

1 SUMMARY AND RECOMMENDATIONS

1.1 Recommendation

Modification Proposal P2 proposes that the calculation of indebtedness for credit-checking purposes should be enhanced to use actual prices and metered volumes. The proposal states that this would protect Parties from the expense of having to post inappropriate levels of credit cover, and also the risk of a defaulting Party having unsecured settlement liabilities.

On the basis of the analysis, consultation and assessment undertaken in respect of this Modification Proposal during the Assessment Phase, and the resultant findings of this report, the BSC Panel recommends that:

The Proposed Modification set out in Section 7 of this report be approved, with an Implementation Date of 30 September 2002.

1.2 Background

Modification Proposal P2 was submitted by British Gas on 27th March 2001, and submitted to the Definition Procedure (as defined in section F2.5 of the Balancing and Settlement Code) by the BSC Panel meeting on 5th April 2002. The BSC Panel meeting on 31st May 2001 agreed the Definition Report prepared by the Credit Modification Group, and submitted the Modification Proposal to the Assessment Procedure (as defined in section F2.6 of the Balancing and Settlement Code). The Assessment Report was then presented to the BSC Panel at the meeting on 26th July 2001. Further details of the process followed can be found in Section 4 of this report.

1.3 Rationale for Recommendations

The view of the Credit Modification Group, as described in the P2 Assessment Report, is that Modification Proposal P2 would facilitate achievement of the following Applicable BSC Objectives:

- Modification Proposal P2 would significantly reduce the unnecessary costs and risks imposed on Trading Parties by inaccuracies in the current methodology for assessing credit indebtedness. It would therefore remove a significant and material inefficiency in the operation of the balancing and settlement arrangements, hence facilitating achievement of the BSC Objective in condition 7A(3)(d) of the Transmission License.
- To the extent that the unnecessary costs and risks arising from the current methodology act as a deterrent to participation in the electricity market, Modification Proposal P2 would also facilitate achievement of the BSC Objective in condition 7A(3)(c) of the Transmission License (i.e. promoting effective competition in the generation and supply of electricity).

The BSC Panel meeting on 26th July 2001 noted the finding of the Credit Modification Group that Modification Proposal P2 would better facilitate the achievement of the Applicable BSC Objectives, and endorsed their recommendation that the draft Modification Report include a recommendation to approve the Modification Proposal.

Further details of the rationale for accepting the Modification Proposal can be found in the P2 Assessment Report.