



**March 2001**

**INITIAL ASSESSMENT OF  
MODIFICATION PROPOSAL P2**

**Revision of the Methodology for  
Assessing Credit Indebtedness**

**Prepared By ELEXON Limited**

<b>Document Reference</b>	IWA002
<b>Version no.</b>	1.0
<b>Issue</b>	
<b>Date of Issue</b>	4 <sup>th</sup> April 2001
<b>Reason for Issue</b>	
<b>Author</b>	ELEXON Limited

## I DOCUMENT CONTROL

### a Authorities

Version	Date	Author	Signature	Change Reference
0.1	4/04/01	Trading Development		

Version	Date	Reviewer	Signature	Responsibility
1.0	4/04/01	Trading Strategy		

### b Distribution

Name	Organisation
BSC Panel	
BSC Parties	
BSC Agents	
The Authority	
National Electricity Consumers Council	
Core Industry Document Owners	
BSC Website	

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## 1 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](http://www.elexon.co.uk)

## 2 EXECUTIVE SUMMARY

Modification Proposal P2 was submitted on 27th March 2001 by British Gas Trading. The proposal seeks to amend the methodology for assessing credit indebtedness to use actual metered volumes and system prices, where available.

The methodology for assessing credit indebtedness is a known area of concern to BSC Parties, and was flagged up in a number of the responses to the ELEXON Consultation Paper entitled 'CAP and CALF – Issues Associated with the Credit Cover Arrangements in the BSC', dated 21 December 2000.

As described in section 13 of this document, initial impact assessment has identified a number of potential issues with Modification Proposal P2, including the following:

- The benefits of the proposed modification are currently difficult to assess, as the current method for assessing credit indebtedness has been functioning for less than two weeks, and the data required to assess its effectiveness is therefore not yet available.
- In addition to changes to the Balancing and Settlement Code, the proposed modification would require significant enhancements to the Energy Contract Volume Aggregation Agent (ECVAA) system, and other BSC Agent systems.

In light of these issues, ELEXON recommend that:

- Modification Proposal P2 should be submitted to the Assessment Procedure in accordance with section F2.6 of the Code, in order to allow a Modification Group to consider both the Modification Proposal, and any Alternative Modifications that might achieve the aims of the modification more effectively and economically.
- In order to allow time for data on the effectiveness of the current credit checking methodology to become available, three months should be allowed for the Assessment Procedure.

### 3 PURPOSE AND SCOPE OF THE REPORT

Section F of the BSC 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).

When a new proposal to modify the BSC is made, it is the responsibility of the Panel to determine how it should be progressed. Options include submitting the proposal to a Definition Procedure<sup>1</sup>, submitting it to an Assessment Procedure<sup>2</sup>, amalgamating the proposal with another proposal<sup>3</sup>, or proceeding directly to the Report Phase<sup>4</sup>. With a view to assisting the Panel in taking this decision, ELEXON prepares this initial written assessment of the implications of the Modification Proposal as soon as reasonably practicable after the proposal is made<sup>5</sup>. ELEXON endeavours to complete this initial assessment such that it can be reviewed by the Panel at the Panel meeting at which the relevant Modification Proposal is first to be considered.

This initial assessment provides a preliminary view on the following:

- the potential impact of the proposed modification on BSC systems and processes;
- the potential impact of the proposed modification on other systems and processes used by Parties;
- the potential impact of the proposed modification on the BSC, Code Subsidiary Documents and Core Industry Documents;
- the potential impact of the proposed modification on ELEXON;
- the potential impact of the proposed modification on BSC financial arrangements and budget;
- the potential impact of the proposed modification on BSC Agent contractual arrangements;
- The process and timetable that should be adopted for the progression of the Modification Proposal, in light of its complexity, importance and urgency; and
- Issues that will need to be considered and addressed in progressing the Modification Proposal (including the potential need for impact assessments, consultation and analyses).

It should be noted that, as this document only represents a preliminary assessment of the Modification Proposal, the information contained herein will, in most cases, be superseded by the subsequent analysis and reports produced by the Modification Group to which the Panel assigns the proposal for consideration.

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<sup>1</sup> see BSC F2.5

<sup>2</sup> see BSC F2.6

<sup>3</sup> see BSC F2.3

<sup>4</sup> see BSC F2.7

<sup>5</sup> see BSC F2.1.8

## 4 DETAILS OF THE MODIFICATION PROPOSAL

A copy of the Modification Proposal form, as submitted by its proposer, can be found at Annex 1 to this report. The form contains the following information provided by the proposer in relation to the proposal<sup>6</sup>:

- the name of the Proposer;
- the name of the representative of the Proposer (and his alternate) who shall represent the Proposer in person;
- a description (in reasonable but not excessive detail) of the issue or defect which the proposed modification seeks to address;
- a description (in reasonable but not excessive detail) of the proposed modification and of its nature and purpose;
- where possible, an indication of those parts of the Code which would require amendment in order to give effect to (and/or would otherwise be affected by) the proposed modification and an indication of the nature of those amendments or effects;
- the reasons why the Proposer believes that the proposed modification would better facilitate achievement of the Applicable BSC Objective(s) as compared with the then current version of the Code;
- where possible, an indication of the impact of the proposed modification on Core Industry Documents; and
- where possible, an indication of the impact of the proposed modification on BSC Systems and on other relevant computer systems and processes used by Parties.

In summary, the Modification Proposal is seeking to amend the methodology for assessing credit indebtedness to use actual metered volumes and prices. This is in contrast to the current methodology, as defined in Section M of the Code, which is based on estimated prices and metered volumes:

- In place of actual System Buy Price (SBP) and System Sell Price (SSP) values, the indebtedness calculation uses a Credit Assessment Price (CAP), set by the Panel.
- In place of actual metered volumes, the indebtedness calculation estimates volumes from the Demand Capacity (DC), Generation Capacity (GC) and Credit Assessment Load Factor (CALF) for each BM Unit.

The ELEXON Consultation Paper entitled 'CAP and CALF – Issues Associated with the Credit Cover Arrangements in the BSC', dated 21 December 2000, recognised that this use of estimates could lead to inaccuracies in the indebtedness calculation. The Modification Proposal develops this point further, stating that the current methodology for calculating indebtedness:

- Exposes (all) other BSC Parties to increased risk if the Indebted Party defaults payment
- Potentially places BSC Parties in a 'manufactured' position with regards to ECVAAs Credit Defaulting
- Imposes the requirement for securing unnecessary levels of Credit Cover rather than providing Credit Cover for actual levels of indebtedness which would be the case if actual / more realistic values were utilised in the calculation

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<sup>6</sup> See BSC F2.1.2

## 5 IMPACT ON BSC SYSTEMS AND PROCESSES

BSC System / Process	Potential Impact of Proposed Modification
<b>Registration</b>	The Modification Proposal potentially impacts registration with regards to BM Unit attributes and frequency of amendment – due to current methodology for Indebtedness calculation utilising Demand Capacity / Generation Capacity / Credit Assessment Load Factor, all attributes held within CRA.
<b>Contract Notification</b>	No impact identified.
<b>Credit Checking</b>	The Modification Proposal potentially requires significant change to the credit checking process.
<b>Balancing Mechanism Activities</b>	No impact identified.
<b>Collection and Aggregation of Metered Data</b>	No impact identified.
<b>Supplier Volume Allocation</b>	No impact identified.
<b>Settlement</b>	No impact identified.
<b>Clearing, Invoicing and Payment</b>	The Modification Proposal potentially impacts the way in which Credit Cover is set and implemented.
<b>Reporting</b>	The Modification Proposal potentially impacts reporting requirements for data items related to credit assessment.
<b>Dispute Resolution</b>	No impact identified.



**6 IMPACT ON OTHER SYSTEMS AND PROCESSES USED BY PARTIES**

System / Process	Potential Impact of Proposed Modification
No impact identified.	

## 7 IMPACT ON DOCUMENTATION

### 7.1 Impact on Balancing and Settlement Code

BSC Section	Potential Impact of Proposed Modification
A: Parties and Participation	No impact identified.
B: The Panel	No impact identified.
C: BSCCo and its Subsidiaries	No impact identified.
D: BSC Cost Recovery and Participation Charges	No impact identified.
E: BSC Agents	No impact identified.
F: Modification Procedures	No impact identified.
G: Not Used	
H: General	No impact identified.
I: Not Used	
J: Party Agents	No impact identified.
K: Classification and Registration of Metering Systems and BM Units	This Modification Proposal has a potential impact on this area of the BSC, specifically with regards to BM Unit registrations and obligations therein.
L: Metering	No impact identified.
M: Credit Cover and Credit Default	This Modification Proposal has a potential impact on this area of the BSC, specifically with regards to Indebtedness calculations, Credit Cover and Credit Default processing and obligations therein.
N: Clearing, Invoicing and Payment	This Modification Proposal has a potential impact on this area of the BSC, specifically with regards to Credit Cover processing and obligations therein.

<b>BSC Section</b>	<b>Potential Impact of Proposed Modification</b>
O: Communications	No impact identified.
P: Energy Contract Volumes and Metered Volume Reallocations	No impact identified - the processing of Notifications may be impacted by the Modification Proposal, but this cannot be confirmed at this stage.
Q: Balancing Mechanism Activities	No impact identified.
R: Collection and Aggregation of Metered Data from CVA Metering Systems	No impact identified.
S: Supplier Volume Allocation	No impact identified.
S: ANNEX S-1 Performance Levels and Supplier Charges	No impact identified.
S: ANNEX S-2 Supplier Volume Allocation Rules	No impact identified.
T: Settlement and Trading Charges	No impact identified.
U: Provisions Relating to Settlement	No impact identified.
V: Reporting	No impact identified - the reporting of data items related to credit assessment may be impacted by the Modification Proposal, but this cannot be confirmed at this stage.
W: Trading Queries and Trading Disputes	No impact identified.
X: Definitions and Interpretation	This Modification Proposal has a potential impact on this area of the BSC, specifically with regards to any changes in definition of existing attributes, or the introduction of new ones required to support any amendment to the calculation of Indebtedness.
X: ANNEX X-1 General Glossary	This Modification Proposal has a potential impact on this area of the BSC, specifically with regards to any changes in definition of existing attributes, or the introduction of new ones required to support any amendment to the calculation of Indebtedness.

<b>BSC Section</b>	<b>Potential Impact of Proposed Modification</b>
X: ANNEX X-2 Technical Glossary	This Modification Proposal has a potential impact on this area of the BSC, specifically with regards to any changes in definition of existing attributes, or the introduction of new ones required to support any amendment to the calculation of Indebtedness.

## 7.2 Impact on Code Subsidiary Documents

Code Subsidiary Document	Potential Impact of Proposed Modification
BSC Procedures	No specific impacts identified at this time. However, there is a potential impact, due to changes in the process for calculating credit indebtedness
Codes of Practice	No impact identified.
BSC Service Descriptions	No specific impacts identified at this time. However, there is a potential impact, due to changes in the process for calculating credit indebtedness
Party Service Lines	No impact identified.
Data Catalogues	No specific impacts identified at this time. However, there is a potential impact, due to changes in the process for calculating credit indebtedness
Communication Requirements Documents	No impact identified.
Reporting Catalogue	No specific impacts identified at this time. However, there is a potential impact, due to changes in the process for calculating credit indebtedness

### 7.3 Impact on Core Industry Documents

Core Industry Document	Potential Impact of Proposed Modification
Grid Code	No impact identified.
MCUSA	No impact identified.
Supplemental Agreements	No impact identified.
Ancillary Services Agreements	No impact identified.
Master Registration Agreement	No impact identified.
Data Transfer Services Agreement	No impact identified.
British Grid Systems Agreement	No impact identified.
Use of Interconnector Agreement	No impact identified.
Pooling and Settlement Agreement	No impact identified.
Settlement Agreement for Scotland	No impact identified.
Distribution Codes	No impact identified.
Distribution Use of System Agreements	No impact identified.
Distribution Connection Agreements	No impact identified.

## 8 IMPACT ON OTHER CONFIGURABLE ITEMS

Item	Potential Impact of Proposed Modification
Energy Contract Volumes Aggregation Agent (ECVAA) User Requirements Specification (URS)	Significant impact to reflect changes in methodology for assessing credit indebtedness.
Settlement Administration Agent (SAA) User Requirements Specification (URS)	Potential impact to provide ECVAA with required data.
Funds Administration Agent (FAA) User Requirements Specification (URS)	Potential impact.

## 9 IMPACT ON ELEXON

Area of Business	Potential Impact of Proposed Modification
ELEXON Systems	This Modification Proposal has a potentially large impact on ELEXON systems, the exact nature / extent of which cannot be quantified at this time.
ELEXON Procedures	This Modification Proposal has a potentially large impact on ELEXON procedures, the exact nature / extent of which cannot be quantified at this time.
ELEXON Contracts (Excluding BSC Agent Contracts)	This Modification Proposal has a potential impact on ELEXON contracts, the exact nature / extent of which cannot be quantified at this time.
Other (e.g. costs, staffing, etc.)	Unknown impact at this time



## **10 IMPACT ON FINANCIAL ARRANGEMENTS AND BUDGET**

Further assessment is required to quantify the impact of Modification Proposal P2 on the ELEXON budget.

## 11 IMPACT ON BSC AGENT CONTRACTUAL ARRANGEMENTS

BSC Agent Contract	Potential Impact of Proposed Modification
Logica (BMRA, CRA, CDCA, SAA, ECVAA, TAA(CVA))	This Modification Proposal has a potentially large impact on BSC Agent systems, specifically ECVAA, the exact nature / extent of which cannot be quantified at this time.
EPFAL (FAA)	This Modification Proposal has a potential impact on FAA (EPFAL), the exact nature / extent of which cannot be quantified at this time.
ESIS (TAA(SVA))	No impact identified.
Cap Gemini (SVAA)	No impact identified.
PwC (BSC Auditor, Certification Agent)	No impact identified.
EASL (Teleswitch Agent, Profile Administrator)	No impact identified.

## 12 PROCESS AND TIMETABLE FOR PROGRESSING THE PROPOSAL

Initial assessment indicates that Modification Proposal P2 has a potentially large impact on BSC Agent processes and systems. ELEXON therefore recommends that this Modification Proposal be submitted to the Assessment Procedure in order to:

- Assess more accurately the costs and benefits of the proposed modification.
- Consider whether there is any Alternative Modification Proposal that might achieve the objectives of the Modification Proposal P2 more efficiently and economically.

As noted in section 13 of this assessment, one potential issue with the assessment of costs and benefits is that the current methodology for assessing credit indebtedness has been operating for less than two weeks, and the data required to assess its effectiveness is therefore not yet available. In order to allow time for such data to become available, ELEXON recommend that three months should be allowed for the completion of the Assessment Procedure. This is the maximum time permissible under clause F2.2.9 of the Code, unless the particular circumstances of the Modification Proposal (taking due account of its complexity, importance and urgency) justify an extension of such timetable.

### 13 ISSUES

The initial assessment of Modification Proposal P2 has identified the following issues:

- Further assessment is required to verify that the benefits of the change do justify the cost of implementation. As significant changes to BSC Agent systems would potentially be required, these implementation costs could be quite significant.
- There may be an issue with the availability of actual metered volumes, particularly for Supplier BM Units. The credit assessment methodology is based on calculating indebtedness for a period of 29 days i.e. those days which have not yet reached Initial Settlement. However, metered volumes for Supplier BM Units are not available until Initial Settlement (at which point it is too late to feed them in to the credit indebtedness calculation).
- As the current methodology for assessing credit indebtedness has been operating for less than two weeks, it is still too early to assess its effectiveness. It therefore follows from this that the data required to assess the benefits of Modification Proposal P2 is not yet available.

**ANNEX 1 – MODIFICATION PROPOSAL**

<b>Modification Proposal</b>	<b>MP No: P2</b> <i>(mandatory by BSCCo)</i>
<b>Title of Modification Proposal</b> <i>(mandatory by proposer):</i> Revision Of The Methodology For Assessing Credit Indebtedness.	
<b>Submission Date</b> <i>(mandatory by proposer):</i> 27 March 2001	
<b>Description of Proposed Modification</b> <i>(mandatory by proposer):</i> The current Code methodology for assessing credit indebtedness does not use actual system inputs or outputs. In addition it uses Credit Assessment Price (CAP) for the whole period of indebtedness. It is proposed that credit indebtedness is assessed against actual inputs and outputs as soon as they are available and best estimates are used until they are available. It is further proposed that CAP is only used for pricing during periods when there is no ability to provide additional security.	
<b>Description of Issue or Defect that Modification Proposal Seeks to Address</b> <i>(mandatory by proposer):</i> As the current methodology for assessing credit indebtedness does not use actual system inputs or outputs and uses the CAP for the whole period of indebtedness, the indebtedness is far from accurate, exposing the whole community to significant credit risk.  These amendments would have the effect of:  1. Ensuring that the Community are better protected against debt incurred through price spikes (the effect of restricting the period of CAP will show at the next banking day rather than at the payment day). 2. Ensuring the Parties are providing credit for actual indebtedness rather than assumed indebtedness (by using actual input and output figures rather than forecast figures manipulated by CALF). 3. Ensure that the industry does not incur unnecessary costs for securing unwarranted levels of Credit. 4. Ensure that Parties who find themselves in level 2 default are there because of real credit issues rather than a 'manufactured' one	
<b>Impact on Code</b> <i>(optional by proposer):</i> Section M will need to be extensively changed.	
<b>Impact on Core Industry Documents</b> <i>(optional by proposer):</i> None anticipated.	
<b>Impact on BSC Systems and Other Relevant Systems and Processes Used by Parties</b> <i>(optional by proposer):</i>	
<b>Impact on other Configurable Items</b> <i>(optional by proposer):</i>	

<b>Modification Proposal</b>	<b>MP No: P2</b> <i>(mandatory by BSCCo)</i>
<p><b>Justification for Proposed Modification with Reference to Applicable BSC Objectives</b> <i>(mandatory by proposer):</i></p> <p>These changes would ensure that the market is better protected from a defaulting party not having sufficient credit to meet its obligations. In addition, there are currently a few parties who through the vagaries of the current rules will be over-securitized, this amendment will ensure that they are required only to provide proper levels of credit. A proper level of credit should lead to more effective competition in the generation and supply of electricity as it will remove a barrier to entry in the market.</p>	
<p><b>Details of Proposer:</b></p> <p style="padding-left: 40px;"><b>Name:</b> Rob Cullender</p> <p style="padding-left: 40px;"><b>Organisation:</b> British Gas Trading</p> <p style="padding-left: 40px;"><b>Telephone Number:</b> 01784 655853</p> <p style="padding-left: 40px;"><b>Email Address:</b> Rob.Cullender@centrica.co.uk</p>	
<p><b>Details of Proposer's Representative:</b></p> <p style="padding-left: 40px;"><b>Name:</b> Gavin Ferguson</p> <p style="padding-left: 40px;"><b>Organisation:</b> British Gas Trading</p> <p style="padding-left: 40px;"><b>Telephone Number:</b> 01753 758036</p> <p style="padding-left: 40px;"><b>Email Address:</b> Gavin.Ferguson@centrica.co.uk</p>	
<p><b>Details of Representative's Alternate:</b></p> <p style="padding-left: 40px;"><b>Name:</b> Catherine McNally</p> <p style="padding-left: 40px;"><b>Organisation:</b> British Gas Trading</p> <p style="padding-left: 40px;"><b>Telephone Number:</b> 01753 758180</p> <p style="padding-left: 40px;"><b>Email Address:</b> Catherine.McNally@centrica.co.uk</p>	
<p><b>Attachments: NO</b></p> <p><b>If Yes, Title and No. of Pages of Each Attachment:</b></p>	