

**Modification Proposal – F76/01****MP No: 122***(mandatory by BSCCo)***Title of Modification Proposal** *(mandatory by originator):***Assessment of Credit Cover during Holiday Periods****Submission Date** *(mandatory by originator):*26<sup>th</sup> March 2003**Description of Proposed Modification** *(mandatory by originator)*

1. The Panel is required to set holiday periods for each year (e.g. the Christmas/New Year period and Easter), and may elect to select additional periods at short notice where there is reason to believe that the pattern of offtake at SVA BMUs will be substantially different for certain types of supplier portfolio from those normally prevailing in a season.
2. Under M1.5, each Party is permitted to set a holiday CALF in respect of all BMUs registered in SVA to apply just for days in the holiday period.
3. At the start of each Holiday Period BSCCo will change the applied CALF to be the holiday values, and at the end of the Holiday Period will reset them to the prevailing seasonal values.
4. For the same days where this holiday CALF applies for a specific BMU, BSCCo will be authorised by the Panel to use an alternative measure to reassess the level of Actual Energy Indebtedness of the affected BMU where such measures are deemed more likely to reflect the level of metered energy offtaken at the BMU for the purposes of Energy Indebtedness calculation. BSCCo and the Trading Party will consequently disregard the Credit Cover percentage notified by the ECVAA under M3.1.4 for that Trading Party and BSCCo will recalculate such Credit Cover percentage using appropriate calculations derived from the alternative measures as soon as reasonably practicable after each Settlement Day.
5. Where such alternative calculations apply, BSCCo may instruct the ECVAA to suspend the submission of level 1 credit default notices (specified in M3.2.1) to the affected party or may use other means to nullify the effect of such notices issued (including the suspension of the start of the Query Period) on the basis that the values derived from the alternative calculation represent material doubt that the ECVAA calculation of Actual Energy Indebtedness offers a correct determination.

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### **Description of Issue or Defect that Modification Proposal Seeks to Address** *(mandatory by originator)*

Currently the levels of Credit Cover required to be provided by Suppliers at times of low demand during holiday periods are not reflective of the actual level of indebtedness of the Supplier. For a Supplier in the Industrial and Commercial sector demands over holiday period can be around 30% of average seasonal demands.

A Supplier who acts responsibly and aims to run with no exposure to the imbalance mechanism will normally only have modest levels of Energy Indebtedness (*indeed given current market conditions will normally be a creditor*). However, at times of low demand there are two problems:

1. The use of a seasonal average CALF results in an unrealistically high level of Credit Assessment Energy Indebtedness during the Settlement Days for which the II run has not been completed. To address this, this proposal seeks to allow a specific holiday CALF to be applied.
2. The use of “same day of the week” at the II run to calculate Actual Energy Indebtedness distorts the balance between domestic demands and industrial/commercial demands such that predominantly I&C portfolios are likely to be assessed as having too large a share of GSP Group take. To address this, this proposal seeks to allow specific alternative measures to be applied by BSCCo for the recalculation of the Trading Party’s Actual Energy Indebtedness that are more likely to reflect the metered offtake at such a BMU on holiday period days.

These problems result in artificially high levels of Credit Cover being demanded and can unreasonably place such suppliers into credit default just when they are unable to raise additional credit, due to the non-banking days, and when the risk does not actually exist.

Under M3.4.3(a), BSCCo can only determine that the assessment of Actual Energy Indebtedness is erroneous once the ECVAA has submitted to it a copy of the level 1 default notice that has been submitted to the affected party. This allows the Party to raise a default query notice within a Query Period of 24 hours commencing from the time the default notice was received by the Party. Because this Query Period is regardless of holidays and weekends both the Party and BSCCo are required to provide expensive resources in order to establish the materiality of any doubt as to the accuracy of the information used in the calculation of Actual Energy Indebtedness. BSCCo has no right to anticipate the information even where it has good reason to materially doubt the figures coming from the ECVAA. To address this, this proposal seeks to allow BSCCo to maintain calculations for a period of time based on the approved alternative method and to use such calculations in preference to those made by the ECVAA in the assessment of the Trading Party’s Credit Cover Percentage and to suspend, or suspend the effect of level 1 default notices raised by the ECVAA that were based on the original methodology.

**Modification Proposal – F76/01****MP No: 122***(mandatory by BSCCo)***Impact on Code** *(optional by Originator)***Impact on Core Industry Documents** *(optional by Originator)***Impact on BSC Systems and Other Relevant Systems and Processes Used by Parties** *(optional by originator)*

It is likely that the processes required within this proposal will only be activated for certain BMUs where holiday CALF is significantly different to seasonal CALF and so manual systems operated by BSCCo may be substituted for systems changes that would otherwise need to be implemented by the ECVAA.

BSCCo will have a mandated alternative methodology for assessing material doubt as to the ECVAA calculation, exercised under the authority of the Panel. Given that the process will be triggered by a recalculation of CALF:

1. it will be feasible to calculate a share based on BMCAIC as a proportion of summated BMCAIC for all the SVA BMUs in a GSP Group and use this as a scaling factor for reducing  $QM_{ij}$  relative to that calculated by the ECVAA in T4.2.2 (noting that BMCAIC is used as a proxy for  $QM_{ij}$  in the credit calculations). Because this share will only change when there is a change to any DC or CALF that affects the GSP Group, this share will be reasonably constant in the short term. This can be used to either reassess all Trading Charges or potentially just to reassess the component of Trading Charges representing imbalance charges.

Alternatively:

2. the Day d' in T4.2.2(d) could be set at the most recent Sunday where it is used for the calculation of a GSPGT, and the resultant  $QM_{ij}$  can be used to either reassess all Trading Charges or else to reassess only the imbalance charges component.

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Furthermore, BSCCo will be able to use this methodology to recalculate Energy Indebtedness for the affected Party on an ongoing basis and will be able to reassess Actual Energy Indebtedness before any level 1 default notice is raised and this can therefore be done in normal business hours.

**Impact on other Configurable Items** *(optional by originator)***Justification for Proposed Modification with Reference to Applicable BSC Objectives** *(mandatory by originator)*

The appropriate level of credit cover should be representative of monies potentially owed; under these circumstances, this is not so. This distortion of the competitive market is discriminatory against smaller Suppliers who specialise in the industrial and commercial sector, as the scale of the impact on their business is material, potentially placing them in breach of the Code.

We believe this Modification is in line with Condition C3 (3)(a) to (c) of the Transmission Licence, namely: promoting effective competition in the generation and supply of electricity, and (so far as consistent therewith) promoting such competition in the sale and purchase (as defined in the Transmission Licence) of electricity.

This also seeks to promote the efficient operation of the BSC by reducing the instances where unnecessary level 1 default notices are given, which must be queried.

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**Attachments: No** *(delete as appropriate) (mandatory by originator)*

**If Yes, Title and No. of Pages of Each Attachment:**