

MODIFICATION REPORT for Modification Proposal P122 Assessment of Credit Cover during a Holiday Period

Prepared by: Settlement Standing Modification Group

Date of issue: 15 August 2003 **Document reference:** P122RR
Reason for issue: **For Authority Determination** **Issue/Version number:** 1.0

This document has been distributed in accordance with Section F2.1.10¹ of the Balancing and Settlement Code.

RECOMMENDATIONS

On the basis of the analysis, consultation and assessment undertaken in respect of this Modification Proposal during the Modification Procedure, and the resultant findings of this report, the Balancing and Settlement Code Panel recommends that:

- **Proposed Modification P122 should be made**
- **The P122 Implementation Date should be 19 September 2003, should the Authority determination be received on or before 12 September 2003. Should an Authority determination be received after this date, but prior to 9 January 2004 then the Implementation Date should be 16 January 2004**

Intellectual Property Rights and Copyright - This document contains materials the copyright and other intellectual property rights in which are vested in ELEXON Limited or which appear with the consent of the copyright owner. These materials are made available for you to review and to copy for the purposes of the establishment, operation or participation in electricity trading arrangements in England and Wales under the BSC. All other commercial use is prohibited. Unless you are a person having an interest in electricity trading in Great Britain under the BSC you are not permitted to view, download, modify, copy, distribute, transmit, store, reproduce or otherwise use, publish, licence, transfer, sell or create derivative works (in whatever format) from this document or any information obtained from this document otherwise than for personal academic or other non-commercial purposes. All copyright and other proprietary notices contained in the original material must be retained on any copy that you make. All other rights of the copyright owner not expressly dealt with above are reserved.

Disclaimer - No representation, warranty or guarantee is made that the information provided is accurate, current or complete. Whilst care is taken in the collection and provision of this information, ELEXON Limited will not be liable for any errors, omissions, misstatements or mistakes in any information or damages resulting from the use of this information or any decision made or action taken in reliance on this information.

¹ The current version of the Balancing and Settlement Code (the 'Code') can be found at www.elexon.co.uk/ta/bscrel_docs/bsc_code.html

I CONTENTS TABLE

| | | |
|-----------|---|-----------|
| I | Contents Table..... | 2 |
| II | Document Control..... | 2 |
| a | Authorities | 2 |
| b | Distribution | 2 |
| c | Related Documents..... | 2 |
| 1 | Summary and Recommendations..... | 3 |
| 1.1 | Recommendation..... | 3 |
| 1.2 | Background..... | 3 |
| 1.3 | Rationale for Recommendations | 5 |
| 1.4 | Rationale for Proposed Implementation Date..... | 5 |
| 1.5 | Implications of the Proposed Implementation Date | 7 |
| 2 | Introduction | 9 |
| 3 | History of the Modification | 9 |
| 4 | Description of Proposed Modification | 10 |
| 5 | Legal Text to Give Effect to the Proposed Modification | 12 |
| 6 | Summary of Representations | 12 |
| | Annex 1 – Representations..... | 15 |

II DOCUMENT CONTROL

a Authorities

| Version | Date | Author | Signature | Change Reference |
|---------|----------|-----------------|-----------|------------------|
| 0.1 | 10/07/03 | Mandi Francis | | |
| 0.2 | 10/07/03 | Mandi Francis | | |
| 0.3 | 17/07/03 | Change Delivery | | |
| 0.4 | 05/08/03 | Mandi Francis | | |
| 0.5 | 08/08/03 | Change Delivery | | |
| 1.0 | 15/08/03 | Change Delivery | | |

b Distribution

| Name | Organisation |
|---|--------------|
| Each BSC Party | Various |
| Each BSC Agent | Various |
| The Gas and Electricity Markets Authority | Ofgem |
| Each BSC Panel Member | Various |
| Energywatch | Energywatch |
| Core Industry Document Owners | Various |

c Related Documents

| Reference | Document |
|-------------|--|
| Reference 1 | Modification Proposal P122 'Assessment of Credit Cover during Holiday Periods' Assessment Report (P122AR10, 4 July 2003) |

1 SUMMARY AND RECOMMENDATIONS

1.1 Recommendation

Provided on the front cover of this Modification Report.

1.2 Background

The Assessment Report for Modification Proposal P122 (Reference 1) contains the detailed background and history of Modification Proposal P122, and this report can be found on the BSC Website, as follows:

<ftp://www.elexon.co.uk/ta/modifications/modsprops/P122/P122AR10.pdf>

Modification Proposal P122 'Assessment of Credit Cover during Holiday Periods' (P122) was raised by BizzEnergy Limited on 26 March 2003. P122 seeks to introduce the concept of a Holiday Credit Assessment Load Factor (CALF), for Supplier Base and Additional BM Units for periods during a BSC Year where demand differs as a consequence of bank and other public holidays, namely Christmas - New Year and Easter.

Furthermore, P122 seeks to amend the process whereby material doubt is applied to credit default situations, to attempt to shorten the length of time between the Credit Default notices being issued by the Energy Contract Volume Aggregation Agent (ECVAA) and being either authorised or cancelled by BSCCo, (cancelled by the application of material doubt), in order to provide BSC Parties with more certainty around the application of material doubt by BSCCo. In order to achieve this, the Panel will be obliged to establish and maintain a material doubt guideline for BSCCo to use when determining and applying material doubt.

The BSC Panel (the Panel) considered the Initial Written Assessment for P122 at their meeting of 10 April 2003, and agreed to submit Modification Proposal P122 to the Assessment Procedure, with the Assessment Report to be submitted for consideration at the Panel meeting of 10 July 2003. The Panel also agreed that the Assessment Procedure should be undertaken by the Settlement Standing Modification Group (SSMG).

At its meeting of 10 April 2003, the Panel also considered the Initial Written Assessment for Modification Proposal P123 'Assessment of Credit Cover following a change in a Party's Portfolio' (P123), also raised by BizzEnergy Limited on 26 March 2003. The Panel noted the similarity of the issues that Modification Proposals P122 and P123 seek to address, but agreed that the Modifications are different enough and thus should be assessed as separate Modification Proposals. The Assessment Report for P123 was also presented to the Panel meeting of 10 July 2003 and the Modification Report for P123 will be presented to the Panel meeting of 14 August 2003.

During the Assessment Procedure for P122, the SSMG met four times, on 15 and 28 April 2003, 27 May 2003 and 24 June 2003, to assess P122, define the requirements for the solution to the Modification Proposal, consider the consultation responses and impact assessments and to agree the recommendations to be made to the Panel in respect of P122.

To assist in the assessment of P122:

- A High Level Impact Assessment, based on the Requirements Specification was issued to the BSC Central Service Agent and BSCCo, with responses received in time for inclusion in the industry consultation;
- An Assessment Consultation aimed at determining industry opinion of the proposed solution for P122, including the results of the High Level Impact Assessment of the potential solutions, and

requesting information for assisting the SSMG assessment of P122, was issued on 4 June 2003, with responses received by 16 June 2003;

- A request for an Impact Assessment, based on the consultation document was issued in parallel with the assessment consultation, for industry impact assessment (MC00056), and BSC Central Service Agent and BSCCo for detailed level impact assessment.

The SSMG unanimously agreed that Proposed Modification P122 should be made. The SSMG noted that the consultation responses supported that opinion.

The Panel considered the Assessment Report at its meeting of 10 July 2003, and agreed, by majority, to provisionally endorse the recommendations of the SSMG, namely that the Proposed Modification should be made. Therefore, the Panel agreed to submit P122 to the Report Phase.

The Panel noted the proposal of the SSMG that P122 should be implemented in time for Christmas – New Year 2003/4, and further agreed that the Implementation Date should be should be 19 September 2003, should the Authority determination be received on or before 12 September 2003. Should an Authority determination be received after this date, but prior to 9 January 2004 then the Implementation Date should be 16 January 2004.

The Panel noted the:

- BSC Central Service Agent development and implementation costs associated with Proposed Modification P122 of £3,000, and the ongoing BSC Central Service Agent operate and maintain costs of approximately £0 per annum, provided that the Holiday CALF registrations do not exceed 1000 per annum (noting that if this threshold is exceeded, costs of £475 per man day effort will be incurred, not £475 per registration); and
- ELEXON development and implementation effort of approximately 62 man days, and ongoing ELEXON operational effort of 18 man days per annum.

The Panel noted the deliberations of the SSMG, set out in the Assessment Report, as to whether the definitions of the relevant Holiday Periods could be, and indeed whether they should be, placed in the Code. A number of Panel members noted the proposed formulaic approach for defining the relevant holiday periods, and noted that this potentially precluded other holiday periods (such as long weekends like the Jubilee holiday periods), for being considered for Holiday CALF values, and that raising a Modification Proposal to incorporate other holiday periods, could be considered to be excessive effort.

However, the representative of the Authority drew the attention of the Panel to previous determinations made by the Authority regarding previous Modification Proposals containing 'open ended' parameters (in the case of P122, the holiday periods), particularly in respect of Modification Proposal P81 'Removal of the Requirement for Half-Hourly Metering on Third Party Generators at Domestic Premises'.

The Panel noted that this response from the Authority effectively supports the decision of the majority of the SSMG to include the definition of the relevant holiday periods in the Code. The Panel further noted that the legal drafting incorporating the relevant definitions would be included in the Modification Report for consultation.

The draft Modification Report, containing the provisional recommendations of the Panel, was provided to Industry for consultation on 18 July 2003, allowing 10 working days for respondents (responses due 1 August 2003).

The consultation responses made in respect of the Draft Modification Report were received on 1 August 2003. The majority of respondents (five out of six) support the provisional recommendations of the

Panel in respect of Proposed Modification P122. The responses did not contain any new, substantive arguments.

One respondent did, however, raise an issue regarding the legal drafting for P122. The substance of this comment, and the ELEXON response in respect of it, are provided in section 6 of this Modification Report. As a consequence of reviewing the issue raised by the respondent, the legal drafting has been amended to clarify the intent of the drafting, namely that the Holiday Periods comprise complete Settlement Days. It should also be noted that this does not change the intent of the legal drafting, and it is not believed that this represents an amendment material enough to warrant a second consultation on the legal drafting.

The Panel considered the draft Modification Report and the consultation responses made in respect of the report at its meeting of 14 August 2003. The Panel noted and agreed the amendment to the legal drafting for P122, and furthermore unanimously agreed to confirm its provisional recommendations with respect to P122, namely that the Proposed Modification should be made.

1.3 Rationale for Recommendations

The Panel supported the rationale for the recommendations made by the SSMG with regards to Proposed Modification P122 and on the basis of this rationale the Panel provisionally recommended that Proposed Modification P122 should be made. The rationale of the SSMG is as follows:

The SSMG were unanimous in asserting that P122 better facilitates Applicable BSC Objective 3(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*', namely because P122 improves competition by removing barriers to entry for certain industrial and commercial Suppliers, allowing them to maintain a more appropriate level of credit cover. This reduces their costs, thereby encouraging niche competitors and lowering the cost of market entry for new suppliers.

The SSMG also believed that, to a lesser extent, P122 better facilitates Applicable BSC Objective 3(d) '*Promoting efficiency in the implementation and administration of the balancing and settlement arrangements*', because the amendments to the Credit Default process identified by P122 may have the effect of improving efficiency in the Credit Cover and Credit Default arrangements, thus improving BSCCo's efficiency in the handling of Credit Default.

The SSMG noted that the majority of the consultation responses made in respect of the assessment consultation (section 11 of the Assessment Report) supported the assertions of the SSMG with regards to the facilitation of the Applicable BSC Objectives.

1.4 Rationale for Proposed Implementation Date

During the Assessment Procedure for P122, the SSMG noted that the next Holiday Period would be Christmas – New Year 2003/4. The SSMG therefore indicated that it would be their preference to have an Implementation Date for P122 that would allow the mechanism proposed by the Modification to be in place in time for use over that holiday period. The following sets out the timetable for the implementation, and provides the rationale for the Implementation Date provided for P122.

The solution to P122 agreed by the majority of the SSMG requires the following to be undertaken during the implementation of the Modification Proposal:

- Amendment to the Code to reference defined Holiday Periods (Christmas – New Year and Easter), the requirement for BSCCo to maintain and make available the material doubt guidelines and the

requirement for BSCCo to review evidence provided in respect of material doubt at the point of provision of the evidence by the relevant BSC Party;

- Amendment to the CALF Guidelines to set out the process for BSCCo determination of Holiday CALF values, and the process whereby BSC Parties can request (and appeal) Holiday CALF values (utilising the existing process for seasonal CALF values, i.e. ISG approval);
- Determination by BSCCo of Holiday CALF values for Holiday Period(s) in the next part or full BSC Season for those Parties that have requested them (including resolution of any appeals on such values);
- Potential amendment to the BSCCo market monitoring system, TOMAS, for the purposes of verification of the Energy Indebtedness calculations in the determination of material doubt; and
- Amendment to the material doubt guidelines to set out the process whereby BSCCo determines and applies material doubt, with agreement of the material doubt guidelines by the Panel (potentially delegated to the Imbalance Settlement Group (ISG)).

It should be noted that none of these activities require amendment to the BSC Systems or Code Subsidiary Documents and other configurable items. Both the CALF Guidelines and the material doubt guideline are / will be maintained by ELEXON Service Delivery, and therefore this removes the requirement for including the Modification in a scheduled BSC Systems Release, and instead it can be delivered as a special project.

Service Delivery have indicated a lead time requirement of 14 weeks for the purposes of amending the CALF Guidelines and establishing and obtaining agreement to the material doubt guideline and for calculating the Holiday CALF values for those Parties requesting them. Service Delivery have indicated that this lead time is required for the amendment and clarification of the material doubt guidelines.

Therefore, if the 'normal process' for calculating, appealing and registering Holiday CALF values, i.e. the process that aligns with the process in place for calculating and providing BSC Seasonal CALF values, is amended to account for constrained timescales for the first holiday period, the following timetable is proposed, assuming approval of the Holiday Period commencing 24 December 2003, (and assuming some delegation of the material doubt guideline definition and establishment to the ISG), and working backwards from the end date of 19 December 2003:

- The latest date for registering Holiday CALF (HOL-CALF) values in the Central Registration Agent (CRA) will be **19 December 2003**;
- Thus an extra-ordinary meeting of the Imbalance Settlement Group (ISG) can be held on Tuesday **16 December 2003** in order to hear any appeals on the Holiday CALF values proposed, and to finalise and agree the material doubt guidelines, if the ISG have delegated authority;
- Or, where the Panel retains the obligation to establish the material doubt guidelines, the Panel can finalise and agree the material doubt guidelines at its meeting of 11 December 2003;
- Appeals on HOL-CALF values, and discussion on the material doubt guidelines can also be held at the ISG meetings of **25 November 2003**, and **28 October 2003**;
- Holiday CALF values for the Holiday Period commencing 24 December 2003 should be issued by **14 October 2003**, to enable an appeal window from 15 October 2003 to 15 December 2003;
- Allowing the 14 weeks lead time, means an Authority determination by **12 September 2003**, for an **Implementation Date of 19 September 2003** (as this will allow BSCCo to undertake the relevant work for the Christmas Holiday Period, required under the Code);

- **13 September 2003 to 14 October 2003** – amendment to the CALF Guidelines to reflect Holiday CALF and BSC Seasonal CALF calculation guidelines; and
- **13 September 2003 to 15 December 2003** – establishment of the material doubt guidelines, including any amendments to TOMAS required for any verification calculation.

The Modification Report will be provided to the Authority by 15 August 2003 for determination, and in order to meet the timetable for implementation for the Christmas Holiday Period, a determination will be required by 12 September 2003. Where a decision is not received by this date, then the first Holiday Period will be Easter 2004, and the second Implementation Date proposed, namely the requirement for an Authority determination by 9 January 2004, reflects this.

1.5 Implications of the Proposed Implementation Date

Section 1.4 sets out the timetable required to implement P122 in time for the Christmas Period, should an Authority determination to approve P122 be received by 12 September 2003. In order to meet the deadline for implementation for the Christmas Period, a fairly aggressive timetable has been proposed, and this has implications in respect of the 'normal' processes required to the calculation and registration of Seasonal CALF values for the Winter 2003 / 2004 BSC Season. These elements do not require explicit drafting in the Code. In the event of an Authority determination to implement P122, a circular would be issued informing Parties of the implementation process.

These implications are covered in this Modification Report for information purposes only.

The implementation timetable requires that the Holiday CALF values for those BSC Parties requesting them be published by 14 October 2003, thus allowing a two month CALF Appeal window for the values, such that any Appeals can be heard in time for registration of the Holiday CALF values by 19 December 2003, and thus completed in time for application of the revised Holiday CALF values for the Christmas holiday period.

The use of a Holiday CALF value will have an implication on the seasonal CALF value calculated. By definition, the seasonal value of CALF is an average value representative of the entire BSC Season. Where a period of prolonged demand reduction (i.e. the holiday period) is removed from the seasonal average, for the purposes of the calculation of a CALF Value specific to that holiday period, this may have the effect of potentially increasing the CALF value for the remainder of the season, represented diagrammatically (not to scale, representative of the potential effect only) in Figure 1 below:

For BSC Seasons following any implementation of P122, i.e. the enduring process for calculating BSC Season CALF and Holiday CALF values the Seasonal and Holiday CALF values will be calculated ahead of the relevant BSC Season, and published in excess of two months prior to the start of the relevant BSC Season (thus allowing for CALF Appeals to be heard and resolved prior to the start of the BSC Season).

However, due to the aggressive timetable required for the implementation of P122 in time for the Christmas 2003 holiday period, it will be necessary to derive and publish CALF values for the Winter (December 2003 to February 2004 inclusive) BSC Season before Holiday CALF values are requested, derived and published. BSC Seasonal values will be published in mid September 2003, whereas Holiday CALF values will not be published until around 14 October 2003.

This will mean one of two things for BSC Parties that request a Holiday CALF for the Christmas 2003 holiday period:

1. Where the CALF value derived and published for the Winter BSC Season in mid September 2003 is different from the CALF value required following adjustment to reflect the removal of the holiday period, it will be replaced with an amended CALF value for the BSC Season, reflecting the average for the BSC Season without the holiday period (as described in Figure 1 above); and / or

It should be noted that the following will occur only where BSC Parties do not appeal in time for the ISG meeting of 25 November 2003 (noting that there is also an ISG meeting on 28 October 2003 that (early – within the two month appeal window) appeals can be heard at).

2. BSC Parties that appeal the Holiday CALF, and / or adjusted BSC Seasonal CALF value late (but still within the two month window), following publication of the Holiday and BSC Season adjusted CALF values (on 15 October 2003) will have the original derived adjusted seasonal CALF value applied to the point of the appeal, as reflected in Figure 2 below, in accordance with the Balancing and Settlement Code, Section 1.5.9, which allows only for prospective application / registration of a new CALF value following appeal resolution.

BSCCo believe that this process is consistent with the requirements of the Code in respect of derivation and publication of CALF values. Furthermore, the process set out above is not, and will not be, the usual process for derivation, publication and appeal of BSC Season and Holiday CALF values.

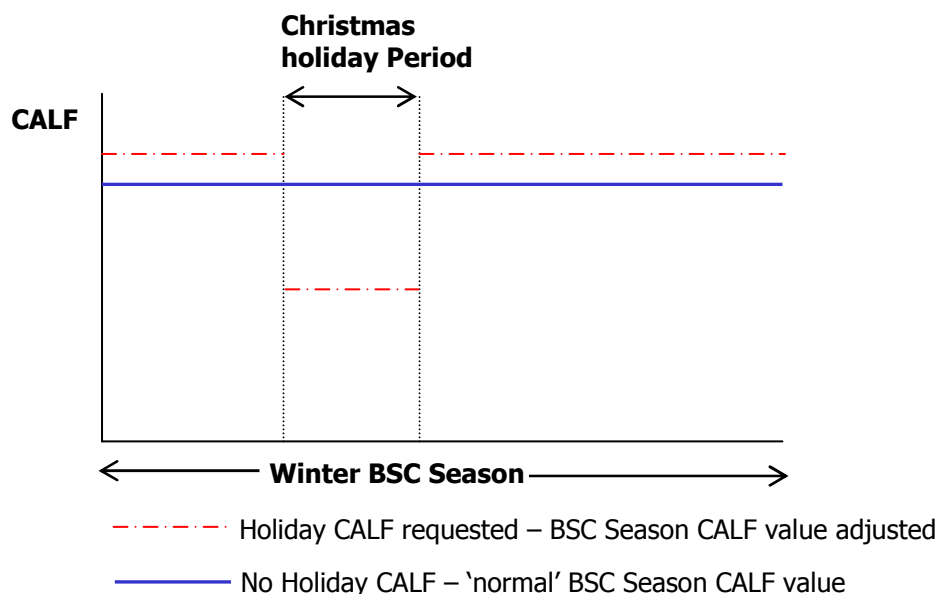


Figure 1: Affect on Seasonal CALF values from Applying a Holiday CALF

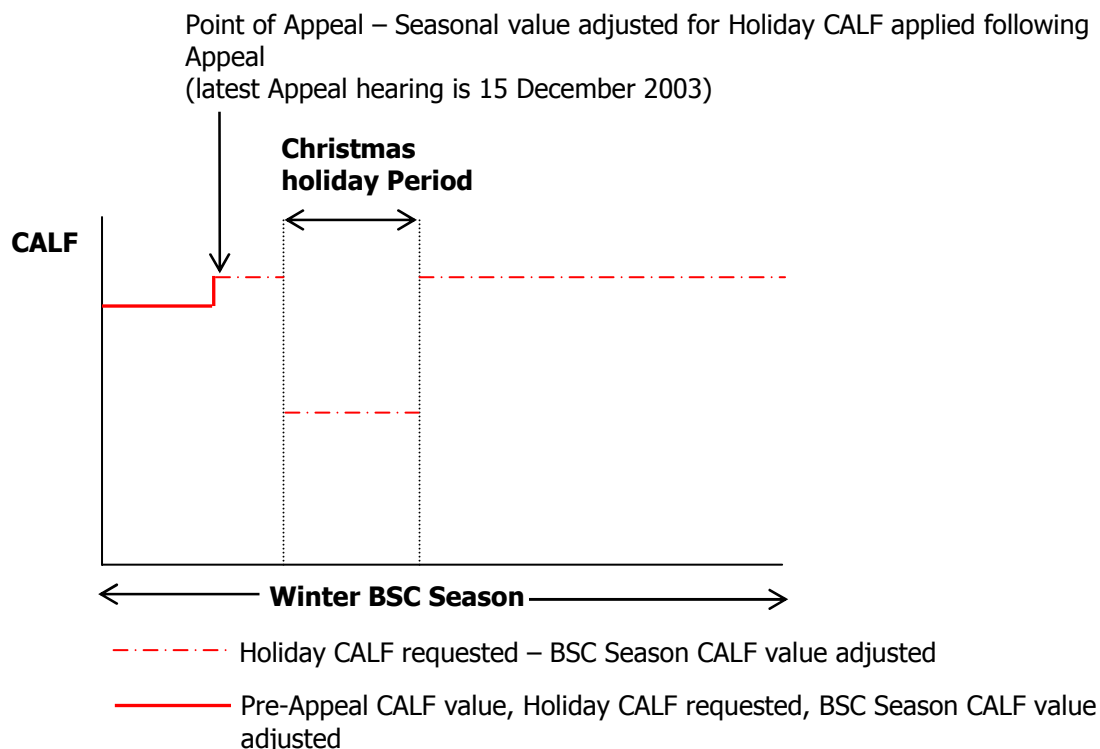


Figure 2: Affect on Seasonal CALF values from a (late) CALF Appeal in relation to Holiday CALF and Adjusted Seasonal CALF values.

2 INTRODUCTION

This Report has been prepared by ELEXON Ltd., on behalf of the Balancing and Settlement Code Panel (‘the Panel’), in accordance with the terms of the Balancing and Settlement Code (‘BSC’). The BSC is the legal document containing the rules of the balancing mechanism and imbalance settlement process and related governance provisions. ELEXON is the company that performs the role and functions of the BSCCo, as defined in the BSC.

This Modification Report is addressed and furnished to the Gas and Electricity Markets Authority (‘the Authority’) and none of the facts, opinions or statements contained herein may be relied upon by any other person. An electronic copy of this document can be found on the BSC website, at www.elexon.co.uk

3 HISTORY OF THE MODIFICATION

Modification Proposal P122 has been extensively assessed by the SSMG, and the detail of the assessment is provided in the Assessment Report for Modification Proposal P122 (Reference 1), and is therefore not repeated here.

4 DESCRIPTION OF PROPOSED MODIFICATION

The rationale of the SSMG, in determining the following solution, is set out in section 5 of the Assessment Report (Reference 1).

However, it should be noted that, in order to tie this solution back to the deliberations of the SSMG, the solution detailed in this section below represents the following options considered and consulted on during the Assessment Procedure for P122:

- No specified option (in the requirements specification), but effectively a process whereby, for the holiday periods defined in the Code, a Party can request a Holiday CALF value via a process that aligns closely with that for defining the BSC Seasonal CALF values; and
- **Material Doubt Option B:** Use the existing process for material doubt but enhance the current guidelines to include more formal guidelines on the type of calculations that BSCCo should be using for verifying material doubt, for example in the case of portfolio change and over holiday periods.

Therefore the solution / description of the Proposed Modification set out below is that proposed by the SSMG to the Panel, and subsequently by the Panel to the Authority as the solution giving effect to the agreed legal drafting for P122.

4.1.1 Determination of Holiday Periods

The SSMG agreed that the holiday periods should consist of two periods, the Christmas New Year period and the Easter Period.

The SSMG noted that the next key Holiday Periods would be Christmas 2003 and Easter 2004, and the SSMG agreed, given the potential implementation timetable (set out in section 1.4), that it would be appropriate to flag the SSMG preference for implementing P122 in time for the Christmas Holiday Period.

The SSMG agreed that there should be a generic definition of the Christmas and Easter Holiday periods in the Code, in order to provide Parties with certainty as to the Holiday Periods that the process proposed by P122 will be applied to.

4.1.2 Calculation of Holiday CALF

Prior to the start of the BSC Season containing a holiday period, BSCCo will issue a circular to BSC Parties, reminding them of the need to submit a request for calculation of a HOL-CALF value for any Supplier BM Units for which a value is required.

Any BSC Party wishing to take advantage of a HOL-CALF value for a Supplier BM Unit will notify BSCCo prior to the calculation of the seasonal CALF values that they wish to take advantage of this facility for named Supplier BM Units. Parties will not be allowed to request the calculation of a HOL-CALF value at any other time.

Upon receipt of a request BSCCo will calculate HOL-CALF values for those BM Units that requested a HOL-CALF value, following the same timescales and process as for seasonal CALF values. The HOL-CALF values will not necessarily be the same for all annual holiday periods and will be calculated in accordance with the CALF Guidelines. It should be noted that for any BM Unit with a HOL-CALF value the seasonal CALF value will also be recalculated and will exclude data from the holiday period.

4.1.3 Issuing of HOL-CALF Values

BSCCo will notify the CRA of the CALF values for a BSC Season using the current process and timescales, and at the same time will include the HOL-CALF values for those Supplier BM Units for which a HOL-CALF was requested, if a holiday period falls in that BSC Season.

The CALF values will be issued prior to the start of the BSC Season and following the determination where an appeal is made. The values will be assigned as follows:

| BM Unit ID | Credit Assessment Load Factor (CALF) | Effective From Date | Effective To Date |
|----------------|--------------------------------------|------------------------|--------------------------|
| Supplier BMU-1 | Seasonal CALF Value | Season Start date | (Holiday Start date) – 1 |
| Supplier BMU-2 | Seasonal CALF Value | Season Start date | (Holiday Start date) – 1 |
| etc | | | |
| Supplier BMU-1 | Holiday CALF Value | (Holiday Start date) | (Holiday End date) |
| Supplier BMU-2 | Holiday CALF Value | (Holiday Start date) | (Holiday End date) |
| etc..... | | | |
| Supplier BMU-1 | Seasonal CALF Value | (Holiday End date) + 1 | Season End date |
| Supplier BMU-2 | Seasonal CALF Value | (Holiday End date) + 1 | Season End date |

As is the current practice, separate reports will be sent by BSCCo to the CRA for each set of dates for the Supplier BM Units that have requested a HOL-CALF value be calculated.

4.1.4 HOL-CALF Appeals

The SSMG agreed that the rules and processes for appealing (seasonal) CALF values will also apply for appealing HOL-CALF values.

4.1.5 Determination and Application of Material Doubt

The process for establishing material doubt in itself will be unchanged. Parties will be required to provide sufficient evidence to demonstrate to BSCCo that their case is valid, such that BSCCo can reach a view on material doubt and carry out any necessary calculations prior to any notice being issued, so that a final determination can be reached as soon as possible after the receipt of a Credit Default notice.

The change to the current process for P122 (and P123) is that the material doubt process will include a reference to a Panel established guideline that BSCCo will be obliged to follow when reaching a determination on material doubt. The guideline may include a calculation that should be used by BSCCo when considering if there is an over calculation of Credit Cover Percentage. It should be noted that it is envisaged that the Panel will delegate the authority for establishing and maintaining the material doubt guideline to the Imbalance Settlement Group (ISG). However, this should not be assumed.

Based on this calculation and on other circumstances as permitted in the guidelines and the Code, BSCCo will be able to reach a determination on material doubt in as short a period of time as possible. This method would allow Parties to replicate the calculation themselves and be more certain that material doubt would be called on the Credit Default notice, thus allowing BSCCo to withhold any authorisation notice in respect of the Credit Default notice.

The Code amendments proposed for P122 (and P123) oblige BSCCo to review any evidence submitted as soon as reasonably practicable following receipt of the evidence. Furthermore, the material doubt guidelines should recommend that BSCCo provide the relevant Party with an indication of the

materiality of the discrepancy as soon as the evidence has been assessed, providing a degree of certainty.

BSCCo must verify the material doubt on receipt the Credit Default notice, to ensure that all circumstances merit the application of material doubt, in order to protect BSC Parties from the risk associated with a defaulting Party. However, BSCCo is expected to expedite the determination and provide the Trading Party with verification of the application, or not, of material doubt as soon as is reasonably practicable following receipt of the Credit Default notice.

5 LEGAL TEXT TO GIVE EFFECT TO THE PROPOSED MODIFICATION

For the legal drafting to support Proposed Modification P122 see attached document '**P0122RR Proposed Legal Text FINAL**'.

6 SUMMARY OF REPRESENTATIONS

Six responses, on behalf of thirty Parties, were received in respect of the consultation on the Modification Report. The draft Modification Report was issued on 18 July 2003, allowing 10 working days for the consultation.

The consultation comprised four questions, and the responses made in respect of each question are summarised below. However, generally the majority of respondents supported the provisional recommendations of the Panel in respect of Proposed Modification P122, namely that the Proposed Modification be made, with a proposed Implementation Date of 19 September 2003, should the Authority determination be received on or before 12 September 2003, (should an Authority determination be received after this date, but prior to 9 January 2004 then the Implementation Date should be 16 January 2004), and furthermore, agreed that the legal drafting provided to give effect to the Proposed Modification addresses the defect identified by the Modification Proposal.

It should be noted that no new, substantive arguments have been raised.

In summary:

Q1 Do you agree with the Panel's views on P122 and the provisional recommendation to the Authority contained in the draft Modification Report that P122 should be made? Please give rationale.

Five respondents (26 Parties) support the provisional recommendation of the Panel that the Proposed Modification should be made. Rationale for supporting the Panel's provisional recommendation was given as:

- The Proposed Modification allows a better reflection of credit exposure, and thus mitigates the requirement to post excessive credit cover. This facilitates competition by reducing Supplier costs and risks;
- The material doubt part of the Proposed Modification allows BSCCo to work more efficiently, rather than imposing new requirements;
- P122 better facilitates Applicable BSC Objective (c) (improved competition), by removing a barrier to certain industrial and commercial Suppliers; and
- The Proposed Modification provides a pragmatic, low cost solution to the defect which ensures that the protection provided by the credit cover arrangements is not compromised.

Furthermore, the Proposed Modification should provide sufficient comfort to Parties that they will not go into Credit Default purely due to an overstating of indebtedness during a holiday period.

One respondent (4 Parties) did not support the provisional recommendation of the Panel that the Proposed Modification should be made, stating that the Proposed Modification does not better facilitate the Applicable BSC Objectives. No further rationale was provided.

Q2 Do you agree with the Panel's view that the legal text provided in the draft Modification Report correctly addresses the defect or issue identified in the Modification Proposal? Please give rationale.

Five respondents (26 Parties) agree with the view of the Panel that the legal text provided in the draft Modification Report correctly addresses the defect of issue identified in the Modification Proposal. One respondent (the Proposer, 1 Party) indicated that, whilst supporting / agreeing with the legal drafting, the rigidity of the dates caused some concern. However, the respondent further noted that review and amendments to the dates could be achieved at relatively low cost, as no system changes are required.

Only one respondent (4 Parties) did not support the provisional recommendation of the Panel that the Proposed Modification should be made, as the respondent does not believe the Proposed Modification to better facilitate the Applicable BSC Objectives. Furthermore, this respondent does not believe that the proposed legal drafting addresses the defect / issues of the Proposed Modification, and the respondent proposes an alternative definition of 'Holiday Period'.

ELEXON have reviewed the proposed alternative definition and believe the current definition of the Holiday Periods to be entirely consistent with the way in which Credit Assessment Load Factor (CALF) values are applied to BM Units, namely in terms of application for complete Settlement Days (which are themselves well defined in the Code).

Therefore ELEXON do not believe the time constraints proposed by the alternative definition to be consistent with the approach of applying CALF for complete Settlement Days, and furthermore, ELEXON believes that the alternative definition provides no additional clarity or accuracy over the current definition of holiday periods.

However, it should be noted that as a consequence of reviewing the issue raised by the respondent, the legal drafting has been amended to clarify the intent of the drafting, namely that the Holiday Periods comprise complete Settlement Days. It should also be noted that this does not change the intent of the legal drafting, and it is not believed that this represents an amendment material enough to warrant a second consultation on the legal drafting.

Q3 Do you agree with the Panel's provisional recommendation concerning the Implementation Date for P122? Please give rationale.

All respondents support the provisional recommendation of the Panel regarding the Implementation Date, noting the appropriateness of getting the Proposed Modification in place for the Christmas (2003 / 2004) holiday period.

Q4 Are there any further comments on P122 that you wish to make?

Only one respondent (the Proposer, 1 Party) had any further comments. The response indicated that the material doubt guidelines could provide an efficient methodology for putting the intent of the proposals into effect, because experience shows that the problems that the Proposal seeks to address typically occur around midnight, even though a more rational view of the problem

data involved can be made during the office hours before that, when the data comes available. It is the view of the Proposer that sufficient work can be done beforehand to allow a determination of material doubt (due to holiday effects) being made in minutes.

BSCCo believe this comment to accord with the intent of the Proposed Modification, specifically the amendments to the Code to oblige BSCCo to review evidence from Parties as soon as reasonable following receipt of the evidence, in an attempt to shorten the timescales for determining and applying material doubt.

ANNEX 1 – REPRESENTATIONS

Representations were received from the following parties:

| No | Company | File Number | No. BSC Parties Represented | No. Non-Parties Represented |
|----|-----------------------|-------------|-----------------------------|-----------------------------|
| 1. | BizzEnergy | P122_DR_001 | 1 | 0 |
| 2. | NGT | P122_DR_002 | 1 | 0 |
| 3. | Innogy | P122_DR_003 | 9 | 0 |
| 4. | Powergen | P122_DR_004 | 14 | 0 |
| 5. | Scottish and Southern | P122_DR_005 | 4 | 0 |
| 6. | British Gas Trading | P122_DR_006 | 1 | 0 |

P122_DR_001 – BizzEnergy

| | |
|---|--|
| Respondent: | <i>Name</i> Keith Munday |
| No. of BSC Parties Represented | 1 |
| BSC Parties Represented | <i>Please list all BSC Parties responding on behalf of (including the respondent company if relevant).</i> BizzEnergy |
| No. of Non BSC Parties Represented | 0 |
| Non BSC Parties represented | <i>Please list all non BSC Parties responding on behalf of (including the respondent company if relevant).</i> |
| Role of Respondent | <i>Supplier</i> |

| | Question | Response | Rationale |
|----|---|----------|---|
| 1. | Do you agree with the Panel's views on P122 and the provisional recommendation to the Authority contained in the draft Modification Report that P122 should be made? Please give rationale. | Yes | The proposal allows a better reflection of the credit exposure of the community imposed by an individual supplier such that the affected party does not have to post excessive credit cover. Competition is facilitated by reducing supplier costs and risks. The material doubt part of the proposal will allow BSCCo to work more efficiently rather than imposing new requirements. |

| | Question | Response | Rationale |
|----|---|-----------------|---|
| 2. | Do you agree with the Panel's view that the legal text provided in the draft Modification Report correctly addresses the defect or issue identified in the Modification Proposal? Please give rationale. | Yes | We have concerns on the rigidity of the dates used for coverage of the holiday period but are happy that if holiday consumption patterns are observed to change in the future then this can be reviewed and addressed at relatively low cost because no systems changes are involved. |
| 3. | Do you agree with the Panel's provisional recommendation concerning the Implementation Date for P122? Please give rationale. | Yes | This proposal needs to be in place by Christmas to maximise benefit to both suppliers and to BSCCo |
| 4. | Are there any further comments on P122 that you wish to make? | Yes | We look to the material doubt guidelines to provide an efficient methodology for putting the intent of the proposals into effect because experience shows that the problems that the Proposal seeks to address typically occur around midnight, even though a more rational view of the problem data involved can be made during the office hours before that, when the data comes available. It is our view that sufficient work can be done beforehand to allow a determination of material doubt (due to holiday effects) being made in minutes. |

P122_DR_002 – NGT

| | |
|---|---|
| Respondent: | <i>Name</i> National Grid Transco |
| No. of BSC Parties Represented | One |
| BSC Parties Represented | <i>Please list all BSC Parties responding on behalf of (including the respondent company if relevant).</i> National Grid |
| No. of Non BSC Parties Represented | None |
| Non BSC Parties represented | <i>Please list all non BSC Parties responding on behalf of (including the respondent company if relevant).</i> N/A |
| Role of Respondent | <i>(Supplier/Generator/ Trader / Consolidator / Exemptable Generator / BSC Agent / Party Agent / other – please state)</i> BSC Party |

| Q | Question | Response | Rationale |
|----------|-----------------|-----------------|------------------|
|----------|-----------------|-----------------|------------------|

| Q | Question | Response | Rationale |
|----------|--|-----------------|---|
| 1. | Do you agree with the Panel's views on P122 and the provisional recommendation to the Authority contained in the draft Modification Report that P122 should be made? Please give rationale. | Yes | We believe that P122 better facilitates applicable BSC objective (c) namely "promoting effective competition in the generation and supply of electricity" by removing a barrier to certain Industrial and Commercial Suppliers. |
| 2. | Do you agree with the Panel's view that the legal text provided in the draft Modification Report correctly addresses the defect or issue identified in the Modification Proposal? Please give rationale. | Yes | We agree with the Panel that the draft legal text will give effect to the solution identified in the Modification Report. |
| 3. | Do you agree with the Panel's provisional recommendation concerning the Implementation Date for P122? Please give rationale. | Yes | We agree with the recommended Implementation Date, which is sufficient to allow establishment of HOL-CALF values before Christmas - New Year 2003/04. |
| 4. | Are there any further comments on P122 that you wish to make? | No | |

P122_DR_003 – Innogy

| | |
|---|---|
| Respondent: | Ben Willis |
| No. of BSC Parties Represented | 9 |
| BSC Parties Represented | Innogy plc, Innogy Cogen Ltd, NP Cogen Trading Ltd, Npower Ltd, Npower Direct Ltd, Npower Northern Ltd, Npower Northern Supply Ltd, Npower Yorkshire Ltd and Npower Yorkshire Supply Ltd. |
| No. of Non BSC Parties Represented | |
| Non BSC Parties represented | |
| Role of Respondent | Supplier / Generator / Trader / Consolidator / Exemptable Generator / Party Agent |

| Q | Question | Response | Rationale |
|----------|--|-----------------|------------------|
| 1. | Do you agree with the Panel's views on P122 and the provisional recommendation to the Authority contained in the draft Modification Report that P122 should be made? Please give rationale. | Yes | |
| 2. | Do you agree with the Panel's view that the legal text provided in the draft Modification Report correctly addresses the defect or issue identified in the Modification Proposal? Please give rationale. | Yes | |

| Q | Question | Response | Rationale |
|----|--|----------|-----------|
| 3. | Do you agree with the Panel's provisional recommendation concerning the Implementation Date for P122? Please give rationale. | Yes | |
| 4. | Are there any further comments on P122 that you wish to make? | No | |

P122_DR_004 - Powergen

| | |
|---|--|
| Respondent: | Powergen UK plc |
| No. of BSC Parties Represented | 14 |
| BSC Parties Represented | Powergen UK plc, Powergen Retail Limited, Cottam Development Centre Limited, TXU Europe Drakelow Limited, TXU Europe Ironbridge Limited, TXU Europe High Marnham Limited, Midlands Gas Limited, Western Gas Limited, TXU Europe (AHG) Limited, TXU Europe (AH Online) Limited, Citigen (London) Limited, Severn Trent Energy Limited (known as TXU Europe (AHST) Limited), TXU Europe (AHGD) Limited and Ownlabel Energy Limited |
| No. of Non BSC Parties Represented | - |
| Non BSC Parties represented | - |
| Role of Respondent | Supplier, Generator, Trader, Exemptable Generator |

| Q | Question | Response | Rationale |
|----|--|----------|---|
| 1. | Do you agree with the Panel's views on P122 and the provisional recommendation to the Authority contained in the draft Modification Report that P122 should be made? Please give rationale. | Yes | This proposal provides a pragmatic, low cost solution to the defect which ensures that the protection provided by the credit cover arrangements is not compromised. Providing the ability to apply for "holiday CALFs", with changes to the guidelines for calling Material Doubt, should provide sufficient comfort to Parties that they will not go into credit default purely due to an overstating of indebtedness during a holiday period. |
| 2. | Do you agree with the Panel's view that the legal text provided in the draft Modification Report correctly addresses the defect or issue identified in the Modification Proposal? Please give rationale. | Yes | |
| 3. | Do you agree with the Panel's provisional recommendation concerning the Implementation Date for P122? Please give rationale. | Yes | It is appropriate to aim to introduce P122 in time for the next "holiday period" of Christmas 2003. |
| 4. | Are there any further comments on P122 that you wish to make? | No | |

P122_DR_005 – Scottish and Southern

This response is sent on behalf of Scottish and Southern Energy, Southern Electric, Keadby Generation Ltd. and SSE Energy Supply Ltd.

In relation to the four questions listed in the Consultation Paper, contained within your note of 18th July 2003 concerning Modification Proposal P122, we have the following comments to make:-

Q1 Do you agree with the Panel's views on P122 and the provisional recommendation to the Authority contained in the draft Modification Report that P122 should be made? Please give rationale.

No. We do not believe that Modification Proposal P122 better facilitates the achievement of the Applicable BSC Objectives.

Please note our response to any of the following questions should not be construed to lend support whatsoever to this Modification.

Q2 Do you agree with the Panel's view that the legal text provided in the draft Modification Report correctly addresses the defect or issue identified in the Modification Proposal? Please give rationale.

No. We do not see how the proposed wording in 1.5A (a) addresses the defect or issue identified in the Modification Proposal. A better definition would be to say that the "Annual Holiday Periods" shall be from "00:01 on Good Friday to 23:59 on East Monday". Timings should also be added into the table in (b) to indicate, for example, that the commencement day of "preceding Saturday" is "00:01 on the preceding Saturday" whilst the conclusion day is either "23:59 on that day" or "23:59 on the following Monday".

Q3 Do you agree with the Panel's provisional recommendation concerning the Implementation Date for P122? Please give rationale.

If the Modification Proposal P122 is approved, we agree with the proposed BSC Panel recommendation on the timing for the Implementation Date, as outlined in Section 1.1 of the Modification Report.

Q4 Are there any further comments on P122 that you wish to make?

Nothing further at this time.

P122_DR_006 – BGT

Re: Modification Proposal P122 – Assessment of Credit Cover during a Holiday Period

Thank you for the opportunity of responding to this draft modification report considering Modification Proposal P122. British Gas Trading (BGT) agrees the Modification Proposal will better facilitate Applicable BSC Objective (c). P122 will address a defect in the credit cover calculations that can force parties to lodge excessive amounts of credit cover over the holiday periods of Christmas and Easter.

In view of the difficulties suffered by some BSC Parties over the Christmas and Easter periods in 2002 the proposed implementation dates appear prudent. BGT believe if possible the initial implementation date of 19 September 2003 should be the target date so the solution can be used by BSC Parties for Christmas 2003.