

Draft MODIFICATION REPORT for Modification Proposal P122

Assessment of Credit Cover during a Holiday Period

Prepared by: Settlement Standing Modification Group

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Consultation

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RECOMMENDATIONS

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

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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

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II DOCUMENT CONTROL

a Authorities

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0.1	10/07/03	Mandi Francis		
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0.3	17/07/03	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, that BSCCo will 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 (Reference 5) 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, (excluding ELEXON effort of approximately 62 man days) 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). This excludes 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 17 July 2003, allowing 11 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. [Pending Consultation]

[The Panel considered the draft Modification Report and the consultation responses made in respect of the report at its meeting of 14 August 2003 and ... pending deliberation]

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;
- 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 done 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 11 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 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:

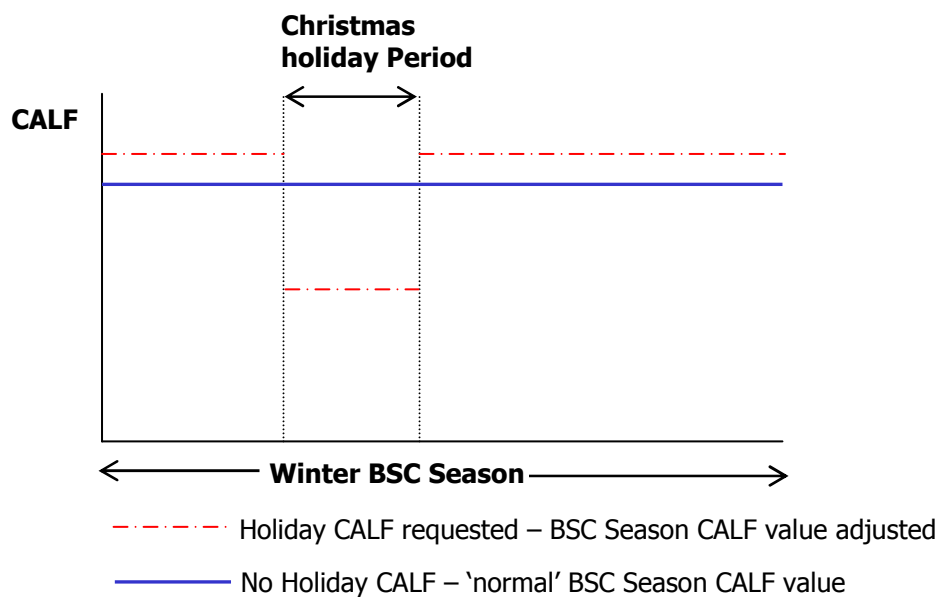


Figure 1: Affect on Seasonal CALF values from Applying a Holiday CALF

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.

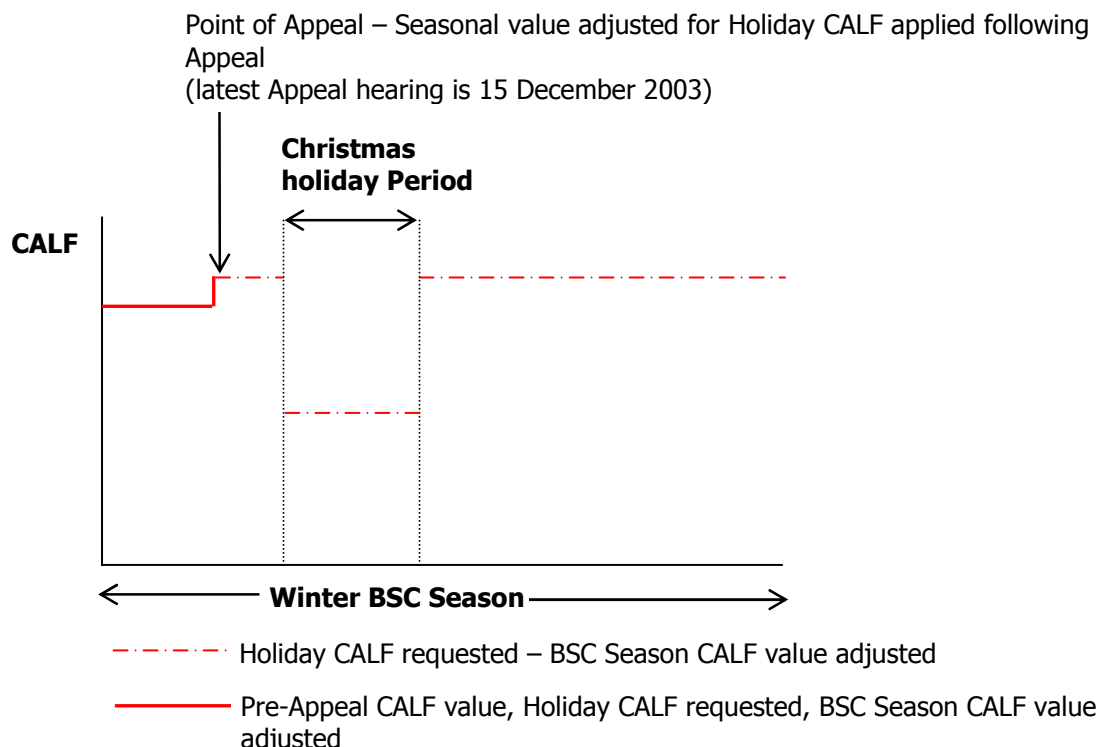


Figure 2: Affect on Seasonal CALF values from a (late) CALF Appeal in relation to Holiday CALF and Adjusted Seasonal CALF values.

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.

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, 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 same rules for appealing CALF values will apply to HOL-CALF values, see section 5.1 for the current rules.

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**'.

6 SUMMARY OF REPRESENTATIONS

[pending receipt]

ANNEX 1 – REPRESENTATIONS

[pending receipt]