 Distributed the RCRC pot between Parties according to each Party's RCRC proportion.

RCRC proportion is calculated according to Metered Volume (generation and consumption), and is Settlement Period specific. For the purpose of this analysis, the RCRC proportions used for ECOA were based on energy volume. Therefore, ECOA's RCRC does not reflect the adjusted imbalance price paid under the different options. If a Modification Proposal was raised to progress the application of a neutral price, a new method for calculating the RCRC proportion could be needed to distribute the Defaulting Party's RCRC fund more accurately.

Results

Table 1 on the next page contains the results for both the single Settlement Period and the whole Settlement Day. It shows the actual Energy Imbalance Volumes, imbalance charges and RCRC for that Settlement Period/Day and, for comparison, the following results from each 'neutral' price scenario:

- The adjusted imbalance charges and RCRC;
- The reduction in RCRC under the 'neutral' price compared with the actual RCRC; and
- The sum of the reduction in RCRC and ECOA's adjusted imbalance charge (i.e. the equivalent overall payment made by the industry).

Figure 1 displays the results graphically.

The results show that under each 'neutral' price option, the adjusted imbalance price used for ECOA reduces the overall imbalance charge. This in turn reduces the net market imbalance charge, and therefore the size of the RCRC pot. The RCRC payments to the industry are then lower. In each case the reduction in ECOA's imbalance charge is identical in magnitude to the reduction in industry RCRC payments.

In the extreme example where the ECOA price is set to zero, the RCRC pot is positive. This means that the industry would be required to pay RCRC.

Conclusion

In line with the Group's expectations, the analysis demonstrates that using a neutral price does not reduce overall industry exposure. The savings made in Parties' Default Funding Share payments are taken from the RCRC payments to the industry.

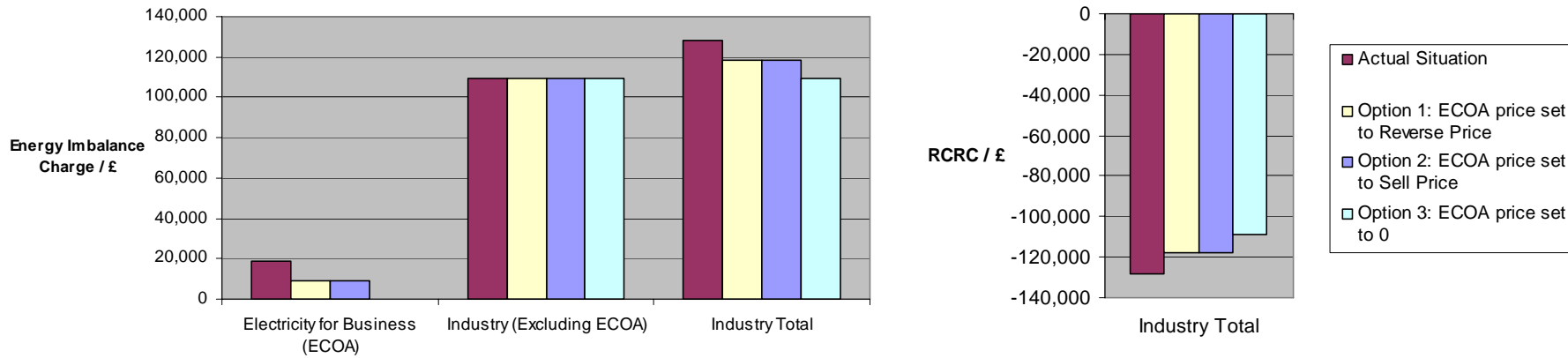
However, the amounts paid by individual Parties towards the bad debt would be different. Using Default Funding Shares means that each Party's exposure is largely related to its market share. RCRC proportion is dependent on a Party's Metered Volume for the Settlement Period, and may be a less consistent and predictable way of sharing the exposure to a bad debt.

Table 1: Results

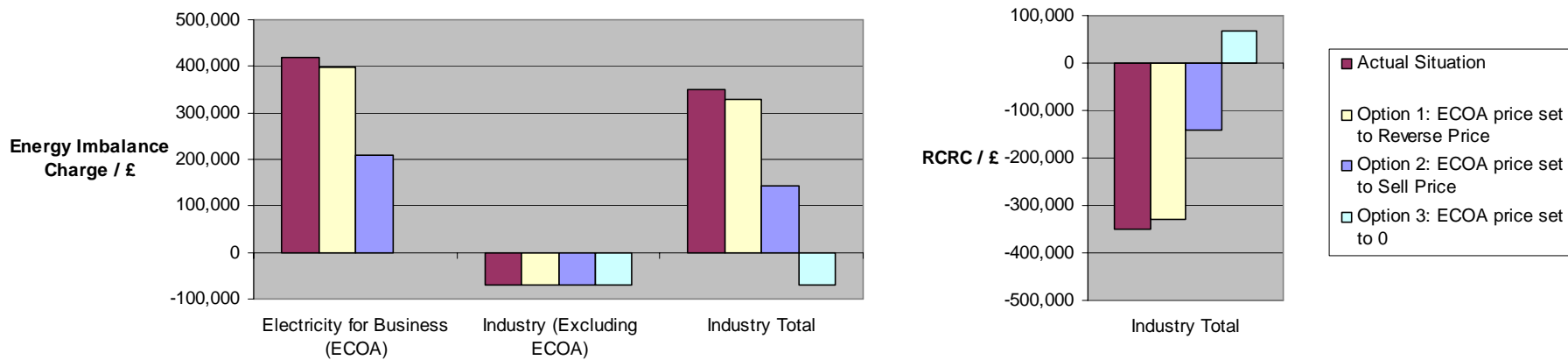
	Energy Imbalance Volume / MWh	Actual Situation		Option 1: ECOA price set to Reverse Price		Option 2: ECOA price set to Sell Price		Option 3: ECOA price set to 0	
		Energy Imbalance Charge / £	RCRC / £	Energy Imbalance Charge / £	RCRC / £	Energy Imbalance Charge / £	RCRC / £	Energy Imbalance Charge / £	RCRC / £
Settlement Period 16									
Electricity for Business (ECOA)	-103	19,123	-313	9,067	-288	9,067	-288	0	-266
Industry (Excluding ECOA)	-154	109,050	-127,860	109,050	-117,829	109,050	-117,829	109,050	-108,784
Industry Total	-257	128,172	-128,172	118,117	-118,117	118,117	-118,117	109,050	-109,050
Reduction in Industry RCRC			0		10,056		10,056		19,123
Reduction in RCRC + ECOA Imbalance			19,123		19,123		19,123		19,123
Settlement Date 23 Oct 2008									
Electricity for Business (ECOA)	-4,733	417,707	-913	398,579	-864	210,306	-341	0	217
Industry (Excluding ECOA)	30,628	-68,740	-348,053	-68,741	-328,974	-68,741	-141,224	-68,741	68,524
Industry Total	25,895	348,966	-348,966	329,837	-329,837	141,565	-141,565	-68,741	68,741
Reduction in Industry RCRC					19,128		207,401		417,707
Reduction in RCRC + ECOA Imbalance					417,707		417,707		417,707

Figure 1: Results Graphs

Single Settlement Period: 23 October 2008, Period 16



Whole Settlement Date: 23 October 2008



Appendix 2 – Group membership

Member	Organisation	15/12/08
Adam Lattimore	ELEXON (Chair)	Y
Kathryn Coffin	ELEXON (Lead Analyst)	Y
Ed Reed	Cornwall Energy	Y
Edward Hunter	Npower	Y
Gary Henderson	SAIC	Y
Chris Stewart	Centrica	Y
Andrew Colley	SSE	Y
Esther Sutton	E.ON	Y
Julia Byford-Smith	Gemserv	Y
Rob Smith	National Grid	Phone (part)
Laone Roscorla	ELEXON (Technical Support)	Y
Steve Wilkin	ELEXON (Technical Support)	Y
Sarah Mann	ELEXON (Lawyer)	Y