

ASSESSMENT REPORT for Modification Proposal P188 Revision to Credit Default Provisions

Prepared by: ELEXON on behalf of the P188 Modification Group (the 'Group')

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RECOMMENDATIONS

The Group invites the Panel to;

- **AGREE that the Proposed Modification P188 should be made;**
- **AGREE a provisional Implementation Date for Proposed Modification P188 of 27 June 2006 if an Authority decision is received on or before 21 December 2005, or 8 November 2006 if received after 21 December 2005 but on or before 3 May 2006;**
- **AGREE the draft legal text for Proposed Modification P188;**
- **AGREE that Modification Proposal P188 be submitted to the Report Phase; and**
- **AGREE that the draft Modification Report be issued for consultation and submitted to the Panel Meeting of 11 August 2005.**

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¹ The current version of the Balancing and Settlement Code (the 'Code') can be found at <http://www.elexon.co.uk/bscrelateddocs/BSC/default.aspx>

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SUMMARY OF IMPACTED PARTIES AND DOCUMENTS

As far as the Group has been able to assess, the following parties/documents have been identified as being potentially impacted by Modification Proposal P188.

Parties	Sections of the BSC	Code Subsidiary Documents
Suppliers <input checked="" type="checkbox"/>	A <input type="checkbox"/>	BSC Procedures <input type="checkbox"/>
Generators <input checked="" type="checkbox"/>	B <input type="checkbox"/>	Codes of Practice <input type="checkbox"/>
Licence Exemptable Generators <input checked="" type="checkbox"/>	C <input type="checkbox"/>	BSC Service Descriptions <input checked="" type="checkbox"/>
Transmission Company <input type="checkbox"/>	D <input type="checkbox"/>	Service Lines <input type="checkbox"/>
Interconnector <input checked="" type="checkbox"/>	E <input type="checkbox"/>	Data Catalogues <input type="checkbox"/>
Distribution System Operators <input type="checkbox"/>	F <input type="checkbox"/>	Communication Requirements Documents <input type="checkbox"/>
Non-Physical Traders <input checked="" type="checkbox"/>	G <input type="checkbox"/>	Reporting Catalogue <input type="checkbox"/>
Party Agents	H <input checked="" type="checkbox"/>	MIDS <input type="checkbox"/>
Data Aggregators <input type="checkbox"/>	I <input type="checkbox"/>	Core Industry Documents
Data Collectors <input type="checkbox"/>	J <input type="checkbox"/>	Grid Code <input type="checkbox"/>
Meter Operator Agents <input type="checkbox"/>	K <input type="checkbox"/>	Supplemental Agreements <input type="checkbox"/>
ECVNA <input type="checkbox"/>	L <input type="checkbox"/>	Ancillary Services Agreements <input type="checkbox"/>
MVRNA <input type="checkbox"/>	M <input checked="" type="checkbox"/>	Master Registration Agreement <input type="checkbox"/>
BSC Agents	N <input type="checkbox"/>	Data Transfer Services Agreement <input type="checkbox"/>
SAA <input type="checkbox"/>	O <input type="checkbox"/>	British Grid Svstems Aareement <input type="checkbox"/>
FAA <input type="checkbox"/>	P <input type="checkbox"/>	Use of Interconnector Agreement <input type="checkbox"/>
BMRA <input type="checkbox"/>	Q <input type="checkbox"/>	Settlement Agreement for Scotland <input type="checkbox"/>
ECVAA <input checked="" type="checkbox"/>	R <input type="checkbox"/>	Distribution Codes <input type="checkbox"/>
CDCA <input type="checkbox"/>	S <input type="checkbox"/>	Distribution Use of System Agreements <input type="checkbox"/>
TAA <input type="checkbox"/>	T <input type="checkbox"/>	Distribution Connection Agreements <input type="checkbox"/>
CRA <input type="checkbox"/>	U <input type="checkbox"/>	BSCCo
Teleswitch Agent <input type="checkbox"/>	V <input type="checkbox"/>	Internal Workina Procedures <input checked="" type="checkbox"/>
SVAA <input type="checkbox"/>	W <input type="checkbox"/>	Other Documents
BSC Auditor <input type="checkbox"/>	X <input type="checkbox"/>	Transmission Licence <input type="checkbox"/>
Profile Administrator <input type="checkbox"/>		System Operator-Transmission Owner Code <input type="checkbox"/>
Certification Agent <input type="checkbox"/>		
MIDP <input type="checkbox"/>		
Other Agents		
SMRA <input type="checkbox"/>		
Data Transmission Provider <input type="checkbox"/>		

X = Identified in Report for last Procedure
N = Newly identified in this Report

1 DESCRIPTION OF PROPOSED MODIFICATION AND ASSESSMENT AGAINST THE APPLICABLE BSC OBJECTIVES

1.1 Modification Proposal

Modification Proposal P188 'Revision of Credit Default Provisions' ('P188') (Reference 1) was raised on 3 May 2005 by British Gas Trading (the 'Proposer'). P188 was raised as a result of Standing Issue 16 'Credit Default and the Default provisions in Section H of the BSC' (Reference 2). Standing Issue 16 was raised by the Proposer and discussed at a meeting of the Settlement Standing Modification Group (the 'Group') on 26 April 2005.

Under the current trading arrangements, payments to and from Parties in respect of Trading Charges arising on any particular Settlement Day are made, on average, 29 calendar days later. Thus at any given time, Parties may have debts (or be due payments) in respect of Trading Charges incurred, on average, over the previous 29 days. The purpose of Credit Cover is to ensure that, should a Party default on payments, sufficient collateral is available to pay these debts. Energy Indebtedness is calculated in accordance with Section M1.2 of the Code and effectively estimates a Party's liabilities over the 29 day credit window (as an energy volume). Energy Credit Cover is calculated in accordance with Section M2.4 and effectively represents the level of Credit Cover a Party has in place as an energy volume.

Under Section M of the Code, a Trading Party's Credit Cover Percentage (CCP) is calculated by comparison of that Party's Energy Indebtedness with its Energy Credit Cover. A CCP of greater than 100% indicates a Party's estimated liabilities within the 29 day credit window are greater than its level of Credit Cover. Where the CCP of a Party exceeds 80% (Level 1) or 90% (Level 2) for any Settlement Period, the Credit Default provisions specified in Section M3 of the Code apply and as a result a Party may be in Level 1 or Level 2 Credit Default. Where a Party is in Level 1 Credit Default, a notice to such effect is posted on either the Balancing Mechanism Reporting Service (BMRS) or the BSCCo Website. The following provisions apply to a Party in Level 2 Credit Default:

- Notice that the Party is in Level 2 Credit Default will be posted on the BMRS or the BSC Website. Notice of a Level 2 Credit Default is also provided directly to all Parties;
- A Credit Default Refusal Period will apply, during which any Volume Notification submitted that does not decrease the Energy Indebtedness of the Party will be refused in its entirety; and
- A Credit Default Rejection Period will apply, during this period any Volume Notification data already validated will be treated as rejected if it does not have the effect of decreasing the Party's Energy Indebtedness.

Where a Party is in Level 1 Credit Default for a period of 90 continuous days or any intermittent period of 120 out of 180 days or in Level 2 Credit Default for a period of 65 continuous days or any intermittent period of 75 out of 120 days, a Default in relation to that Party occurs in accordance with Section H 3.1 of the Code (a 'Section H Default'). The Panel has discretion to apply a number of provisions to a Defaulting Party under Section H of the Code including the following (this list is not intended to be exhaustive):

- With prior approval of the Authority, removal of the right of the Party to register further Metering Systems and BM Units;
- With prior approval of the Authority, specify that the Party's Plant or apparatus is de-energised;
- Removal of the Party's right to submit Volume Notifications and to reject all previously validated Volume Notifications (whether or not such Notification has the effect of decreasing the Party's Energy Indebtedness); and

- Expel the Party from the Code.

The current Level 2 Credit Default provisions limit a Party's ability to notify contracts which increase its Energy Indebtedness. However, there is no specific requirement to post additional Credit Cover under Level 2 Credit Default provisions; rather, these provisions create an incentive to provide sufficient Credit Cover to avoid the consequence of Level 2 Credit Default.

A situation can occur where a Party is in Level 2 Credit Default and its estimated liabilities within the credit window continue to increase with no further action being required under the Code. In the case of a Supplier, Volume Notifications typically decrease the Party's Energy Indebtedness (since the majority of notifications will be to buy energy) and will not be rejected under the Level 2 Credit Default provisions. However, where the Supplier has not purchased sufficient energy, its Energy Indebtedness will continue to increase. Therefore, a Party may be in Level 2 Credit Default and operating in accordance with the Code, whilst its estimated liabilities increase to a level exceeding its Credit Cover. As such, the Proposer questions whether the current Credit Default provisions are sufficient to mitigate the risk of bad debt in all scenarios.

The Proposer also notes that the time for which a Party can be in Level 1 or 2 Credit Default prior to being in Section H Default exceeds the times taken for liabilities within the 29 day credit window to materialise and questions whether this is appropriate.

P188 proposes to mitigate this risk by introducing an additional set of rules that are implemented in the event of a Trading Party's CCP exceeding 100%. In this instance, once the 100% threshold has been breached, the Trading Party will have 1 Working Day (for example) to lodge sufficient Credit Cover, or to trade out their position to ensure that their Energy Indebtedness is less than 75% (for example). If the Trading Party does not lodge the required level of credit, it will be placed in default in accordance with the provisions within Section H of the Code. Also, during the discussions surrounding Standing Issue 16, the Group suggested that if the same Trading Party breaches the 100% threshold twice within a rolling period of 6 months (for example), then the Trading Party would also be placed in default in accordance with Section H of the Code. The Proposer believes that there may be some merit in introducing this provision relating to persistent breaches. The Proposer believes that some consideration may need to be given to the interaction with the existing Material Doubt provisions, the Query Periods and the Default Cure Periods as defined within Section M of the Code.

1.2 Process Followed

The P188 Initial Written Assessment (IWA) (Reference 3) was presented at the Panel Meeting held on 14 April 2005, where the Panel determined that the Modification Proposal be submitted to a two-month Assessment Procedure conducted by the P188 Modification Group (the 'Group'). The Panel agreed that this Group should comprise of members of the Settlement Standing Modification Group.

The Group convened for the first time on 17 May 2005. An industry consultation (Reference 5) was issued on 8 June 2005 with responses due on 16 June 2005. The responses to this consultation were discussed at the second meeting of the Group on 23 June 2005. The results from impact assessments commissioned to the BSC Agents, BSC Parties, the Transmission Company and the BSCCo were also discussed at this meeting. A number of attendee's representing the views of small Parties were present at this second meeting.

On consideration of the estimated costs identified under the initial impact assessment, the Group formulated another implementation option for the Proposed Modification. Further impact assessment by the BSC Agents and BSCCo was commissioned by the group. Both of these implementation options are described in this document along with the views and conclusions of the Group. A teleconference was held on 7 July 2005 to confirm which solution should form Proposed Modification P188.

1.3 Proposed Modification

Once a Trading Party in Level 2 Credit Default (i.e. the existing Query Period and Cure Periods have expired) breaches 100% CCP, the Party has 2 Working Days (i.e. 48 hours) from the point of breach to lodge sufficient Credit Cover to reduce its CCP to below 90% i.e. exit Level 2 Credit Default. If the Trading Party fails to do this, then it will be in Section H Default. As per the current provisions, the Level 2 Default Cure Period would be discontinued once the 100% CCP breach has occurred.

Trading Parties will also be entered into Section H Default if they breach 100% CCP six times within a rolling period of six months on separate days and as a result of separate instances. An instance is defined as a single breach of 100%, regardless of how many days it spans e.g. a Trading Party that breaches 100% at 10pm on a notional Day 1 and reduces its CCP to the required level by 10am the next day is deemed to have breached 100% once. A breach that is subsequently shown to be false via the existing 'material doubt' provisions will not count as one of the six instances.

The P188 provisions will form an extension to the existing Level 2 Credit Default provisions.

1.4 Issues Raised by the Proposed Modification

The Group considered the following issues:

- Existing Provisions and Incentives;
- Materiality / Risk Assessment;
- Timescales and Thresholds;
- Persistent Breaches;
- New level of Credit Default;
- Implementation Options;
- Information on similar scenarios in other sectors;
- Interaction with existing provisions;
- Clarification of Working/Banking Day Arrangements Post-BETTA; and
- Involvement of the BSCCo and BSC Panel.

1.4.1 Existing Provisions and Incentives

The Group considered the existing provisions in relation to Credit Default in order to:

- Understand the interaction between P188 and the current provisions; and
- Assess whether the current provisions provide incentive for Trading Parties to lodge an appropriate amount of Credit Cover.

Figures 3 and 4 in annex 8 of this document depict in detail the existing Credit Default provisions. In summary, under the current provisions:

- A Trading Party has up to two Working Days to resolve a CCP breach of 80% either by demonstrating material doubt or by reducing its CCP to below 75%. Otherwise, it will be in Level 1 Credit Default and other Parties will be notified of this fact;
- A Trading Party has up to one Working Day plus two hours to resolve a CCP breach of 90% either by demonstrating material doubt or by reducing its CCP to below 90%. Otherwise, it will be in Level 2 Credit Default and as well as other Trading Parties being notified of this fact, the

Trading Party will not be allowed to form contracts which would increase its Energy Indebtedness;

- A Trading Party in Level 1 Credit Default for 90 continuous days or for any intermittent period of 120 days out of 180 is deemed to be in Section H Default; and
- A Trading Party in Level 2 Credit Default for 60 continuous days or for any intermittent period of 75 days out of 120 is deemed to be in Section H Default.

For the purposes of assessing whether a Trading Party is in any Level of Credit Default for 'a day', being in Credit Default for at least one Settlement Period in a given day constitutes being in Credit Default for that day.

The Group confirmed that P188 highlighted a defect in the current Credit Default arrangements, but acknowledged that there are limitations on the accuracy to which a Trading Party's liabilities can be estimated within the 29 day Credit Cover window. However, the Group agreed that it was important that the Credit Default provisions offer sufficient incentives for a Trading Party to ensure that its amount of Credit Cover is appropriate compared to the activities it undertakes. It was noted by the Group that this may not be the case under the current baseline, since a Trading Party in Level 2 Credit Default can potentially continue to accrue significant unsecured liabilities whilst continuing to operate in accordance with the Code. The Group also noted advice from the BSCCo's operational department that, despite the application of the current Credit Default provisions, the CCPs of a number of Trading Parties have continued to increase to above 100%. It was noted by the Group that this may indicate that some Trading Parties are taking advantage of the perceived defect.

The Group confirmed that the current Credit Default provisions do not provide consistent incentives on industry participants to lodge an appropriate level of Credit Cover. The Group agreed that the current provisions are effective in the case of generation, since the restriction on the ability to submit Volume Notifications which increase Energy Indebtedness (i.e. to sell energy) limits the ability to accrue further liabilities and introduces a significant incentive to avoid Level 2 Credit Default. In the case of a Supplier, the situation is more complex, since a limitation on the ability to submit Volume Notifications which increase Energy Indebtedness does not limit the ability to accrue further liabilities or to continue trading. In addition, some members of the Group noted that some Trading Parties may be considered to trade on reputation to a greater extent and therefore the incentive to avoid Level 1 or 2 Credit Default (and associated public notification of Credit Default) may be more significant for these Trading Parties.

The Group confirmed that the discretionary provisions available to the Panel under section H provide sufficient protection to industry participants once such provisions are triggered. It was noted that the flexibility of this process allows the Panel to take actions appropriate to the particular circumstance of Default and the Trading Party involved. The Group recognised that any change to the provisions available to the Panel following Section H Default would need a wider assessment taking into account the other circumstances under which these provisions apply and would need to be progressed separately.

1.4.2 Materiality / Risk Assessment

The Group considered the materiality and risk associated with the highlighted defect in the current provisions. It was the Group's unanimous view that there is a significant risk since there is no obligation in the Code to lodge a specific amount of Credit Cover and the current Credit Default provisions do not provide sufficient incentive to do so. For example, a Supplier in Level 2 Credit Default may continue to accrue unsecured liabilities without being required to increase its Credit Cover by a certain amount. It was also agreed that 100% CCP was an appropriate level to trigger any new

provisions, since this is the point at which a Trading Party poses a risk to the market, due to the amount of Credit Cover not exceeding the estimated liabilities.

The materiality associated with this risk has been assessed in two ways: 'theoretical' and 'probable' materiality. It should be noted that the following analysis assumes that the difference between estimated and actual liabilities is negligible i.e. a Trading Party's Energy Indebtedness can be taken to be a suitable value for the actual liabilities of a Trading Party. Whilst the Group acknowledged that this may not always be the case, it was agreed that this assumption was appropriate when assessing the perceived defect.

1.4.2.1 Theoretical Materiality

The Group confirmed that the 'worst case scenario' would result from the following circumstances:

- A Supplier does not have any Credit Cover lodged. This is possible if the Supplier has traded long (i.e. has purchased more energy than it has used) for a period of 29 days;
- The Supplier does not notify any contracts, but continues to supply electricity to its customers;
- The Supplier enters Level 2 Credit Default after the first Settlement Period;
- The Supplier accrues liabilities for 29 days, after which the first day's liabilities will materialise within the Initial Settlement (SF) Run. These must be paid within 3 days, or the Trading Party will enter Section H Default (a Party may be in Level 2 Credit Default for 60 continuous days before entering Section H Default); and
- The Supplier defaults on payments so liabilities from all 29+3 Settlement Days are apportioned across the other Trading Parties via the funding share mechanism.

Thus the maximum materiality of the defect highlighted under P188 could be estimated as follows:

$$32 \times MV_{tot} \times SBP_{av}$$

where:

MV_{tot} = Total Daily Metered Volume for the Supplier [MWh]

SBP_{av} = Annually Averaged by Volume System Buy Price (SBP) [£/MWh]

Let us assume:

- An annually averaged SBP of 32 £/MWh;
- A total daily Metered Volume of 100,000 MWh for a large Supplier; and
- A total daily Metered Volume of 1000 MWh for a small Supplier.

This results in a theoretical materiality of approximately:

- **£100 million for a large Supplier and £1 million for a small Supplier.**

1.4.2.2 Probable Materiality

The Group confirmed that a probable scenario more closely representative of the actual industry exposure resulting from the perceived defect (rather than the 'worst case scenario') would be formed from the following circumstances:

- A Supplier has some Credit Cover lodged;
- The Supplier enters Level 2 Credit Default but continues to trade; and
- The Supplier is unable to pay for its liabilities so they are apportioned across the other Trading Parties.

This exposure has been estimated by analysing existing data for one year. Historical breaches of 100% CCP have been compared to the amount of credit lodged. For example, a CCP of 120% on £2,000 of Credit Cover would result in an exposure of 20% of £2,000 i.e. £400. This analysis gives an approximate value of exposures that have occurred historically. The Group noted that although in practice these exposures had not materialised (since Trading Parties have not defaulted on payments) this is not necessarily an indicator of future performance.

Breaches on successive days by one Trading Party were treated as a single instance, and the highest breach within each instance was used for estimation purposes (on the basis that this represented the maximum exposure to the industry). All breaches which had material doubt associated with them were removed from the sample.

Figure 1 depicts the number of instances of breaching 100% CCP.

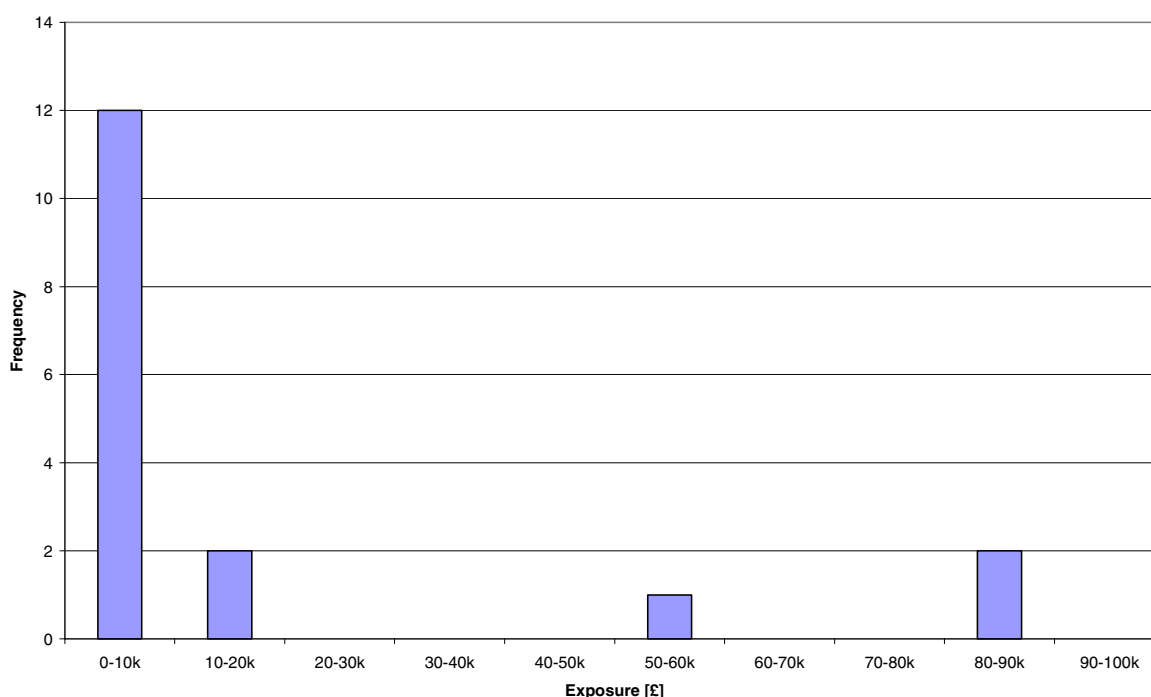


Figure 1: Graph showing the frequency of instances of different bands of estimated unsecured liability for one year.

The analysis has shown that:

- More than two-thirds of the instances of a Trading Party having exceeded 100% CCP related to estimated exposures of less than £10k. Of these estimated exposures less than £10k, two-thirds were related to estimated exposures of less than £500 and the other third to estimated exposures below £5k;
- 1 in 5 instances related to estimated exposures of more than £50k; and
- For clarity and suitability of scale, the graph above does not show the most significant instance; this instance related to an estimated exposure of **more than £500k**.

1.4.2.3 Group Assessment

The Group agreed that the current situation posed an extremely significant theoretical materiality. However, the Group were split on the probable materiality. The Group stated that any materiality was sufficient since the industry was then at risk, particularly in the case of a large Trading Party breaching 100% CCP. It was also questioned why the industry should subsidise a Trading Party, regardless of the materiality involved.

On the other hand, some attendees stated that it would be inappropriate to require Parties to post Credit Cover against all possible scenarios, rather Credit Cover should be posted at a level adequate in all normal and some unusual operating circumstances. Trading Parties could easily find themselves in Credit Default due to circumstances outside of their control e.g. cold weather resulting in greater demand, incorrect contract notifications, when in principle they did not intend to be in Credit Default. It was suggested that it is not an effective use of working capital to place deposits to cover all events in the market on a permanent basis. These attendees also stated that there was enough incentive to remain outside of any level of Credit Default, but that small Trading Parties were sometimes unable to avoid these levels. However, it was argued by the members of the Group that there clearly wasn't enough incentive, given the seventeen instances of breaching 100% CCP in the timeframe analysed. These members also stated that it was good business practice to lodge enough Credit Cover to cover the probable worst-case scenario, and that a Party should be responsible for lodging sufficient Credit Cover to reflect the activities it is undertaking.

As per the responses to the consultation (as discussed in section 6 of this document), some attendees suggested a de minimis materiality level under which the cost corresponding to breaches of 100% CCP would be considered too insignificant to warrant invoking the Section H provisions. This was argued on the basis that the cost and inconvenience of convening the Panel would be inefficient if the financial breach was small e.g. less than the cost of the Panel convening. It was also argued that a Trading Party could never be sure that it had lodged sufficient Credit Cover, due to the variation of imbalance prices.

However, members of the Group stated that this would be inconsistent with the rest of the Code which does not allow thresholds on materiality when considering Parties entering Section H Default e.g. Payment Default may be incurred on £0.01. As well as requiring strong justification, these members also stated that this threshold would set an incentive for Trading Parties to treat it as a credit card, rather than ensuring that they had enough Credit Cover lodged to cover their activities. It was also noted that the Panel has the ability to treat each case individually and in an appropriate manner.

The introduction of a materiality threshold would constitute an Alternative Modification, since no such area was mentioned in, or is under the remit of, the Modification Proposal. As such, the Group noted the suggested materiality threshold, but rejected it on the basis that it did not better facilitate the achievement of the Applicable BSC Objectives, when compared to the Proposed Modification.

1.4.3 Timescales and Thresholds

In terms of introducing new provisions for a Trading Party whose CCP breaches 100%, the Group considered three factors. Figure 2 depicts the P188 provisions described in this section.

1.4.3.1 Threshold for Provisions to Take Effect

The Group confirmed the conclusion that a CCP of 100% was a suitable threshold for new provisions to take effect. This is due to the fact that a Trading Party's estimated liabilities exceed its Credit Cover after this threshold, and thus poses a risk. Although it was accepted that the calculation of Energy Indebtedness contained a high level of estimation, it was agreed that it is impossible to quantify this error and as such, the best available value should be used i.e. 100%.

1.4.3.2 Threshold for reduction

The Group discussed the CCP that a Trading Party should achieve within a given time after breaching 100%, such that it avoided entering Section H Default. The Group were divided over whether this reduction threshold should be 75% (i.e. the current reduction threshold for exiting Level 1 Credit Default) or 90% (i.e. the current reduction threshold for exiting Level 2 Credit Default). It should be noted that of those members in favour of 90%, some hypothetically preferred 75% for the reasons

detailed below, but were conscious of the arguments against 75% (e.g. consistency, also as detailed below).

Reduction Threshold of 75%

Those members in favour of reducing to 75% CCP or below stated that:

- This would provide a strong incentive for Trading Parties not to breach 100% and pose a risk. They also stated that this sets an example that Trading Parties should be encouraged not to be in any level of Credit Default;
- Any solvent Trading Party should be able to reduce their CCP to 75% or below; and
- The current Level 2 reduction threshold could be reduced to 75% or below. It was argued whether this would be a valid Alternative Modification to P188. These members held the view that this would encourage Trading Parties not to be in Credit Default, and would address any concerns of consistency. However, it was agreed that this change to the Level 2 Credit Default provisions did not address the defect highlighted in the Modification Proposal and as such, could not form part of an Alternative Modification. The Group noted that a Trading Party in Level 2 Credit Default is generally also in Level 1 Credit Default.

Reduction Threshold of 90%

- Those members in favour of a reduction to 90% or below stated that:
- The proposed provisions are an extension to the existing Level 2 Credit Default, and as such should have the same reduction threshold.
- The existing reduction to 90% or below for Level 2 Credit Default already sets a precedent for reducing to a lower level, rather than exiting Credit Default completely;
- The existing trend in the Code is that as the level of Credit Default increases, so the minimum amount to reduce the CCP by decreases i.e. Level 1 Credit Default currently requires a decrease from 80% to 75% or below (~5%), while Level 2 requires a decrease from 90% to 90% or below (~1%). These members stated that forcing a Trading Party to reduce its CCP to 75% or below from 100% would be inconsistent with this trend;
- Trading Parties are already publicised for being over 100% and this – especially when combined with a potential appearance in front of the Panel – is damaging enough to their reputation without imposing severe provisions such as reducing their CCP to 75% or below. As such, this would result in over provision of Credit Cover in the market;
- Smaller Trading Parties may have difficulty in lodging such a large amount of Credit Cover to reduce their CCP to 75% or below; and
- By forcing offending Trading Parties to reduce their CCP to 75% or below, then more of them may fail to achieve this reduction within the given time. As such, more Trading Parties would enter Section H Default. These attendees stated that this could result in too many Panel meetings, thus making the process inefficient.

Other

- One attendee stated that 100% would be a suitable reduction threshold, arguing that it removed the risk posed to the industry and that the current provisions for Level 1 and 2 Credit Default provided sufficient incentive to want to avoid them too. However, the Group stated that this may result in several more breaches, arguing that if the Trading Party in question had already breached 80% and 90% CCP i.e. entered Level 1 and 2 Credit Default, then there would be insufficient incentive to reduce the CCP greatly below 100%;

- One member of the Group suggested that Trading Parties reduce their CCP to 90% or below on the first instance of breaching 100% CCP, then reduce to it to 75% or below on subsequent breaches. However, the other members stated that while hypothetically providing a good incentive to avoid persistent breaches, the ensuing analysis would be too complicated.

Overall, it was the view of the Group that the reduction threshold should be 90% or below.

1.4.3.3 Timescale for Reduction

The Group considered the amount of time that should be given for a Trading Party to reduce its CCP from above 100% to the required value. At the first meeting, the Group held the unanimous view that 1 Working Day would be sufficient for a Trading Party to lodge the required amount of Credit Cover, and that if it did not do this, then it would enter Section H Default. At the second meeting however, some attendees stated that this was impractical for smaller Trading Parties, since these Parties had to wait longer than 1 Working Day to carry out the necessary banking procedures. As such, these Parties would be incapable of lodging sufficient Credit Cover – even if they had sufficient funds to do so. These arguments were also highlighted in the consultation responses. In light of these arguments, the Group agreed that 2 Working Days would be a more appropriate timescale for lodging funds, particularly as a Trading Party could lodge sufficient Credit Cover between the breach of 100% CCP and the time of appearing in front of the Panel, if required. It was also noted that Trading Parties would already have some time from the initial entry of Level 2 Credit Default i.e. the 90% CCP breach, if these levels were not breached simultaneously.

It was also believed that in order to be consistent with the existing provisions, a Trading Party breaching 80% CCP at the same time as 100% should be entitled to the existing Query Period of 24 hours and 5 minutes (the Code states that e-mail notifications are allowed 5 minutes to transpire in the recipient's mailbox; it is possible that the recipient reads and acts on the e-mail in a shorter timescale) as well as the 2 Working Days to reduce its CCP. In the case of breaching these two thresholds at slightly different times, the Trading Party would have however much of that Query Period remained in order to question the calculated CCP, then 2 full Working Days to reduce its CCP. The Group noted that the existing trend is for the maximum amount of time allowed to extract oneself from the situation to decrease as the level of Credit Default increases i.e. 2 Working Days for Level 1, and 1 Working Day plus 2 hours for Level 2. However, it was also noted that the consequences of not addressing the situation described under P188 were far greater than those for not satisfying the existing timescales. As such, a greater length of time would be justified.

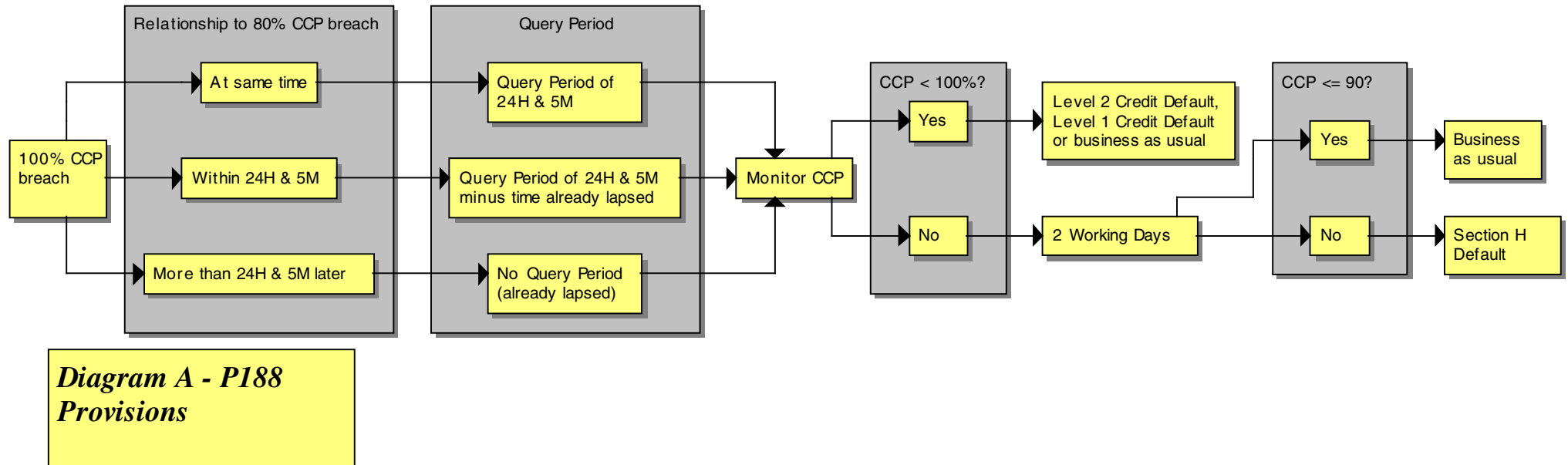
It was also discussed as to whether the countdown of 2 Working Days should commence from the breach of 100% or from the receipt of notification of the breach by the relevant Party. The Group had initially discussed P188 in terms of the notification being the trigger. However, it was subsequently suggested that the point of breach should be the trigger. This was based on the principle that Parties should monitor their own credit position as part of responsible working practice and that the risk to the industry commenced at the breach, rather than the point of notification. Also, it was believed that using the notification as the trigger would introduce a risk of the market being exposed for longer than necessary, should there be a time delay in providing the notification. It was also recognised that the point of breach would be consistently defined (i.e. as the point at which a Party's CCP is calculated), whereas the point of notification may be more variable and potentially open to differing interpretation. An argument was raised for using the notification as the trigger in that smaller Parties do not have the resources to monitor their CCP in real-time, and would have to spend time every morning calculating their CCP. However, the counter-argument was that this would take relatively little time compared to the 2 Working Days. As such, it was the unanimous view of the Group that the breach itself should be the trigger for the countdown of 2 Working Days to lodge sufficient Credit Cover, rather than the notification of the breach. Under the manual solution considered but dismissed by the Group (see section 1.4.6), the point of breach and point of notification may have been significantly separated

(since the manual process would be performed on the next Working Day). However, it should be noted that under the automated solution progressed by the Group the point of breach and the point of notification should be closely aligned.

To clarify, any breach that occurred outside of Business Hours would have until 1700 on the next but one Working Day to lodge sufficient Credit Cover. Any breach that occurred within Business Hours would have until 48 hours (within Working Days) from the time of breach to lodge sufficient Credit Cover. Also, the breach is deemed "to have occurred" at the time it was calculated i.e. at Gate Closure for that Settlement Period. For example:

- A breach occurring at 10pm on a Friday with a subsequent Bank Holiday on the Monday would have until 5pm on the following Wednesday for sufficient Credit Cover to be lodged; and
- A breach that occurred at 11am on a Thursday would have until 11am on the following Monday to lodge sufficient Credit Cover.

Figure 2: Diagram describing some of the P188 Provisions.



1.4.4 Persistent Breaches

The Group discussed the scenario whereby a Trading Party consistently breaches 100% CCP, thus posing a consistent risk. It was stated that any provisions in this area should relate to breaches rather than instances whereby the breach has resulted in Section H Default, since this would provide greater incentive for Trading Parties not to 'float' around the 100% mark and pose a risk to industry. The Group believed that the method described in the proposal of placing a Trading Party in Section H Default for breaching 100% CCP twice in six months would result in too many Panel meetings.

The Group held the view that breaching 100% six times in a rolling period of six months before placing a Trading Party in Section H Default would be a suitable solution, as this many breaches in this amount of time would represent a serious case of mismanagement. This strategy also fits with Trading Charges being assessed on a rolling period of approximately one month.

Some attendees stated that smaller Parties may be subject to many breaches of 100% CCP in close succession due to the increased difficulty in acquiring sufficient capital to lodge Credit Cover. In light of this, and also to decrease the number of Panel meetings, it was stated that from the end of one instance i.e. when the CCP has been reduced to 90% or below, any instances within the next 2 Working Days would not count towards the persistent breach provision, although they would still be subject to the reduction threshold of 90% within 2 Working Days. For example:

- First breach of 100% CCP post implementation of P188 occurs at 10am on Working Day 1. This is Breach 1 towards the persistent breach provision;
- CCP is reduced to 90% or below within 2 Working Days, say at 9am on Working Day 3;
- Further breaches and timely reductions in CCP occur after 9am on Working Day 3, but before 9am on Working Day 5. None of these count towards the persistent breach provision (since they are within 2 Working Days of the end of Breach 1). Note that a breach may continue past 9am on Working Day 5 and still not count, as long as the initial breach occurred before this time;
- 9am on Working Day 5 passes. Any breach from now will count as Breach 2 towards the persistent breach provision and the 2 Working Day countdown will commence anew; and
- The rolling period of 6 months is monitored and 'expired' breaches discounted as appropriate.

The Group acknowledged that a Trading Party may breach 100% CCP **and** appear before the Panel six times (as a result of failing to lodge sufficient Credit Cover within 2 Working Days) within a six-month Period, then have to appear before the Panel for a seventh time as a result of the persistent breach provisions. However, it was noted that this perceived lack of efficiency could be compensated for by the Panel imposing more severe provisions on the fifth (or earlier) occasion, thus attempting to prevent a sixth breach.

One attendee stated that there may be good reasons for persistently breaching 100% CCP e.g. plant damage, and that six times in six months may be too harsh. However, the Group stated that such reasons could be presented as a good argument to the Panel when they decide what action to take.

1.4.5 New Level of Credit Default

The Group agreed that the P188 provisions would form an extension to the existing Level 2 Credit Default provisions, since this would be consistent with the reduction threshold of 90% and for the sake of simplifying the solution.

1.4.6 Implementation Options

The Group considered two implementation options for P188 as set out in this section.

Under the original implementation option formulated by the Group, the Energy Contract Volume Aggregation Agent (ECVAA) would analyse Parties' Energy Indebtedness and notify the BSCCo and, following confirmation from the BSCCo, the relevant Party, of any breaches of 100% CCP. The ECVAA would also give notification when the Party was no longer in Level 2 Credit Default. The BSCCo would monitor the data it received in order to identify persistent breaches as described in section 1.4.4 of this document.

Initial impact assessment of the original implementation option identified an impact on the ECVAA System and the Project Overhead for implementing this solution was estimated to be of the order of £250k (based on standard assumptions relating to the scope of a project impacting Central Systems). The Group noted that there are a limited number of changes impacting Central Systems currently under consideration and the majority of the estimated Project Overhead may be realised by P188. In light of this the Group decided to consider further implementation options which would not impact on the ECVAA System.

A second implementation option was identified whereby the ECVAA would extract the previous day's Energy Indebtedness data from the existing system and send this to the BSCCo the next Working Day. The BSCCo would analyse the data on receipt, instead of the ECVAA analysing it at Gate Closure for the relevant Settlement Period. Again, the BSCCo would monitor the data for persistent breaches. Impact assessment of this second implementation option was conducted.

Concerns were raised via the BSCCo's internal assessment of this approach in relation to the level of manual effort involved (an estimated additional 50 man days' effort per year and therefore cost compared to the original implementation option) and the additional risk involved with a large amount of manual analysis. It was noted that the underlying aim should be to simplify the Credit Default process thus making it more efficient and reducing the cost of processing for the industry. The BSCCo believed that introducing a manual solution that would be labour-intensive may be considered to have the opposite effect.

Further to the second implementation option being explored, a revised impact assessment on the original implementation option was requested. This revised assessment was requested to identify alternative approaches to the implementation project based on the assumption P188 would not be implemented alongside other changes to the Central Systems. The results of this assessment identified the possibility of a reduced scope implementation project with an associated Project Overhead of £125k.

Having considered each implementation approach it was the unanimous view of the Group that the original solution whereby the ECVAA would analyse the data would be the most viable option. This was due to the concerns relating to the operational costs and lack of robustness of the 'manual' option. It was also noted that the automated option would allow notifications to be sent much earlier, given that the ECVAA would analyse the data at Gate Closure for the relevant Settlement Period rather than the next Working Day. As such, it the Group agreed that that the original implementation option should form proposed Modification P188. One attendee indicated concern in relation to the implementation costs of both solutions identified.

1.4.7 Information on Similar Scenarios in Other Sectors

The Group considered how other sectors deal with similar situations of 100% CCP (or equivalent) being breached; one such area was considered.

A document produced by Ofgem outlines the 'best practice' guidelines for Network Operators (NWOs) lodging credit cover (Reference 4). However, it was noted that these guidelines are not directly relevant to the Code and were developed with a large amount of industry involvement over some time. It was also noted that the Issue 16 group believed that distribution network credit data are more consistent compared to that under the Code. However, it was noted that some principles may be of use to the Group e.g. the period of two Working Days in total to reduce one's VAR/CCP to an acceptable level following a breach of 100%.

1.4.8 Interaction with Existing Provisions

It was questioned whether there should be any change to the existing calculations for Credit Cover Error Compensation to a Trading Party as a result of P188. Compensation can be awarded to a Trading Party where there is an error in the calculation of a Trading Party's CCP, thus placing it in Credit Default. The compensation calculation estimates two values:

- The loss associated with the cost of placing additional Credit Cover as a result of the erroneous calculation; and
- The amount lost via imbalance exposure due to contracts being rejected under Level 2 Credit Default.

The Trading Party is recompensed with the greater of these two values. The compensation calculation does **not** take into account any damage to a Trading Party's reputation as a result of erroneous publication as being in Credit Default.

The Group agreed that the P188 provisions would not affect the compensation calculation. Trading Parties assessed incorrectly as breaching 100% would be recompensed via the existing calculations applicable to compensation for those assessed incorrectly as being in Level 2 Credit Default.

Any other interactions between the P188 provisions and the existing ones are described in the rest of section 1.4 of this document.

1.4.9 Clarification of Working/Banking Day Arrangements Post-BETTA

The Panel requested that the Group consider whether Working Days correspond with Banking Days given that the BETTA provisions are now in place. It was clarified that Working Days are defined as those where the banks in London are open for trading. The Code specifies that all Parties must hold accounts with banks that have branches in London, therefore this will not be an issue.

1.4.10 Involvement of the BSCCo and BSC Panel

It was the Group's unanimous view that it is not the remit of the BSCCo to offer financial advice and as such, it should not advise any Trading Party on the amount of Credit Cover that should be posted in order to avoid entering Section H Default under the P188 provisions. It was also stated that burdening the BSCCo with this liability would create an unnecessary risk.

1.5 Assessment of how the Proposed Modification will Better Facilitate the Applicable BSC Objectives

On the basis of the foregoing, the Group has concluded unanimously that:

- The current provisions relating to Credit Cover do not provide sufficient incentive for Trading Parties to post an appropriate amount of Credit Cover or maintain a CCP less than 100%;
- Trading Parties – particularly Suppliers – may accrue liabilities which they cannot pay;
- These unpaid liabilities form a significant risk to the industry;

- Provisions should be introduced to deal with Trading Parties who have a CCP greater than 100%;
- Unless Trading Parties reduce their CCP to 90% or below i.e. exit Level 2 Credit Default, within 2 Working Days after the breach of 100% CCP (plus any applicable Query Period from entering Level 1 Credit Default), they will be in Section H Default;
- Trading Parties breaching 100% CCP six times in a rolling period of six months should be in Section H Default, subject to there being a 'grace period' of 2 Working Days after a breach;
- These provisions should form an extension to the existing Level 2 Credit Default provisions; and
- No new compensation calculations need to be formed for where a Trading Party is incorrectly assessed to have breached 100% CCP.

The unanimous view of the Group is that P188 would better facilitate the achievement of Applicable BSC Objectives (c) and (d) as it would reduce the potential exposure of BSC Parties to debts that they are not responsible for via the introduction of more robust credit arrangements, thus providing a more stable and secure marketplace. P188 would also ensure that Parties whose CCP is greater than 100% will be required to lodge a level of Credit Cover proportional to the activities it is undertaking, thus improving industry consistency in this area. The Group also believes that P188 would provide incentive for a smaller number of Parties to enter Level 1 and 2 of Credit Default, thus improving the efficiency of enacting the credit arrangements.

(c) "Promoting effective competition in the generation and supply of electricity, and (so far as consistent therewith) promoting such competition in the sale and purchase of electricity;" and

(d) Promoting efficiency in the implementation and administration of the balancing and settlement arrangements.

The unanimous view of the Group is that P188 neither positively nor negatively facilitates the achievement of any of the other Applicable BSC Objectives.

The Group noted the arguments from the consultation responses and the attendees at the second Modification Group meeting. These arguments largely stated that the P188 provisions were overly onerous for small Trading Parties and would also represent a barrier to entry for new entrants. As such, P188 would be detrimental to the achievement of Applicable BSC Objective (c). It was also stated that P188 would lead to more Trading Parties entering Section H Default. As such, P188 would be detrimental to the achievement of Applicable BSC Objective (d). The suggestion of a materiality threshold was raised in order to alleviate these concerns, such that all breaches of 100% CCP which corresponded to a materiality lower than this threshold would not be considered. However, the Group stated that this defeated the principle of the Modification, as any breach of 100% CCP posed a risk to the industry.

1.6 Governance and Regulatory Framework Assessment

During the assessment of the Proposed Modification, the Group considered the wider implications of P188 in the context of the statutory, regulatory and contractual framework within which the Code sits, as is required by the Code (Annex F-1, Paragraph 1 (g)). No impact was noted.

2 COSTS²

PROGRESSING MODIFICATION PROPOSAL

Meeting Cost	£ 1,000
Legal/expert Cost	£ 0
Impact Assessment Cost	£ 3,000
ELEXON Resource	45 Man days £ 9,180

IMPLEMENTATION COSTS

		Stand Alone Cost	P188 Incremental Cost	Tolerance
Service Provider³ Cost	Change Specific Cost	£ 69,547	£ 69,547	+/- 0%
	Release Cost	£ 124,222		+/- 0%
	Incremental Release Cost	£ 4,216	£ 4,216	+/- 0%
	Total Service Provider Cost	£ 197,985	£ 73,763	+/- 0%
Implementation Cost	External Audit	£ 0	£ 0	+/- 0%
	Design Clarifications	£ 9,899	£ 3,688	+/- 100%
	Additional Resource Costs	£ 0	£ 0	+/- 0%
	Additional Testing and Audit Support Costs	£ 40,000		+/- 0%
Total Demand Led Implementation Cost	£ 247,884	£ 77,451	+/- 0%	

² Clarification of the meanings of the cost terms in this section can be found in annex 7 of this report

³ BSC Agent and non-BSC Agent Service Provider and software Costs

ELEXON Implementation Resource Cost		214 Man days £ 47,080	54 Man days £ 11,880	N/A
Total Implementation Cost		£ 294,964	£ 89,331	+/- 5%

ONGOING SUPPORT AND MAINTENANCE COSTS

	Stand Alone Cost	P188 Incremental Cost	Tolerance
Service Provider Operation Cost	£ 0	£ 0	+/- 0
Service Provider Maintenance Cost	£ 0	£ 0	+/- 0
ELEXON Operational Cost	£ 2,200 per annum + £ 385 per Panel meeting	£ 2,200 per annum + £ 385 per Panel meeting	N/A

3 RATIONALE FOR MODIFICATION GROUP'S RECOMMENDATIONS TO THE PANEL

3.1 Proposed Modification

The unanimous view of the Group was that P188 would reduce the potential risk to the industry associated with Trading Parties breaching 100% CCP. It was also the view that P188 would provide incentive for not entering Credit Default at all. As such, it is believed that Proposed Modification P188 would better facilitate the achievement of Applicable BSC Objectives (c) and (d) and should be made.

3.2 Implementation Dates

In accordance with the responses to the impact assessment, the recommended Implementation Dates for Proposed Modification P188 allow a 27 week lead time following an Authority decision in order to make the required system changes and to progress the required documentation and process changes through the industry review and approval process.

If approved, P188 would only apply to CCPs calculated on or after the Implementation Date.

The Group noted and discussed the Party impact assessment highlighting a required lead time of 12 months. However, the Group felt that the reason given (i.e. time required to raise sufficient funds) provided inadequate justification. As such, the proposed Implementation Date has not taken into account this 12-month timescale.

4 IMPACT ON BSC SYSTEMS AND PARTIES

An assessment has been undertaken in respect of BSC Systems and Parties and the following areas have been identified as potentially being impacted by the Proposed Modification.

4.1 BSCCo

The CVA Operations team will be required to monitor Energy Indebtedness data for breaches of 100% CCP and assess whether any Trading Party has persistently breached 100% as per section 1.4.4 of this document. This team will also be required to enact the Section H Default processes, if required. This team will also need to update any pertinent Local Working Instructions.

The CVA Programme will be required to draft and implement changes to the Code Subsidiary Documents. It will also be required to review changes to the BSC Agents' documentation. The Corporate Assurance team will be required to support these processes. The Business Process Model may also require amending in order to reflect the P188 provisions.

The Governance and Regulatory Affairs team may have a small increase in its operational workload due to unscheduled Panel meetings being formed.

4.2 BSC Panel

There may be a small increase in the Panel's workload due to unscheduled meetings taking place.

4.3 BSC Systems

A BSC Agent Impact Assessment of Proposed Modification P188 was commissioned by the Group. The full response may be found in annex 5 of this document. Note that the option chosen by the Group is Option 5b.

The ECVAA currently only notifies the BSCCo and the relevant Party of a breach of 100% CCP when the Credit Default Authorisation Flag (CDAF) is set to 'No' (i.e. the Party is not in Credit Default). No notification is sent when the Party reduces its CCP to be less than or equal to 100%.

In order to accommodate the P188 provisions, the ECVAA will notify the BSCCo and, following confirmation from the BSCCo, the relevant Party of a breach of 100% CCP only when the CDAF is set to 'Yes' (i.e. the Party is in Credit Default). This will reflect the fact that a Party going straight to above 100% from below 80% CCP is not in Credit Default until its Query Period is over. Also, once the Party is considered to be in Credit Default with a CCP greater than 100%, the ECVAA will notify the BSCCo and, following confirmation from the BSCCo, the relevant Party when the CCP is reduced to 90% or below and/or the CDAF is set to 'No'.

4.4 Parties and Party Agents

The full responses may be found in annex 6 of this document. One Party stated that it would require one month to implement the necessary processes and procedures to accommodate P188, but did not give a cost for this. Another Party stated that it would require 12 months to install an appropriate credit infrastructure to raise sufficient funds and an appropriate IT infrastructure in order to monitor its CCP. This Party also stated that the cost of making these changes may approach its annual profit.

The Group noted and acknowledged the one-month impact, but felt that the reasons given for an impact lasting 12 months were inadequate. It was felt that a solvent Party should not require that long to raise funds, and also that all Parties should be monitoring their CCP, given the risk associated with entering Credit Default. As such, the proposed Implementation Date does not allow a 12-month lead time.

5 IMPACT ON CODE AND DOCUMENTATION

5.1 Balancing and Settlement Code

The draft legal text giving effect to P188 may be found in annex 1 of this document.

Section H – General:

- The circumstances under which a Trading Party is liable to enter Section H Default will require amendment.

Section M – Credit Cover and Credit Default:

- The process to be followed once the CCP has breached 100% will need to be described; and
- The provisions relating to persistent breaches of 100% CCP will also need to be described.

5.2 Code Subsidiary Documents

The ECVAA Service Description will require amendment to reflect when the ECVAA notifies the BSCCo and Parties of breaches of 100% CCP.

6 SUMMARY OF CONSULTATIONS

An industry-wide consultation was issued on 8 June 2005 with responses due on 16 June 2005. Eleven responses were received, representing 53 Parties.

Consultation question	Respondent agrees	Respondent disagrees	Opinion unexpressed
1. Do you believe Proposed Modification P188 better facilitates the achievement of the Applicable BSC Objectives?	7	4	0
2. Do you believe there are any alternative solutions that the Modification Group has not identified and that should be considered?	2	9	0
3. Do you believe that the risk and materiality associated with the perceived defect is significant?	9	1	1
4. Do you believe that after breaching 100% CCP, Trading Parties should reduce their CCP to below: - 75%; - 90%; or - Another level (please state)?	90% - 5 75% - 4 100% - 1 90/75% - 1	-	0
5. Do you believe that 1 Working Day (plus any Query Period from breaching 80%) is sufficient to lodge additional Credit Cover?	6	5	0
6. Do you agree that Trading Parties which persistently breach 100% CCP should be placed in Section H Default (even if additional Credit Cover is placed within 1 WD)?	9	1	1

6.1 Modification Group's Summary of the Consultation Responses

The full responses to this consultation may be found in annex 3 of this document.

6.1.1 Applicable BSC Objectives

The majority of respondents believed that P188 would better facilitate the achievement of the Applicable BSC Objectives. This was due to the reduction of risk to the industry from Trading Parties breaching 100% CCP, and also due to incentives for less Trading Parties entering Credit Default, hence allowing for greater efficiency. The respondents who did not agree with this stated that the vast majority of 100% CCP breaches are relatively immaterial and as such, it would be inefficient to enact the P188 provisions for such small breaches. Three of these respondents stated that the materiality of the breach should be considered and a threshold installed such that any breach below that value would not be considered. One respondent stated further that the provisions were overly onerous on small Suppliers who did not pose a significant risk. One respondent also stated that 1 Working Day was insufficient to lodge Credit Cover.

The Group took these responses into account, but stated that regardless of the materiality of the breach, it was the principle of the risk that mattered. Concerns were also raised relating to Trading Parties treating the threshold as a credit card. This was also the argument given in response to small Suppliers not posing a significant risk. It was also noted that the rest of the Code does not entail materiality thresholds being breached before the provisions take effect e.g. Payment Defaults of £0.01 are taken through the entire process. The number of Working Days required to lodge Credit Cover is discussed later in this section. On balance, the Group still believed that P188 would better facilitate the achievement of the Applicable BSC Objectives.

6.1.2 Potential Alternative Modifications

One potential Alternative Modification was suggested whereby a materiality threshold would be introduced, such that no breach of 100% CCP corresponding to a lower materiality than this threshold would be considered.

The Group rejected this potential solution for the reasons given above.

6.1.3 Materiality of Perceived Defect

The majority of respondents believed that both the risk and materiality associated with breaches of 100% CCP were significant. One respondent disagreed with this, stating that historically, the number of breaches has been relatively low and with little materiality associated with them. This respondent also noted that to date, no Trading Party has actually defaulted on their payments after breaching 100% CCP. The respondent who did not express an opinion in this area stated that the risk was present, but the materiality should be treated on a case-by-case basis.

The Group noted the disagreeing response, but again stated that it was the principle that mattered, and that the theoretical risk should be considered more than the materiality of the cases to date. As such, the Group confirmed that it believed that that risk and materiality associated with breaches of 100% CCP were significant.

6.1.4 Reduction Threshold

By a slim majority, the respondents favoured a reduction threshold of 90% in order to be consistent with the existing Level 2 Credit Default provisions, and one response highlighted concerns that P188 might result in over provision of Credit Cover in the market. It was also stated that small Parties would have difficulty in meeting a large reduction such as 75%. However, some of these respondents stated that 75% would be acceptable, but were concerned over the consistency.

The other respondents mostly favoured 75%, stating that all Trading Parties should be encouraged not to enter any Level of Credit Default, and that an onerous reduction threshold would provide an incentive not to breach 100% CCP.

One respondent stated that 100% would be a sensible reduction threshold, particularly as it would not be too onerous for small Parties.

Another response stated that 90% would be suitable for the first breach, with 75% being the threshold for subsequent breaches on the basis that this would provide an incentive not to persistently breach 100%.

However, the Group stated that this would be too complicated a solution. The Group noted the responses and for reasons of consistency, stated that 90% would be the most suitable reduction threshold, as discussed in section 1.4.3 of this document.

6.1.5 Timescales for Posting Credit Cover

By a slim majority, the respondents stated that 1 Working Day would be sufficient to lodge the required amount of Credit Cover, and stated that a short timescale would encourage Trading Parties not to breach 100%. However, the other respondents stated that a longer timescale would be required for reasons of practicality. It was particularly noted that small Parties often have difficulty in arranging their finances in such a short timescale e.g. seeing their bank manager. This was reinforced by the fact that small Trading Parties often do not have a large amount of capital. One respondent stated that 10 Working Days would be suitable as it would allow a Party to trade its way out of a situation rather than lodging Credit Cover.

However, the Group disagreed with the suggestion that 10 Working Days would be required to trade out of Credit Default, stating that a Trading Party could do this anyway as contracts are notified immediately. It was also noted that this could leave the market exposed for 10 Working Days, should a Party's situation get worse. Due to the practical constraints, the Group agreed that 2 Working Days from the breach of 100% CCP would be a suitable timescale during which sufficient Credit Cover could be lodged.

6.1.6 Persistent Breaches

The majority of respondents stated that Trading Parties who persistently breach 100% CCP should be in Section H Default, as it indicates questionable trading activity. However, it was noted that separate instances should be measured appropriately. One respondent also stated that the breaches should only be considered if sufficiently material. This was also the argument given by the disagreeing respondent, as discussed earlier in this section. The respondent who did not express an opinion in this area stated that individual cases should be considered.

The Group noted the responses and confirmed its belief that Trading Parties who persistently breach 100% CCP should be in Section H Default – as long as the instances of breaching are measured appropriately (see Section 1.4.4).

7 SUMMARY OF TRANSMISSION COMPANY ANALYSIS

7.1 Analysis

The full response may be found in annex 4 of this document. In the event of P188 being approved, the Transmission Company does not anticipate any impact on its ability to discharge its obligations efficiently under the Transmission Licence, or on its ability to operate an efficient, economical and co-ordinated transmission system. Further, the Transmission Company does not anticipate any impact on

its computer systems and processes or any costs as a result of implementing P188 and any consequential change to Core Industry Documents.

It is the view of the Transmission Company that P188 would better facilitate the achievement of Applicable BSC Objectives (c) and (d), on the basis that it would introduce more robust credit arrangements to provide a more stable and secure marketplace. Further, the Transmission Company believes that P188 would reduce the potential exposure of Parties to debts that they are not responsible for.

7.2 Comments and Views of the Modification Group

The Group noted the lack of impact on the Transmission Company in the event of P188 being approved, and also the Transmission Company's support for the Proposed Modification.

8 IMPLEMENTATION APPROACH

The recommended Implementation Dates for Proposed Modification P188 allow a 27 week lead time following an Authority decision in order make the required system changes and to progress the required documentation and process changes through the industry review and approval process. Furthermore, the recommended Implementation Dates are consistent with the CVA Release strategy as follows:

- 27 June 2006, should an Authority decision be received on or before 21 December 2005; or
- 8 November 2006, should an Authority decision be received after 21 December 2005, but on or before 3 May 2006.

If approved, P188 would only apply to CCPs calculated on or after the Implementation Date.

9 DOCUMENT CONTROL

9.1 Authorities

Version	Date	Author	Reviewer	Change Reference
0.1	04/07/05	ELEXON Change Delivery	P188 Modification Group	Review
0.2	08/07/05	ELEXON Change Delivery	ELEXON Change Delivery	Technical Review

9.2 References

Ref	Document	Owner	Issue date	Version
1	Modification Proposal P188 'Revision of Credit Default Provisions' http://www.elexon.co.uk/documents/modifications/188/P188.pdf	BSCCo	03/05/05	1.0
2	Issue 16 'Credit Default and the Default provisions in Section H of the BSC' http://www.elexon.co.uk/documents/modifications/188/P188_Attachment_1.pdf	BSCCo	20/04/05	N/A
3	P188 Initial Written Assessment http://www.elexon.co.uk/documents/BSC_Panel_and_Panel_Committees/BSC_Panel_Meetings_2005_-_092_-_papers/92_007.pdf	BSCCo	06/05/05	1.0

4	'Best practice guidelines for gas and electricity network operator credit cover' http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/10370_5805.pdf	Ofgem	24/02/05	1.0
5	P188 Assessment Consultation http://www.elexon.co.uk/documents/Consultations/P188_Assessment_Consultation/P188AC10.pdf	BSCCo	808/06/05	1.0

ANNEX 1 DRAFT LEGAL TEXT

The draft legal text which would give effect to P188 may be found in Attachment 1 to this document.

ANNEX 2 MODIFICATION GROUP DETAILS

NAME	POSITION	MEMBER	MEETING ATTENDANCE		
			17/05/2005	23/06/2005	07/07/2005 (Teleconference)
Tom Bowcutt	ELEXON (Chairman)	Y	Y	Y	Y
David White	ELEXON (Lead Analyst)	Y	Y	Y	Y
Mark Manley	BGT - Proposer's Rep.	Y	Y	Y	Y
Andrew Colley	Scottish and Southern	Y	Y	Y	N
Steve Drummond	EDF Trading	Y	N	Y	N
Paul Jones	E.ON UK	Y	N	Y	N
Man Kwong Liu	SAIC	Y	N	Y	N
Stephen Moore	EDF Energy	Y	Y	Y	Y
Neil Smith	E.ON UK	Y	Y	N	Y
Carl Wilkes	Npower	Y	Y	Y	Y
Darren Bourke	ELEXON (CVA Operations)	N	Y	Y	Y
Alan Goodbrook	Utility Link	N	N	Y	N
Richard Hall	Authority	N	Y	Y	Y
Chris Mays	ZEST 4	N	N	Y	N
Keith Munday	Bizz Energy	N	N	Y	N
Sandra Wybrow	ELEXON (Legal)	N	Y	N	Y

Terms of Reference:

- Existing Provisions and Incentives;
- Materiality / Risk Assessment;
- Timescales and Thresholds;
- Persistent Breaches;
- New level of Credit Default;
- Implementation Options;
- Information on Similar Scenarios in other Sectors
- Interaction with existing provisions;
- Clarification of Working/Banking Day Arrangements Post-BETTA; and
- Involvement of the BSCCo and BSC Panel.

ANNEX 3 ASSESSMENT CONSULTATION RESPONSES

The full responses to the Assessment Consultation may be found in Attachment 2 to this document.

ANNEX 4 TRANSMISSION COMPANY ANALYSIS

P188 TRANSMISSION COMPANY ANALYSIS AND IMPACT ASSESSMENT – RESPONSE PRO-FORMA

In accordance with paragraph F2.8 of the Code, please respond to the following questions concerning P188 (including the rationale for each response):

Q	Question	Response
1	Please outline any impact of the Proposed Modification and/or the Alternative Modification on the ability of the Transmission Company to discharge its obligations efficiently under the Transmission Licence and on its ability to operate an efficient, economical and co-ordinated transmission system.	No impact has been identified from the proposed modification on the ability of the Transmission Company to discharge its obligations under the Transmission Licence.
2	Please outline the views and rationale of the Transmission Company as to whether the Proposed Modification and the Alternative Modification would better facilitate achievement of the Applicable BSC Objectives.	We would support the views outlined by the Modification Group that the aim of the proposal is to reduce the potential exposure of BSC Parties to debts that they are not responsible for. We also support the efforts to introduce more robust credit arrangements to provide a more stable and secure market place. If the Modification Group can develop the proposal to achieve these aims then we believe that this meets BSC Applicable Objectives c) and d). However, we note that a number of issues such as the threshold for the reduction of CCP need to be resolved with Assessment Consultation responses supporting this process through the further development of the Modification.
3	Please outline the impact of the Proposed Modification and/or the Alternative Modification on the computer systems and/or processes of the Transmission Company, including details of any changes to such systems and/or processes that would be required as a result of the implementation of the Proposed Modification or Alternative Modification.	No impact has been identified on the computer systems or processes of the Transmission Company resulting from the Proposed Modification.
4	Please outline any potential issues relating to the security of supply arising from the Proposed Modification and/or Alternative Modification.	No issues have been identified relating to security of supply arising from the Proposed Modification.
5	Please provide an estimate of the development, capital and operating costs (broken down in reasonable detail) which the Transmission Company anticipates that it would incur in, and as a result of, implementing the Proposed Modification or Alternative Modification.	No costs have been identified that would be incurred by the Transmission Company as a result of implementing the Proposed Modification.
6	Please provide details of any consequential changes to Core Industry Documents and/or the System Operator-Transmission Owner Code that would be required	No consequential changes have been identified to Core Industry Documents or the SOTO Code resulting from the implementation of

	as a result of the implementation of the Proposed Modification or Alternative Modification.	of the Proposed Modification.
7	Any other comments on the Proposed Modification and/or Alternative Modification.	No other comments.

ANNEX 5 BSC AGENT IMPACT ASSESSMENTS

NETA Change Form		
Title		Version No.
P188 - 'Revision of Credit Default Provisions'		0.3
		LogicaCMG Reference
		CR668
ELEXON Reference	Date Received	Date IA Issued
P188	1 st July 2005	6 th July 2005
LogicaCMG Contact Name	Baseline for Impact Assessment	
Martin Godden	As outlined in "LogicaCMG's Proposed Solution" section of this document considered as an exclusive release.	
Price Breakdown		
Item description	Remarks	Price (ex VAT)
Change Specific	Option 5a	£ 75,503
	Option 5b	£ 69,547
	Option 6	£ 114,205
	Option 7	£ 129,157
Incremental Release Costs	Option 5a	£ 5,158
	Option 5b	£ 4,216
	Option 6	£ 8,080
	Option 7	£ 10,079
P188 Release Costs	Option 5a	£ 127,618
	Option 5b	£ 124,222
	Option 6	£ 134,411
	Option 7	£ 137,808
Total Price (ex VAT)		Option 5a £ 208,279 Option 5b £ 197,985 Option 6 £ 256,696 Option 7 £ 277,044
Price Tolerance	0%	
Justification for Price Tolerance		
N/A		

Project Duration	Option 5a	15 Weeks
	Option 5b	14 Weeks
	Option 6	17 Weeks
	Option 7	18 Weeks
Cut Off Date for Inclusion in Specified Release (if applicable)		
N/A		

Operational Price (e.g. per annum or event) (ex VAT)	£0
Rationale	
N/A	

Annual Maintenance Price (ex VAT)	£0
Rationale	
The Annual Maintenance Price is zero under the agreement commencing on 1 January 2005.	

Validity Constraints	
<ul style="list-style-type: none"> • No allowance is included for any activities related to a Party being placed in "Section H default". Any effort will be charged at contracted T&M rates. • Price and duration assume that this change is developed in isolation and the effects of other changes are excluded. • Price is for creating DCRs, not a formal documentation issue. • No allowance is included for the final solution being different from the baseline. • No allowance is included for supporting Release Audit activities. Any effort will be charged at contracted T&M rates • No allowance is included for supporting ELEXON assurance activities. Any effort will be charged at contracted T&M rates • No allowance is included for End to End/Participant Testing activities. Any effort will be charged at contracted T&M rates • No allowance is included for Walkthrough activities. Any effort will be charged at contracted T&M rates • No allowance is included to support ELEXON in parallel run testing activities <p>The validity period for this quote is 30 days and the offer is based on the following payment schedule:</p> <ul style="list-style-type: none"> • LogicaCMG will invoice 30% on receipt of Purchase Order or authorised start of work, 30% on completion of first build phase, 30% on live implementation and 10% on successful completion of the Success Criteria or one month after live implementation, whichever is sooner. 	
Authorised Signature	Date Signed

Requirements and Solution

Brief Summary of Change

A situation can occur where a Party is in Level 2 Credit Default and its estimated liabilities within the credit window continue to increase with no further action being required under the Code. P188 questions whether the current Credit Default provisions are sufficient to mitigate the risk of bad debt in all scenarios.

P188 proposes to mitigate this risk by introducing an additional set of rules that are implemented in the event of a Party's Credit Cover Percentage exceeding 100%.

LogicaCMG's Proposed Solution

After discussion with ELEXON the original options 1, 2, 3 and 4 within the P188 BRS have been superseded by new agreed options 5, 6 and 7 detailed below.

Option 5 - Simple

The ECVAA currently performs a Credit Check process immediately after each Gate Closure. This check is applied to the Settlement Period for which Gate Closure has just passed. This solution proposes that the Credit Check process shall include the following additional steps for each BSC Party:

- 1) If a Party's Credit Cover Percentage is > 100% and the 'Credit Default Authorisation' flag is set to Yes, and this was not the case for the previous invocation of the Credit Check process, then the ECVAA will consider the Party to be in breach of the 100% Credit Default boundary. The system will notify the operator of this event. The operator will then inform BSCCo Ltd and, following confirmation from BSCCo Ltd, the Party concerned of this event.
- 2) If, while a Party is considered to be in breach of the 100% Credit Default boundary, the Party's Credit Cover Percentage becomes \leq the '100% Credit Default breach lower boundary' (a parameterised value), or the 'Credit Default Authorisation' flag is set to No, then the ECVAA will no longer consider the Party to be in breach of the 100% Credit Default boundary and will inform the operator of this event. The operator will then notify:
 - [Option 5a] BSCCo Ltd of this event.
 - [Option 5b] BSCCo Ltd and, following confirmation from BSCCo Ltd, the Party concerned of this event.

Note that this behaviour of the Credit Check process will be in addition to the existing behaviour – i.e. the current processing with regards to Level 1 and Level 2 Credit Default will remain in place and continue in parallel with this new processing.

Option 6 – Simple with Cure Period Details

The ECVAA currently performs a Credit Check process immediately after each Gate Closure. This check is applied to the Settlement Period for which Gate Closure has just passed. This solution proposes that the Credit Check process shall include the following additional steps for each BSC Party:

- 1) If a Party's Credit Cover Percentage is > 100% and the 'Credit Default Authorisation' flag is set to Yes, and this was not the case for the previous invocation of the Credit Check process, then the ECVAA system will consider the Party to be in breach of the 100% Credit Default boundary. The system will calculate the Level 3 Cure Period, which will be considered to have started either at the end of the Query Period or immediately, whichever is later, and ending a number of working days later, as defined by a parameterised value¹. The system will notify the operator of this event along with the details of the calculated Cure Period. The operator will then inform BSCCo Ltd and, following confirmation from BSCCo Ltd, the Party concerned of the

details of this event. Where it is not possible to calculate the Cure Period the message sent to the Party will indicate this and recommend that the Party contact BSCCo Ltd for details.

- 2) If, while a Party is considered to be in breach of the 100% Credit Default boundary, the Party's Credit Cover Percentage becomes \leq the '100% Credit Default breach lower boundary' (a parameterised value), or the 'Credit Default Authorisation' flag is set to No, then the ECVAA system will no longer consider the Party to be in breach of the 100% Credit Default boundary and will inform the operator of this event. The operator will then notify BSCCo Ltd of this event.

Note that this behaviour of the Credit Check process will be in addition to the existing behaviour – i.e. the current processing with regards to Level 1 and Level 2 Credit Default will remain in place and continue in parallel with this new processing.

ⁱThis is calculated to ensure that the Party has the correct number of full working day's worth of time, for example: If the length of the Cure Period is 1 working day then if the start is 13:00 on a working day then the end is calculated as 13:00 on the next working day, or if the start is 13:00 on a non-working day then this is calculated as 24:00 on the next working day.

Option 7 – Level 3 Credit Default with a Parameterised Exit Boundary

The ECVAA currently performs a Credit Check process immediately after each Gate Closure. This check is applied to the Settlement Period for which Gate Closure has just passed. This solution proposes that the Credit Check process shall include the following additional steps for each BSC Party:

- 1) If a Party's Credit Cover Percentage is $> 100\%$ and the 'Credit Default Authorisation' flag is set to Yes, and this was not the case for the previous invocation of the Credit Check process, then the ECVAA will notify the operator of this event and initiate a Level 3 Cure Period starting either at the end of the Query Period or immediately, whichever is later, and ending a number of working days later, as defined by a parameterised valueⁱⁱ. The operator will inform BSCCo Ltd and, following confirmation from BSCCo Ltd, the Party concerned of commencement of the Level 3 Cure Period, along with the time at which the Cure Period is calculated to end. Where it is not possible to calculate the Cure Period the message sent to the Party will indicate this and recommend that the Party contact BSCCo Ltd for details. The system will then determine the Cure Period end time at the point that it becomes possible, calculating it to start from the end of the Query Period rather than from when the Party first entered the Cure Period. The system will accept a manually defined Cure Period end time, which can be entered under instruction from BSCCo Ltd once the Cure Period has begun.
- 2) While a Party is in a Level 3 Cure Period:
 - If the Party's Credit Cover Percentage becomes \leq the 'Level 3 Credit Default lower boundary' (a parameterised value) then the ECVAA system will downgrade the Party's credit status to be the state that they would be in if the Level 3 functionality was not present. The ECVAA system will inform the operator of this event. The operator will then notify BSCCo Ltd and, following confirmation from BSCCo Ltd, the Party concerned that the Level 3 Cure Period has now been downgraded because Credit Cover Percentage has fallen to 90% or less.
 - If the 'Credit Default Authorisation' flag has become set to No since the previous invocation of the Credit Check process then the ECVAA system will downgrade the Party's credit status to be the state that they would be in if the Level 3 functionality was not present. The operator will then notify BSCCo Ltd and, following confirmation from BSCCo Ltd, the Party concerned that the Level 3 Cure Period has now been downgraded because 'Credit Default Authorisation' has been withdrawn.
- 3) If a Level 3 Cure Period relating to a given Party has ended since the previous invocation of the Credit Check process then:

- If the Party's Credit Cover Percentage is > the 'Level 3 Credit Default lower boundary' (a parameterised value) and the 'Credit Default Authorisation' flag is set to Yes, then the party is considered to be in 'Level 3 Credit Default'. The ECVAA system will inform the operator that the party is considered to be in 'Level 3 Credit Default'. The operator will, in turn, inform BSCCo Ltd of the new status of the Party.
 - If the Party's Credit Cover Percentage is <= the 'Level 3 Credit Default lower boundary' (a parameterised value) and the 'Credit Default Authorisation' flag is set to Yes, then the ECVAA system will set the Party's credit status to be the state that they would be in if the Level 3 functionality was not present. The ECVAA system will inform the operator of this event. The operator will then notify BSCCo Ltd and, following confirmation from BSCCo Ltd, the Party concerned that the Level 3 Cure period has ended and that because the Credit Cover Percentage has fallen to the 'Level 3 Credit Default lower boundary' or less.
 - If the 'Credit Default Authorisation' flag is set to No, then the ECVAA system will set the Party's credit status to be the state that they would be in if the Level 3 functionality was not present. The ECVAA system will inform the operator of this event. The operator will then notify BSCCo Ltd and, following confirmation from BSCCo Ltd, the Party concerned that the Level 3 Cure period has ended because 'Credit Default Authorisation' has been withdrawn.
- 4) While a Party is in 'Level 3 Credit Default':
- If a Party's Credit Cover Percentage becomes <= the 'Level 3 Credit Default lower boundary' (a parameterised value) and the 'Credit Default Authorisation' flag is set to Yes, then the ECVAA system will downgrade the Party's credit status to be the state that they would be in if the Level 3 functionality was not present, and will inform the operator of this event. The operator will then notify BSCCo Ltd that the Party's is no longer considered to be in 'Level 3 Credit Default' because the Credit Cover Percentage has fallen to the 'Level 3 Credit Default lower boundary' or less.
 - If the 'Credit Default Authorisation' flag is set to No, then the Party's credit status will be set to the state that they would be in if the Level 3 functionality was not present. The ECVAA system will inform the operator of the change in the 'Credit Default Authorisation' flag who will, in turn, inform BSCCo Ltd of the new status of the Party.
- ⁱⁱThis is calculated to ensure that the party has the correct number of full working day's worth of time, for example: If the length of the Cure Period is 1 working day then if the start is 13:00 on a working day then the end is calculated as 13:00 on the next working day, or if the start is 13:00 on a non-working day then this is calculated as 24:00 on the next working day.

Deviation from ELEXON's Solution / Requirements

After discussion with ELEXON the original options 1, 2, 3 and 4 within the P188 BRS have been superseded by new agreed options 5, 6 and 7 detailed below.

Operational Solution and Impact

This change will cause additional ECVAA operator workload.

Testing Strategy

Unit	X	Change Specific	X	End to End	
Module	X	Operational Acceptance		Participant Testing	
System	X	Performance	X	Parallel Running	
Regression		Volume		Deployment/ Backout	X

Other: Testing will not include OAT but will include Specific Performance Tests.

Validated Assumptions							
None							
Outstanding Issues							
None							
Changes to Service							
Services Impacted							
	BMRA	CDCA	CRA	ECVAA	SAA	TAA	Other
Software				X			
IDD Part 1 (Docs)							
IDD Part 1 (S'Sheet)							
IDD Part 2 (Docs)							
IDD Part 2 (S'Sheet)							
URS				X			
SS				X			
DS				X			
MSS				X			
OSM				X			
LWIs				X			
RTP	None						
Comms	None						
Other	None						
Nature of Documentation Changes							
Create DCR's in line with the LogicaCMG proposed solution.							
Nature / Size of System Changes							
Medium							
Deployment Issues, e.g. Outage Requirements:					An Outage will be required for ECVAA		
Impact on Service Levels:					None		
Impact on System Performance:					None		
Responsibilities of ELEXON							
Within reasonable levels, ELEXON will make available appropriate staff to assist LogicaCMG during the development of this change.							
Acceptance Criteria							
This is covered by the acceptance criterion 2 in the "CVA Program – Release Acceptance Criteria" document for the Feb03 Release.							

Any Other Information

This impact assessment does not include any effort required to carry out any provisions that may result from a Party being placed in Section H Default, nor does it include any effort to develop software and/or processes to support such activities. LogicaCMG would require advanced notice, sufficient to carry out necessary preparation work, in order that the provisions, as listed under Section H of the Code, could be carried out in a timely fashion in response to a Panel decision. The preparation work, the execution of the provision itself, and the subsequent undoing of the provision, if required, would be charged as time and materials at contracted rates.

LogicaCMG strongly recommend that efforts are made to formalise the activities associated with the defined provisions so that they can be put into place with a high degree of confidence, at relatively short notice, as and when required.

The fixed release costs in this Assessment assume that P188 will be released in total isolation and will not require a full set of Operational Acceptance Tests. However specific performance tests have been included.

Attachments

P188 Price Presentation v0.3.xls

ANNEX 6 PARTY AND PARTY AGENT IMPACT ASSESSMENTS

Responses for CPC00509

Detailed Level Impact Assessment of P188

'Revision of Credit Default Provisions'

Carried out by	Comments
United Utilities I & C Solutions Michelle Derbyshire	No impact for UUNL MOP
EDF Trading Saeed Patel	Would the Proposed Modification, as outlined in the attached Requirements Specification, impact your organisation? Yes/No*

British Energy Power & Energy Trading, British Energy Direct Ltd, Eggborough Power Ltd, British Energy Generation, British Energy Generation (UK) Ltd.

Louise Allport

Would the Proposed Modification, as outlined in the attached Requirements Specification, impact your organisation?

Yes

If yes, please provide a description of the impact, any costs incurred, and the implementation timescale required:

Options 3 and 4 will have an impact on our systems. We would need a minimum of three months notice to implement the required changes in our systems.

Options 1 and 2 will not have an impact on our systems.

Once more detail becomes available on how this will be implemented, the impact on our systems may change.

Any other comments:

- **Any software implementation should parameterise the 'given CCP' below which a party is expected to fall, the rolling '6 months' over which the situation is monitored, and the '6 times' within the rolling period which triggers action.**
- **The process of monitoring a party's CCP to detect relevant sets of circumstances is a routine operation and could and perhaps should be performed by the ECVAA rather than Elexon 'CVA Operations', regardless of whether an automated software solution is used.**
- **In anticipation that software changes will be expensive and should be avoided given the low frequency of occurrence of the events contemplated, we prefer option 1 or 2 with no software impact.**

<p>Southern Electric Power Distribution; Keadby Generation Ltd; SSE Energy Supply Ltd; SSE Generation Ltd; and Scottish Hydro-Electric Power Distribution Ltd; Medway Power Ltd; Sue Macklin</p>	<p>Would the Proposed Modification, as outlined in the attached Requirements Specification, impact your organisation?</p> <p>Yes, but impact would be minimal providing that the introduction of a Level 3 Default threshold, as proposed in Options 3 and 4, would not result in a change to the structure of IDD dataflow ECVAA-I014.</p> <p>If yes, please provide a description of the impact, any costs incurred, and the implementation timescale required.</p> <p>If the ECVAA-I014 were to change for any reason, then Options 3 and 4 would require a 2-month lead time.</p> <p>Any other comments:</p> <p>SSE's preferred option would be either Option 1 or 2 as this minimises central system costs whilst providing the additional security sought by the modification.</p>
<p>SAIC Ltd on behalf of Scottish Power UK plc; SP Manweb plc; ScottishPower Energy Management Ltd.; ScottishPower Generation Ltd.; ScottishPower Energy Retail Ltd.; SP Transmission Ltd. Man Kwong Lui</p>	<p>Would the Proposed Modification, as outlined in the attached Requirements Specification, impact your organisation?</p> <p>Yes</p> <p>If yes, please provide a description of the impact, any costs incurred, and the implementation timescale required:</p> <p>Process and procedure impact. One monthly implementation notice.</p> <p>Any other comments:</p> <p>We would prefer a low cost implementation option.</p>
<p>Utility Link Limited Chris Welby</p>	<p>Would the Proposed Modification, as outlined in the attached Requirements Specification, impact your organisation?</p> <p>Yes</p> <p>If yes, please provide a description of the impact, any costs incurred, and the implementation timescale required:</p> <p>We would need to put in place additional credit infrastructure which could take up to 12 months to implement. We would also need to develop the IT infrastructure to be able to continually monitor and forecast our reported indebtedness (%CCP). The cost associated with this is likely to be significant and could approach our annual profit.</p>

RWE Npower Ros Bucknall	Would the Proposed Modification, as outlined in the attached Requirements Specification, impact your organisation? No If yes, please provide a description of the impact, any costs incurred, and the implementation timescale required: Any other comments: We have a concern that the proposed 1 working day to lodge additional credit cover is too short a timescale. We have suggested 2 working days as a more realistic alternative suggestion.
EDF Energy Dave Morton	Would the Proposed Modification, as outlined in the attached Requirements Specification, impact your organisation? No

ANNEX 7 CLARIFICATION OF COSTS

There are several different types of costs relating to the implementation of Modification Proposals. ELEXON implements the majority of Approved Modifications under its CVA or SVA Release Programmes. These Programmes incur a base overhead which is broadly stable whatever the content of the Release. On top of this each Approved Modification incurs an incremental implementation cost. The table of estimated costs of implementing the Proposed/Alternative Modification given in section 2 of this report has three columns:

- **Stand Alone Cost** – the cost of delivering the Modification as a stand alone project outside of a CVA or SVA Release, or the cost of a CVA or SVA Release with no other changes included in the Release scope. This is the estimated maximum cost that could be attributed to any one Modification implementation.
- **Incremental Cost** - the cost of adding that Modification Proposal to the scope of an existing release. This cost would also represent the potential saving if the Modification Proposal was to be removed from the scope of a release before development had started.
- **Tolerance** – the predicted limits of how certain the cost estimates included in the template are. The tolerance will be dependent on the complexity and certainty of the solution and the time allowed for the provision of an impact assessment by the Service Provider(s).

The cost breakdowns are shown below:

PROGRESSING MODIFICATION PROPOSAL	
Meeting Cost	This is the cost associated with holding Modification Group meetings and is based on an estimate of the travel expenses claimed by Modification Group members.
Legal/expert Cost	This is the cost associated with obtaining external expert advice, usually legal advice.
Impact Assessment Cost	Service Provider Impact Assessments are covered by a pre-determined monthly contractual charge. Therefore the cost included in this report is an estimate based on the level of impact assessment that the modification is expected to require and may not reflect the actual cost attributed to the modification, which will be based on a percentage of the contractual impact assessment costs for each month that it is assessed.
ELEXON Resource	This is the ELEXON Resource requirement to progress the Modification Proposal through the Modification Procedures. This is estimated using a standard formula based on the length of the Modification Procedure.

SERVICE PROVIDER ⁴ COSTS	
Change Specific Cost	Cost of the Service Provider(s) Systems development and other activities

⁴ A Service Provider can be a BSC Agent or a non-BSC Agent, which provides a service or software as part of the BSC and BSC Agent Systems. The Service Provider cost will be the sum of the costs for all Service Providers who are impacted by the release.

	relating specifically to the Modification Proposal.
Release Cost	Fixed cost associated with the development of the Service Provider(s) Systems as part of a release. This cost encompasses all the activities that would be undertaken regardless of the number or complexity of changes in the scope of a release. These activities include Project Management, the production of testing and deployment specifications and reports and various other standard release activities.
Incremental Release Cost	Additional costs on top of base Release Costs for delivering the specific Modification Proposal. For instance, the production of a Test Strategy and Test Report requires a certain amount of effort regardless of the number of changes to be tested, but the addition of a specific Modification Proposal may increase the scope of the Test Strategy and Test Report and hence incur additional costs.

IMPLEMENTATION COSTS	
External Audit	<p>Allowance for the cost of external audit of the delivery of the Modification Proposal. For Modification Proposals, which impact CVA BSC Agent software, this is typically estimated as 8% of the total Service Provider Costs, with a tolerance of +/- 20%. ELEXON does, however, have internal audit capabilities and if the software change is low risk and low complexity it may be decided that it is more appropriate to utilise this internal resource. This would result in zero demand led audit costs offset by an increase in ELEXON Operational costs for that specific change.</p> <p>At present the SVA Programme does not use an external auditor, so there is no External Audit cost associated with an SVA BSC Systems Release.</p>
Design Clarifications	Allowance to cover the potential cost of making any amendments to the proposed solution to clarify any ambiguities identified during implementation. This is typically estimated as 2.5% of the total Service Provider Costs, with a tolerance of +/- 100%.
Additional Resource Costs	<p>Any short-term resource requirements in addition to the ELEXON resource available. For CVA BSC Systems Releases, this is typically only necessary if the proposed solution for a Modification Proposal would require more extensive testing than normal, procurements or 'in-house' development.</p> <p>For SVA BSC Systems Releases, this will include the management and operation of the Acceptance Testing and the associated testing environment.</p> <p>This cost relates solely to the short-term employment of contract staff to assist in the implementation of the release.</p>
Additional Testing and Audit Support Costs	Allowance for external assistance from the Service Provider(s) with testing, test environment and audit activities. Includes such activities as the creation of test environments and the operation of the Participant Test Service (PTS). For CVA BSC Systems Releases involving NETA Central Service Agent software changes, this is typically estimated as £40k per release with at tolerance of +/-25%. For SVA BSC Systems Releases this

	is estimated on a Modification Proposal basis.
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TOTAL DEMAND LED IMPLEMENTATION COSTS

This is calculated as the sum of the total Service Provider(s) Cost and the total Implementation Cost. The tolerance associated with the Total Demand Led Implementation Cost is calculated as the weighted average of the individual Service Provider(s) Costs and Implementation Costs tolerances. This tolerance will be rounded to the nearest 5%.

ELEXON IMPLEMENTATION RESOURCE COSTS

Cost quoted in man days multiplied by project average daily rate, which represents the resources utilised by ELEXON in supporting the implementation of the release. This cost is typically funded from the "ELEXON Operational" budget using existing staff, but there may be instances where the total resources required to deliver a release exceeds the level of available ELEXON resources, in which case additional Demand Led Resources will be required.

The ELEXON Implementation Resource Cost will typically have a tolerance of +/- 5% associated with it.

ONGOING SUPPORT AND MAINTENANCE COSTS

ELEXON Operational Cost	Cost, in man days per annum multiplied by project average daily rate, of operating the revised systems and processes post implementation.
Service Provider Operation Cost	Cost in £ per annum payable to the Service Provider(s) to cover staffing requirements, software or hardware licensing fees, communications charges or any hardware storage fees associated with the ongoing operation of the revised systems and processes.
Service Provider Maintenance Cost	Cost quoted in £ per annum payable to the Service Provider(s) to cover the maintenance of the amended BSC Systems. Note that from 1 January 2005, Service Provider Maintenance costs will be covered by a fixed contractual charge and so any Modification Proposals implemented after this date will not incur an ongoing Service Provider Maintenance cost.

ANNEX 8 DIAGRAMS OF EXISTING PROVISIONS

Figure 3: Diagram describing the process of entering Level 1 Credit Default.

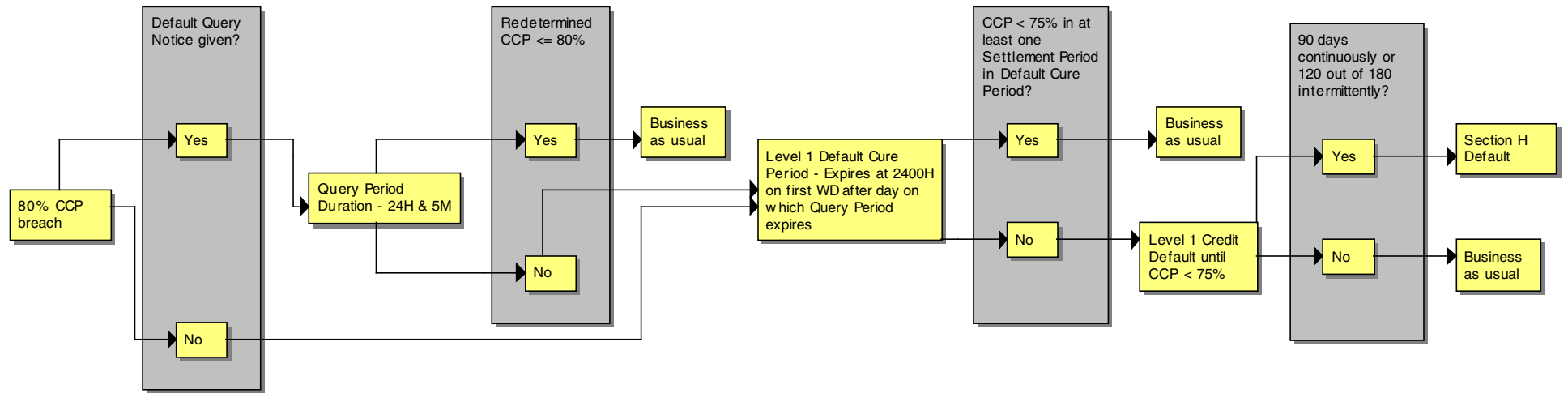


Diagram B - Level 1 Credit Default

Figure 4: Diagram describing the process of entering Level 2 Credit Default.

