

ASSESSMENT REPORT for Modification Proposal P122

Assessment of Credit Cover during Holiday Periods

Prepared by: The Settlement Standing Modification Group

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

RECOMMENDATIONS

The Settlement Standing Modification Group invites the BSC Panel to;

- **NOTE the contents of the P122 Assessment Report and the recommendations of the SSMG;**
- **AGREE that the draft Modification Report contain a provisional recommendation that the Proposed Modification P122 'Assessment of Credit Cover during Holiday Periods' should be made;**
- **AGREE that the 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;**
- **NOTE the BSC Central Service Agent development and implementation costs of £3,000 for Proposed Modification P122. This cost excludes ELEXON effort of approximately 62 man days. There are no BSC Central Service Agent ongoing operational costs, however, there will be an operational ELEXON effort of approximately 18 man days per annum;**
- **ENDORSE the recommendation of the SSMG and proceed to the Report Phase in accordance with Section F2.7 of the Code; and**
- **AGREE that the draft Modification Report be issued for consultation and issued to the Panel meeting on 7 August 2003.**

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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

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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

Related Documents

Reference	Document
Reference 1	Modification Proposal P122 'Assessment of Credit Cover during Holiday Periods' (26 March 2003) ftp://www.elexon.co.uk/ta/modifications/modsprops/P122/P122_mod_prop.pdf
Reference 2	Initial Assessment of Modification Proposal P122 'Assessment of Credit Cover during Holiday Periods' (P122IR, V1.0 FINAL, 4 April 2003) ftp://www.elexon.co.uk/ta/modifications/modsprops/P122/P122_IWA.pdf
Reference 3	Modification Proposal P123 'Assessment of Credit Cover following a change in a Party's Portfolio' (26 March 2003) ftp://www.elexon.co.uk/ta/modifications/modsprops/P123/P123_mod_prop.pdf
Reference 4	Initial Assessment of Modification Proposal P123 'Assessment of Credit Cover following a change in a Party's Portfolio' (P123IR, V1.0 FINAL, 4 April 2003) ftp://www.elexon.co.uk/ta/modifications/modsprops/P123/P123_IWA.pdf
Reference 5	Requirements Specification and Consultation Document for Modification Proposals P122 Assessment of Credit Cover during Holiday Periods and P123 Assessment of Credit Cover following a change in a Party's Portfolio (P122-P123AS, V2.0 FINAL, 3 June 2003) ftp://www.elexon.co.uk/ta/modifications/modsprops/P122/P122_P123AS20.pdf
Reference 6	ISG Paper ISG/21/228 'Operational Impact on Credit Default processes following the Introduction of Modification Proposal P2 – Revision of the Methodology for assessing Credit Indebtedness' (Material Doubt Guidelines) http://www.elexon.co.uk/ftpdocs/ta/panel/ISG/papers/021_0228.pdf

1 SUMMARY AND RECOMMENDATIONS

1.1 Recommendations

Provided on the front cover of this Assessment Report.

1.2 Background

Modification Proposal P122 'Assessment of Credit Cover during Holiday Periods' (P122) (Reference 1) 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 (Reference 2) 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, References 3 and 4), 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 will also be presented to the Panel meeting of 10 July 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 (Reference 6) 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 (Reference 6), 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.

It should be noted that whilst finalising the Assessment Report for submission to the Panel, an issue was raised regarding the mechanism for the definition of holiday periods. The Modification Secretary, in reviewing the recommendations of the Modification Group, noted that the Proposed Modification contains a currently undefined parameter, namely the relevant holiday periods. The Proposed Modification sought to leave the definition of holiday periods to the Panel, as the subject of a biennial consultation at the start of each relevant BSC Year.

However, previous experience with Modification Proposals (for example P81 'Removal of the Requirement for Half-Hourly Metering on Third Party Generators at Domestic Premises') has shown that 'open', i.e. undefined, parameters in Proposed Modifications may not provide the Panel or the Authority with sufficient certainty regarding what is actually being proposed, for them to determine on the Modification.

Therefore the Modification Secretary, supported by ELEXON's legal adviser, suggested to the SSMG that they might like to consider placing a definition of the relevant holiday periods in the Code, such that the Proposed Modification becomes 'closed', with no uncertainty, thus providing the Panel and Authority with a clearly defined Proposed Modification, enabling them to consider, in full, the ramifications of implementing the Proposed Modification.

A number of SSMG members supported the approach of including the definition of the Easter and Christmas – New Year holiday periods in the Code, acknowledging the pragmatism of such inclusion. However, the Proposer did not support such definition in the Code, supporting a more flexible approach of allowing the Panel to propose a set of holiday periods based on demand comparison, and for the Panel to consult on the proposed holiday periods for the following reasons:

- The defect in the Mod refers to Holidays and why they should be treated differently to other days and so this restriction to Christmas and Easter has to be better justified (noting that such a justification would need explain why it should be applied to just these periods and not others);
- The use of "holiday" is not an open definition if the characteristics of the day are specified;
- No legal definition of Christmas and Easter is available for us to consider;
- Such a definition is likely to be fraught with difficulty - especially as we are not defining them just as bank holidays;
- There are other precedents in the Code for using a definition of the characteristics required of such a day (including CADL and CAP) where the Panel consults and makes an objective judgement on the level of the parameter to be set; and
- Defining the characteristics for a holiday day in the Code in the way suggested is not difficult or ambiguous except to the issue of a judgement as to materiality for inclusion of specific days, which is why the Panel should be given discretion in this area in order to assess the competing goals of efficiency of operation of the credit checking processes and of facilitating competition (by not requiring parties to put up excessive credit cover).

However, the general agreement from the SSMG is to include the relevant definitions in the Code, limited to Christmas – New Year and Easter, based on the rationale set out in section 5.3.2.1 and 5.3.2.2, as consulted on as part of the assessment consultation (Reference 5).

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

1.3 Rationale for Recommendations

The following details the high level rationale for the decisions and determinations of the SSMG with regards to P122. The supporting deliberations and considerations are provided throughout this Assessment Report.

1.3.1 Preferred Solution

Section 5.3 details the deliberations of the SSMG in terms of choosing the solution for P122. Section 4 defines the preferred solution for P122.

In summary, the SSMG agreed to a solution that the majority of the SSMG believe addresses the defects identified in the Modification Proposal, namely:

- Enabling BSC Parties to apply for and have registered a CALF value specific to Code defined holiday periods. This requires amendment to the Code (Section M 1.5) and CALF Guidelines, but falls within the current definition of CALF in the Code;
- Obliging the Panel to establish a set of material doubt guidelines that will contain information regarding the sort of evidence that BSC Parties should be submitting to BSCCo for consideration on material doubt, the guidelines should also contain more information regarding how BSCCo will determine on material doubt, including any Credit Cover Percentage alternative / verification calculation. This is aimed at providing Parties with more confidence and certainty as to how material doubt will be determined and applied, without constraining BSCCo, thus allowing BSCCo flexibility to deal with all potential circumstances that may arise; and
- Obliging BSCCo to review evidence submitted by BSC Parties in respect of discrepancies in the Actual Energy Indebtedness calculation, as soon as it is submitted, thus reducing the timescales for BSCCo calling material doubt on the veracity of a Credit Default notice.

The SSMG noted that the majority of consultation responses (section 11) supported this approach, and agreed with the SSMG's rationale for this being the preferred approach.

It should be noted that the Proposer, whilst mainly supporting this approach, believes that it does not go far enough to providing the BSC Party with the certainty that material doubt will be called. The Proposer would prefer to see a formal alternative Credit Cover Percentage calculation set out in the Code, in conjunction with an obligation on BSCCo to pre-empt material doubt.

Furthermore, the Proposer does not support the inclusion of the definition of the holiday periods in Code, as this approach does not offer sufficiently flexibility for the determination of holiday periods, as the Proposer supports the more flexible approach of allowing the Panel to propose a set of holiday periods based on demand comparison, and for the Panel to consult on the proposed holiday periods.

More detail on the views of the Proposer is provided in section 5.3. Furthermore, the Proposer has provided a number of notes in relation to P122 (and P123), and these have been provided as an Annex to this Assessment Report. It should be noted that the SSMG has considered the views of the Proposer, and the contents of these notes, and the deliberations are set out in the remainder of this Assessment Report.

However, it should be noted that the majority of the SSMG (all but the Proposer) believe that placing an alternative credit calculation in the Code may have a detrimental effect on BSC Parties in terms of BSCCo's ability to call material doubt, as it may constrain BSCCo and reduce BSCCo's flexibility in terms of the actions BSCCo can take. Furthermore, the majority of the SSMG also believe that material doubt should not be pre-empted, in that BSCCo has a duty to consider all of the circumstances at the time a Credit Default notice is received, in order to protect BSC Parties from the consequences of a defaulting Party.

In terms of the inclusion of the definition of specific holiday periods in the Code, a number of SSMG members acknowledged the pragmatism of including such definition in the Code, as it 'closes' the Proposed Modification, i.e. allows certainty to the Panel and the Authority as to what is being considered and determined upon.

Therefore the SSMG believe the preferred solution to offer the most appropriate way forward.

1.3.2 Applicable BSC Objectives

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) supported the assertions of the SSMG with regards to the facilitation of the Applicable BSC Objectives.

1.4 Implementation Aspects

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 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, will reflect this.

2 INTRODUCTION

This Report has been prepared by ELEXON Ltd., on behalf of the Balancing and Settlement Code Panel, in accordance with the terms of the Balancing and Settlement Code (the Code). The Code 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 Code.

An electronic copy of this document can be found on the BSC website, at www.elexon.co.uk

3 MODIFICATION GROUP DETAILS

This Assessment Report has been prepared by the P122 Settlement Standing Modification Group. The Membership of the Modification Group was as follows:

Name	Organisation
Justin Andrews	ELEXON (Chair)
Joanne Ellis	ELEXON
Mandi Francis	ELEXON
Anna Kneafsey	ELEXON
Sandra Wybrow	ELEXON
Rob Barnett (Proposer's Alternative)	Campbell Carr
Marie Branch	International Power
Paul Jones	Powergen
Richard Lavender	National Grid
Ashley Nettleton	Gaz de France
Mark Manley	Centrica
Ben Willis	NPower
Jerome Williams	Ofgem

4 PROPOSED MODIFICATION

It should be noted that the detailed requirements for the implementation of the Proposed Modification are contained within the Requirements Specification and consultation document (Reference 5) and it is not proposed that they be repeated here.

The SSMG agreed that the implementation of P122 could be broken down into several different requirements, each discussed in the relevant section below:

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 ASSESSMENT OF MODIFICATION PROPOSAL P122

5.1 Background: The Current Process

In order to provide some context for the requirements of P122, the following sections describe the current process for calculating the Credit Cover Percentage for a Trading Party and for determining and applying material doubt where a Credit Default notice is issued.

5.1.1 Credit Assessment Load Factor (CALF)

Currently the Code (Section M1.5) states that the Panel will establish and maintain a set of CALF guidelines defining how CALF is derived by BSCCo and to what timescales. Furthermore, this section of the Code states that CALF is set "from time to time" by BSCCo. BSCCo has implemented this requirement on a seasonal basis and therefore issues CALF values for each BSC Season, approximately two months prior to the relevant BSC Season, thus allowing time for appeals to be heard and resolved ahead of the BSC Season.

CALF values are calculated by BSCCo in accordance with CALF Guidelines, and are provided to the Party. The Party may raise an appeal within 2 months of a change to the CALF Guidelines or CALF value. The Panel, or ISG², hears any appeals that are raised.

Amendments to CALF values made following a CALF appeal are always applied prospectively (i.e. not back dated to the start of the relevant BSC Season) following the outcome of the appeal.

² Currently the Panel have delegated authority to ISG for hearing CALF appeals. However, the Panel may still hear urgent appeals.

5.1.2 Material Doubt

5.1.2.1 Determination of Material Doubt

To provide some context to the underlying requirements of P122 and the determination and application of material doubt, the current Energy Indebtedness and Credit Cover Percentage calculation should be considered.

Energy Indebtedness for a BSC Party, in simplistic terms, is a comparison of the contracted volumes and the approximated expected metered volumes, in order to derive an approximation of the energy imbalance for the Party and an approximation of the resultant Energy Imbalance Charges for that energy imbalance. The calculation is cumulative over 29 days (i.e. Settlement Period to Initial Settlement (where money changes hands), in order to ensure that the Party has sufficient Credit Cover in place to cover all imbalance charges incurred between the first Settlement Period and the first Settlement Run (Initial Settlement) where the Party may default, i.e. 29 days.

The calculation comprises two parts.

The first of which uses an approximation of metered volumes by using the BM Unit Credit Assessment Export Capability ($BMCAEC = GC * CALF$) and BM Unit Credit Assessment Import Capability ($BMCAIC = DC * CALF$), i.e. the potential maximum metered capacity of the BM Unit (GC or DC) adjusted by the load factor (CALF) to get an average approximation of metered volume, which is then compared to the contract volumes to determine Energy Indebtedness. This approximation is used until actual data is available from the Interim run (II), so it is used for approximately the first 9 days (between 5 and 11 days, depending on when the Interim Settlement Run (II) is performed) of the calculation.

The second part uses actual trading data from the SAA II run to input the actual metered volumes / trading charges into the Energy Indebtedness calculation, for approximately the remaining 20 days of the calculation (again dependent on when the II run is performed). The issue with the use of this data is that metered volumes are not available for BM Units registered in SVA until the Initial Settlement Run, and therefore these volumes are estimated by reference to an equivalent day, which is the most recent Settlement Day which is the same day of the week, for which Initial Settlement (SF) has been run.

Energy Indebtedness is a MWh figure, which is translated into a percentage – the Credit Cover Percentage (%), by dividing the Energy Indebtedness (MWh) by the amount of the BSC Party's Energy Credit Cover (£/MWh)³ and multiplying the result by 100 (to give a percentage).

Where a Party enters into Credit Default, i.e. they reach 80% (level 1) and / or 90% (level 2) Credit Cover Percentage, then BSCCo has the ability to withhold the authorisation to place the Party in Credit default (and therefore to stop any issuing of notices, rejection of contract volumes etc.) where BSCCo believes there to be 'material doubt' as to the correctness of the Credit Cover Percentage calculated.

In terms of how this applies to the two parts of the calculation, material doubt can be applied to the first part only where it is believed that there has been an error made by the ECVAA, i.e. it has not calculated correctly. Material doubt cannot be applied where the DC / GC / CALF is considered to be unrepresentative of that particular circumstance or time of the season, as these are meant to provide an average for the entire BSC Season, and averages will inevitably be unrepresentative at some specific point or other.

³ The Energy Credit Cover for a BSC Party is derived by dividing the Party's Credit Cover by the Credit Assessment Price.

Material doubt can be applied to the second part of the calculation, either where there is no settlement data (i.e. ECVAAs has not received Interim Information (II) Settlement Run data from the Settlement Administration Agent (SAA)), or where there is believed to be significant difference between the data used from the II run and that coming out of the SF Run, for example, where:

- Estimated data referenced to an equivalent day, which is the most recent Settlement Day which is the same day of the week, for a bank holiday; and
- Changes to portfolio between the last SF run and the current II run, making the estimations unrepresentative.

The Imbalance Settlement Group (ISG) have also agreed an informal set of guidelines that BSCCo should use when determining if there is material doubt. These guidelines are set out in ISG/21/228 (Reference 6).

The Code, Section M3, states that BSCCo cannot determine on material doubt until a Credit Default notice has been received from the ECVAAs. This enables BSCCo to consider all the circumstances at the time the notice is issued. Furthermore, the Code is silent as to the methodology that BSCCo can use to determine on material doubt, thus leaving the mechanics to BSCCo and allowing BSCCo flexibility to deal with all the potential circumstances that could arise.

5.1.2.2 Application of Material Doubt

As referenced above, BSCCo is required, by Section M 3.4.3, to wait until a Credit Default notice is received from the ECVAAs before determining and applying material doubt. This is because the Credit Default notice is what the material doubt is being applied to, i.e. BSCCo materially doubts the veracity of the Credit Default notice because, for example, there is a significant difference between the II and SF run data that will have the effect of reducing the Credit Cover Percentage of the Party below the default threshold. Furthermore, BSCCo is not required (Section M3.4.3(b)) to take any evidence provided by the Trading Party into consideration until the Credit Default notice is received.

5.2 Rationale for raising Modification Proposal P122

At the first SSMG meeting the Proposer gave a short presentation on the background for raising P122 (and P123). The Proposer explained that over the Christmas and New Year period last year (2002), Industrial and Commercial Suppliers saw a drop in demand over the holiday period, of about 70%, which was not reflected in the Energy Indebtedness calculations (see section 5.1).

At such periods of low demand, the Proposer believes there to be two issues; the first of which is the use of a seasonal average Credit Assessment Load Factor (CALF) (and to a degree Demand Capacity) creating an unrealistically high Energy Indebtedness, and thus Credit Cover Percentage, value for the days where settlement data is not used. The second of which is the use of the 'same day of the week', the equivalent day, at the point of the II Settlement Run to estimate supplier data, resulting in contract volumes for the bank holiday (i.e. lower than normal) being compared with metered volumes and trading charges for a 'normal' weekday, thus increasing the Credit Cover Percentage of the Party further.

This set of circumstances may result in a requirement for the Party to lodge an unrepresentatively high level of Credit Cover for the holiday period to avoid entry into Credit Default. Over the Christmas period for 2002, the Proposer asserts that this resulted, for some Parties, in a requirement to increase Credit Cover to levels thirteen times greater than normal.

Furthermore, the Proposer asserts that the current definition and application of material doubt under the Code, means that Parties who have entered Credit Default as a consequence of the anomaly in the Energy Indebtedness calculation identified above, face a level of uncertainty as to the mechanism and methodology used by BSCCo in the determination of material doubt, as well as the length of time that BSCCo may take to determine whether material doubt should be applied. Thus BSC Parties cannot be certain that material doubt will be granted and in what time frames and this may mean that Parties are required to try to obtain Credit Cover as a matter of urgency pending confirmation of the BSCCo determination on material doubt (as there may be insufficient time to obtain and lodge additional credit cover following the BSCCo determination).

The Proposer believes that the problem is caused by the current rules and not by the trading practices of a particular BSC Party. In the case of one Supplier, they had a "long" position and therefore the Supplier was owed money under the Code, rather than owing money as the Energy Indebtedness during the holiday period suggested.

Thus the Proposer asserts that P122 is seeking to make the Credit Cover arrangements more reflective of real world indebtedness values over holiday periods and thus make the Credit Cover arrangements more efficient and reflective of the actual Energy Indebtedness value, and therefore, Credit Cover Percentage, whilst retaining the requisite level of protection from risk of defaulting Parties for all BSC Parties.

The Proposer suggests that the problem is caused by the Energy Indebtedness calculation, which is comprised of two parts, the Credit Assessment Energy Indebtedness (CEI) and Actual Energy Indebtedness (AEI) calculations. The Proposer believes the issues associated with the calculation to be:

- The CEI part of the calculation can be materially unreflective of the 'real' Energy Indebtedness if the Credit Assessment Load Factor (CALF) values used are not representative of the Settlement Day for which it is being used;
- The AEI part of the calculation has a significant effect for Supplier BM Units as it is based on the GSP Group take of an 'equivalent day' i.e. a Settlement Day approx. 35 days in the past. The Proposer suggested that this could be remedied by changing the "equivalent day" that is used or by recalculating the GSP Group Share based on BM Unit Credit Assessment Import Capability (BMCAIC), as currently the calculation does not compare like with like on holidays.

The Proposer also explained that both P122 and P123 were seeking to change the material doubt provisions that BSCCo has for preventing authorisation of Credit Default. Currently the Code only allows BSCCo to look at material doubt once the Energy Contract Volume Aggregation Agent (ECVAA) has issued a Credit Default notice to BSCCo and to the Trading Party. The notice is not published on the BSC Website until authorisation has been given by BSCCo and the defined timescales have elapsed. Thus the Proposer seeks to amend the determination and application of material doubt in a manner which will allow BSCCo to effectively pre-empt material doubt in a documented and therefore predictable way, and thus enable Credit Default notices to be suspended or quickly cancelled, and for Parties to have more certainty that this will be the case.

5.3 Rationale for Choosing the Preferred Solution

5.3.1 Overview

In summary P122 seeks to allow:

- BSC Parties to have holiday CALF (HOL-CALF) values for Supplier Base and Additional (SVA) BM Units; and
- BSCCo to pre-empt material doubt and withhold the authorisation notice for entry into Credit Default notices for those BM Units with a HOL-CALF value.

The Modification Proposal (Reference 1) suggests that this could be achieved using the following method:

- The Panel agree annual and ad hoc (one off) holiday periods;
- Allow Suppliers to specify HOL-CALF values for each holiday period for Supplier BM Units;
- BSCCo to apply HOL-CALF values, i.e. submit the values to the CRA for use in the BSC Systems;
- BSCCo to use an alternative (parallel) credit checking process for BM Units with a HOL-CALF, as specified below. This would be triggered by the use of a HOL-CALF value and the submission of evidence by the BSC Party and achieved by:
 - BSCCo Use of alternative measures to determine Actual Energy Indebtedness (AEI);
 - BSCCo disregarding the ECVA derived Credit Cover Percentage;
 - BSCCo recalculation of the Credit Cover Percentage using an alternative (parallel) method; and
 - BSCCo application of material doubt provisions to pre-empt material doubt and withhold authorisation for entry to Credit Default based on the alternative Credit Cover Percentage calculation, for Parties using a HOL-CALF value.

The SSMG discussed how P122 could be implemented and the details for the processes associated with holiday CALF (HOL-CALF) values are provided in the following sections. The SSMG also discussed the proposed changes to the material doubt and Credit Default process (and agreed that these should be the same as for P123). The SSMG also discussed a potential alternative to P122 and this is detailed in section 5.4.

5.3.2 Holiday CALF Values

The SSMG agreed that the implementation of P122 could be broken down into several different requirements, each discussed in the relevant section below:

5.3.2.1 Determination of Holiday Periods

The SSMG initially agreed that the Panel could, prior to the start of the BSC Year, initially determine 2 years worth of annual holiday periods and then a further years worth of holidays each year after that. These holiday periods would be the same for all Supplier BM Units. The SSMG also agreed that the holiday periods should initially consist of two periods, the Christmas New Year period and the Easter Period. However this could be changed or added to, by the Panel, when determining the holiday periods.

In terms of implementation the SSMG agreed that BSCCo could issue a consultation prior to the start of the BSC Year detailing the proposed holiday periods for the next BSC Year that requires holiday periods to be defined. The results of such consultation would then be presented to the Panel in order to finalise the annual holiday periods.

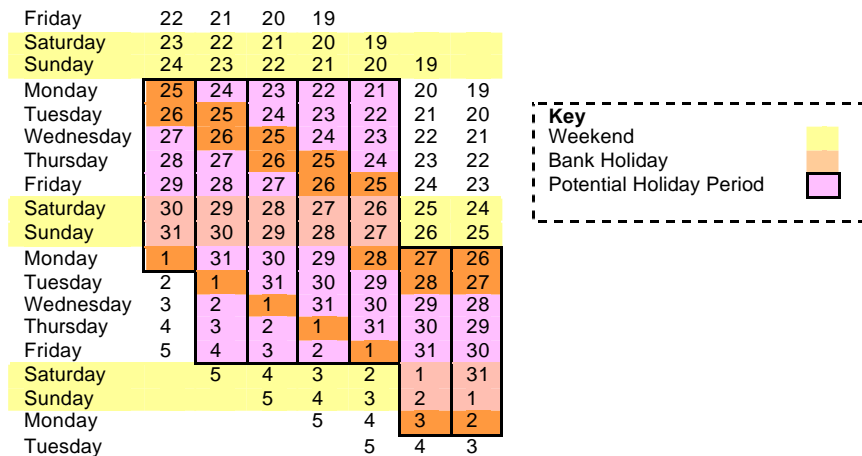
An example of how this could work should P122 be implemented during the BSC Year 2003 – 2004, would be that the holidays for the 2003- 2004 and 2004 – 2005 BSC Years would be published prior to

implementation. Then prior to the start of the next BSC Year (2004 – 2005) the holidays for 2005-2006 would be published.

The SSMG discussed what the holiday periods should be and if, for example, the period should cover the whole period from Christmas to New Year or if it should be limited only to public holidays. The SSMG agreed that the holiday period should encompass the period where it was expected that the load would be different to 'normal'.

For example, the SSMG suggested that the Easter Period could be a nine day period, from the Thursday before Easter to the Friday after Easter. The SSMG also discussed the Christmas – New Year period but did not reach any real conclusion. The SSMG agreed that it was not necessary at this stage to define the exact holiday periods and that a consultation would be held during implementation of P122, aimed at finalising the holiday periods, should it be approved. Furthermore, the SSMG believe that proposing holiday periods would be a matter of looking at demand in previous years where the holiday fell over the same set of days.

The diagram below shows possible periods for the Christmas – New Year period depending on which days the Bank Holidays fall.



The SSMG initially agreed to leave the definition of exactly what constitutes a qualifying Holiday Periods to the Panel, via a Panel consultation at the start of each BSC Year. However, the SSMG noted that whilst leaving the ultimate decision on qualifying days to the Panel allows flexibility, it results in an 'open ended' Modification. The SSMG acknowledged that it would be desirable to present the Panel and Authority with a precise definition of the dates of the relevant holiday periods, in order that both the Panel and the Authority can fully evaluate the ramifications of P122.

The SSMG further noted that the Authority, in determinations on previous Modification Proposals (for example Approved Modification P81 'Removal of the Requirement for Half-Hourly Metering on Third Party Generators at Domestic Premises') has previously expressed a preference for any amendments of this nature to be specifically defined within the Code, rather than leaving issues to be decided outside of the Code via a Panel decision. The SSMG noted that the rationale for this is that any change to the parameters, in this case, holiday periods, would have to be fully debated via the Modifications Process.

A number of SSMG members supported the approach of including the definition of the Easter and Christmas – New Year holiday periods in the Code, acknowledging the pragmatism of such inclusion.

However, the Proposer did not support such definition in the Code, supporting a more flexible approach of allowing the Panel to propose a set of holiday periods based on demand comparison, and for the Panel to consult on the proposed holiday periods, for the following reasons:

- The defect in the Mod refers to Holidays and why they should be treated differently to other days and so this restriction to Christmas and Easter has to be better justified (noting that such a justification would need explain why it should be applied to just these periods and not others);
- The use of "holiday" is not an open definition if the characteristics of the day are specified;
- No legal definition of Christmas and Easter is available for us to consider;
- Such a definition is likely to be fraught with difficulty - especially as we are not defining them just as bank holidays;
- There are other precedents in the Code for using a definition of the characteristics required of such a day (including CADL and CAP) where the Panel consults and makes an objective judgement on the level of the parameter to be set; and
- Defining the characteristics for a holiday day in the Code in the way suggested is not difficult or ambiguous except to the issue of a judgement as to materiality for inclusion of specific days, which is why the Panel should be given discretion in this area in order to assess the competing goals of efficiency of operation of the credit checking processes and of facilitating competition (by not requiring parties to put up excessive credit cover).

The SSMG therefore generally agreed to define the Christmas – New Year and Easter holiday periods in the Code, and suggested defining them as follows:

- **Easter** – encompasses the last Business Day prior to Easter (i.e. Maundy Thursday) to the first Business Day following Easter (i.e. Easter Tuesday) inclusive; and
- **Christmas** – encompasses the last Business Day prior to Christmas Day to the first Business day following New Year inclusive.

However, the general agreement from the SSMG is to include the definition in the Code.

5.3.2.2 Additional Holiday Periods

The SSMG discussed the additional holiday periods that could potentially arise, as described in the Modification Proposal. These were thought to be:

- Periods where individual SVA generating plant or large SVA demand sites were going to be on an outage;
- Periods where there was a GSP Group specific or "customer type specific" holiday, e.g. school holidays or "Wakes weeks"; and
- Periods where there was a general strike.

The SSMG agreed that none of these additional holiday periods should be considered under P122 as credit is a national issue and not limited to a specific GSP Group or customer type. Therefore the SSMG believed that introducing this type of holiday period could increase the complexity of the appeals process, with little associated benefit.

The SSMG also agreed that a period such as a general strike did not fall within the scope of the defect identified in the Modification Proposal as it would apply to all BM Units and not just Supplier BM Units. Therefore the SSMG agreed that periods such as this should not be considered under P122.

The SSMG also noted that the consultation responses made in respect of the assessment consultation (section 11) on P122 also supported this approach, although it should be noted that a number of responses supported the limitation to Christmas – New Year and Easter, as a pragmatic approach for the first year only.

5.3.2.3 Calculation of Holiday CALF

The SSMG discussed allowing BSC Parties to calculate their own Holiday CALF Values, as suggested by the Modification Proposal, and agreed that as CALF is calculated by BSCCo it would not be appropriate for Parties to calculate their own, but that Parties should be allowed to appeal a value calculated by BSCCo. This effectively means that the same process as currently defined for setting and appealing Seasonal CALF values would be in force for Holiday CALF values, thus ensuring consistency of approach.

The SSMG agreed that the process for requesting HOL-CALF values would be as shown in the diagram in Annex A.1.2 of the Requirements Specification and consultation document (Reference 5). They also agreed that HOL-CALF values would be calculated for each holiday period.

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.

5.3.2.4 Issuing of HOL-CALF Values

The SSMG agreed that 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.

For the purposes of the impact assessment it has been assumed that 100 BM Units will request HOL-CALF values, twice a year. This is based on 4 BSC Parties⁴ requesting HOL-CALF for both holiday periods and all those BSC Parties appeal their calculated CALF and HOL-CALF values.

5.3.2.5 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.

5.3.3 Credit Default Process

The SSMG initially agreed that there were three solutions to solving the defect in the Credit Default process identified in P122 (and P123). These solutions are:

- A) Change the Energy Indebtedness calculations to include the use of the current or latest BMCAIC in determination of SVA GSP Group shares to be used in the II Run;
- 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; and
- C) Include in the Code, an additional process that BSCCo has to use to be able to determine that the authorisation notice for entry to Credit Default be (immediately, or relatively quickly) withheld based on an "alternative calculation of EI", for holiday periods, including definition of the alternative calculation within the Code;

All three options were considered by BSC Agents, BSCCo and the Transmission Company in their impact assessment of P122. The SSMG discussed the impact assessment responses and agreed that the most pragmatic solution would be option B as it does not constrain BSCCo when reaching a decision on material doubt and will also make it clearer to Parties on the type of issues that are considered when reaching a decision on material doubt. The SSMG agreed that by introducing a guideline for BSCCo to follow when considering material doubt would allow fine tuning, or application to specific circumstances, of the calculations to be carried out unlike under option C where they would be added to the Code.

The majority of the SSMG agreed that option C was not practical as it would introduce calculations into the Code that may not necessarily be the most accurate calculations to use and may need some fine tuning, which would require a Modification. Option C would also constrain BSCCo and would add an additional process into the credit checking process. This would constrain BSCCo when dealing with credit default notices especially when relating to Parties who have submitted a change to DC or CALF for reasons of portfolio change or over a holiday period.

The Proposer's appointed representative believed that option A would provide a reasonable timescale for calculation of AEI, as it would be carried out as part of the settlement process, therefore giving the affected Party as much time as possible to raise any additional credit cover should it be necessary. The other members of the SSMG did not agree with this as they believed that the cost of implementing the solution was not justified as they believed that there would only be a limited number of Parties who would request that either option B or option C be triggered and therefore the cost of option A was not warranted.

Furthermore, the majority of the SSMG believed that if Option A were implementing a better Energy Indebtedness calculation, then it should be implemented for all Parties by amendment to the Energy

⁴ Currently on average 4 BSC Parties appeal CALF values for Supplier BM Units.

Indebtedness calculation, however, these members of the SSMG did not believe that Option A was a better calculation than that currently in place, and thus should not be progressed.

5.3.3.1 Option A – Change the Energy Indebtedness calculation

This option involves a change to the calculations carried out by the SAA when determining the data to be provided to the ECVAA for use in the Energy Indebtedness calculation and would therefore affect all Supplier BM Units. The process would be a change to the settlement process and ECVAA procedures and not carried out in parallel to them, as for options B and C.

Currently when the II run has taken place in SAA, a credit / debit report, containing cashflows for all Parties is sent to ECVAA. This is used to calculate credited energy volumes using the Credit Assessment Price, which then feeds into the Indebtedness Calculation to give AEI. This AEI value is then used in the Energy Indebtedness calculation for the days that it is available and the CEI value (i.e. BMCAIC which is based on $CALF * DC$) is used for all other Settlement Days.

In SAA, volumes for Supplier BM Units are not received until the SF run. Approved Modification Proposal P2 implemented estimation of these supplier volumes at II by using the volumes from a previous equivalent day where SF data is available, and scaling those values against the GSP Group Takes for the current day and the equivalent day.

Currently the estimation used to calculate AEI does not reflect significant changes in a Supplier BM Unit's consumption as the equivalent days do not reflect the holiday or portfolio change. For example, where a major portfolio change has effect from settlement day d, the volume estimated for d is currently based on an equivalent day d' which may be 3 or 4 weeks earlier. Furthermore, subsequent days are similarly affected until either real data is received, or until d' is a day for which real data has been received which reflects the change in portfolio.

Under this option the AEI calculations carried out will be changed to take account of the modified CALF and / or DC values to include an additional weighting for Supplier BM units where the Import capability (BMCAIC) has changed. This will change the AEI calculation to "correct" the estimated II data by simply adjusting the metered volumes to reflect the change in GSP Group share resulting from portfolio or holiday change to the Import Capability. The calculation process would be as follows and would be the same for both P122 and P123:

1. Determine the estimation date d' as at present;
2. SAA will calculate the Import Capability for each BM Unit for both d and d' in the same way as ECVAA.
3. For each individual BM Unit, find the factor which scales the Import or Export Capability⁵ on d' to the Import or Export Capability on d;
4. Adjust the volume on d' by the factor determined in step 3. This adjustment accounts for any change in capability between the two dates, e.g. no change gives the same volume and halving the import capability halves the volume.
5. Sum the adjusted volumes from step 4. This value (g') effectively replaces the GSP Group Take for d' in the current calculations;
6. Calculate the scaling factor as: $GSP \text{ Group Take for } d / g'$ (from step 5).

⁵ Note that in general Supplier BM Units have a P/C flag set to consumption and therefore it will be the Import Capability that should be used, however some Supplier BM Units have a P/C flag set to production and therefore the Export Capability should be used for these BM Units.

7. Multiply each of adjusted volumes obtained in step 4 by the factor obtained in step 6 to give the estimated volume for each BM Unit for day d.

The following illustrates this with a simple example:

GSP Group Take (d') = -150

GSP Group Take (d) = -100

BM Unit	Vol (d')	BMCAIC (d')	BMCAIC (d)	Adjusted BMCAIC (step 3)	Adjusted Vol (d') (step 4)	Estimated Vol (d) (step 7)
BMU_A	-50	-100	-100	1	-50	-40
BMU_B	-50	-100	-50	0.5	-25	-20
BMU_C	-50	-100	-100	1	-50	-40
TOTAL					-125 (step 5)	-100 (step 5)

Step 6 Group Correction Factor = $-100 / -125 = 0.8$

The SSMG also discussed if there should be an additional requirement for P122, namely to change the 'equivalent day' that is being used for the AEI calculations such that during defined annual holiday periods the equivalent day is the last available Sunday rather than as currently, where an equivalent day of the week is used. The impact assessment response indicated that changing the equivalent day could be carried out but that this change should only be carried out if the change to the AEI calculation previously mentioned was not implemented. The SSMG agreed that the method that addresses both P122 and P123 would be the preferred method should option A be implemented and therefore the SSMG agreed not to consider an amendment to the equivalent day.

5.3.3.2 Option B – Change the current material doubt process

The SSMG noted the current process for determining material doubt, and this is described in section 5.1. Currently Parties can submit evidence to BSCCo prior to, or in anticipation of, any Credit Default Notice being issued. BSCCo can review the evidence and do some analysis once they have received the evidence, however BSCCo cannot reach any decision on whether there is material doubt on the veracity of the Credit Default notice (resulting from unrepresentative data used in the calculation of Actual Energy Indebtedness) until the receipt of a Credit Default notice itself, as defined by the Code i.e. to enable consideration of all circumstances at the time of issue of the Credit Default Notice.

In order to trigger the determination by BSCCo of material doubt the Party must request that BSCCo exercise material doubt for the reasons explained in evidence previously provided, or any new evidence submitted by the Party to BSCCo.

The SSMG discussed how this process may be made more robust, result in an immediate (or as near as possible) determination and give Parties more certainty over the fact that BSCCo will find that there is material doubt.

The SSMG agreed that the process for establishing material doubt in itself would be unchanged. Parties would 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 guideline, or BSC Procedure, that BSCCo would be obliged to follow when

reaching a determination on material doubt. The guideline may include a calculation, such as that described in option C below, that should be used by BSCCo when considering if there is an over calculation of Credit Cover Percentage in circumstances such as those described in P122 or P123.

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 SSMG agreed that this method would allow fine tuning of the calculation without the need for a Modification to the Code, and would also give BSCCo enough flexibility, without burdening them with too much responsibility, to reach a sensible decision on material doubt. The SSMG felt that currently BSCCo is constrained by the Code and that this change would provide a commonsense approach albeit ensuring that BSCCo operates within less onerous constraints set down by the Panel (i.e. less onerous than for option C).

The SSMG also recognised that although BSCCo can carry out an additional calculation of the AEI of a Party once the data is available from the SAA, they will still need to wait until the Credit Default notice has been issued and the latest contract notification data has been checked before they can be sure that it is the AEI calculation that is over calculating the indebtedness and therefore material doubt can be determined.

The majority of the SSMG agreed that option B is the preferred implementation method for both P122 and P123.

It should be noted that the Proposer of the Modification was not in agreement with this option as the preferred implementation method.

The Proposer stated that the preferred approach would be for BSCCo to receive the evidence from a Party, relating to discrepancies between II and SF run in the Actual Energy Indebtedness calculation, and to be able to determine the materiality of doubt on the Actual Energy Indebtedness calculation ahead of any Credit Default notice being issued. BSCCo would then (immediately) inform the Party that BSCCo believe there to be material doubt on the veracity of the Actual Energy Indebtedness calculation, thus providing the Party with certainty that if a Credit Default notice were to be issued, BSCCo would withhold the authorisation notice.

However, the SSMG noted that the materiality of the discrepancy between II and SF run in the Actual Energy Indebtedness calculation, in relation to the Credit Cover Percentage derived by the ECVA, could not be determined until the Credit Default notice had been received, as other circumstances (for example a contract notification made on the day that results in a significant increase in Energy Indebtedness, which 'drowns' the discrepancy from the AEI calculation) may impact the determination. Furthermore, the SSMG noted that the material doubt is applied to the Credit Default notice itself, and therefore, until that is issued, there is effectively nothing to have material doubt on.

The SSMG noted the Proposer's concerns and noted that 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 (which improves on the current situation, where BSCCo is allowed to wait for a Credit Default notice to be issued). Furthermore, the SSMG proposed that the material doubt guidelines 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.

The SSMG noted that this 'pre-emptive' evidence review and discrepancy assessment would allow BSCCo to make a speedier determination on material doubt when the Credit Default notice was issued, as BSCCo would need to look only at what has changed since the evidence was provided. The SSMG further noted that BSCCo must verify the material doubt on receipt of the Credit Default notice, to ensure that all circumstances require the application of material doubt, in order to protect BSC Parties from the risk associated with a defaulting Party.

The majority of the SSMG agreed that the preferred process, proposed for implementation as the Proposed Modification met the requirements of the Modification Proposal.

5.3.3.3 Option C – Additional process for suspension of Level 1 Credit Default

The third option considered by the SSMG was to include the alternative calculation of Actual Energy Indebtedness in the Code as a separate process to the determination of material doubt. Upon receipt of evidence from a Party and if they have changed CALF and /or DC for reasons of P122 / P123 then BSCCo will be required to start calculating the Party's Energy Indebtedness using the alternative indebtedness calculations.

These calculations will be carried out once a day, during working hours, upon receipt by BSCCo of the II data from the SAA. If BSCCo then receive a Credit Default Notice they will be able to immediately, or as soon as practicable, verify the calculation and inform the Party that they are not in Credit Default and that the authorisation notice has been withheld as a consequence of the outcome of the alternative calculation. This is dependent on the calculations showing that the alternative Credit Cover Percentage is below the threshold for Level 1 Credit Default otherwise BSCCo will confirm that the authorisation notice has not been withheld.

BSCCo will continue to monitor the alternative Credit Cover Percentage of the Party on a daily basis and if the value rises above the threshold for the relevant Credit Default, BSCCo will authorise the entry into Credit Default. At this point BSCCo will still have the option to exercise material doubt, following the existing process and ISG Guidelines. The BSC Agent impact assessment indicated that this may require system changes to the ECVA software as currently it is not possible to authorise a Party's entry into level 1 credit default if the ECVA calculates that they should be in level 2 Credit Default.

The SSMG agreed that there were several different methods of reassessing the AEI of a party. One of these is the method described in option A or a slightly different method as detailed below:

The energy indebtedness calculation would be altered to amend the GSP Group share from the equivalent day to reflect the change in portfolio / holiday reduction in demand for the affected Party. The method for doing this would be as follows:

1. BSCCo will calculate a revised share $Altshare_i$ for each GSP Group as:

$$Altshare_i = BMCAIC_a / \sum_i BMCAIC_i$$

where:

- a is the BM Unit in a GSP belonging to the affected party;
- i is each BM Unit in the GSP Group

2. In Section T4.2.2 of the Code, where Alternative Methodology applies (i.e. the II run for any day where the standard methodology does not apply), BSCCo will calculate for the Supplier BM Units of the affected Party:

$$QM_{ij} = GSPGT_j * Altshare_i$$

3. BSCCo will require the GSP Group Take for each GSP Group and each Settlement Period of a Settlement Day. This information can be obtained from CDCA for each aggregation run (CDCA-I029). These GSP Group Takes will then be used to calculate the "alternative QM_{ij}" as shown above.
4. BSCCo will then compare the QM_{ij} calculated by the SAA for the same BM Units with that calculated by BSCCo using the alternative method. BSCCo will then be able to track the discrepancies and use them to perform step 5.
5. This volume can then be compared with QAEI_{aj} as calculated by the SAA. The volume of energy described in step 4 above i.e. QM_{ij} calculated by BSCCo, is then divided into 2 parts:
 - a. A proportion to be valued at SBP sufficient to bring a short position into balance (which could be zero);
 - b. A remainder valued at SSP (potentially zero), which represents any net over-delivery.
6. Step 5 delivers two sums of money. The net additional money for the trading day is summed for the day and divided by CAP to give a value of AEI. The sum of the AEI can be stored as a single daily number, which will not change for the duration of the application of the alternative methodology.
7. When calculating the CCP, BSCCo will sum the relevant number of Settlement Days of this calculated additional energy to EI_{pj} and reassess CCP_{pj} as necessary. i.e. BSCCo will replicate to the relevant degree, the SAA AEI calculation with it's own calculation including a Trading Charge adjustment via steps 5 and 6.

This method means that on a daily basis the additional energy should be added in and the credit cover percentage reassessed. As this data will already be prepared, it should only take a relatively short period of time to rescind any default notice issued by the ECVA.

Note this alternative calculation does not seek to fully replicate the Trading Charges calculation, a "missing" volume of energy has been found and applied to the imbalance calculation part of Trading Charges. It is suggested that this should normally be more than sufficient and it is only where a more precise calculation is needed for some reason that "material doubt" might then need to apply e.g. if the Residual Cashflow Reallocation Cashflow becomes a big negative number and is therefore material.

The SSMG agreed that option C would force BSCCo to operate under a very constrained methodology albeit a different constraint to that currently in place. The SSMG also agreed that option B would allow similar calculations to be carried out but would give BSCCo more freedom in their application and interpretation. Option C would require BSCCo to have information available on an operational basis and the impact assessment from BSCCo indicated that TOMAS (the market monitoring software used) is essentially monitoring software and not operational software and therefore may not necessarily be available when the relevant SAA report arrives. In addition option C methodology may not be robust to all potential circumstances that may arise and this could lead to a new Modification Proposal each time a new circumstance, not covered arises.

5.4 Potential Alternative to P122

The SSMG believed that a possible solution to the defect identified in both P122 and P123 would be to change the material doubt provisions in the Code to allow BSCCo to have more discretion in its application, across the entire Energy Indebtedness calculation (both CEI and AEI) therefore not requiring any other changes.

It was suggested that the provisions should not be limited to situations such as holiday periods or portfolio change but that BSCCo should be given the vires to apply material doubt whenever the Party provided sufficient evidence to show that either the CEI or the AEI part of the Energy Indebtedness calculation is unrepresentative. This would alleviate the need for HOL-CALF values or DC / CALF changes due to portfolio change and would potentially be a minimum cost solution. BSC Parties would however be required to provide evidence to show that the CALF / DC values that had been used are no longer representative for a BM Unit and therefore lead to an incorrect value of Energy Indebtedness being calculated.

Implementing a process such as this would increase the risk involved in determining that there is material doubt. Further issues that need to be resolved with this process if it is to be progressed further are:

- Any additional liability potentially placed on BSCCo;
- If this type of material doubt be limited to just Supplier BM Units how it will be applied in the case where a Party has CVA and Supplier BM Units;
- Given that BSCCo will need some kind of evidence that the Party should not be placed in Level 1 Credit Default, whether the Code needs to specify the type of calculations that BSCCo should be doing; and
- Whether BSCCo would require some kind of guideline document for use in determining when material doubt should be applied to ensure that it is always carried out in a fair and transparent way.

The SSMG agreed at their meeting of 27 May 2003 that the potential Alternative Modification would not be progressed any further.

5.5 Applicable BSC Objectives

The Applicable BSC Objectives are set out in paragraph 3 of Condition C3 of the Transmission Licence, as follows:

- (a) The efficient discharge by the Transmission Company of the obligations imposed under the Transmission Licence;
- (b) The efficient, economic and co-ordinated operation by the Transmission Company of the Transmission System;
- (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;
- (d) Promoting efficiency in the implementation and administration of the balancing and settlement arrangements;
- (e) Undertaking of work by BSCCo (as defined in the BSC) which is:
 - (i) necessary for the timely and effective implementation of the proposed British Electricity Trading and Transmission Arrangements (BETTA); and

(ii) relevant to the proposed GB wide balancing and settlement code;

and does not prevent BSCCo performing its other functions under the BSC in accordance with its objectives.

The SSMG, having considered the impact assessments and consultation responses in respect of P122, considered how the Modification better facilitates achievement of each of the Applicable BSC Objectives, and the extent to which this is the case.

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', and the SSMG provided the following rationale:

- P122 improves competition by removing barriers to entry for certain industrial and commercial Suppliers;
- The proposal facilitates competition by allowing Parties with specialist portfolios 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 Modification Proposal has identified a defect in the credit calculations that can result in a BSC Party being placed in Level 1 Credit Default erroneously. BSC Parties should not need to incur the costs of having to post inappropriate levels of credit cover. Therefore by addressing the defect which is causing BSC Parties to post excessive levels of credit can be seen to facilitate competition and therefore better facilitate Applicable BSC Objective 3(c).

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', and the SSMG provided the following rationale:

- 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 efficiency in handling Credit Default; and
- Management of operations under the Code is facilitated where BSCCo is allowed to pre-empt level 1 default notices for specific parties by assessing material doubt when the data becomes available rather than when the data is used by the ECVAAs (usually at midnight). This will allow assessment of material doubt in business hours using considered information rather than the intensive and imprecise process currently required due to the timescales.

The SSMG noted that P122 is neutral to the other Applicable BSC Objectives, namely 3(a), (b) and (e).

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

6 IMPACT ON BSC SYSTEMS

The Detailed Level Impact Assessment is provided in ANNEX 3 of this Assessment Report.

The BSC Central Service Agent response can be summarised as follows:

Change Specific Implementation (i.e. excluding Project Overheads):

- P122 £2,959 and 2 weeks; and
- P122 – Material Doubt £0 and 0 weeks;

No operational cost unless changes exceed 1000 HOL CALF values per annum, where £475 per man day of effort will be charged (for the avoidance of doubt, not £475 per additional HOL-CALF value registered).

No maintenance cost.

No project overhead.

7 IMPACT ON CORE INDUSTRY DOCUMENTS AND SUPPORTING ARRANGEMENTS

None identified.

8 IMPACT ON ELEXON

The ELEXON Impact Assessments are provided in ANNEX 4 of this Assessment Report, but can be summarised as follows:

1. Assurance

- Obligations Register requires amendment 2 man days; and
- Support during implementation 2 – 6 man days.

2. CVA Programme

- Amendment to Business Process Model 5 man days;

Total Effort

- Material Doubt Guideline (Option B) No impact.

Lead time – if software change required, so will be Logica development time plus twelve weeks for testing. Thus February 2004 is the earliest release that can include P122 / P123. If no software change, then can be done quicker.

3. Governance and Regulatory Affairs

- P122 / P123 3 man days per annum.

Based on the assumption of 2 DC / CALF appeals per Panel meeting and an additional quarter day per Panel meeting in preparing paperwork, and other associated Panel support.

4. Service Delivery (CSM)**Development**

- P122 No impact;

Ongoing Operation

- P122 No impact

Lead time – None.

5. Service Delivery (CVA Operations)**Development**

- CALF Guideline Changes 3 man days;
- New material doubt guidelines 23 man days;
- Documentation 5 man days

Ongoing Operation

- Calculating HOL CALF, and supporting appeals 15 man days per annum.

Lead time – fourteen weeks.

6. Service Delivery (Market Monitoring)**Development**

- System for alternative credit calculation 10 man days;
- Documentation for alternative credit calculation 10 man days;

Ongoing Operation

- Unknown – potentially significant ? man days per annum.

Lead time – 20 man days (one month).

Total Effort:

Approximately 62 man days;

Operational effort, per annum:

In excess of 18 man days; and

Lead Time required:

Fourteen weeks.

9 IMPACT ON PARTIES AND PARTY AGENTS

The BSC Party impact assessments (MC00056), provided in Annex 2(b), indicate minimal to no impact.

10 LEGAL ISSUES

None identified at this time.

11 SUMMARY OF REPRESENTATIONS**11.1 Assessment Consultation Responses**

The assessment consultation was issued to industry on 3 June 2003, with responses due 16 June 2003. The consultation consisted of the Requirements Specification and consultation document for P122 (Reference 5). The proforma for P122 contained eight questions, as follows:

Eight responses (on behalf of forty-one BSC Parties and one non Party (party agent)) were received in respect of the assessment consultation on Modification Proposal P122 'Assessment of Credit Cover during Holiday Periods'. The following summarises these response, noting that one respondent (one BSC Party) made a 'no comment' response, and this has been excluded from the summary that follows.

Q1 Do you agree that holiday periods should be limited to the Christmas – New Year period and Easter period as described in the document?

Six responses (39 Parties, 1 non Party) agreed the limitation, whilst one respondent (1 Party) indicated that they did not support the limitation.

Rationale provided for not supporting the limitation to Christmas – New Year and Easter was that the annual consultation on the holiday periods to be applied for the following BSC Year negated the requirement to be prescriptive in the Code as to the periods.

The SSMG noted that the Code is not going to be prescriptive about what the Holiday Periods are, only the mechanism for nominating and agreeing them. This question is posed to determine the initial set of Holiday Periods to be recommended for consultation by the Authority, should the Modification be approved.

Rationale provided for supporting this (initial) limitation was given as:

- A pragmatic solution would be to limit the Holiday Periods to those applicable Nationally, as credit is assessed on a national basis (and the other holidays referenced in the consultation document are geographically specific holidays), noting that the Panel can add to these during the consultation;
- The additional workload, arising from the requirement to calculate holiday CALF values, support the appeals process, and register the amended CALF Values in the BSC Central Systems, for regional holidays would outweigh the benefits delivered by P122; and
- Initially at least, as these are periods where there are a number of low demand days in succession and therefore the problem is more acute. As the issue does arise for other periods, it may be appropriate to consider other holiday periods in due course.
- One respondent noted that were the Modification Proposal to be implemented for the BSC Year 2004 to 2005, then the consultation on the relevant Holiday Periods should include reference to the bank and other public holidays exclusive to Scotland, as a consequence of the implementation of the British Trading and Transmission Arrangements (BETTA).

Q2 Do you agree with the SSMG view that the rules for assigning a holiday CALF value should be in the CALF guidelines?

All responses (40 Parties, 1 non Party) agreed that the CALF Guideline document was the appropriate repository for the rules for assigning a holiday CALF value.

Rationale for supporting this approach was given as follows:

- Putting the rules within the Code would be too prescriptive and would create an anomaly with the existing rules;

- Holiday CALF is not intrinsically different to other periods (other than the level of demand relative to seasonal peak) and so should not be managed differently;
- This approach ensures the appropriate level of transparency for BSC Parties that request a holiday CALF; and
- The CALF Guidelines strike a balance between flexibility and transparency, avoid the lengthy Modification process when changes are required, and are freely available for all to read and question.

Q3 Do you agree with the SSMG that option B is the most appropriate process for dealing with material doubt for P122?

Six responses (39 Parties, 1 non Party) agreed with the SSMG that option B is the most appropriate process, whilst one respondent (1 Party) indicated that they did not support the view of the SSMG in this respect.

Rationale for not supporting the SSMG and Option B was given as follows:

- Option B is flawed in one significant respect – it does not change the definition of material doubt under the Code. This means that BSCCo has no vires to determine the materiality of doubt about information coming from the II-Run until a level 1 default notice has been issued.

In process terms, this means that, although the II-Run data comes available during a Business Day, it is not until midnight of that day, when the ECVAAs process the data that they can materially doubt it – when, typically, the loading of this poor data that replaces a days worth of CEI data tips the affected Party into level 1 default.

The situation worsens because, frequently, the data drives the affected Party straight into level 2 default for which there is no Cure Period. The lack of a Cure Period (a period which always covers a banking day) means that, unless material doubt can be declared almost immediately, the affected Party is forced to use the limited time available to acquire additional credit cover because the risk of waiting until only, maybe an hour before the banks close on the gamble that material doubt will be declared is not sustainable. The Option as described therefore fails to address a fundamental defect identified in the Modification Proposal.

However, if material doubt can be redefined to apply at the time the data becomes available (noting that data for any day in an II-Run will not alter until the SF-Run, which is always outside the 29-day credit cover window), then its impact can be assessed for the affected Party before the data is used by the ECVAAs. The difference between the calculation that the ECVAAs will make (when the data is loaded at midnight) and the results derived from an alternative methodology can be expressed as a percentage of credit cover for the day (and for all the days covered by AEI calculation) allows BSCCo to assess in minutes whether the Credit Cover Percentage can be assessed as below the threshold once the default notice is submitted by the ECVAAs.

With this fundamental change – defining material doubt as applying when the data becomes available, with only the declaration of material doubt being reserved until receipt of the level 1 default notice – Option B would be broadly acceptable.

However, it should be emphasised that the objectives of the proposal are only achievable if the decision as to how the data should be treated is made before the problem materialises. This brings us very close to Option C anyway (although the flow diagram in Annex A1.7 does not seem to accord with the description in the text).

Rationale for supporting the SSMG and Option B was given as follows:

- Option B – the clarification of the material doubt process, will make the process more transparent to Parties whilst not constraining BSCCo in the application of material doubt;
- The proposed solution will help to negate one of the main defects identified by the proposer, the excessive length of time it takes to cancel erroneous default notices. Improving the guidelines will assist Parties by illustrating what information they will need to provide to ELEXON in support their claim that they have been erroneously placed in Level 1 Credit Default. Parties who are anticipating entering Level 1 Credit Default erroneously will be able to submit data in advance of the Credit Cover Percentage (CCP) exceeding the 80 per cent threshold. This should assist ELEXON and allow them to call material doubt in a much shorter timeframe, as they will be able to undertake the majority of the necessary calculations in advance of the Level 1 default notice being issued. It is expected that ELEXON will continue to validate the information provided by the appellant, as the decision to call material doubt must be based on credible information; and
- This approach allows ELEXON more flexibility to deal with circumstances as they arise, and avoids a prescriptive methodology that itself may need to be appealed.

Q4 Do you support the implementation approach described, preferred by the Modification Group?

Six responses (39 Parties, 1 non Party) supported the preferred implementation approach of the SSMG, whilst one respondent (1 Party) indicated that they mainly supported the preferred implementation approach of the SSMG, and provided rationale for the caveated support.

Rationale for 'mainly' supporting the SSMG's preferred implementation option was given as follows:

- The answer depends on the process used for assessment of material doubt. An approach that does not require a change to Central Systems should allow an implementation in time for Christmas and should be cheaper to implement if not too many parties are affected. But this will be of no benefit unless the material doubt as to the calculation of AEI can be declared before the affected Parties are forced into acquiring unnecessary additional credit cover.

Rationale for supporting the SSMG's preferred implementation option was given as follows:

- The implementation approach blends the need to remove the defect identified in P122 and the materiality of its application. The Proposer's statement that P122 would only affect a small number of Parties, and the process only triggered occasionally, is especially pertinent; and
- One respondent suggests a couple of minor amendments to the implementation option; for reasons of consistency that the drafting of the BSC should reference the Panel as the

appropriate body to set the Annual Holiday Periods. However, if this modification is approved it is expected that this authority be delegated to one of the BSC Panel sub committees. Furthermore, the implementation approach suggests undertaking industry wide consultation to agree what periods will qualify as a holiday period and it is not clear what value will be derived from such a consultation. If a BSC Panel sub committee is delegated this responsibility, then this is representative of the industry and it is expected that the committee be able to define the holiday window without the need for a consultation.

- One respondent also identified a potential area of risk in the process of replacing the seasonal CALF value with the holiday CALF value. They noted that ECVAA will need to have robust processes in place to ensure that the correct values are in place for the correct Settlement Days.

Q5 Do you believe there are any alternative solutions that the Modification Group has not identified and that should be considered?

All respondents (40 Parties, 1 non Party) indicated that there were no alternative solutions to be considered by the SSMG.

Q6 Does P122 raise any issues that you believe have not been identified so far and that should be progressed as part of the Assessment Procedure?

All but one respondent (36 Parties, 1 non Party) indicated that there were no further issues, not already raised, to be considered by the SSMG.

The one respondent (4 Parties) that had a further issue requiring consideration by the Modification Group, indicated that they do not agree with the suggested change to the 'equivalent day' as Sundays are not necessarily reflective of an associated bank holiday. The respondent noted that Saturday would be a better 'equivalent day', in order to reflect that some users operate on bank holidays but not Sundays.

Q7 Do you believe Proposed Modification P122 better facilitates the achievement of the Applicable BSC Objectives?

All but one respondent (36 Parties, 1 non Party) indicated that they believe the Modification Proposal to better facilitate achievement of the Applicable BSC Objectives.

One respondent (4 Parties) indicated that they did not believe that Modification Proposal better facilitates the Applicable BSC Objectives, but did not provide any rationale as to why this is the case. Clarification was requested from the Party, and it was indicated that the Party believes the current arrangements to be sufficient.

Rationale for believing that P122 better facilitates achievement of the Applicable BSC Objectives was given as follows:

- P122 improves competition (3(c)) by removing barriers to entry for certain industrial and commercial Suppliers;
- The proposal facilitates competition (3(c)) by allowing Parties with specialist portfolios to maintain a more appropriate level of credit cover. This reduces their costs, thereby encouraging niche competitors and lowers the cost of market entry for new suppliers;

- Management of operations under the Code (3(d)) is facilitated where BSCCo is allowed to pre-empt level 1 default notices for specific parties by assessing material doubt when the data becomes available rather than when the data is used by the ECVAA (usually at midnight). This will allow assessment of material doubt in business hours using considered information rather than the intensive and imprecise process currently required due to the timescales;
- The Modification Proposal has identified a defect in the credit calculations that can result in a BSC Party being placed in Level 1 Credit Default erroneously. BSC Parties should not need to incur the costs of having to post inappropriate levels of credit cover. Therefore by addressing the defect which is causing BSC Parties to post excessive levels of credit can be seen to facilitate competition and therefore better facilitate Applicable BSC Objective 3(c).

Q8 Are there any further comments on P122 that you wish to make?

One respondent (1 Party) had further comments, as follows:

The assessment of Option C given in responses to the Requirements Specification seems to be at odds with the description of the process given in paragraph 2.4.3 leading to some spurious conclusions. The process described is essentially a means of assessing the materiality of material doubt and as such does not change the essential nature of material doubt. Therefore:

- The assessment by the BSC Central Service Agent that a systems change associated with the case of the level 2 default notice is entirely spurious because it will be BSCCo that will be using the processes to materially doubt the results of the ECVAA calculation just as at present –BSCCo currently takes on the assessment as to whether to authorise level 1 and level 2 default notices without additional central systems processing.
- BSCCo should be utilising tools such as TOMAS now in order assess level of materiality in material doubt calculations. Otherwise the process is entirely haphazard.
- The true choice between Option B and Option C for material doubt assessment is the degree of visibility of the process to third parties. Option B leaves greater discretion to BSCCo in implementation of material doubt but essentially allows the same pre-emptive calculation. Given that the credit assessment processes are laid out in considerable detail under the Code so that all Parties have certainty about how they and others will be dealt with, there is a case to be argued whether third parties want the same degree of certainty as to the methodology for assessing material doubt where this is possible.

The SSMG considered all of the responses received, and noted that they believed the responses to have been addressed during the assessment of P122, and therefore covered in the previous sections of this Assessment Report.

12 SUMMARY OF TRANSMISSION COMPANY ANALYSIS

12.1 Response to Request for Analysis

The Transmission Company was provided with the same assessment consultation document and Requirements Specification (Reference 5) as BSC Parties to the same timescales for response, as

there are no Transmission Company specific issues for consideration. The response made by the Transmission Company in respect of the assessment consultation is provided in full as follows:

Q	Question	Response
1	Please outline any impact of the Proposed Modifications (and, if applicable, any Alternative Modifications) on the ability of the Transmission Company to discharge its obligations efficiently under the Transmission Licence and on its ability to operate an efficient, economical and co-ordinated transmission system.	We believe that the implementation of P122 and 123 has no impact on the ability of the Transmission Company to discharge its obligations under the Transmission Licence.
2	Please outline the views and rationale of the Transmission Company as to whether the Proposed Modifications (and, if applicable, any Alternative Modifications) would better facilitate achievement of the Applicable BSC Objectives.	We believe that the two modifications better facilitate 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.
3	Please outline the impact of the Proposed Modifications (and, if applicable, any Alternative Modifications) on the computer systems and processes of the Transmission Company, including details of any changes to such systems and processes that would be required as a result of the implementation of the Proposed Modifications (and, if applicable, any Alternative Modifications)	There is no direct impact on our systems and processes as a result of the proposed modifications. We do not believe that there is a specific lead-time required for us to implement P122 or P123.
4	Please provide an estimate of the development, capital and operating costs (broken down in reasonable detail) which the Transmission Company anticipates that it would incur in, and as a result of, implementing the Proposed Modifications (and, if applicable, any Alternative Modifications).	None identified.
5	Please provide details of any consequential changes to Core Industry Documents that would be required as a result of the implementation of the Proposed Modifications (and, if applicable, any Alternative Modifications).	None identified.
6	Any other comments on the Proposed Modifications (and Alternative Modifications if applicable).	None.

ANNEX 1 – PROPOSED TEXT TO MODIFY THE BSC

Pending Receipt and agreement.

ANNEX 2 – BSC PARTY CONSULTATION RESPONSES

a Consultation Responses

See attached document 'MAR_P122_Annex 2a' for the responses in full.

Representations were received from the following parties:

No	Company	File Number	No. BSC Parties Represented	No. Non-Parties Represented
1.	NGT	P122_ASS_001	1	0
2.	LE Group	P122_ASS_002	9	1
3.	Aquila Networks	P122_ASS_003	1	0
4.	BizzEnergy	P122_ASS_004	1	0
5.	British Gas Trading	P122_ASS_005	1	0
6.	Powergen	P122_ASS_006	15	0
7.	Innogy	P122_ASS_007	9	0
8.	Scottish and Southern (late response)	P122_ASS_008	4	0

b High Level Impact Assessment Responses

Organisation	Comments
Rachael Gardener Aquila Networks	No comment
Dave Morton LE Group Supply	<p><u>P122 Holiday CALF:</u> Timescale for implementation: Immediate Effort for ongoing operation: Minimum</p> <p><u>P123 Portfolio Change Options:</u> <u>Option 1:</u> We do not support this option <u>Option 2:</u> Timescale for implementation: Immediate Effort for ongoing operation: Minimum</p> <p><u>P122/P123 Material Doubt Options:</u> <u>Option A:</u> Timescale for implementation: Immediate Effort for ongoing operation: Minimum <u>Option B:</u> Timescale for implementation: Immediate Effort for ongoing operation: Minimum <u>Option C:</u> Timescale for implementation: Immediate Effort for ongoing operation: Minimum</p>
Ros Parsons Ltd, Npower Direct Ltd, Npower Yorkshire Ltd,	<p><u>P122 Holiday CALF:</u> Timescale for implementation: No impact Effort for ongoing implementation: 5 man days per year</p> <p><u>P123 Portfolio Changes:</u></p>

<p>Npower Yorkshire Supply Ltd</p>	<p><u>Option 1:</u> Timescale for implementation: No impact Effort for ongoing implementation: No impact <u>Option 2:</u> Timescale for implementation: No impact Effort for ongoing implementation: 5 man days per year</p> <p><u>P122/P123 Material Doubt Options:</u> <u>Option A:</u> Timescale for implementation: 20 man days Effort for ongoing implementation: 1 man day per month <u>Option B:</u> Timescale for implementation: No impact Effort for ongoing implementation: No impact <u>Option C:</u> Timescale for implementation: No impact Effort for ongoing implementation: No impact</p>
<p>Margaret Brunton Npower Northern</p>	<p><u>P122 Holiday CALF:</u> Timescale for implementation: No impact Effort for ongoing implementation: 5 man days per year</p> <p><u>P123 Portfolio Changes:</u> <u>Option 1:</u> Timescale for implementation: No impact Effort for ongoing implementation: No impact <u>Option 2:</u> Timescale for implementation: No impact Effort for ongoing implementation: 5 man days per year</p> <p><u>P122/P123 Material Doubt Options:</u> <u>Option A:</u> Timescale for implementation: 20 man days Effort for ongoing implementation: 1 man day per month <u>Option B:</u> Timescale for implementation: No impact Effort for ongoing implementation: No impact <u>Option C:</u> Timescale for implementation: No impact Effort for ongoing implementation: No impact</p>

ANNEX 3 – BSC AGENT IMPACT ASSESSMENTS

<h1>NETA Change Form</h1>		ELEXON Reference
		P122 & P123
Title		Version No.
P122 – Assessment of Credit Cover during holiday periods P123 – Assessment of Credit Cover following a change in a Party's portfolio		0.2
		LogicaCMG Reference
ICR509 & ICR510		
Type of Assessment	Date CP Received	Date IA Issued
DLIA	5/6/03	16/6/03

Brief Summary of Change					
<p>P122 - To introduce a process whereby CALF values can be submitted for pre-determined Holiday Periods. These values will be known as HOL-CALF.</p> <p>P123 – To introduce a process whereby DC and CALF values can be submitted mid-season for reasons of portfolio change.</p>					
LogicaCMG’s Proposed Solution					
<p>The P122 & P123 Requirements Specification v2.0 [P122-P123AS] identifies the requirements which have been assessed in this DLIA. It is noted that in the assessment request from ELEXON that Section 2 gives the details of the final solution chosen by the Modification Group and that this is not reflected in Section 3.</p> <p>The previous HLIA assessed Version 1.0 of the requirements and the differences are summarised as follows:</p> <ul style="list-style-type: none"> • P123 Option 1 has been removed. • P123 Option 2 has been split into 2 implementation approaches. • P122/P123 Material Doubt Option A (changes to equivalent day calculation) has been removed. • P122/P123 Material Doubt Option C has been removed. <p>The proposed solution is described in the attached BSC Agent Response Proforma in the same manner as for the HLIA.</p>					
Deviation from ELEXON’s Solution / Requirements					
None.					
Operational Solution and Impact					
See attached BSC Agent Response Proforma.					
Testing Strategy					
Unit	X	Change Specific	X	End to End	
Module	X	Operational Acceptance		Participant Testing	
System	X	Performance		Parallel Running	
Regression		Volume		Deployment/ Backout	X
Other:					
<p>Core Business Functionality Testing</p> <ul style="list-style-type: none"> • Regression Scripts RT-01, RT-02 perform data set-up and these will be executed in the Dry only (then either do a cold backup or leave data as is for Main run). • No other Regression Scripts will be executed in either Dry or Main run. <p>System Testing</p> <ul style="list-style-type: none"> • No System tests need updating or executing. • No Performance tests need to be conducted. • No clock change tests need to be conducted. <p>Change Specific Testing</p> <ul style="list-style-type: none"> • A new test script will be developed to handle the functionality for P122/P123 Material Doubt Option A, namely the inclusion of import/export capability ratio in the calculation of ASV for a number of BMU cases in an II settlement run, for a pre and a post P122/123 effective date. This test will be executed in Dry and Main Runs. 					
Validated Assumptions					
None.					

Outstanding Issues							
None.							
Changes to Service							
Services Impacted							
	BMRA	CDCA	CRA	ECVAA	SAA	TAA	Other
Software					X		
IDD Part 1 (Docs)							
IDD Part 1 (S'Sheet)							
IDD Part 2 (Docs)							
IDD Part 2 (S'Sheet)							
URS					X		
SS					X		
DS					X		
MSS							
OSM					X		
LWIs					X		
RTP	Will be updated to include P122/P123 in the RT-04 results check spreadsheet						
Comms	None						
Other	None						
Nature of Documentation Changes							
P122 – URS and LWI. P123 (Option 2 Approach 2) – URS and LWI. P122/P123 Material Doubt (Option A) – URS, SS and DS							
Nature / Size of System Changes							
Medium.							
Type of Release Costed:	Standalone patch						
Deployment Issues, eg Outage Requirements:	Outage required						
Impact on Service Levels:	None						
Impact on System Performance:	None						
Responsibilities of ELEXON							
<ul style="list-style-type: none"> For all DCRs which are subject to review, LogicaCMG shall provide one draft issue and a maximum of 6 working days has been allowed for ELEXON review and comment on the updates. Comments will be addressed and the final issue will be provided. A maximum of 2 working days has been allowed for review confirmation and signoff by ELEXON. 							
Acceptance Criteria							
Acceptance criteria will be met through Change Specific testing.							

Any Other Information
None
Attachments
P122&P123 BSC Agent Response Proforma v0.2 P122 Price Presentation v0.2 P123 Price Presentation (Option 2 Approach 2) v0.2 P122&P123 Price Presentation (Option A) v0.2

PRICING		
Price Breakdown		
Item description	Remarks	Price (ex VAT)
Change Specific	P122	£2,959
	P123 (Option 2 Approach 1)	£0
	P123 (Option 2 Approach 2)	£2,959
	P122/P123 Material Doubt (Option A)	£36,152
	P122/P123 Material Doubt (Option B)	£0
Project Overhead	P122	£0
	P123 (Option 2 Approach 1)	£0
	P123 (Option 2 Approach 2)	£0
	P122/P123 Material Doubt (Option A)	£61,372
	P122/P123 Material Doubt (Option B)	£0
Total Price	P122	£2,959
	P123 (Option 2 Approach 1)	£0
	P123 (Option 2 Approach 2)	£2,959
	P122/P123 Material Doubt (Option A)	£97,524
	P122/P123 Material Doubt (Option B)	£0
Project Duration	P122	2 weeks
	P123 (Option 2 Approach 1)	0 weeks
	P123 (Option 2 Approach 2)	2 weeks
	P122/P123 Material Doubt (Option A)	9 weeks
	P122/P123 Material Doubt (Option B)	0 weeks
Operational Price (per annum) (Invoicing will be deferred until the de minimis limit has been reached)		P122 - £0 P123 (Approach 1 or 2) - £0
Rationale		
<p>P122 – An additional cost of £475 will be chargeable if there are more than 1000 HOL-CALF values per year (1 day of Delivery Assistant grade). Below this threshold there is no cost.</p> <p>P123 (Approach 1 or 2) – An additional cost of £475 will be chargeable if there are more than 1000 DC changes per year (1 day of Delivery Assistant grade). Below this threshold there is no cost.</p>		
Annual Maintenance Price	P122	£0
	P123 (Option 2 Approach 1)	£0
	P123 (Option 2 Approach 2)	£0
	P122/P123 Material Doubt (Option A)	£13,653
	P122/P123 Material Doubt (Option B)	£0
Rationale		
The Annual Maintenance Price is derived as 14% of the Total Price for software changes.		

Validity Constraints	
<ul style="list-style-type: none"> Price excludes provision for indexation of daily rates from 1st April 2004. Price and duration assume that this change is developed in isolation and the effects of other changes are excluded. Price is for creating DCRs, not a formal documentation issue No allowance is included for supporting PwC activities. Any effort will be charged at contracted T&M rates. <p>The validity period for this quote is 30 days and the offer is based on the following payment milestones:-</p> <ul style="list-style-type: none"> LogicaCMG will invoice 30% on receipt of Purchase Order or authorised start of work, 50% on completion of acceptance tests, 20% on deployment or one month after completion of acceptance tests, whichever is sooner. Maintain charges will be invoiced monthly in arrears with part months charged pro rata. Operate charge invoicing will be deferred until the de minimis limit has been reached. 	
Authorised Signature	Date Signed

BSC Agent Response Proforma

The BSC Agent response should give details of the expected impact and the cost and timescales for implementation of P122 and P123. The requirements that are to be assessed are detailed within section 3.1 of the requirements specification:

P122 Holiday CALF

Option	Cost of implementation	Timescale for implementation	Cost of on going operation
P122	£2,959	2 weeks	£0 (up to 1000 HOL-CALF per year)

P123 Portfolio change options

Option	Cost of implementation	Timescale for implementation	Cost of on going operation
1	Not required for DLIA	-	-
2 (Approach 1)	£0	N/A	£0 (up to 1000 DC changes per year)
2 (Approach 2)	£2,959	2 weeks	£0 (up to 1000 DC changes per year)

P122 / P123 Material Doubt options

Option	Cost of implementation	Timescale for implementation	Cost of on going operation
A	£97,524	9 weeks	£0
A – P122 equiv	Not required for DLIA	-	-

day			
B	£0	N/A	N/A
C	Not required for DLIA	-	-

Requirements Summary

Ref:	Requirement	Detailed Description	Comments / Assumptions
P122			
3.1.1.1	CRA: Receive HOL-CALF values	Receive values in same format as currently, with separate forms for each date range. Confirm that there is no change to current process.	No changes are needed to the current process.
3.1.1.2	CRA: Input HOL-CALF values	Confirm if input process should be updated. Confirm effort needed for additional volumes (100 BM Units per year with HOL-CALF values). Indicate any volume related issues.	The input process needs to be changed to reflect the receipt of HOL-CALF values. Changes to URS and LWI are needed. There will be no additional operate costs if the HOL-CALF values are limited to 500 BM Units twice a year (1000 BM Units per year). Above this level, additional operate costs of 1 day per year will be incurred.
3.1.1.3	CRA: Identifying HOL-CALF values	Confirm that the assumption that there are no requirements is correct.	The assumption is correct.
P123			
3.1.2.1	CRA: Allow decreases to DC	Confirm that system allows mid-season changes to DC Confirm that system allows decrease in DC Provide cost / timescale if the changes required for OPTION 1 and OPTION 2 (if any) were to be limited to SVA BM Units. Confirm minimum timescale needed to change DC	Option 2 is the only method being assessed for the DLIA. No changes are needed to the current process. The system does allow mid-season changes to DC, and a decrease in the DC (with a warning). There are approximately 700 SVA BM Units and 400 BM Units currently registered – the limitation to SVA BM Units will have little impact – the biggest impact will be the number of mid-season changes that are received. The current process is that all DC changes (irrespective of decrease or increase) are referred to BSCCo for approval. The CRA needs one working day from approval by BSCCo to change DC in the system.
3.1.2.2	CRA: Process mid-season CALF changes	Confirm that the assumption that no changes are required to current process. Any volumetric sensitivities should be highlighted.	Option 2 is the only method being assessed for the DLIA. No changes are needed to current process. Under Option 2, mid-season changes to CALF will not occur other than

Ref:	Requirement	Detailed Description	Comments / Assumptions
			within the timescales of the current process [Section 2.1.2, Requirements Specification v2.0] so there are expected to be no volumetric changes.
3.1.2.3	CRA: OPTION 1: Formal DC process	Receive request to decrease DC from BSCCo. Reject request if mid season decrease received from BSC Party. Confirm no change to CRA-1005 required.	This requirement has been removed for the DLIA.
3.1.2.4	CRA : OPTION 2: Decreases to DC without approval	Record number of DC decreases per BM Unit per BSC Season Check no more than 2 decreases per BSC Season Reject request if more than 2 decreases in a season have been requested Provide information on manual and software solution	<p>Approach 1 – All DC changes are submitted to BSCCo for validation and authorisation. No changes are needed to current process. There will be no additional operate costs if the DC changes are limited to 250 per BSC Season (1000 per year) with no more than 50 DC changes on any single day. Above this level, additional operate costs of 1 day per year will be incurred.</p> <p>Approach 2 – the CRA will be amended to manually monitor DC changes and reject the request if more than 2 decreases are requested per BM Unit per BSC Season. Changes to URS and LWI are needed. There will be no additional operate costs if the DC changes are limited to 250 per BSC Season (1000 per year) with no more than 50 DC changes on any single day. Above this level, additional operate costs of 1 day per year will be incurred.</p>
P122 / P123 Material Doubt			
3.1.3.1	OPTION A changes to BSC Agent calculations	Changes to II Calculations as detailed	Software changes will be made as detailed in the Section 2.4.1 of the P122 & P123 Requirements Specification v2.0 (3 Jun 2003). Changes to URS, SS and DS are needed.
3.1.3.2	OPTION A: – P122 Only – changes to equivalent day calculation	Additional changes to II Calculations for holidays period equivalent days	This requirement has been removed for the DLIA.
3.1.3.3	OPTION B	Confirm that the assumption	No changes are needed to the

Ref:	Requirement	Detailed Description	Comments / Assumptions
		that no changes are required to current process.	current process.
3.1.3.4	OPTION C	Confirm that the assumption that no changes are required to current process.	This requirement has been removed for the DLIA.
P122 / P123 Potential Alternative			
3.1.4	Potential alternative	Confirm that the assumption that no changes are required to current process.	This requirement has been removed for the DLIA.

The BSC Agent response should also indicate if there are any other changes to BSC Systems, processes and documentation that have not been highlighted within this document.

There are no other changes to BSC Systems, processes and documentation that have not been highlighted above.

ANNEX 4 – BSCCO IMPACT ASSESSMENTS

a Assurance

MP/CP No.	P122 / 123	Title:	P122 Assessment of Credit Cover during holiday periods / P123 Assessment of credit cover following a change in a Party's portfolio
<p>Although P122 and P123 are being considered as individual Modification Proposals the SSMG felt that it was appropriate to include them in the same Requirements Specification as the potential solutions are similar.</p> <p>An additional sheet has been provided with this impact assessment on which all the requirements are detailed and any assumptions made by the SSMG are also detailed. You are asked to validate these requirements / assumptions and provide a man day breakdown for each of the options considered.</p> <p>The solutions that are being considered and that should be responded to as part of this impact assessment are as follows;</p> <p>P122 : Process for having Holiday CALF</p> <p>P123 : Process for changing DC and / or CALF for reasons of portfolio change</p> <p>Option 1 : Formal approval process Option 2: Informal process for DC</p> <p>P122 / P123 : Material Doubt Process</p> <p>Option A: Changes to SAA calculations Option B: Changes to material doubt process Option C: Addition of a new mandatory calculation for holiday and portfolio change that can be used to suspend material doubt.</p> <p>Potential Alternative to P122 and P123 : Widen scope of material doubt to include whole of EI calculation</p>			

1st Assessor Name	Richard Smith		Assessor Team	Assurance		Date	16/05/03	
2nd Assessor Name			Assessor Team			Date		
Stage of Assessment	Assessment Procedure			Document Assessed		P122-P123AS10.doc		
Likely Impacted Departments:								
Change Delivery	X	Service Delivery	X	Assurance		Legal		
Stakeholder Services		IT		Finance		Strategic Comm. Servs		
Likely ELEXON Activities:								
Procurement Activity Required		MRA DTC CP Required		Special Project / Working Group Required		Legal Guidance Required		
BSC System Related Changes:								
	BMRA	CDCA	CRA	ECVAA	FAA	SAA	TAA	TLFA
Software			X			X		
Code Subsidiary Documents			X			X		
Other Configurable Items			X			X		
	SVAA	PARMS	EAC/AA	MIDP	NHHDA	BSC Website	NGC	TOMAS
Software								?
Code Subsidiary Documents								?
Other Configurable Items								?

Non-BSC System Related Changes:								
BPM	X	NDFC	X	Reporting Catalogue		SVA Data Catalogue		Communications Reqs Document
IDD Part 1	X	IDD Part 2	?	EPFAL IDD Part 1		EPFAL IDD Part 2		Market Indicator Definition Statement
Service Descriptions	BSC Auditor		Certification Agent		Profile Administrator		Teleswitch Agent	

BSC Code Sections	M?	K?	X?				
Core Industry Documents							
BSCPs	?						
PSL							
SSL							
COPs							
Impacted Participants:							
BSC Parties	X	Non BSC Parties		BSC Party Agents		BSC Agents	X
Core Industry Document Owners				BSC Panel			X
Related Mods, CPs or other Projects:-							
Additional information :-							
See attached document for details of the type of information that is required back from this impact assessment							

1. Does this Impact your Department?			Yes
2. System Impacts?			Yes
Description:			
The Obligations Register will need to be updated ~ 2 man-days			
Total Resources (man days) (Development)	2	Lead time	
3. Process Impacts?			Yes
Description:			
As part of the implementation of these modifications, we will provide ~2 to 6 man-days of assurance to the CVA Programme depending on the final solution.			
Total Resources (man days) (Development)	6	Lead time	
4. Documentation Impacts?			No
Description:			
Total Resources (man days) (Development)	8	Lead time	
5. Operational Impacts?			No
Description:			
There is no impact on the Assurance Department on the basis that Service Delivery rather than the Disputes team support the resolution of material doubt relating to Credit Defaults.			
Ongoing Resources (man days per annum)			

(Post-implementation)	
6. Impact on Interfaces with BSC Agents, BSC Parties, BSC Party Agents and other ELEXON Departments?	Y/N
Description:	
7. Any other Comments or Assumptions made:	
Overall Lead Time for Project	

b CVA Programme

MP/CP No.	P122 / 123	Title:	P122 Assessment of Credit Cover during holiday periods / P123 Assessment of credit cover following a change in a Party's portfolio					
2nd Assessor Name	Phil Clinch / Helen Bray	Assessor Team	CVA Programme			Date	13/06/03	
Stage of Assessment	Assessment Procedure	Document Assessed	P122-P123AS10.doc					
Likely Impacted Departments:								
Change Delivery	X	Service Delivery	X	Assurance		Legal		
Stakeholder Services		IT		Finance		Strategic Comm. Servs		
Likely ELEXON Activities:								
Procurement Activity Required		MRA DTC CP Required		Special Project / Working Group Required		Legal Guidance Required		
BSC System Related Changes:								
	BMRA	CDCA	CRA	ECVAA	FAA	SAA	TAA	TLFA
Software				X		X		
Code Subsidiary Documents			X			X		
Other Configurable Items			X			X		
	SVAA	PARMS	EAC/AA	MIDP	NHHDA	BSC Website	NGC	TOMAS
Software						Yes		?
Code Subsidiary Documents								?

		implementation	
3. Process Impacts?			Y
<p>Description:</p> <p>For P122, section 2.2.1.1 (Requirements Spec), the SSMG agreed that BSCCo will issue a consultation prior to the start of the BSC Year detailing the suggested holiday periods for the next BSC Year (BSC Year + 1). This requires a consultation to be undertaken prior to the implementation of P122, "The SSMG agreed that it was not necessary at this stage to define the exact holiday periods and that a consultation would be held during the implementation of P122, aimed a finalising the holiday periods. It is assumed that CVA Programme would be responsible for this first consultation on holiday periods.</p>			
Total Resources (man days) (Development)	13 man-days	Lead time: 6 weeks	
4. Documentation Impacts?			Y
<p>Description:</p> <p>P123 Portfolio changes Option 1</p> <p>CRA or ELEXON Service Delivery may need to track the number of DC changes per BMU per season as a maximum of 2 will be allowed. Processes may need to be documented to enforce this rule. (5 man-days if changes to CRA required, 3 man-days if Service Delivery change LWIs)</p> <p>Material Doubt - Option A</p> <ol style="list-style-type: none"> (1) For Option A, the SAA URS, Service Description, OSM, System specification and Manual System Specification (15 man days) (2) the ECVAA URS, Service Description, OSM, System specification and Manual System Specification (15 man days) (3) BSCP15 for P123 Option 1 (5 man days) (4) IDD Part 1 (3 man days) (5) Possibly IDD Part 2 (3 man days) (6) NETA Data File Catalogue (3 man days) (7) Reporting Catalogue (3 man days) <p>Material Doubt - Option B (Preferred Option)</p> <ol style="list-style-type: none"> (1) For Option B, if a new BSCP is required to formalise the process for Material Doubt then this would be developed by the CVA Programme. To develop a new BSCP for this purpose would require: <ul style="list-style-type: none"> • Write and peer review new BSCP • Industry review and incorporate comments • Write Walkthrough Specification, Walkthrough, write Walkthrough Report • Incorporate comments in BSCP • Obtain approval (2) If for Option B is was decided not to develop a BSCP then there would be no impact on the CVA Programme as Service Delivery would develop the appropriate guideline. 			
Total Resources (man days) (Development) Option 1 would be 3 to 5 man-days		Lead time: Option A – dependent on solution Option A would be Logica	

Option A would be 47 man-days		Development plus 12 week	
Option B would be 42 man-days if a new BSCP is required		Option B would be 14 weeks if a new BSCP is required	
5. Operational Impacts?			N
Description: There are impacts on Service Delivery with respect to the material doubt process, possible changes in CALF and DC magnitude but not on the CVA Programme.			
Ongoing Resources (man days per annum) (Post-implementation)			
6. Impact on Interfaces with BSC Agents, BSC Parties, BSC Party Agents and other ELEXON Departments?			
Description:			
7. Any other Comments or Assumptions made:			
Option C - to include an additional process for suspension of Level 1 Credit Default requires a new system (software) to be developed and operated by BSCCo . It is assumed that, if this option is chosen, that ELEXON Service Delivery will develop and operate this service (TOMAS?) and that it will not be the responsibility of the CVA Programme.			
Overall Lead Time for Project: Where there are software changes, the lead time an Authority Decision plus Logica development time plus 12 weeks. This means that February 04 is the earliest CVA Programme Release date for implementation. Where there are no software changes, a shorter delivery time is possible depending on the specific options chosen.			

P122 Holiday CALF

Option	Timescale for implementation	Effort for on going operation
Allow CALF for holiday periods.	For P122, section 2.2.1.1 (Requirements Spec), the SSMG agreed that BSCCo will issue a consultation prior to the start of the BSC Year detailing the suggested holiday periods for the next BSC Year (BSC Year + 1). This requires a consultation to be undertaken prior to the implementation of P122, "The SSMG agreed that it was not necessary at this stage to define the exact holiday periods and that a consultation would be held during the implementation of P122, aimed at finalising the holiday periods". It is assumed that CVA Programme would be responsible for this first consultation on holiday periods (10 Business Days). Any change to CALF guidelines would be drafted by Service Delivery but reviewed by the CVA Programme (3 Business Days).	None as this would fall under the remit of Service Delivery – CVA Operations.

Estimated Effort	13 Business Days	N/A
Lead Time	6 weeks	N/A

P123 Portfolio change options

Option	Timescale for implementation	Effort for on going operation
Allow 2 decreases to DC per season	Q: Is there any impact on CRA documentation, software or processes to ensure that an SVA BM Unit would only be able to change their DC value twice in any one BSC Season? CVA Programme would need to review changes to NETA CSA documentation if there was an impact. If there were any changes to LWIs for Service Delivery to allow an SVA BM Unit to change its DC value more than once in a BSC Season then the CVA Programme would need to review these changes.	None as DC values are amended and maintained by Service Delivery
Estimated Effort	5 Business Days if there are changes to CRA. 3 Business Days if there are changes to Service Delivery LWIs	N/A
Lead Time	14 weeks	N/A

P122 / P123 Material Doubt Process

Option	Timescale for implementation	Effort for on going operation
Changes to Material Doubt process to formalise process	Drafting a set of guidelines or a new BSCP will involve effort from CVA Programme. It has been assumed for this estimate that CVA Programme is responsible for drafting, reviewing and testing the new procedure with input from the Lead Analyst and Service Delivery – CVA Operations. Require at least 14 weeks lead time	
Estimated Effort		
Lead Time	14 weeks	

BSCCo authorisation of DC and the work load associated:

No impact on CVA Programme as this is a Service Delivery issue.

The development of material doubt guidelines:

This could have an impact on the CVA Programme as it depends whether Service Delivery or CVA Programme are responsible for the drafting of these guidelines.

Development and implementation of changes to CALF guidelines:

This could have an impact on the CVA Programme as it depends whether Service Delivery or CVA Programme are involved in the changes to drafting of the CALF guidelines.

Co-ordination of the changes to the CALF guidelines, new guideline and local working instructions:

This could have an impact on the CVA Programme as it depends whether Service Delivery or CVA Programme are involved in the changes to drafting of the CALF guidelines.

c Governance and Regulatory Affairs

MP/CP No.	P122 / 123	Title:	P122 Assessment of Credit Cover during holiday periods / P123 Assessment of credit cover following a change in a Party's portfolio					
1st Assessor Name	Melissa Boag	Assessor Team	Governance and Regulatory Affairs – Stakeholder Services			Date	16/06/03	
Stage of Assessment	Assessment Procedure		Document Assessed	P122-P123AS10.doc				
Likely Impacted Departments:								
Change Delivery	X	Service Delivery	X	Assurance		Legal		
Stakeholder Services	X	IT		Finance		Strategic Comm. Servs		
Likely ELEXON Activities:								
Procurement Activity Required		MRA DTC CP Required		Special Project / Working Group Required		Legal Guidance Required		
BSC System Related Changes:								
	BMRA	CDCA	CRA	ECVAA	FAA	SAA	TAA	TLFA
Software			X			X		
Code Subsidiary Documents			X			X		
Other Configurable Items			X			X		
	SVAA	PARMS	EAC/AA	MIDP	NHHDA	BSC Website	NGC	TOMAS
Software								?
Code Subsidiary Documents								?
Other Configurable Items								?
Non-BSC System Related Changes:								
BPM	X	NDFC	X	Reporting Catalogue		SVA Data Catalogue		Communications Reqs Document

IDD Part 1	X	IDD Part 2	?	EPFAL IDD Part 1		EPFAL IDD Part 2		Market Indicator Definition Statement	
Service Descriptions	BSC Auditor		Certification Agent		Profile Administrator		Teleswitch Agent		
BSC Code Sections	M?	K?	X?						
Core Industry Documents									
BSCPs	?								
PSL									
SSL									
COPs									
Impacted Participants:									
BSC Parties	X	Non BSC Parties		BSC Party Agents		BSC Agents			X
Core Industry Document Owners					BSC Panel				X
Related Mods, CPs or other Projects:-									
Additional information :-									
See attached document for details of the type of information that is required back from this impact assessment									
1. Does this Impact your Department?								Y	
2. System Impacts?								Y/N	
Description:									
Total Resources (man days) (Development)						Lead time			
3. Process Impacts?								Y/N	
Description:									
Total Resources (man days) (Development)						Lead time			
4. Documentation Impacts?								Y/N	
Description:									
Total Resources (man days) (Development)						Lead time			
5. Operational Impacts?								Y	
Description:									
As outlined in page 26 of the Requirement Specification, Modification Proposals P122 and P123 would potentially introduce requirements for the BSC Panel. These can be summarised as follows									

P122	
<ul style="list-style-type: none"> • Determining Annual Holiday Periods <p>The suggested holiday periods would be agreed by the Panel based on consultation responses from BSC Parties. This would be a new requirement for the Panel but, from the Requirement Specification, would be annual event and is unlikely to be an onerous task. It is understood that Service Delivery would be taking the lead in the consultation process.</p>	
<ul style="list-style-type: none"> • Hearing HOL-CALF Appeals <p>The BSC Panel would hear and rule on HOL-CALF Appeals. This would most likely be delegated to the ISG in line with the current process for dealing with CALF Appeals and therefore would potentially have minimal direct impact on the Panel.</p>	
P123	
<ul style="list-style-type: none"> - Hearing Mid-season CALF Appeals <p>The Panel would hear and determine any mid-season CALF appeals raised for the reasons of portfolio changes.</p>	
<ul style="list-style-type: none"> - Formal approval of DC and CALF Changes <p>The Panel would hear and determine any mid-season DC/CALF appeals that are raised for reason of portfolio change. Depending on the amount of appeals, this could dramatically increase the workload of the Panel and lengthen meetings.</p>	
<p>These requirements could potentially increase the workload of the Panel and the Governance and Regulatory Affairs Team in supporting the Panel although it is anticipated that Service Delivery would take the lead in producing papers and managing processes.</p> <p>It should be noted, that under K3.4.7 of the BSC, the Panel already has the ability to re-consider GC/DC declarations and has done so on a couple of recent occasions. Due to the surrounding materiality, it has been necessary to organise Urgent Meetings which are disruptive and costly. It is assumed that Urgent Meetings would not be required.</p> <p>The resource estimation is based an assumption of 2 DC/CALF appeals per meeting and an additional ¼ day per Panel Meeting in preparing paperwork, writing additional minutes and providing support such as assistance in managing the holiday consultation process.</p>	
Ongoing Resources (man days per annum) (Post-implementation)	3
6. Impact on Interfaces with BSC Agents, BSC Parties, BSC Party Agents and other ELEXON Departments?	Y/N
Description:	
7. Any other Comments or Assumptions made:	
Overall Lead Time for Project	

d Service Delivery – Customer Service Management

MP/CP No.	P122 / 123	Title:	P122 Assessment of Credit Cover during holiday periods / P123 Assessment of credit cover following a change in a Party's portfolio			
2nd Assessor	Anna Millar	Assessor	CSM Team – Service	Date	17/06/200	

Name		Team	Delivery			3		
Stage of Assessment	Assessment Procedure		Document Assessed	P122-P123AS10.doc				
Likely Impacted Departments:								
Change Delivery	X	Service Delivery	X	Assurance		Legal		
Stakeholder Services		IT		Finance		Strategic Comm. Servs		
Likely ELEXON Activities:								
Procurement Activity Required		MRA DTC CP Required		Special Project / Working Group Required		Legal Guidance Required		
BSC System Related Changes:								
	BMRA	CDCA	CRA	ECVAA	FAA	SAA	TAA	TLFA
Software			X			X		
Code Subsidiary Documents			X			X		
Other Configurable Items			X			X		
	SVAA	PARMS	EAC/AA	MIDP	NHHDA	BSC Website	NGC	TOMAS
Software								?
Code Subsidiary Documents								?
Other Configurable Items								?

Non-BSC System Related Changes:									
BPM	X	NDFC	X	Reporting Catalogue		SVA Data Catalogue		Communications Reqs Document	
IDD Part 1	X	IDD Part 2	?	EPFAL IDD Part 1		EPFAL IDD Part 2		Market Indicator Definition Statement	
Service Descriptions	BSC Auditor			Certification Agent		Profile Administrator		Teleswitch Agent	
BSC Code Sections	M?		K?	X?					
Core Industry Documents									
BSCPs	?								
PSL									
SSL									
COPs									
Impacted Participants:									
BSC Parties	X	Non BSC Parties		BSC Party Agents		BSC Agents		X	
Core Industry Document Owners					BSC Panel				X
Related Mods, CPs or other Projects:-									
.									
Additional information :-									
See attached document for details of the type of information that is required back from this impact assessment									

1.	Does this Impact your Department?	Y/
2.	System Impacts?	Y/
Description:		
Customer Service management would need to track the number of times a Party decreased the DC for an SVA BM Unit in a Season. We are assuming that this will be tracked using an excel spreadsheet.		
Total Resources (man days) (Development)	1	Lead time 2 Weeks
3.	Process Impacts?	Y
Description:		
If the SSMG's preferred solution is implemented, BSCCo will need to validate each Mid – Season GC and DC change to determine if a decrease to an SVA BM Unit's DC is elected and if so, record the change on a spreadsheet. If a decrease to a Party's SVA BM Unit's DC has been elected and BSCCo have a record of more than two previous decreases for that BM Unit BSCCo		

should instruct CRA to reject the election.			
Total Resources (man days) (Development)	0	Lead time	
4. Documentation Impacts?			Y
Description:			
Between steps 3.8.3 and 3.8.4 of BSCP 15 the above BSCCo validation and recording of the change and subsequent instruction to the CRA should be documented. The CVA Programme will make these documentation changes.			
The BM unit registration LWI should also be amended to document this process.			
Total Resources (man days) (Development)	1	Lead time	2 Weeks
5. Operational Impacts?			Y
Description:			
The on-going operational impacts are as documented in “process changes” above.			
Ongoing Resources (man days per annum) (Post-implementation)			7
6. Impact on Interfaces with BSC Agents, BSC Parties, BSC Party Agents and other ELEXON Departments?			Y
Description:			
There would be an additional two interface between BSCCo and the CRA:			
CRA will send copies of BSCP 4.4 to BSCCo			
BSCCo will inform CRA to process the form or reject it.			
BSCCo may also have additional interfaces with Parties, querying the new process.			
7. Any other Comments or Assumptions made:			
<ul style="list-style-type: none"> • If a transfer of Supplier Id takes place during the Season and the Transferor has already reduced the DC of the SVA BM Units twice in the Season, can the Transferee still reduce the DC twice in the same Season once becoming responsible for the BM Units? • Some Parties do not fulfil the obligation to inform the CRA of GC and DC values prior to the start of the Season and in such cases these values are carried forward from the previous Season. Will/should such Parties be able to then reduce their DC mid-Season? 			
Overall Lead Time for Project			2 Weeks

e Service Delivery – CVA Operations

MP/CP No.	P122 / 123	Title:	P122 Assessment of Credit Cover during holiday periods / P123 Assessment of credit cover following a change in a Party's portfolio
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1st Assessor Name	Anna Kneafsey		Assessor Team	CVA Operations			Date	16 Jun. 03	
Stage of Assessment	Assessment Procedure			Document Assessed	P122-P123AS10.doc				
Likely Impacted Departments:									
Change Delivery	X	Service Delivery	X	Assurance		Legal			
Stakeholder Services		IT		Finance		Strategic Comm. Servs			
Likely ELEXON Activities:									
Procurement Activity Required		MRA DTC CP Required		Special Project / Working Group Required		Legal Guidance Required			
BSC System Related Changes:									
	BMRA	CDCA	CRA	ECVAA	FAA	SAA	TAA	TLFA	
Software			X			X			
Code Subsidiary Documents			X			X			
Other Configurable Items			X			X			
	SVAA	PARMS	EAC/AA	MIDP	NHHDA	BSC Website	NGC	TOMAS	
Software									?
Code Subsidiary Documents									?
Other Configurable Items									?

Non-BSC System Related Changes:									
BPM	X	NDFC	X	Reporting Catalogue		SVA Data Catalogue		Communications Reqs Document	
IDD Part 1	X	IDD Part 2	?	EPFAL IDD Part 1		EPFAL IDD Part 2		Market Indicator Definition Statement	
Service Descriptions	BSC Auditor		Certification Agent		Profile Administrator		Teleswitch Agent		
BSC Code Sections	M?	K?	X?						

Core Industry Documents							
BSCPs	?						
PSL							
SSL							
COPs							
Impacted Participants:							
BSC Parties	X	Non BSC Parties		BSC Party Agents		BSC Agents	X
Core Industry Document Owners				BSC Panel			X
Related Mods, CPs or other Projects:-							
Additional information :-							
See attached document for details of the type of information that is required back from this impact assessment							
1. Does this Impact your Department?							<u>Y/N</u>
2. System Impacts?							<u>Y/N</u>
Description:							
Depends on nature of any calculation proposed. It is possible that this may involve changes to TOMAS –see MM&R response. Otherwise, SQL queries maybe developed to formalise process – no system impacts							
Total Resources (man days) (Development)				Lead time			
3. Process Impacts?							<u>Y/N</u>
Description:							
Develop process for determining holiday periods							
Revise CALF Guidelines to describe methodology for holiday CALF calculations (based on historic holiday average and seasonal max)							
(3 WD including ISG)							
Develop new material doubt guidelines:							
<ul style="list-style-type: none"> - expert group meetings and support (10 WD) - develop document and possibly calculation (5 WD) [Testing to be done by MM&R] - consultation/ approval process (5 WD) 							
Total Resources (man days) (Development)			23	Lead time (fit to CVA Prog releases)			14 weeks
4. Documentation Impacts?							<u>Y/N</u>
Description:							
<ul style="list-style-type: none"> - BSC refers to holiday periods and re-defines DC to reflect possibility of 2 mid-season downward changes - CALF Guidelines set out Hol-CALF methodology to apply to holiday periods 							

<p align="center">- Material doubt guideline/ BSCP</p> <p>NB: Resource requirements in process impacts</p> <p>Party education – circulars, TOF presentation</p>			
Total Resources (man days) (Development)	5	Lead time	4 weeks
5. Operational Impacts?			Y/N
<p>Description:</p> <p>Consult on holiday periods and present recommendations to the Panel (5 WD)</p> <p>Helpdesk calls may be raised re the new processes eg definition of holiday periods, holiday CALFs, revised DC submissions, material doubt processes (5 WD)</p> <p>Issue reminder for attention of SVA Lead Parties; calculate holiday CALFs (2 WD)</p> <p>Holiday CALF appeals – assume same process will be used as for existing CALF appeals. If 2/4 SVA Parties appeal per season, one in addition to an appeal of ordinary CALF values, then estimate 3 WD p.a</p> <p>Assume that material doubt guideline will mean that material doubt determinations are no more time-consuming than is currently the case</p>			
Ongoing Resources (man days per annum) (Post-implementation)			15
6. Impact on Interfaces with BSC Agents, BSC Parties, BSC Party Agents and other ELEXON Departments?			Y/N
<p>Description:</p> <p>Material doubt Guideline may place an onus on Parties to submit certain types of info to substantiate a material doubt claim. Previously there has been no such formal requirement</p> <p>CRA-I011s will communicate ordinary CALFs and HOL-CALFs</p> <p>BSCCo will submit mid season DC reductions to CRA following validation</p>			
7. Any other Comments or Assumptions made:			
<p>This is an assessment for CVA Ops only. Please note also the review comments from MM&R and from CS&M</p> <p>As advised by Jo Ellis this assumes an informal approach for DC changes and Option B for material doubt</p> <p>This assessment assumes approx 4 Parties will request holiday CALFs per season as set out in the requirements spec. We have some concerns about this estimate, which is based on the number of SVA CALF appeals currently received. Holiday CALFs will benefit most SVA Parties, and so many may wish to avail themselves of the holiday CALF option.</p> <p>In terms of organising the material doubt development work, we assume that CVA Ops will have a key role in developing the new process, but that a chair role will be provided by Change Delivery/ CVA Programme to manage overall implementation of the new process/ document</p>			
Overall Lead Time for Project Subject to CVA Prog release dates			14 weeks

f Service Delivery – Market Monitoring

MP/CP No.	P122 / 123	Title:	P122 Assessment of Credit Cover during holiday periods / P123 Assessment of credit cover following a change in a Party's portfolio					
1st Assessor Name	Fred Barasi		Assessor Team	Market Monitoring		Date	12/6/03	
Stage of Assessment	Assessment Procedure		Document Assessed		P122-P123AS10.doc			
Likely Impacted Departments:								
Change Delivery	X	Service Delivery	X	Assurance		Legal		
Stakeholder Services		IT		Finance		Strategic Comm. Servs		
Likely ELEXON Activities:								
Procurement Activity Required		MRA DTC CP Required		Special Project / Working Group Required		Legal Guidance Required		
BSC System Related Changes:								
	BMRA	CDCA	CRA	ECVAA	FAA	SAA	TAA	TLFA
Software			X			X		
Code Subsidiary Documents			X			X		
Other Configurable Items			X			X		
	SVAA	PARMS	EAC/AA	MIDP	NHHDA	BSC Website	NGC	TOMAS
Software								?
Code Subsidiary Documents								?
Other Configurable Items								?

Non-BSC System Related Changes:									
BPM	X	NDFC	X	Reporting Catalogue		SVA Data Catalogue		Communications Reqs Document	
IDD Part 1	X	IDD Part 2	?	EPFAL IDD Part 1		EPFAL IDD Part 2		Market Indicator Definition Statement	

Service Descriptions	BSC Auditor		Certification Agent		Profile Administrator		Teleswitch Agent	
BSC Code Sections	M?	K?	X?					
Core Industry Documents								
BSCPs	?							
PSL								
SSL								
COPs								
Impacted Participants:								
BSC Parties	X	Non BSC Parties		BSC Party Agents		BSC Agents		X
Core Industry Document Owners				BSC Panel				X
Related Mods, CPs or other Projects:-								
Additional information :-								
See attached document for details of the type of information that is required back from this impact assessment								

1. Does this Impact your Department?			Y
2. System Impacts?			Y
Description:			
New system to be developed to perform alternative credit calculation (developing and testing)			
Total Resources (man days) (Development)	10	Lead time	10
3. Process Impacts?			N
Description:			
Total Resources (man days) (Development)			
	N/A	Lead time	
4. Documentation Impacts?			Y
Description:			
Specification to be developed for credit calculator			
LWI to be produced for new process			
Total Resources (man days) (Development)	10	Lead time	10
5. Operational Impacts?			Y
Description:			
Additional calculation to be performed by Market Monitoring to provide support to credit queries			
Ongoing resource impact entirely depends on frequency of queries – potentially significant			

Ongoing Resources (man days per annum) (Post-implementation)	?
6. Impact on Interfaces with BSC Agents, BSC Parties, BSC Party Agents and other ELEXON Departments?	N
Description:	
7. Any other Comments or Assumptions made:	
<p>Resource will be available to begin work within one month of mod approval.</p> <p>Note that any calculation we could do would be constrained by TOMAS being available, the supporting IT infrastructure being available, the data having been loaded etc. This means that the calculation would have to be caveated accordingly. We could not support a very prescriptive calculation that required exact data / times without turning ourselves into a production outfit.</p>	
Overall Lead Time for Project	20 days

ANNEX 5 – NOTES PROVIDED BY THE PROPOSER

a Clarification of reasoning in favour of Option C on Material Doubt

This note is an attempt to clarify the arguments put forward with regard to Options B and C as discussed at the P122/P123 Mod Group meeting of 27th May.

What the Proposer of the Modifications is looking for with regard to this part of the Modification is speed in withdrawal of the Credit Default Notice. This is particularly pertinent because of the high probability of the party going straight into level 2 default as soon as a day (or several days) of Credit Assessment Energy Indebtedness is (are) replaced by Actual Energy Indebtedness following the loading of the latest II-Run file. The lack of a Cure Period for level 2 default means that the affected Party must seek to arrange additional credit cover before the expiry of the Query Period, nullifying the intended benefit of the Mod (which is that the affected Party should be correctly accepted as being adequately covered) – the risks of waiting for Material Doubt to be declared are too great if that declaration takes you well into the relevant banking day.

I have introduced the term “stress period” into this note to indicate that an Alternative Calculation would apply to the AEI calculation of days in that period.

The following are the issues of difference, as I see it, between Option B and Option C. The basis of this note is the diagrams given as A1.6 and A1.7 of the Requirements Specification. I also attach my sequencing for Option C, which differs from Joanne’s.

Areas of commonality between Options B and C

- In both, there is an Alternative Calculation repeated daily and triggered by receipt of the SAA-IO14 report.
- The Alternative Method is effectively set up at the beginning of the “stress” period when the evidence is given.
- The Alternative Method applies as each day in the “stress period” passes from a Credit Assessment Energy Indebtedness calculation to an Actual Energy Indebtedness calculation. This occurs once the Day first appears on the SAA-IO14 file. Once the day appears on that file, the

data underlying it will not change until the SF run for that day and so will be the same throughout the “stress period”.

- In both methods, there could be multiple incidences of default notices because a Material Doubt declaration does not change the ECVAA calculation, which is performed every half-hour. This is the case at present.

Material Doubt

Under Option B, Material Doubt is unchanged – it is doubt, at the time a Default Notice (Level 1 or Level 2) is issued as to whether the calculation is accurate.

Under Option C, it should apply at the time that the data comes available – it is doubt about that data. This is reasonable because the data on which Material Doubt can apply (Actual Energy Indebtedness) comes in daily batches. There is no ground for material doubt on the contemporary data (BMCAIC) anyway.

This is an important change to the current Code because it mandates assessment of “Material Doubt” when the data becomes available rather than when the Default Notice is issued by the ECVAA.

The timing of assessment of material doubt is essentially relevant only to Elexon processes and only becomes relevant to a Party when a notice of material doubt is issued.

Use of Alternative Calculation

My thinking on this is that there needs to be up front agreement between the Party and Elexon as to the period and the parameters of the Alternative Calculation. This is because I don’t believe that a change in DC or CALF is necessarily a sufficient trigger to require separate calculations and so some active process is needed to prevent unnecessary calculation.

It may be advisable for the Panel to have a say in authorising such Alternative Method but this is not a strongly held view.

Differences between my version of Option C and the circulated version – Application of the Alternative Calculation

- In my version, the Alternative Calculation is performed as a comparison between the calculated AEI and an AEI that comes from the Alternative Calculation.
 - o This is effectively a difference in Trading Charges occasioned because the ECVAA’s AEI calculation has over-estimated metered energy suggesting that the party was under-contracted.
 - o This will usually estimate that the party owes money at SBP rather than owing money at SSP.
 - o It is in the Alternative Calculation that this is tested with an output of an “Energy Difference” from the ECVAA calculation.
 - o The Elexon version implies only that an alternative AEI is passed out of the calculation for later comparison.
 - o This seems inappropriate because the more difficult calculation is the implication for Trading Charges (as per the description in 2.3.3 of the Requirements Spec).
- In my version, the difference in energy is passed but this could equally be a financial amount by not dividing by CAP.

- For out of hours calculation, the differences can be summed and calculated as a percentage of credit cover. This can only be done on a daily basis because credit cover can change during the day (but not out of hours). This means that the Energy Difference can be expressed as a percentage, which fits well with the ECVA Default Notification file, which notifies the Credit Cover Percentage (CCP, as calculated in M3.1.1). Therefore, if the Energy Difference derived from applying the Alternative Calculation is expressed as a percentage by dividing it by Energy Credit Cover (again in accordance with M3.1.1), then this can be directly subtracted from the calculated CCP giving a very quick determination of Material Doubt.

Use of TOMAS

A concern on the use of TOMAS to calculate the data seems to be misplaced. This does not have to be an operational standard provided there is reasonable availability during office hours on most days during the "stress period". If TOMAS is not available on a day then a calculation can be performed when it is eventually available.

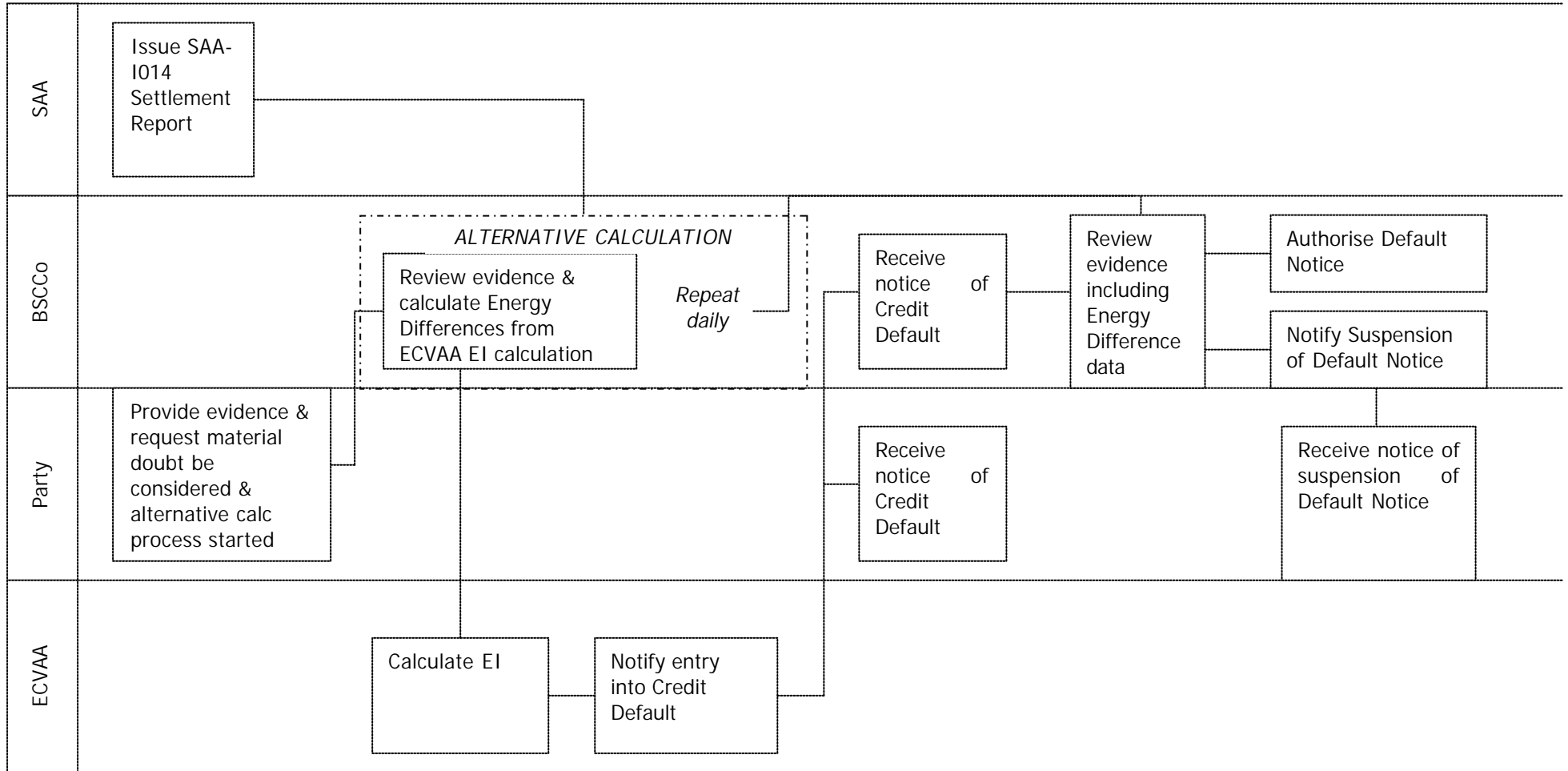
It should also be noted that TOMAS could play an important role in assessing material doubt during a Query Period at present. Without it, that assessment is very haphazard and approximate but would put the affected party in no worse a position than at present.

Mod Group view of Option B

My understanding of the reasoning behind a preference for Option B was that it seemed more flexible. There seemed to be a fear that a hard-wired Alternative Calculation may prove to be inappropriate on the day. I share this concern, however Option C is primarily about the sequence of information processing. Option B, as described in the flow diagram includes a pre-defined Alternative Calculation. Whether this calculation is written in the Code or whether it is in a Guideline or is agreed on a case-by-case basis is secondary. What is necessary is that it be in place before the start of the "stress period" and so can be used to calculate the materiality of the doubt up front rather than on the day, leading to a delay in the notification of material doubt (which is a defect identified in both Mods).

This is an important issue and so comments and clarifications would be welcomed from Mod Group members.

Alternative "Option C"



b Proposal for alternative methodology for assessing “material doubt”

Introduction

This paper is written in response to the action put on SSMG members at the meeting of 28th May. It relates to both Modification P122 and P123. The issues addressed are:

- How the existing process for material doubt should be changed to incorporate the "alternative calculations" suggested in the Modification Proposals?
- What evidence should Parties provide for material doubt and for CALF / DC changes?
- What should the "alternative calculations" that BSCCo must carry out be?

Background factors

As background, it should be noted that the expected problems that both these proposals are designed to alleviate did in fact occur:

1. At midnight on 28th April, BizzEnergy was notified of credit default. The make-up of the days of indebtedness (based on the sample EI data spreadsheets supplied) was:
 - a. 2 days from March based on II data – approximately correct share from SF run
 - b. 21 days up to 21 April based on II data – inflated share because based on Feb/March SF run shares
 - i. includes 18th and 21st April as Easter = further relative inflation based on SF share
 - c. 7 days with new portfolio-adjusted CALF.
2. The previous day had been based on 3 “correct” II run days, 16 “inflated-value” II run days, and 11 days on the portfolio-adjusted CALF – the inclusion of 5 extra II-run days in the calculation was a dramatic change in position.
3. BizzEnergy went straight into Level 2 default:
 - a. This allows a 24-hour Query Period but no Cure Period.
 - b. BizzEnergy had to use the Query period to raise additional funds.
4. At 8.30 am on 29th April, additional information was provided to Elexon – although the basic data had already been provided.
5. At midday on 29th April, material doubt was applied, withdrawing the default notice.

It should be noted that, given the lack of an additional Cure Period, it took effectively 12 hours before material doubt was exercised, allowing only about 3 more hours to raise additional cash, had this proved necessary and had BizzEnergy waited for a material doubt verdict.

Change to the Material Doubt Process

Currently material doubt can only be exercised once a default notice has been issued to a Trading Party. This must be based on the information available at the time. Information available to the ECVA will not change between the II run and the SF run.

Information available to the party can change to the extent that actual meter reads become available (for half-hourly read meters) although this can be a considerable quantity of data to check. Basing a check on actual meter readings cannot be effectively undertaken until default occurs.

No effective information on which to challenge profile calculations will be available until the SF run.

Given that we are querying a share of GSP Group take, partial information from some HH Meters is not going to be very useful (do these meters add up to a 60% of the total or 80% or what?).

Therefore material doubt for SVA metering needs to be based on a challenge to the SF run share based known changes to the portfolio in terms of DC, CALF or AA – these are all effectively standing data known ahead of the day.

The proposed change to the material doubt process is the addition of a shadow log for those Parties with good reason to expect a significant and consistent over-calculation of GSP Group share. At any time there will only be one or two parties in this category given the likely criteria:

- A significant fall in portfolio
- A significant fall in load factor (either for holiday periods only or due to portfolio change).

Although, increasing portfolios (as well as specialist domestic portfolios at holiday periods) pose the opposite problem of an under-calculation of potential indebtedness, this will never trigger default and so never triggers material doubt.

The options available are either:

- to treat the calculation of indebtedness using the alternative method as material doubt (possibly using an “alternative methodology document”, which could be a BSC Procedure, as the basis of the calculation); or
- to designate the alternative methodology as the applicable methodology in defined cases, with material doubt applicable where additional alternative evidence is made available.

My preference is for the second option. The Code precisely defines the steps used in the calculation of energy indebtedness, which allows the Party and Elexon to know the basis of the calculation and the data used. Where it is agreed that an alternative methodology is more appropriate (the purpose of both Mods) then, if possible, the same standard of certainty should apply. This allows the affected party, other parties (for whose benefit the credit rules are in place) and Elexon to fully understand the basis of calculation.

Evidence for material doubt and for CALF / DC changes

DC

For DC, the evidence available for an SVA BMU is a mixture of the aggregated AA and the peaks derived from historic HH metering systems and from the relevant profile classes for NHH. These should ideally be compared with the aggregated data for the whole GSP Group as a scaling check.

CALF

Current methodologies should apply. For holiday CALF, historic average offtake for the holiday days can be applied to DC, with average offtake for non-holiday average offtake applying to other days in the season.

Material doubt

Main evidence is about portfolio differences (essentially the same as for DC but the CALF evidence applies for holiday periods).

As discussed above, meter read information by itself does not tell a sufficient picture for an SVA BMU unless historic information for the same meters is also supplied. Even then, this remains a very partial picture.

Alternative calculation methodology

The basis of the calculation is a different share of GSP Group take relative to that derived from the SF run of D-35. This should be derived as follows.

2. Calculate a revised share $Altshare_i$ for each GSP Group as:

$$BMCAIC_a / \sum_i BMCAIC_i$$

where:

- a is the BMU in a GSP belonging to the affected party;
- i is each BMU in the GSP Group

3. In T4.2.2, where Alternative Methodology applies (i.e. the II run for any day where the standard methodology does not apply, which is derivable from the sample EI data spreadsheets), BSCCo will calculate:

$$QM_{ij} = GSPGT_j * Altshare_i$$

for the (probably) 12 SVA BMUs of the affected Party.

4. Elexon will therefore require the appropriate daily feed from the SAA and will need to extract GSPGT for each GSP Group for each settlement period and multiply those 48 x 12 numbers by the 12 Altshares previously calculated.
5. From the same feed for the affected party, the QM_{ij} calculated for the same BMUs will need to be compared with the alternative method calculation and a volume of energy can then be credited to that party's shadow account.
6. This can then be compared with QAE_{bj} as calculated in T4.6.3. The volume of energy described in point 4 above is then divided into 2 parts:
 - a. A proportion to be valued at SBP sufficient to bring a short position into balance (which could be zero);
 - b. A remainder valued at SSP (potentially zero), which represents any net over-delivery.
7. Point 5 delivers two sums of money. The net additional money for the trading day is summed for the day and divided by CAP in accordance with M1.2.5. This gives an addition to AEI_p for the day, and this sum can be stored as a single daily number, which will not change for the duration of the application of the alternative methodology.
8. When doing the calculation in M3.1.1, Elexon will be able to add up to 21 days of this calculated additional energy to EI_{pj} and reassess CCP_{pj} as necessary. It becomes a simple question of – do we have additional energy to add in and what does that do to the credit percentage. Because such data is already prepared, it should usually only take 5 minutes to rescind any default notice.

Note that in this methodology, I have not sought to fully replicate the full Trading Charges calculation. I have just found a "missing" volume of energy and applied it to the imbalance calculation part of Trading Charges. This should normally be more than sufficient and it is only where a more precise calculation is needed for some reason that "material doubt" might need to apply (e.g. if beer fund becomes a big negative number and is therefore material).

This suggests that for a particular affected party for a defined period, a calculation based on II run data is performed once a day as each new day's data becomes available. The resulting single number will not change until the SF run when it will not be needed anyway.

At present, in assessing the materiality of any doubt, similar calculations are required anyway. Given that we had predicted that default would occur due to use of the standard methodology, it seems rational to perform the calculation ready for the inevitable.

c Legal Drafting Regarding Material Doubt in P122 and P123

Having reviewed the proposed legal drafting for these Modifications, I am broadly happy with most of it. There is one area where I am looking for an increase in clarity and this note sets out my issues for discussion at tomorrow's meeting.

To recap, my continuing concern relates to the impact of the crossover from CEI to AEI on affected days. Following an II-Run for day d, which becomes available normally during a Business Day at d+7 (but which can be several days later after a holiday period and is also delayed where d is a Saturday or Sunday), nothing happens with this data for credit assessment until it is loaded at midnight on d+7 at which time the credit assessment for the 48 Settlement Periods for day d become based on the AEI calculation instead of the CEI calculation. Thereafter, credit assessment for day d does not change and the assessed Trading Charges are accumulated for the current day: d+n to calculate Energy Indebtedness.

The main purpose of the proposed changes with respect to material doubt in the Mods is therefore about what can be done between the time when the II-run file becomes available and the midnight when the II-run data are loaded into the credit assessment calculations by the ECVAA.

It has been my contention throughout that an assessment of the extent to which, in respect of the calculation for day d, AEI will be over-calculated by the ECVAA (based on the evidence provided up front by the Trading Party affected) can be made as soon as the II-run for the day has been received and that this information can be expressed as a simple number for comparison with the Credit Cover Percentage, allowing material doubt to be called very quickly – even at midnight – as soon as a Level 1 Default Notice is received. This is important because of the experience of Level 2 Default Notices frequently being issued at the same time as the level 1 (removing the Cure Period).

The specific area of concern with the drafting is:

In the new M1.2.1(f), it includes:

“... but must verify any opinion formed in relation to such evidence as soon as practicable after receiving a Level 1 Default notice ...”

This goes along with the existing text of M3.4.3(a):

“... a material doubt as to whether, at the time, the systems and processes used by the ECVAA ...”

Both these texts give the impression that an actual assessment of material doubt cannot take place until receipt of the Level 1 Default Notice.

What I am looking for is some clarification in the legal text. If we could have something like:

“For the avoidance of doubt, BSCCo may assess the extent to which the data referred to in M1.2.1(e) differs from the results that BSCCo, based on substantial evidence or other reasons, calculates as a more accurate assessment of Actual Energy Indebtedness as soon as the relevant Interim Information Settlement Run data becomes available to it.”

This could either fit after M1.2.1 or M3.4.3.

It is not my intention to change the meaning set down in the proposed text but to clarify when BSCCo can make the crucial assessments.

d Further comments on material doubt issue

My concern relates to subsequent interpretation of the Code into material doubt guidelines and my concern that the procedures are not forced to create delay.

The nub of my concern relates to the emphasis on rechecking of data.

Paragraph 3.4.3(a) sets out the basis of submission of an authorisation but emphasises that this cannot be done if there is material doubt that at the time that the ECVAA did the calculation the systems and processes were giving a correct determination. It gives grounds for material doubt where the ECVAA has notified of a problem or where there is other substantial evidence.

Paragraph 1.2.1(e) specifies the essential grounds for doubt that is the subject of the Mods – i.e. that the ISR data expected to be derived differs from the data received by the ECVAA in the IISR. This seems to allow early assessment of the data because it relates to receipt of the data by the ECVAA and not to its use (which occurs at midnight of the day of receipt).

Where I am principally concerned is the emphasis in 1.2.1(f) on verification of the opinion formed specifically on the evidence provided by the Trading Party. If it is a well-founded and quantifiable opinion, then why is there an explicit onus of verification here when there is no onus, for example, to verify that the ECVAA has not received relevant IISR data from the SAA? It seems that there is an assumption of prudent treatment of the ECVAA notice of non-receipt but not of prudent treatment of information received from a Trading Party. This verification requirement in 1.2.1(f) therefore seems unnecessary.

This is especially an issue because the prospective information that a Party can provide relates to share of GSP Group take, which cannot be further verified until the ISR run.

This leads to my fear that the rule could be interpreted as meaning that BSCCo cannot calculate the impact of an alternative calculation of GSP Group share on the Credit Cover Percentage until after receipt of the level 1 default notice. Because the ECVAA loads the IISR data at midnight, it is not until then that the level 1 default notice will be issued. Because in practical terms, the Duty Manager who gets the default notice will get a text message at home, he will not be able to do this verification until the following morning. If the default notice is actually a level 2 default notice (no Cure Period) this means that the Trading Party must arrange extra credit cover against the risk that material doubt is not called.

I would appreciate your further views on this because the Material Doubt Guidelines must be devised to ensure that they are compliant with the Code and a conservative interpretation based on a double-emphasis of timing of assessment of material doubt could lead to the interpretation I am afraid of.