

November 2001

ASSESSMENT REPORT
MODIFICATION PROPOSAL P11 –
Revision of Minimum Credit Cover
Requirements

Prepared by the Credit Modification Group on
behalf of the Balancing and Settlement Code Panel

Document Reference	MAR11
Version no.	1.0
Issue	Final
Date of Issue	9 November 2001
Reason for Issue	Panel Decision
Author	ELEXON

I DOCUMENT CONTROL

a Authorities

Version	Date	Author	Signature	Change Reference
0.1	8/11/01	John Lucas & Sarah Parsons		Initial draft for review.
1.0	9/11/01	John Lucas & Sarah Parsons		Final version incorporating review comments from Modification Group.

Version	Date	Reviewer	Signature	Responsibility
0.1	8/11/01	Ben Willis		Credit Modification Group
0.1	8/11/01	Catherine McNally		Credit Modification Group
0.1	8/11/01	Marios Broustas		Credit Modification Group
1.0	9/11/01	Justin Andrews		ELEXON Trading Strategy

b Distribution

Name	Organisation

c Related Documents

- Reference 1 Modification Proposal P11 - Revision of Minimum Credit Cover Requirements
- Reference 2 Definition Report – Modification Proposal P11 – Revision of Minimum Credit Cover Requirements, 20th July 2001 (22/002)
- Reference 3 P11 Requirements Specification – Revision of the Methodology for Assessing Credit Indebtedness (026AAR), 5th October 2001

d Intellectual Property Rights and Copyright

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

II CONTENTS TABLE

I	Document Control	2
a	Authorities	2
b	Distribution	2
c	Related Documents.....	2
d	Intellectual Property Rights and Copyright.....	2
II	Contents Table	3
1	Summary and Recommendations	5
2	Introduction	6
3	Purpose and Scope of the Report	7
4	Modification Group Details	11
5	Description and Assessment Against the Applicable BSC Objectives	12
5.1	Introduction	12
5.2	Current Minimum Credit Cover Requirements	12
5.3	Description of Modification Proposal P11	14
5.3.1	Minimum Credit Cover Parameter	14
5.3.2	Calculation and Monitoring of MLCC Values	14
5.3.3	Changes to Level 2 Credit Default Process.....	15
5.4	Assessment of P11 Against Applicable BSC Objectives.....	16
5.4.1	Fixed Minimum Requirement	16
5.4.2	Use of Estimated Indebtedness Data	17
5.5	Description of Alternative Modification Proposal.....	17
5.5.1	Overview of Alternative Modification Proposal.....	17
5.5.2	Variant Issued for Consultation and Impact Assessment.....	17
5.5.3	Modified Variant with Reduced Impact on Parties' Systems and Processes.....	17
5.6	Assessment of Alternative Modification Proposal Against Applicable BSC Objectives	20
5.6.1	Effect of Alternative Modification Proposal on Credit Cover Regime.....	21
5.6.2	Argument that Alternative Modification Proposal Does Not Facilitate BSC Objectives	22
5.6.3	Argument that Alternative Modification Proposal Does Facilitate BSC Objectives	23
6	Impact on BSC and BSCCo Documentation	25
6.1	BSC	25
6.2	Code Subsidiary Documents	25
6.3	BSCCo Memorandum and Articles of Association.....	26
7	Impact on BSC Systems	27
7.1	Cost and Timescales	27
7.2	Registration.....	27
7.3	Contract Notification	27
7.4	Credit Checking Systems	27
7.5	Balancing Mechanism Activities.....	27
7.6	Collection and Aggregation of Metered Data	27
7.7	Supplier Volume Allocation	27
7.8	Settlement	28
7.9	Clearing, Invoicing and Payment.....	28
7.10	Reporting.....	28
8	Impact on Core Industry Documents and Supporting Arrangements	29
9	Impact on ELEXON	30

10	Impact on Parties and Party Agents.....	31
10.1	Parties	31
10.2	Party Agents	31
11	Legal Issues.....	32
12	Summary of Representations	33
12.1	Preferred Modification Proposal	33
12.2	Period for Provision of Cover	33
12.3	Use of Interim Information Data	34
12.4	Daily versus Occasional Monitoring	34
12.5	Other Issues Raised	34
13	Project Brief.....	35
Annex 1 – Proposed Text to Modify the BSC		36
Annex 2 – Consultation Responses.....		37
Annex 3 – BSC Agent Impact Assessments		38
A3.1 – ECVAA and SAA		38
A3.2 – FAA 45		

1 SUMMARY AND RECOMMENDATIONS

The summary and recommendations appear in Attachment 1.

2 INTRODUCTION

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

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

3 PURPOSE AND SCOPE OF THE REPORT

BSC Section F sets out the procedures for progressing proposals to amend the BSC (known as 'Modification Proposals'). These include procedures for proposing, consulting on, developing, evaluating and reporting to the Authority on potential modifications.

The BSC Panel is charged with supervising and implementing the modification procedures. ELEXON provides the secretariat and other advice, support and resource required by the Panel for this purpose. In addition, if a modification to the Code is approved or directed by the Authority, ELEXON is responsible for overseeing the implementation of that amendment (including any consequential changes to systems, procedures and documentation).

The Panel may decide to submit a Modification Proposal to an 'Assessment Procedure'¹. Under this procedure, a Modification Group is tasked with undertaking a detailed assessment of the proposal to evaluate whether it better facilitates achievement of the Applicable BSC Objectives². The group may also develop an alternative proposal if it believes that the alternative would better facilitate achievement of the objectives.

The Modification Group must prepare a report for the Panel, setting out the results of the assessment of the modification proposal and any alternative. The following matter should be included (to the extent applicable to the proposal in question)³:

- (a) an analysis of and the views and rationale of the Modification Group as to whether (and, if so, to what extent) the Proposed Modification would better facilitate achievement of the Applicable BSC Objective(s);
- (b) a description and analysis of any Alternative Modification developed by the Modification Group which, as compared with the Proposed Modification, would better facilitate achievement of the Applicable BSC Objective(s) and the views and rationale of the Group in respect thereof;
- (c) an assessment or estimate (as the case may be) of:
 - (i) the impact of the Proposed Modification and any Alternative Modification on BSC Systems;
 - (ii) any changes and/or developments which would be required to BSC Systems in order to give effect to the Proposed Modification and any Alternative Modification;
 - (iii) the total development and capital costs of making the changes and/or delivering the developments referred to in paragraph (ii);
 - (iv) the time period required for the design, build and delivery of the changes and/or developments referred to in paragraph (ii);
 - (v) the increase or decrease in the payments due under the BSC Agent Contracts in consequence of the Proposed Modification and any Alternative Modification;
 - (vi) the additional payments (if different from those referred to in paragraph (v)) due in connection with the operation and maintenance of the changes and/or developments to BSC Systems as a result of the Proposed Modification and any Alternative Modification;

¹ See BSC F2.6

² As defined in the Transmission Licence

³ See BSC F2.6.4 and Annex F-1

- (vii) any other costs or liabilities associated with BSC Systems attributable to the Proposed Modification and any Alternative Modification;
- (d) an assessment of:
- (i) the impact of the Proposed Modification and any Alternative Modification on the Core Industry Documents;
 - (ii) the changes which would be required to the Core Industry Documents in order to give effect to the Proposed Modification and any Alternative Modification;
 - (iii) the mechanism and likely timescale for the making of the changes referred to in paragraph (ii);
 - (iv) the changes and/or developments which would be required to central computer systems and processes used in connection with the operation of arrangements established under the Core Industry Documents;
 - (v) the mechanism and likely timescale for the making of the changes referred to in paragraph (iv);
 - (vi) an estimate of the costs associated with making and delivering the changes referred to in paragraphs (ii) and (iv),
- together with a summary of representations in relation to such matters;
- (e) an assessment of:
- (i) the likely increase or decrease in BSC Costs (to the extent not already taken into account in paragraph (c) above) in consequence of the Proposed Modification and any Alternative Modification;
 - (ii) the changes required to Systems and processes of BSCCo in order to give effect to the Proposed Modification and any Alternative Modification; and
 - (iii) the BSC Costs which are expected to be attributable to the implementation of the Proposed Modification and any Alternative Modification, to the extent not taken into account under any other provision above;
- (f) to the extent such information is available to the Modification Group, an assessment of the impact of the Proposed Modification and any Alternative Modification on Parties in general (or classes of Parties in general) and Party Agents in general, including the changes which are likely to be required to their internal systems and processes and an estimate of the development, capital and operating costs associated with implementing the changes to the Code and to Core Industry Documents;
- (g) an assessment of the Proposed Modification and any Alternative Modification in the context of the statutory, regulatory and contractual framework within which the Code sits (taking account of relevant utilities, competition and financial services legislation);
- (h) a summary of the representations made by Parties and interested third parties during the consultation undertaken in respect of the Proposed Modification and any Alternative Modification and the views and comments of the Modification Group in respect thereof;
- (i) a summary of the analysis and impact assessment prepared by the Transmission Company and the views and comments of the Modification Group in respect thereof;

- (j) a summary of the impact assessment prepared by relevant BSC Agents and the views and comments of the Modification Group in respect thereof;
- (k) a summary of any impact assessment prepared by Core Industry Document Owners and the views and comments of the Modification Group in respect thereof;
- (l) a copy of the terms of reference and any report or analysis of external consultants or advisers engaged in respect thereof;
- (m) a list of the key assumptions which the Modification Group has made in formulating its views;
- (n) any other matters required by the terms of reference of such Modification Group;
- (o) any other matters which the Modification Group consider should properly be brought to the attention of the Panel to assist the Panel in forming a view as to whether the Proposed Modification and any Alternative Modification would better facilitate achievement of the Applicable BSC Objective(s);
- (p) subject to paragraph 2.6.8 and 2.6.9 of Section F of the BSC, the proposed text to modify the Code in order to give effect to the Proposed Modification and any Alternative Modification, together with a commentary setting out the nature and effect of such text and of other areas of the Code which would be affected by the changes;
- (q) the Modification Group's proposed Implementation Date(s) for implementation (subject to the consent of the Authority) of the Proposed Modification and any Alternative Modification;
- (r) an executive summary of the project brief prepared by BSCCo;
- (s) a recommendation (where applicable) as to whether, if the Proposed Modification or Alternative Modification is approved, Settlement Runs and Volume Allocation Runs carried out after the Implementation Date of such Approved Modification in respect of Settlement Days prior to that date should be carried out taking account of such Approved Modification or not;
- (t) the proposed text (if any) to modify the Memorandum and Articles of Association of BSCCo and/or the BSC Clearer in order to give effect to the Proposed Modification and any Alternative Modification, together with a commentary setting out the nature and effect of such text and of other areas of the Memorandum and Articles of Association and/or the Code which would be affected by the changes; and
- (u) a summary of any changes which would be required to Code Subsidiary Documents as a consequence of such Proposed Modification or Alternative Modification.

This Assessment Report addresses the above items to the extent relevant to Modification Proposal P11, except that, as described in section 5.5 of this report, the Modification Group meeting on 6th November recommended that the definition of the Alternative Modification Proposal should be simplified, in order to address concerns about the cost of implementation raised in the consultation responses. As a result, the Assessment Report does **not** include the following:

- Representations on the Alternative Modification Proposal from Parties (although it does include representations on the earlier variant of the Alternative consulted on by the Modification Group);
- An impact assessment of the Alternative Modification Proposal (although it does include an impact assessment of the earlier variant of the Alternative issued by the Modification Group for impact assessment); or
- A proposed Implementation Date or Project Brief.

In addition, the Assessment Report does not include legal drafting for either the Modification Proposal or the Alternative Modification Proposal. It is proposed to obtain this legal drafting (if required) during the Report Phase.

4 MODIFICATION GROUP DETAILS

This Assessment Report has been prepared by the Credit Modification Group. The BSC Panel meeting on 3rd May 2001 agreed that the standard Modification Group Terms of Reference should apply to the Credit Modification Group, without the need for any variations or amendments. These standard Terms of Reference are laid out in BSC Panel Paper P/17/006, which is available from the ELEXON website (www.elexon.co.uk).

Details of the Membership of the Modification Group is as follows:

Name	Organisation	Role
Chris Rowell	ELEXON	Chairman
Fiona Grandison / Marios Broustas	European Power Source	Mods Group Member and P11 Proposer
Gavin Ferguson / Catherine McNally	British Gas Trading	Mods Group Member
Andrew Foster / Xavier Bruckert	OM London Exchange	Mods Group Member
Libby Glazebrook	Edison Mission Energy	Mods Group Member
Ben Willis	Yorkshire Electricity	Mods Group Member
Sharif Islam	Total Fina Elf	Mods Group Member
Duncan Jack	St. Clements Services	Mods Group Member
Fiona Grandison / Marios Broustas	European Power Source	Mods Group Member
Richard Lavender	Transmission Company	Mods Group Member
Nick Simpson	Ofgem	Mods Group Member

It should however be noted that relatively few of these Group Members actually attended the meetings that discussed Modification Proposal P11:

- The meeting on 10th August was attended by Duncan Jack (plus representatives from Ofgem and ELEXON).
- The meeting on 4th September was attended by Duncan Jack, Marios Broustas, Ben Willis and Nigel Brooks (standing in for Richard Lavender), plus representatives from Ofgem and ELEXON, and Chris Price of Powergen and Martin Mate of British Energy⁴.
- The meeting on 6th November was attended by Marios Broustas, Ben Willis and Catherine McNally (plus representatives from ELEXON and Ofgem).

⁴ Nigel Brooks, Chris Price and Martin Mate are not members of the Credit Modification Group. However, all meetings of the Group to date have (with the agreement of the Chairman and Members) been open to all parties, and all attendees have been free to participate in the discussions

5 DESCRIPTION AND ASSESSMENT AGAINST THE APPLICABLE BSC OBJECTIVES

5.1 Introduction

This section of the report describes and assesses against the Applicable BSC Objectives both Modification Proposal P11 and the Alternative Modification Proposal. It is structured as follows:

- Section 5.2 provides an overview of the current minimum Credit Cover requirements.
- Section 5.3 describes Modification Proposal P11.
- Section 5.4 assesses the extent to which the Modification Proposal would better facilitate the Applicable BSC Objectives.
- Section 5.5 describes the Alternative Modification Proposal. It should be noted that there are two variants of the Alternative, as follows:
 - (a) The variant issued for impact assessment and consultation, which is described in sub-section 5.5.2.
 - (b) A revised variant which was developed by the Modification Group to lessen the impact of the Proposal on Parties' systems and processes, and which is described in sub-section 5.5.3.
- Section 5.6 assesses the extent to which the Alternative Modification Proposal would better facilitate the Applicable BSC Objectives.

The process by which the Modification Group arrived at the Alternative Modification Proposal can be summarised as follows:

- During the Definition Procedure, the Modification Group identified that there might be Alternative Modification Proposals that better facilitated achievement of the Applicable BSC Objectives (e.g. by using actual rather than estimated indebtedness data). The P11 Definition Report (Reference 2) recommended that these Alternative Modification Proposals should be considered during the Assessment Procedure.
- The Credit Modification Group meeting on 4th September 2001 agreed that a specific Alternative Modification Proposal (described in section 5.5.2 of this report) should be issued for consultation and impact assessment.
- The Credit Modification Group meeting on 6th November 2001 discussed the consultation and impact assessment responses, and agreed that the variant of the Alternative Modification Proposal described in section 5.5.3 was more likely than that in 5.5.2 to better facilitate achievement of the Applicable BSC Objectives. (It should however be noted that two of the three members of the Group present at the meeting took the view that neither variant would better facilitate achievement of the Applicable BSC Objectives.)

5.2 Current Minimum Credit Cover Requirements

The current process for ensuring that Trading Parties have adequate Credit Cover in place is based around a credit check carried out at Gate Closure for each Settlement Period. This credit check process calculates a Credit Cover Percentage (CCP) for each Party, showing their indebtedness (i.e. their

Trading Charges for the 29-day period for which payment has not yet taken place) as a percentage of the amount of Credit Cover they have posted.

Once the Credit Cover Percentage for a Party reaches 80%, the Level 1 Credit Default process defined in section M3.2 of the BSC is invoked. This process can be summarised as follows:

- As soon as the Credit Cover Percentage reaches 80%, the ECVAAs notifies the Trading Party and ELEXON, and a 24-hour "Query Period" begins. This Query Period is intended to give the Trading Party the opportunity to query any errors in the determination of the CCP value.
- At the end of the Query Period, the ECVAAs may redetermine the Credit Cover Percentage (correcting any errors in the original determination that were raised by the Party). If the redetermined value is still above 80%, the "default cure period" begins. This period lasts until midnight on the first Business Day after the day in which the Query Period expired.
- At the end of the default cure period, unless for at least one half hour within the period the Credit Cover Percentage was reduced to 75% or below, the Party will (subject to authorisation from ELEXON) be placed in Level 1 Credit Default. A Party in Level 1 Credit Default is still able to trade, but details of the Credit Default are placed on the BSC website.

Once the Credit Cover Percentage for a Party reaches 90%, the Level 2 Credit Default process defined in section M3.3 of the BSC is invoked. This process can be summarised as follows:

- As soon as the Credit Cover Percentage reaches 90%, the ECVAAs notifies the Trading Party and ELEXON.
- Subject to authorisation by ELEXON (in accordance with section M3.4 of the BSC), the Party is then immediately placed in Level 2 Credit Default. Note however that such authorisation can not be given any earlier than the end of the Query Period, and the Party will therefore not be placed in Level 2 Credit Default until that point:
 - i) The ECVAAs system will refuse any new contract notification that has the effect of increasing indebtedness for the Party (in any Settlement Period).
 - ii) One and a half hours before Gate Closure for each Settlement Period, the ECVAAs system will reject (for that Settlement Period only) any contract notifications already loaded onto the system that have the effect of increasing the indebtedness for the Party.

The intention of these Credit Default rules is to prevent a BSC Party from incurring settlement liabilities in excess of their Credit Cover. However, there are still circumstances under which a Trading Party can incur such liabilities, for the following reasons:

- The credit-checking process uses estimates of indebtedness, rather than actual indebtedness figures. If the estimate of indebtedness is too low, the ECVAAs system may fail to prevent the Trading Party from incurring settlement liabilities in excess of Credit Cover⁵.
- A finite period of time may be required for ELEXON to authorise a Level 2 Credit Default. During this period, a Party's Credit Cover percentage could continue to increase, possibly exceeding 100%.

⁵ On 16th October 2001, the Authority approved Modification Proposal P2. Implementation of this Modification Proposal will significantly increase the accuracy of the indebtedness data used by ECVAAs. However, some residual inaccuracy will remain, as described in section 5.6 of this document.

5.3 Description of Modification Proposal P11

The key features of Modification Proposal P11, as raised by The European Power Source Company (UK) Limited on 9th May 2001, and subsequently clarified in the P11 Definition Report (reference 2), are as follows:

- On a daily basis, the ECVAA will determine the Minimum Level of Credit Cover (MLCC_p) for each Party. This minimum level will be the larger of fifty thousand pounds, and a 95th percentile value of Energy Indebtedness (EI_{pj}) over the previous year. The ECVAA will then check that the actual level of Credit Cover posted by the Party is at least equal to that minimum value.
- If the Party's Credit Cover is less than the minimum required level, ECVAA will issue a notice to the Party (copied to ELEXON), notifying them that they have two Business Days to put in place additional Credit Cover.
- If at the end of two Business Days, the level of Credit Cover is still less than the required minimum, then (subject to authorisation by ELEXON) the Party will be placed in Level 2 Credit Default (irrespective of their Credit Cover Percentage).

Sections 5.3.1 to 5.3.3 below describe the required processing in more detail.

5.3.1 Minimum Credit Cover Parameter

Modification Proposal P11 specifies that the minimum level of Credit Cover for any Trading Party should be £50,000. It is proposed to define this minimum level as a parameter, the Minimum Credit Cover Parameter (MCCP), within the ECVAA system. This parameter will be provided manually to ECVAA by ELEXON (in the same way that the Credit Assessment Price will be provided manually under Modification Proposal P2).

Because all indebtedness values are stored as MWh values within ECVAA⁶, it is proposed that the Minimum Credit Cover Parameter will also be a MWh value. Initially (assuming that the Credit Assessment Price is still £25/MWh plus VAT at that point) it will take the value 1702 MWh.

5.3.2 Calculation and Monitoring of MLCC Values

Once per day (i.e. including non-Business Days), the ECVAA system should calculate the Minimum Level of Credit Cover (MLCC_p) for each Trading Party, and compare it to the actual level of Credit Cover provided by the Party. This section describes the process required to do this.

Calculation

The MLCC calculation uses data on the Trading Party's indebtedness over a historical period, which for the purposes of this document is referred to as the "**Minimum Level of Credit Cover Calculation Period**". The first step of the process is therefore to determine (for each Trading Party) two Settlement Dates D₁ and D₂ that define the start and end of this period:

- The Settlement Date D₁ (defining the start of the Minimum Level of Credit Cover Calculation Period) is defined as the latest of:
 - i) The Settlement Date one year prior to the current day; and

⁶ This remains true even under Modification Proposal P2, when ECVAA will receive monetary indebtedness values from SAA. Such values will be divided by the Credit Assessment Price (CAP) on receipt. Although this conversion process is somewhat arbitrary, it is purely a technical device to allow SAA-calculated and ECVAA-estimated indebtedness values to be compared, and does not in any way reduce the accuracy of the calculations performed by ECVAA.

- ii) The Settlement Date 28 days after the day on which the Trading Party started trading⁷. This is the earliest Settlement Day for which a cumulative 29-day indebtedness value can be calculated. For a Party who traded under NETA from the beginning, this date is the 24th April 2001.
- The Settlement Date D_2 (defining the end of the Minimum Level of Credit Cover Calculation Period) will be the Settlement Day immediately prior to the current one. This is the most recent Settlement Day for which a cumulative 29-day indebtedness value can be calculated.

It is not intended that the historical calculation should be performed using less than thirty days of data, so if the period from D_1 to D_2 is shorter than this, $MLCC_p$ is simply set to $MCCP$. Otherwise, $MLCC_p$ is set to the larger of $MCCP$, and a 95th percentile indebtedness value calculated as follows:

- i) For each Settlement Day D in the period from D_1 to D_2 , determine the total 29-day indebtedness on that day i.e. the value of Energy Indebtedness (EI_p) in the last Settlement Period of that day.
- ii) Arrange the indebtedness values from step (i) in decreasing order, and pick the $(n+1)^{th}$, where n is defined as 5% of the number of Settlement Days in the Minimum Level of Credit Cover Calculation Period, rounded up to the nearest integer. (For example, if the period is 365 days long, the 20th highest indebtedness value will be picked.)

Monitoring

Having calculated the $MLCC$ value, the ECVAAs will check that the Energy Credit Cover (ECC_p) for that Party is greater than or equal to $MLCC_p$. If it is not, the ECVAAs will proceed as follows:

- Issue a notice to the Party (copied to ELEXON), notifying them of their $MLCC_p$ value, and the fact that they have insufficient Credit Cover. (If the Party is already in a Period for Provision of Minimum Credit Cover, as defined in the following bullet, the notice does not need to be re-issued.)
- Issue of this notice marks the start of a “**Period for Provision of Minimum Credit Cover**”, which lasts until the [end of the second Business Day after the day on which the notice was issued].

Reporting of $MLCC$ Values

In order to allow Trading Parties to monitor their credit levels, the ECVAAs Notification Report (ECVAAs-I014) will be amended to include the value of Minimum Level Credit Cover ($MLCC_p$).

5.3.3 Changes to Level 2 Credit Default Process

If Energy Credit Cover (ECC_p) for the Trading Party is still less than the Minimum Level of Credit Cover ($MLCC_p$) at the end of the Period for Provision of Minimum Credit Cover, then that Trading Party will be placed in Level 2 Credit Default, as follows:

- Subject to authorisation by ELEXON (in accordance with section M3.4 of the BSC), the Party will immediately be treated as being in Level 2 Credit Default (and a Level 2 Credit Default statement will be posted on the BMRS or BSC website), irrespective of their Credit Cover Percentage (CCP).
- Once in Level 2 Credit Default, contract notifications will be rejected and/or refused as described in Section M3.3 of the BSC.

⁷ For the purposes of this Requirements Specification document, the day on which the Party started trading should be taken as the first day on which an Energy Contract Volume Notification or Metered Volume Reallocation Notification was effective for that Party.

- The Level 2 Credit Default will cease once the Party provides Credit Cover in excess of the latest calculated value of $MLCC_p$.

In order to support this, changes will be required to the ECVA system, in order to allow a Trading Party to be placed in Level 2 Credit Default without their Credit Cover Percentage being larger than 90%.

5.4 Assessment of P11 Against Applicable BSC Objectives

This section 5.4 describes two specific features of Modification Proposal P11 that led the Credit Modification Group to believe that it would not better facilitate achievement of the Applicable BSC Objectives:

- The fixed £50,000 minimum Credit Cover requirement.
- The use of estimated rather than actual indebtedness data; and

Note that section 5.5 of the document discusses an Alternative Modification Proposal which is similar to P11 except in these two respects, and section 5.6 discusses whether this Alternative Modification Proposal would better facilitate achievement of the Applicable BSC Objectives. Many of the issues discussed in section 5.6 are also relevant to Modification Proposal P11.

5.4.1 Fixed Minimum Requirement

The following table summarises the range of actual indebtedness values for BSC Parties in June 2001. (The indebtedness figures are the average of the 29-day indebtedness values over that month):

Table 1 – Summary of 29-day Indebtedness Values in June 2001		
Indebtedness Range	No. of Parties (Determined by SAA)	No. of Parties (Calculated by ECVA)
Party owes > £3 million	1	0
Party owes £1 m - £3 m	2	2
Party owes £100k to £1 m	10	6
Party owes £50k to £100k	5	1
Party owes £10k to £50k	4	5
Party owes £1,000 to £10,000	7	2
Party owes £1 to £1,000	1	4
Party has zero indebtedness	42	57
Party owed money ⁸	48	43

It can be seen from this table that overwhelming majority of potential default risk arises from the three Parties whose indebtedness exceeds £1 million, and the ten other Parties whose indebtedness exceeds £100k; not the seventeen Parties whose indebtedness is less than £50k. The £50k minimum Credit Cover requirement imposed by Modification Proposal P11 would therefore have little benefit in protecting Parties from default risk. However, it would impose additional costs on BSC Parties, and could act as a disincentive to participation in the market. For this reason, the Credit Modification Group felt that Modification Proposal P11 would not facilitate “efficiency in the implementation and administration of the balancing and settlement arrangements”, and would not promote “effective competition in the supply and generation of electricity”.

⁸ The amounts owed to Parties showed as great a range as those owed by Parties. However, these are less relevant to P11, and have therefore not been broken down in this table.

5.4.2 Use of Estimated Indebtedness Data

The Modification Group also felt that the use of estimated indebtedness data in calculating the Minimum Level of Credit Cover would potentially oblige some Parties to put up Credit Cover that was disproportionate to their likely indebtedness, and that this would hinder achievement of the BSC Objectives in Conditions 7A(3)(c) and 7A(3)(d) of the Transmission Licence

5.5 Description of Alternative Modification Proposal

This section 5.5 describes the Alternative Modification Proposal developed by the Credit Modification Group in the course of the Assessment Procedure. It should be noted that two variants of the Alternative have been considered:

- Section 5.5.2 describes the variant issued for consultation and impact assessment.
- Section 5.5.3 describes a modified variant, which is intended to reduce the impact of the Modification on Parties' systems and processes, and hence address some of the concerns about implementation costs raised in the consultation and impact assessment responses.

5.5.1 Overview of Alternative Modification Proposal

The Alternative Modification Proposal differs from Modification Proposal P11 in the following key respects:

- Modification Proposal P11 defined the minimum level of Credit Cover required as the larger of £50k, and a 95th percentile value of historical Energy Indebtedness for that Party. The Alternative Modification Proposal changes this calculation as follows:
 - i) Unlike P11, the Alternative doesn't have a fixed £50k minimum on the minimum level of Credit Cover calculated for each Party.
 - ii) In order to increase the accuracy of the calculation, the Alternative calculates the minimum required level of Credit Cover using Trading Charge data from the Settlement Administration Agent (SAA) system, rather than the indebtedness estimates used by ECVAAs in credit-checking.
- In order to avoid the expense of continuous monitoring of Parties' Credit Cover levels, the Alternative Modification Proposal reduces the frequency with which MLCC values are calculated and/or checked. The precise details of this reduction differ between the two variants of the Alternative, which are described in sections 5.5.2 and 5.5.3 respectively.

5.5.2 Variant Issued for Consultation and Impact Assessment

The variant of the Alternative Modification Proposal issued for consultation and impact assessment stated that the calculation of $MLCC_p$ would not be triggered automatically once per day for every Trading Party. Instead, the process would be triggered manually when certain key events took place:

- Initially upon implementation of the Modification Proposal, and again every [six months] thereafter, the calculation will be performed for all Trading Parties (except those for whom less than thirty days of SAA data is available).
- For those Trading Parties who had not started trading at the point of initial implementation, or for whom less than thirty days of SAA data was available at that point, the calculation will be performed as soon as practicable after thirty days of SAA data becomes available.

- When a Party enters Level 1 or Level 2 Credit Default, the value of MLCCp will be recalculated for that Party. Section 4.1.1 below provides more detail on this process.
- When a Party requests a reduction in their Credit Cover in accordance with section M2.3 of the BSC, the value of MLCCp will be recalculated for that Party. Section 4.1.2 below provides more detail on this process.

In each case, the affected Parties have two Business Days following the calculation to ensure that the appropriate level of Credit Cover is put in place. If they fail to do so, they will be placed in Level 2 Credit Default.

5.5.3 Modified Variant with Reduced Impact on Parties' Systems and Processes

At the meeting on 6th November, the Credit Modification Group agreed the following further changes to the definition of the Alternative Modification Proposal, in order to address concerns over the cost of implementation for BSC Parties, and the risk that the MLCC value might be inappropriate in some cases (as described in section 5.6.1 of this report):

- The Minimum Level of Credit Cover would only be calculated and checked when a BSC Party sought to reduce their level of Credit Cover.
- The Minimum Level of Credit Cover should be the highest value of cumulative 29-day indebtedness over the year, not the 95th percentile value.
- The Minimum Level of Credit Cover would be calculated using the most recent Initial Settlement or Reconciliation data for each Settlement Day (thus ensuring that the most up-to-date and accurate data is used, and the results of Disputes are reflected in the calculation).
- There should be a process for a Party to appeal to the Panel if an MLCC value was calculated that was clearly inappropriate. (Section 5.6.1 of this report indicates some of the circumstances under which this might occur.)

The remainder of this section 5.5.3 outlines in more detail the thinking behind these Proposals. As noted in section 1.1 of this report, the Credit Modification Group proposes to go out for further consultation on these proposals, if the preliminary view of the Panel is that the Alternative Modification Proposal would better facilitate the Applicable BSC Objectives.

Outline of Modification Group's Thinking

In light of the Authority's approval of Modification P2, the P11 alternative modification has been re-assessed using the P2 Baseline as well as the feedback from the consultation on P11 and its original alternative. This assessment concentrated on the difference between the P11 Credit Defaults and those that would arise under P2 with an aim to address concerns raised by some Parties in the consultation procedure that P11 and the original alternative proposal would potentially require significant systems changes for each Trading Party.

The P11 alternative bases a Minimum Level of Credit Cover (MLCC) on historical data. It states that credit should be lodged to cover the 95th percentile of actual indebtedness (i.e., 29 day cumulative total) and if the Party's MLCC becomes greater than the amount of credit lodged then the Party will be required to lodge extra credit. Provided a year's worth of data is available, the 95th percentile represents the 20th highest value.

Whenever a Trading Party's daily indebtedness reaches a value higher than that seen in the previous year, this will lead to an increase in the actual indebtedness that reflects a 29-day cumulative amount.

In the majority of cases, P11 would therefore adjust MLCC after 20 days (or 95th percentile) have elapsed. P2 will, of course, be operating in parallel but, for P2, this high value of indebtedness will be taken into account after 5 Working Days. Therefore provided the Party does not have enough credit lodged to cover this high value they will be issued with a Credit Default notice within approximately 7 days. (Please note the notice may be issued earlier or later than this depending on the indebtedness on the surrounding days). As a result of this timing issue, the Modification Group observed that, in the majority of cases, P11 would actually result in a notice being sent out after the P2 Credit Default notice, so the group chose to scale back P11's scope within this regard.

The second objective of P11 was to reduce the risk of a Party defaulting with unsecured Settlement liabilities by forcing the Party to keep a minimum level of credit lodged for a longer period of time after experiencing a high level of actual indebtedness. The Modification Group therefore proposed a simpler alternative whereby MLCC is not policed on a daily basis and Parties are not forced to ensure that they always have the minimum level lodged. Instead the current process for reducing Credit Cover would be enhanced to prevent Parties from reducing their Credit Cover below the relevant value of actual indebtedness within the previous year.

The current process for reducing Credit Cover is triggered when a Party sends to the ECVAAs a request to calculate their Minimum Eligible Amount (MEA). The ECVAAs Operator then waits 10 Settlement Days before calculating the MEA, which is the minimum amount of credit that would have been required to ensure that the Party's Energy Indebtedness would not have become greater than 75% over the 10 day waiting period. (Please note that in certain circumstances the 10 day waiting period is reduced to 1 Settlement Day). The Modification Group discussed the need for this MEA process in addition to the new MLCC process. It was agreed that the two processes use different data therefore both processes are required, however to simplify the proposal, both processes would be carried out in parallel and ECVAAs would report just one value. This value would be the greater of the two minimum levels calculated. It was noted that the definition of MEA would need to be revised to include the extra MLCC process.

The concept of using the 95th percentile of the 29 day cumulative indebtedness was also discussed. It was concluded that whenever a Party has an indebtedness value greater than that seen in the previous year, this value will stay in the indebtedness calculations for 29 days and therefore the related spike in indebtedness will also become the 95th percentile. Therefore it was agreed that the MLCC would be the maximum 29 day cumulative total of actual indebtedness for the previous year, or however much data is available. This will simplify the calculations and will not significantly change the value of MLCC.

The Modification Group finally discussed where the actual indebtedness data would be derived from. The original alternative suggested using the Interim Information (II) data as this would cover more recent Settlement Days. However the new alternative is not particularly time dependent, as it will only be required when the Party requests a reduction in Credit Cover. Also the most recent 10 Settlement Days will be covered by the original MEA process. It was therefore agreed that II data should not be used. It was noted that this would mean that there is a gap between the latest 10 Settlement Days and the most recent day for which Initial Settlement (SF) data is available, however it was decided that this was preferable over using less accurate II data. It was also decided that to ensure the most accurate data is used, the calculations would be based on the actual indebtedness derived from the latest run type.

One issue was raised with this new alternative, relating to the expiry of Letters of Credit. Under the current arrangements Parties are required to carry out the MEA procedure if they are intending to reduce their Credit Cover on expiry of their Letter of Credit. However, if a Party fails to carry out the MEA procedure and subsequently reduces their Credit Cover to a level below the MEA, it is likely that

this would trigger the Level 1 Credit Default process. However with the alternative proposal a Party could reduce their Credit Cover to a level below the MLCC on expiry of their Letter of Credit and there would be no way for the BSCCo to prevent this. Therefore after expiry of a Letter of Credit only, it is necessary for the BSCCo to have the ability to force the Party to increase their Credit Cover back to a value above the MLCC. This means the BSCCo will issue a default notice and give Level 2 Credit Default authorisation should the Party fail to increase their level of Credit Cover within 2 Business Days.

In summary the new MEA process will be as follows:

- The Trading Party submits a request to the ECVAA for the calculation of the MEA.
- The ECVAA waits for 10 Settlement Days
- The ECVAA then calculates the MEA (current definition)
- The ECVAA/SAA also calculates the 29 day cumulative totals starting from the equivalent Settlement Day in the previous year, using data from the latest run type (excluding II).
- The ECVAA determines the maximum cumulative indebtedness over this period.
- The ECVAA compares the MEA (current definition) and the maximum cumulative total and reports the larger value to the FAA and the relevant Trading Party.
- The Trading Party has 2 Business Days to send a request to the FAA for a reduction in Credit Cover.

This new alternative upholds the intention behind the original P11 modification. However it will be more cost effective to implement and simpler for Parties to understand i.e. it can be seen as an enhancement of the current Minimum Eligible Amount procedure, rather than a fundamental change to the current and P2 credit methodology. It should also alleviate concerns raised through the consultation that the original alternative would require Parties to change their own systems for monitoring purposes.

5.6 Assessment of Alternative Modification Proposal Against Applicable BSC Objectives

As noted in section 1 of this report, the Credit Modification Group were unable to achieve consensus on whether the Alternative Modification Proposal would better facilitate achievement of the Applicable BSC Objectives. However, this section 5.6 describes the views that were expressed by members of the Modification Group. It is structured as follows:

- Section 5.6.1 describes the overall effect of the Alternative Modification Proposal on the Credit Cover regime.
- Section 5.6.2 describes the argument that these changes to the Credit Cover regime would not better facilitate achievement of the Applicable BSC Objectives, and that therefore the Alternative Modification Proposal should be rejected. Two of the three Group Members at the meeting on 6th November supported this view.
- Section 5.6.3 describes the argument that these changes to the Credit Cover regime would better facilitate achievement of the Applicable BSC Objectives, and that therefore the Alternative Modification Proposal should be approved. One of the three Group Members at the meeting on 6th November supported this view.

5.6.1 Effect of Alternative Modification Proposal on Credit Cover Regime

Although section 5.5 of this report describes two variants of the Alternative Modification Proposal, they both have the same overall effect of obliging BSC Parties to put up a level of Credit Cover that reflects their maximum level of indebtedness over the previous year. Specific examples of the effect of this would include the following:

1. A Party who experienced a one-off 'peak' of indebtedness would have their minimum required level of Credit Cover increased for a year afterwards. This contrasts with the current arrangements (or those under Modification Proposal P2), under which a one-off peak of indebtedness would have no effect on Credit Cover requirements once Initial Settlement had taken place. Examples of Parties who might be affected by this include:
 - (a) A Generator whose plant trips out;
 - (b) A Party whose position is normally balanced, but who experiences a trading or notification error and therefore becomes exposed to imbalance charges.
2. Under the current trading arrangements, it is not possible for a BSC Party to submit a Metered Volume Reallocation Notification (MVRN) that comes into effect on the same Settlement Day that the Party becomes the Lead Party of the BM Unit. This is because when an MVRNA Authorisation is set up, the ECVAAs validate the request by checking that the Lead Party is also the Lead Party for the relevant BMU. In the case of a change of BMU ownership, the applicant will not be the Lead Party for the BMU until the ownership transfer has taken place. Therefore any MVRNAA request submitted before the Lead Party becomes the BMU owner will be rejected. The earliest that an MVRNAA can be set up in this situation, is one day after the ownership is transferred.

It follows from this that the Lead Party may accrue imbalance charges on the first day of the registration, even if they subsequently set up a 100% MVRN. Under the Alternative Modification Proposal, this one day of imbalance charges would lead to a minimum Credit Cover requirement for a period of a year, even though there were no subsequent imbalance charges.
3. The Alternative Modification Proposal would also affect the Subsidiary Party when an MVRN was terminated. If an MVRN is in place, the Subsidiary Party will be liable for some, or all of the Imbalance Cashflows and RCRC relating to the relevant BMU. If this MVRN is terminated then the original Subsidiary Party will no longer be liable for the charges. However under the Alternative they would be required to lodge sufficient credit to cover this historical position for a year.
4. A similar effect will arise for any BSC Party who loses customers and/or sell assets which have imbalance charges associated with them. An extreme example of this would be if a large Supply business was transferred from one BSC Party to another. For a period of a year, both the old and new owners would potentially have to put up Credit Cover for the imbalance charges associated with the Supply business. This would also be the case if two affiliated BSC Parties chose to transfer customer registrations between BSC Parties.
5. A Party whose imbalance charges were strongly seasonal in nature would not, under the Alternative Modification Proposal, be able to put up reduced Credit Cover during the seasons with lower indebtedness values. (It should however be noted that the Modification Group had no evidence as yet to suggest that Parties' imbalance charges will have a seasonal component, and the situation is therefore hypothetical.)

5.6.2 Argument that Alternative Modification Proposal Does Not Facilitate BSC Objectives

Two of the three Modification Group members at the meeting on 6th October believed that the effects of the Alternative Modification Proposal on the Credit Cover regime would not better facilitate the Applicable BSC Objectives, for the following reasons:

1. The intention of the Proposal is to reduce the risk to BSC Parties of a Party going into default with unpaid Trading Charges in excess of their Credit Cover. However, the Authority have now approved Modification Proposal P2, which provides a robust mechanism for ensuring that Parties have sufficient Credit Cover in place. The only residual risks to BSC Parties that the Alternative Modification Proposal might be able to address are as follows:
 - Even under Modification Proposal P2, the credit checking process will not use actual metered data or system prices until after the Interim Information run (five Working Days after the event). There is therefore a potential for Parties to incur additional indebtedness in excess of their Credit Cover during this period. However, this risk is much smaller than under the pre-P2 arrangements, where potentially a Party could incur 29 days of indebtedness without Credit Cover being in place.
 - Post-default debt. However, this is a separate issue, outside the scope of Modification Proposal P11 (as stated in the P11 Definition Report, Reference 2).

Unfortunately it not easy to quantify the residual risk remaining after Modification Proposal P2 has been implemented, because it depends upon the likely behaviour of Parties going into default, which is difficult to predict. However, two of the three members of the Group present at the 6th November meeting felt that it was at best unproven whether this residual risk was sufficient to justify the cost to the industry of implementing the Alternative, and therefore doubted whether the Proposal could be said to facilitate “efficiency in the implementation and administration of the balancing and settlement arrangements” (i.e. the BSC Objective in Condition 7A(3)(d) of the Transmission Licence). (It should however be noted that, as described in section 5.6.3 of this report, the Proposer of the Modification Proposal is of the view that the cost of implementation is justified by the reduction in risk, and that the Proposal does therefore facilitate the BSC Objective in Condition 7A(3)(d) of the Transmission Licence.)

2. Because the Alternative Modification Proposal bases the minimum level of Credit Cover on historical indebtedness over the past year, which is not necessarily a good indicator of future indebtedness, it will not necessarily ‘target’ the additional Credit Cover requirements at those BSC Parties who represent a risk. In particular:
 - Some Parties may have a minimum level of Credit Cover imposed on them that reflects their historical indebtedness, but is far in excess of their likely future indebtedness. (Section 5.6.1 of this report identifies specific examples of this e.g. a Subsidiary Party whose MVRN is terminated.) Arguably this imposes costs on the particular BSC Parties concerned, without any corresponding reduction in the risk to other BSC Parties, and therefore fails to facilitate “efficiency in the implementation and administration of the balancing and settlement arrangements” (i.e. the BSC Objective in Condition 7A(3)(d) of the Transmission Licence). The unwarranted costs might also act as a barrier to entry, thereby failing to promote effective competition in the supply and generation of electricity (i.e. the BSC Objective in Condition 7A(3)(c) of the Transmission Licence). (It should however be noted that, as described in section 5.6.3 of this report, the Proposer of the Modification Proposal is of the view that it is reasonable to take past indebtedness as a measure of future indebtedness, and that therefore

the more rigorous Credit Cover requirements imposed by the Alternative Modification Proposal would facilitate achievement of the BSC Objectives in Condition 7A(3)(d) and 7A(3)(c) of the Transmission Licence.)

- Conversely, a BSC Party in financial distress may well incur high levels of indebtedness immediately prior to going into default, without having had any past history of high indebtedness values. (In particular it should be noted that many Parties have consistently maintained 'long' positions since NETA Go-Live, and therefore have little or no history of indebtedness.) The Alternative Modification Proposal does not reduce the risk to BSC Parties of such a Party going into default, further strengthening the argument (in the view of two of the three Members present on 6th November) that the reduction in risk offered by the Alternative may not justify the cost of implementation.

5.6.3 Argument that Alternative Modification Proposal Does Facilitate BSC Objectives

As described in section 5.6.2 of this report, two of the three Group members at the meeting on 6th November took the view that the Alternative Modification Proposal would not better facilitate achievement of the Applicable BSC Objectives. The third member present (who was also the Proposer of P11) took the view that it would, for the following reasons:

- Although Modification Proposal P2 significantly improves the credit checking arrangements, there is still scope for Parties to run up indebtedness in excess of Credit Cover, imposing risk on other BSC Parties. (For instance, even under P2 metered readings aren't taken into account for five Working Days, so a Generator whose plant tripped could run up a week's exposure to System Buy Price, potentially amounting to millions of pounds, without being obliged to put additional Credit Cover in place.) The imposition of these risks upon BSC Parties constitutes an inefficiency in the "administration of the balancing and settlement arrangements", and therefore the more rigorous Credit Cover regime imposed by the Alternative Modification Proposal would, by reducing this inefficiency, facilitate achievement of the BSC Objective in Condition 7A(3)(d) of the Transmission Licence.
- The reduction in risk arising from the more rigorous Credit Cover regime which accurately reflects actual trading activity over a reasonable period of time would also potentially remove a disincentive to participation in the market, and hence "promote effective competition in the supply and generation of electricity" (i.e. the BSC Objective in Condition 7A(3)(c) of the Transmission Licence).
- The Proposer was also of the view that the element of third party oversight inherent in the Alternative Modification Proposal was important in reducing risk, and hence facilitating achievement of the Applicable BSC Objectives. The current arrangements oblige Parties to put in place Credit Cover for their current liabilities (as estimated by the central systems), but leave them the option of how much additional Credit Cover to put in place to cover sudden unexpected increases in indebtedness. If they choose to put little extra Credit Cover in place, they are in effect choosing to impose risk on other BSC Parties. The Alternative Modification Proposal reduces the extent to which a Party can choose to impose risk on other Parties, thus removing a disincentive to participation in the market, and facilitating competition in the supply and generation of electricity.

As stated in section 3.6.2 of this report, two of the three Group members present on 6th November took the view that the reduction in risk to BSC Parties could potentially be outweighed by the cost of implementing the Modification Proposal. However, the Proposer of P11 took the view that:

- The costs indicated in the BSC Agent impact assessments were actually quite low in comparison to the possible losses arising from a Party going into default.

- The variant of the Alternative Modification Proposal described in 5.5.3 would significantly reduce the cost of implementation, both for Parties and for BSC Agents.

The other main concern documented in section 3.6.2 is that the use of historical indebtedness data to calculate the minimum required level of Credit Cover would not 'target' the increased Credit Cover requirements at the correct BSC Parties. However, the Proposer of P11 took the view that:

- In many cases, it is reasonable to use historical indebtedness values as a measure of future risk. For example, a Generator who has experienced high imbalance charges due to plant tripping, or a Party who has experienced high imbalance charges due to a trading error, may well be at increased risk of experiencing another such failure in the future.
- In those cases where it clearly is not reasonable, the appeal mechanism described in section 5.5.3 would provide Parties with a remedy.

6 IMPACT ON BSC AND BSCCO DOCUMENTATION

6.1 BSC

Modification Proposal P11 and the Alternative Modification Proposal would both require significant changes to Section M of the BSC ('Credit Cover and Credit Default'). They would also require changes and additions to the definitions in Annex X-1 ('General Glossary') and Annex X-2 ('Technical Glossary').

Additionally the Alternative Modification Proposal would require changes to Section T ('Settlement and Trading Charges'), describing the provision of Trading Charge data for use in the calculation of Minimum Level of Credit Cover.

The Assessment Report does not contain legal drafting for the required BSC changes, for the following reasons:

- In the case of Modification Proposal P11, the Modification Group wished to seek guidance on whether legal drafting was required, given that both the Modification Group and the consultation responses were overwhelmingly in favour of rejecting the Proposal.
- In the case of the Alternative Modification Proposal, the Modification Group did not finalise the definition of the Proposal until 6th November, and there has not therefore been sufficient time to obtain legal drafting.

It is proposed that legal drafting (if required) be obtained during the Report Phase.

6.2 Code Subsidiary Documents

The following table summarises the impact of Modification Proposal P11 and the Alternative Modification Proposal on Code Subsidiary Documents:

Code Subsidiary Document	Impact of Modification Proposal P11	Impact of Alternative Modification Proposal
Energy Contract Volume Aggregation Agent (ECVAA) Service Description	Service Description requires amendment to reflect Minimum Level of Credit Cover requirements.	Service Description requires amendment to reflect Minimum Level of Credit Cover requirements.
Settlement Administration Agent (SAA) Service Description	No impact.	Service Description requires amendment to reflect Minimum Level of Credit Cover requirements.
Funds Administration Agent (FAA) Service Description	Possible impact to reflect Minimum Level of Credit Cover requirements.	Possible impact to reflect Minimum Level of Credit Cover requirements.
Neta Data File Catalogue	Requires amendment to reflect inclusion of Minimum Level of Credit Cover on ECVAA-I014 data flow.	No impact.

6.3 BSCCo Memorandum and Articles of Association

No changes would be required to the BSCCo Memorandum and Articles of Association.

7 IMPACT ON BSC SYSTEMS

Because the details of the Alternative Modification Proposal were not finalised until the Modification Group meeting on 6th November (after BSC Agent impact assessments had been received), no accurate assessment is available of the impact of the Alternative Modification Proposal on BSC Agent systems. This section of the report summarises the impact assessments received for Modification Proposal P11, and the earlier variant of the Alternative Modification Proposal issued for impact assessment.

7.1 Cost and Timescales

Annex 3 to this report contains the Logica Consortium's impact assessment of the costs and timescales required to implement Modification Proposal P11 or the Alternative Modification Proposal. However, the assessment can be summarised as follows:

- For Modification Proposal P11, the BSC Agent implementation cost would be £124,700, and the subsequent maintenance cost would be £1,864 per month.
- For the earlier variant of the Alternative Modification Proposal, the BSC Agent cost would be £116,400 (basing the MLCC calculation on Interim Information data), or £207,200 (basing the MLCC calculation on Initial Settlement data). The associated maintenance cost would be £1,746 per month or £3,108 per month respectively.

The Modification Group believe that the cost of implementing the revised Alternative Modification Proposal should be less than that of implementing the variant issued for impact assessment.

It should be noted that the above figures only include the BSC Agent costs, and exclude ELEXON costs, market testing and VAT.

7.2 Registration

No changes required.

7.3 Contract Notification

No changes required.

7.4 Credit Checking Systems

Both Modification Proposal P11 and the Alternative Modification Proposal would require changes to the Energy Contract Aggregation Agent (ECVAA) system, as described in Annex 3.

7.5 Balancing Mechanism Activities

No changes required.

7.6 Collection and Aggregation of Metered Data

No changes required.

7.7 Supplier Volume Allocation

No changes required.

7.8 Settlement

The Alternative Modification Proposal would require changes to the Settlement Administration Agent (SAA) system, as described in Annex 3, in order to make available the data required to calculate the Minimum Level of Credit Cover for each BSC Party.

7.9 Clearing, Invoicing and Payment

No changes required.

7.10 Reporting

Modification Proposal P11 would require amendments to the ECVAA-I014 report, to report details of the Minimum Level of Credit Cover (MLCC) to BSC Parties.

8 IMPACT ON CORE INDUSTRY DOCUMENTS AND SUPPORTING ARRANGEMENTS

The Modification Group believes that neither Modification Proposal P11 nor the Alternative Modification Proposal would require amendments to Core Industry Documents. In particular, none of the following documents would be affected:

- Grid Code;
- Master Connection and Use of System Agreement (MCUSA);
- Supplemental Agreements;
- Ancillary Services Agreements (ASAs);
- Master Registration Agreement (MRA);
- Data Transfer Services Agreement (DTSA);
- British Grid Systems Agreement (BGSA);
- Use of Interconnector Agreement;
- Pooling and Settlement Agreement (PSA);
- Settlement Agreement for Scotland (SAS);
- Distribution Codes;
- Distribution Use of System Agreements (DUoSAs); and
- Distribution Connection Agreements

9 IMPACT ON ELEXON

Modification Proposal P11 would require ELEXON to implement additional processes for placing into Credit Default a Party who failed to post the required minimum level of Credit Cover.

The Alternative Modification Proposal would not impact ELEXON in the normal course of operations. However, ELEXON might be involved in supporting the BSC Panel if a Party appealed their Minimum Level of Credit Cover.:

10 IMPACT ON PARTIES AND PARTY AGENTS

10.1 Parties

Modification Proposal P11 would require changes to Party systems and processes, such as the following:

- Party systems and processes for managing Credit Cover would require amendment to reflect the new minimum Credit Cover requirements.
- Party systems and processes for responding to Credit Default notices issued by ELEXON would require amendment to reflect the new minimum Credit Cover requirements.
- Party systems and processes for handling the ECVA-1014 report would require amendment to handle the revised format of the data flow.

The impact assessment and consultation responses received from Parties (and summarised in section 12) indicated that the cost of these changes was seen as a significant disadvantage. For this reason the Credit Modification Group meeting on 6th November agreed to simplify the Alternative Modification Proposal, so that its impact on Party systems and processes is limited to the processes for reducing Credit Cover.

10.2 Party Agents

Neither Modification Proposal P11 nor the Alternative Modification Proposal is expected to require changes to Party Agent systems or processes.

11 LEGAL ISSUES

Neither Modification Proposal P11 nor the Alternative Modification Proposal is believed to raise any issues with regard to the statutory, regulatory and contractual framework within which the Code sits.

12 SUMMARY OF REPRESENTATIONS

Eight responses were received to the P11 consultation, and the responses are reproduced in Annex 2. In addition, a number of responses were received to the impact assessment, and these are also in Annex 2.

This section 12 summarises the responses received, and the views of the Modification Group on the issues raised.

12.1 Preferred Modification Proposal

The first three consultation questions asked for views on which Modification Proposal (i.e. P11, the Alternative Modification Proposal or neither) would best facilitate achievement of the Applicable BSC Objectives. The views expressed can be summarised as follows:

Preferred Option	Respondents
Alternative Modification Proposal	European Power Source Co. Ltd. British Energy support the Alternative (but only slightly preferred to no change). London Electricity.
Alternative Modification Proposal or No Change	Electricity Direct
No Change	Innogy feel the cost will outweigh any benefit. British Gas state that, under P2, the credit arrangements in the BSC will be very robust, and no further change is required. SEEBOARD dislike the piecemeal approach. TXU Following companies returned 'Reject' responses to the CPC: Maverick Energy, NPower, NPower Yorkshire, Bridge of Cally Investments Ltd.

It should be noted that none of the responses favoured Modification Proposal P11.

As described in sections 5.4 and 5.6 of this report, the Modification Group agreed that Modification Proposal P11 would not facilitate achievement of the Applicable BSC Objectives, but could not reach consensus on whether the Alternative Modification Proposal would do so.

12.2 Period for Provision of Cover

The fourth consultation question asked whether two Working Days was sufficient for Parties to put up additional Credit Cover. The responses received were as follows:

- The Electricity Direct response stated that two Working Days is "not over stringent", but that they would prefer another Working Day.

- The British Energy response stated that two days is “very short”.
- The London Electricity response stated that two days should be sufficient.

Under the simplified Alternative Modification Proposal agreed at the meeting on 6th November, Parties are not required to put up additional Credit Cover (although they are restricted from removing Credit Cover), and therefore the issue does not arise.

12.3 Use of Interim Information Data

The fifth consultation question asked whether it was acceptable to calculate the Minimum Level of Credit Cover using data from the Interim Information (II) run. The responses received were as follows:

- The Electricity Direct response stated that it is acceptable, but there should be an appeal process.
- The British Energy response stated that II data is of insufficient quality to be used for this purpose.
- The London Electricity response stated that II data is acceptable provided P18A is incorporated, but that they would prefer Initial Settlement data if the cost not prohibitive.

The views of the Modification Group was that the Minimum Level of Credit Cover calculation should not use II data, due to the inaccuracies that could arise.

12.4 Daily versus Occasional Monitoring

The sixth consultation question asked whether there was any reason other than cost not to monitor MLCC on a daily basis rather than an occasional basis. The British Energy and London Electricity responses were in favour of more frequent monitoring if there was no additional cost.

As described in section 5.5.3 of this report, the Modification Group believes that daily monitoring of MLCC values would impose unnecessary costs on BSC Parties, who would have to change their systems and processes for managing Credit Cover to allow for the possibility of a P11-related Credit Default. The Group has therefore simplified the Alternative Modification Proposal, such that monitoring occurs only when a Party seeks to reduce their level of Credit Cover.

12.5 Other Issues Raised

The responses from British Gas, Electricity Direct and British Energy raised the issue that historical indebtedness may not be a good indicator of future indebtedness, and that therefore it may not be appropriate to calculate an MLCC value from historical indebtedness data.

As described in section 5.6 of this report, the Credit Modification Group was unable to reach consensus on this issue.

13 PROJECT BRIEF

Because the details of the Alternative Modification Proposal were not finalised until the Modification Group meeting on 6th November (after BSC Agent impact assessments had been received), no accurate assessment is available of the impact of the Alternative Modification Proposal on BSC Agent systems. It has not therefore been possible to prepare a Project Brief.

As explained in section 1.1 of this report, the recommendation of the Credit Modification Group is that if the Panel is inclined to approve the Alternative Modification Proposal, the Assessment Procedure should be extended by one month to allow impact assessment, and the preparation of a Project Brief.

ANNEX 1 – PROPOSED TEXT TO MODIFY THE BSC

Legal drafting has not been obtained for either Modification Proposal P11 or the Alternative Modification Proposal, for the following reasons:

- In the case of Modification Proposal P11, the Modification Group wished to seek guidance on whether legal drafting was required, given that both the Modification Group and the consultation responses were overwhelmingly in favour of rejecting the Proposal.
- In the case of the Alternative Modification Proposal, the Modification Group did not finalise the definition of the Proposal until 6th November, and there has not therefore been sufficient time to obtain legal drafting.

It is proposed that legal drafting (if required) be obtained during the Report Phase.

ANNEX 2 – CONSULTATION RESPONSES

The responses received to the P11 consultation and impact assessment are in Attachment 3.

ANNEX 3 – BSC AGENT IMPACT ASSESSMENTS

A3.1 – ECVAA and SAA

NETA Change Form

To be completed by the Originator						
Change Request ID (to be provided by the Customer) P11 Logica reference: ICR152			Service affected ECVAA Operational Procedures & Documentation			
Change Request Name:			Availability of market information to B.S.C Parties and non - B.S.C Parties			
Agreement by the customer to proceed to the next stage						
	High Level Assessment	Detailed Level Assessment	Change Quotation	Implement Change	Emergency Fix Report	Change Request under Clause 14.2 (delay)
Tick which stage is being requested		✓				
Signed by Customer Baseline Manager						
Signed by Customer Contract Manager						
Date of agreement to proceed to next stage					n/a	n/a
Date this stage to be completed by		31/10/01				
Configuration of Service(s) (baseline affected)						
Assumed Changes (over baseline)		NETA Service Definition Baseline (V1.0)				
Priority		Medium				
Identified by : Sandy Blows			Date Submitted: 10/10/01			
Description of Change						
The change allows for the minimum level of Credit Cover to be established on a continual basis from the level of indebtedness incurred by a particular party. It is evaluated as the 95th percentile value of the MW indebtedness over the previous year.						
Reason for Change (benefits)						
This will enable participants to only have to lodge Credit Cover appropriate to their mode of trading						
Implications of not making the change						
See attached original P11						
Attachments/references		P11 and Requirements Specification to support Modification P11				
Competition Item Yes/No/n/a		Reasons for Competition				

If Change Request made under Clause 14.2 (delay)	Required supporting information attached
--	--

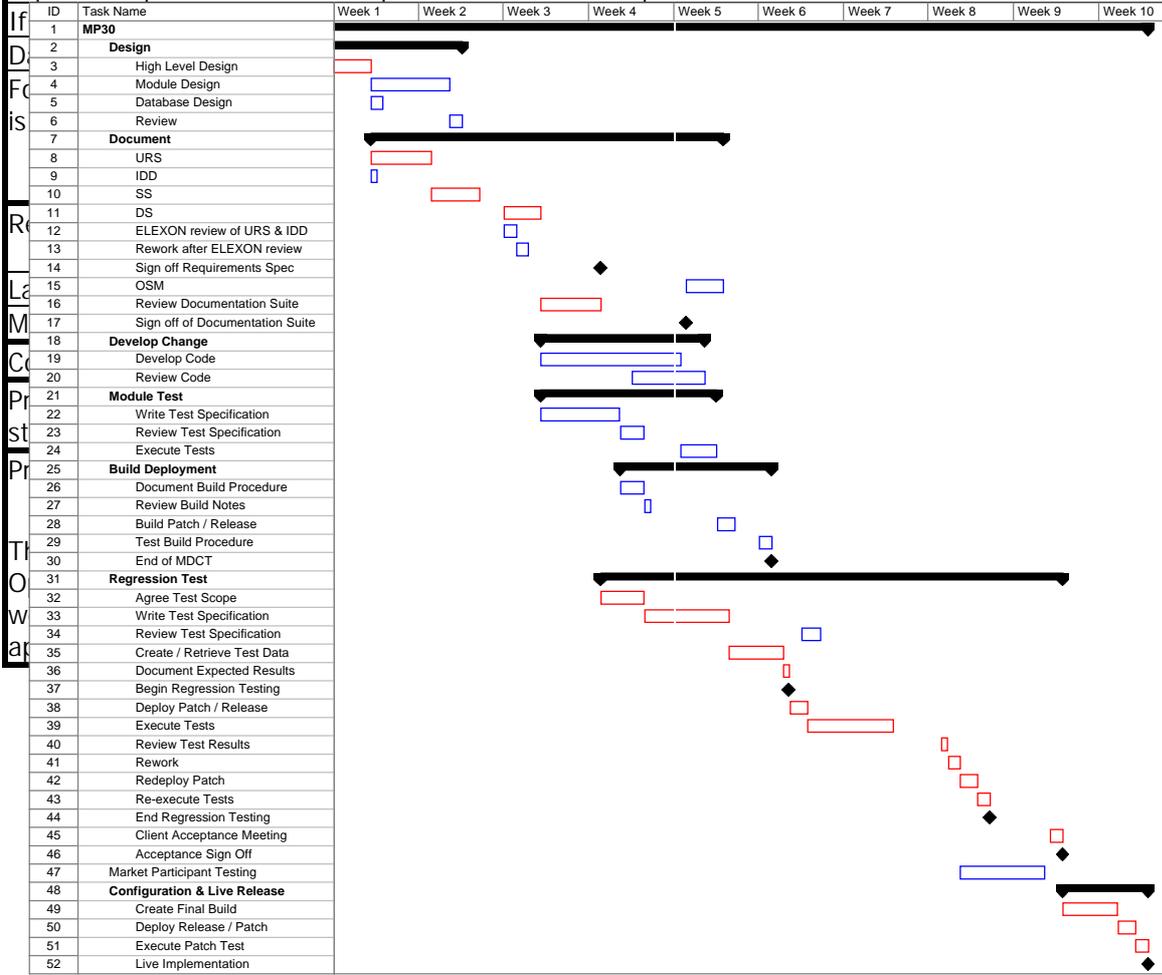
To be completed by the Service Provider				
	High Level Assessment	Detailed Level Assessment	Change Quotation	
Tick which stage is being completed		✓		
Signed by Service Provider Contract Manager				
Date		31/10/01		
Validity period of costs/prices	Change Quotation			
	Change		30 days	
Does the change involve any changes to the System or Services			Yes	
Would the undertaking of a Detailed Level Assessment or Change Quotation delay the Trigger Milestone or the Planned Go-Live Date before Go Live or any Release Date after Go Live			N/a	
If Yes – specify which Milestones/Release Dates would be affected	N/a			
Impact on any Milestones of incorporation of change	N/a			
Indicative impact on resources for change incorporation	Phase of the work			
	Design	Build	Test & Trial	Operate
Labour				
Materials/3rd Party				
Impact on Service Levels	None			
Impact on IDD	Yes			
Price for Detailed Level Assessment				Indicative/firm
Price for Change Quotation				Indicative/firm
Price for Change				
Modification Proposal P11	£124,700 (ex VAT) to develop and implement the change		Firm	
	£1,864 (ex VAT) per month to Maintain		Firm	
Alternative Modification Proposal P11 with 4.3, Option B	£207,200 (ex VAT) to develop and implement the change		Firm	
	£3,108 (ex VAT) per month to Maintain		Firm	
Alternative Modification Proposal P11 with 4.3, Option C	£116,400 (ex VAT) to develop and implement the change		Firm	
	£1,746 (ex VAT) per month to Maintain		Firm	

Assumptions for the above Price:

- Logica will invoice 30% on receipt of CN 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.
- Price does not include provision for indexation of daily fee rates with effect from 1st April 2002.
- The Service Descriptions will have been updated by ELEXON and agreed with Logica prior to deployment.
- For all formal documentation that is subject to review, Logica shall provide one draft issue and a maximum of five working days has been allowed for ELEXON to review and comment on the updates. An allowance is included in the price for addressing comments from ELEXON from only one iteration of all reviewed documents.
- Within reasonable levels, ELEXON will make available appropriate staff to assist Logica during the development of this change
- No allowance has been made for ELEXON to witness testing.
- Patch and regression testing will only be performed on our own system, with external interfaces being simulated as necessary.
- External participant testing is based on up to two participants to whom a CD will be sent containing an example of the new/changed flows. We would suggest that one of these participants is the proposer of the Modification Proposal (The European Power Source Company (UK) Limited).
- The cost and durations provided in this DLIA assume that only the CP to which the estimate relates is being implemented (except for the Alternative Modification Proposal P11 with 4.3, Option C, which is dependent on Modification Proposal P2).
- There will be no new Service Levels.
- The Maintenance charge has been estimated as a proportion of the price.
- It is likely that P11 will have to be implemented as a patch if it is needed in the same timeframe as Release 2. In order for this to be achieved, P11 must be authorised no later than 30th November 2001.

If the change is to be incorporated after Go Live, is this change proposed to be a patch or release Patch

If patch, expected time of incorporation



Has the customer indicated this is a competitive change		No
	Service Provider Plan for competition	
	Risks/Constraints of competition	
	Service Provider plan for incorporation of change including testing	
	Documentation to be produced by Service Provider to enable competition according to plan above	
	Indicative costs of Service Provider role in competition	
For Change Notice only – to be completed by the Customer		
Basis for payment		
Agreed Customer Caused Delay: Yes/No		
If Yes, amount of delay		
Date Change to become effective.	Is this to be a Release Date?	
	Yes/No	
Other items as required under the Change Management Procedures		

Brief outline of the change

This note outlines our approach to satisfying the requirements of Modification Proposal P11. The precise approach will be developed during the detailed design stage and, if appropriate, may differ significantly from that described approach.

The purpose of P11 is to eliminate the possibility of Trading Parties having levels of Energy Credit Cover below that that would be expected based on historical trading patterns. Currently, Trading Parties post their Energy Credit Cover with ELEXON based on their own forecasts. With P11, the Energy Credit Cover will be compared with historical Energy Indebtedness levels and warning issued if there are significant discrepancies between them.

Once P11 has been implemented, everyone will have more confidence in the financial security of trading parties.

There are several possible approaches to achieving this end, and this proposal discusses three of them, as requested by ELEXON. These are labelled: Option 1 – Modification Proposal P11; Option 2 – Alternative Modification Proposal P11: Option B and Option C. Of these three options, we recommend the implementation of Option 2 – Alternative Modification Proposal P11, Option C. This is the most consistent in implementation and is the most compatible with Modification Proposal P2. Moreover, this option can be implemented before Modification Proposal P2 such that:

- It emulates much of Option 1 – Modification Proposal P11 while Modification Proposal P2 is unavailable.
- It seamlessly becomes Option 2 – Alternative Modification Proposal P11, Option C once Modification Proposal P2 is rolled out.

This method of implementation can be undertaken at no additional charge to that for Option 2 – Alternative Modification Proposal P11, Option C. However, we have not investigated how feasible it would be to implement it early and its impact on other developments.

Option 1 - Modification Proposal P11

The following summarises the main changes required for the Modification Proposal P11:

- Amend the database to store the MLCC and Provision of Minimum Credit Cover start datetime.
- Create a new MLCC calculator that works as follows:
 1. Calculate the MLCC value for each party and store the result in the database. It is assumed that the calculation of MLCC will use EI values already stored in the database. Prior to the implementation of P2 these values will be estimates. After the implementation of P2, actuals from SAA will be used (although no backfilling of earlier estimates will be done).
 2. Where the MLCC value is greater than the current credit limit, email a credit check breach system warning to the helpdesk, and set the date & time at which the breach occurred
 3. Check to see whether any previously raised credit breaches have exceeded the time limit. If so, raise second system warning.
- Amend I-014 flow processor to add the MLCC data into the report.
- Amend the user interface as follows:
 1. Show the current MLCC value as appropriate
 2. Add functionality to mark a party who has exceeded MLCC as having had the notification sent to ELEXON.
 3. Add functionality to allow an operator to set a party as in credit default after they have passed the Provision of Minimum Credit Cover timeout. Also add functionality to cancel the credit breach manually.
- Amend the ECVN, MVRN and credit check processors to reject notifications if the credit default has been set by the operator

Option 2 - Alternative Modification Proposal P11

The Alternative Modification Proposal includes several options to be considered in Logica's analysis to determine the most cost-effective approach before preparing the full proposal. The results of this analysis are as follows:

- Section 4.1 discussed a manual approach as this was thought to be cheaper but also asked for consideration to be given to an automatic approach. Our analysis indicates that the automatic approach would be no more expensive so we have only included the automatic approach in our proposal.
- Section 4.1.1 discusses two Options, A and B. We have only considered Option A as instructed by Elexon.
- Section 4.3 asks for us to assess Option C and whichever is the cheapest of Options A and B. Our analysis indicates that Option B is cheaper than Option A (Option A requires changes that impact a greater number of NETA sub-systems). Overall, Option C is the cheapest.
- Option B is significantly more expensive than Modification Proposal P11 and Option C since it involves new interfaces between ECVAA and SAA.
- In analysing Option C, we have made the simplifying assumption that there will be no retrospective population of historical MLCC data. Thus, when P11 with Option C goes live, it will appear as the original Option 1 – Modification Proposal P11. The functionality of Option C will become ever more apparent as the historical MLCC data is accumulated.

The following summarises the main changes required for the Alternative Modification Proposal separately for Options B and C from section 4.3.

Option B

- Amend the database to store the MLCC and Provision of Minimum Credit Cover start datetime..
- Create a new MLCC calculator that works as follows:
 1. Look through the DAILY_INDEBTEDNESS table for the last year's worth of MLCC values and evaluate the 95% value
 2. Where this value is greater than the current credit limit, email a credit check breach system warning to the helpdesk, and set the date & time at which the breach occurred
 3. Check to see whether any previously raised credit breaches have exceeded the time limit. If so, raise second system warning.
- Amend I-014 flow processor to add the MLCC data into the report.
- Amend the user interface as follows:
 1. Show the current MLCC value as appropriate
 2. Add functionality to mark a party who has exceeded MLCC as having had the notification sent to ELEXON.
 3. Add functionality to allow an operator to set a party as in credit default after they have passed the Provision of Minimum Credit Cover timeout. Also add functionality to cancel the credit breach manually.
- Create a new MLCC flow processor to read the MLCC data supplied by the SAA system and insert the values for each participant into the DAILY_INDEBTEDNESS table.
- Create a new Trading Indebtedness SAA report processor that evaluates the MLCC value for a day and passes the value for each participant on a new internal flow to the ECVAA system. This would be a new report processor that is manually initiated once per day.

Option C

- Amend the database to store the MLCC and Provision of Minimum Credit Cover start datetime.
- Create a new MLCC Calculator that works as follows:
 1. Calculate the MLCC value for each party and store the result in the database. If the settlement run information has not been loaded at the point of the run, the MLCC should be based upon the indebtedness.
 2. Where this value is greater than the current credit limit, email a credit check breach system warning to the helpdesk, and set the date & time at which the breach occurred
 3. Check to see whether any previously raised credit breaches have exceeded the time limit. If so, raise second system warning.
- Amend I-014 flow processor to add the MLCC data into the report.
- Amend the user interface as follows:
 1. Show the current MLCC value as appropriate
 2. Add functionality to mark a party who has exceeded MLCC as having had the notification sent to ELEXON.
 3. Add functionality to allow an operator to set a party as in credit default after they have passed the Provision of Minimum Credit Cover timeout. Also add functionality to cancel the credit breach manually.

- Amend the ECVN, MVRN and credit check processors to reject notifications if the credit default has been set by the operator
- Update the SAA System Specification to state that ECVAA uses the settlement run information in the MLCC calculation.

A3.2 – FAA

- No FTS2000 system changes are envisaged.
Assumptions: That the flow of MLCC data will be received via e mail as per the current MEA arrangement.
That if MP11 is implemented the MEA and MLCC will operate simultaneously.
If the alternative proposal is implemented the MLCC will be calculated at implementation and then on a 6 monthly basis.
- There will be an ongoing operational charge only as there is no system change. There will also be a documentation change charge.
EPFAL would require one month's notice in order to prepare for the implementation of MP11.
- Implementation Price
Documentation Review 2 days Project Manager @ £100 ph = 1600

Operational charge 0.5 days Credit Analyst per Credit Cover update @ £87.50 ph
- No extra resources are needed in order to implement the change.
Assumptions: ELEXON will send out a circular to inform Trading Party's of the change.
- No delays to any milestone.
- Documentation Impact: IDD would need to be changed to add in MLCC flow of data from the ECVAA.
- There will be no impact on the Service Provider's ability to deliver the service in accordance with the agreement.
- Credit Analyst time will be required in order to operate MP11 or the Alternative Proposal.
- The Credit Policy OM would need to be amended to include MP11/Alternative Proposal.
The service description may also need to be changed to include MP11/Alternative Proposal.