

INITIAL WRITTEN ASSESSMENT for Modification Proposal P158 Introducing the Ability to Lodge a Consolidated Letter of Credit

Prepared by: ELEXON¹ Limited

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This document has been distributed in accordance with Section F2.1.10² of the Balancing and Settlement Code.

RECOMMENDATIONS

On the basis of the initial assessment BSCCo recommends that the Panel:

- **DETERMINE that Modification Proposal P158 should be submitted to the Assessment Procedure;**
- **AGREE the Assessment Procedure timetable such that a Assessment Report should be completed and submitted to the Panel for consideration at their meeting of 8 April 2004;**
- **DETERMINE that the Assessment Procedure should be undertaken by the Settlement Standing Modification Group; and**
- **AGREE any refinement to the Modification Group Terms of Reference.**

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¹ ELEXON Ltd currently fulfils the role of the Balancing and Settlement Code Company ('BSCCo'), pursuant to Annex X-1 of the Balancing and Settlement Code (the 'Code').

² The current version of the Code can be found at www.elexon.co.uk/ta/bscresel_docs/bsc_code.html

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SUMMARY OF IMPACTED PARTIES AND DOCUMENTS

As far as BSCCo has been able to assess the following parties/documents have been initially identified as being potentially impacted by Modification Proposal P158.

Parties	Sections of the BSC	Code Subsidiary Documents	
Suppliers <input checked="" type="checkbox"/>	A <input type="checkbox"/>	BSC Procedures <input checked="" 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 checked="" 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"/>	
Party Agents			
Data Aggregators <input type="checkbox"/>	G <input type="checkbox"/>	Reporting Catalogue <input type="checkbox"/>	
Data Collectors <input type="checkbox"/>	H <input checked="" type="checkbox"/>	MIDS <input type="checkbox"/>	
Meter Operator Agents <input type="checkbox"/>	J <input type="checkbox"/>	Core Industry Documents	
ECVNA <input type="checkbox"/>	K <input type="checkbox"/>	Grid Code <input type="checkbox"/>	
MVRNA <input type="checkbox"/>	L <input type="checkbox"/>	Supplemental Agreements <input type="checkbox"/>	
BSC Agents			
SAA <input type="checkbox"/>	M <input checked="" type="checkbox"/>	Ancillary Services Agreements <input type="checkbox"/>	
FAA <input checked="" type="checkbox"/>	N <input checked="" type="checkbox"/>	Master Registration Agreement <input type="checkbox"/>	
BMRA <input type="checkbox"/>	O <input type="checkbox"/>	Data Transfer Services Agreement <input type="checkbox"/>	
ECVAA <input type="checkbox"/>	P <input type="checkbox"/>	British Grid Systems Agreement <input type="checkbox"/>	
CDCA <input type="checkbox"/>	Q <input type="checkbox"/>	Use of Interconnector Agreement <input type="checkbox"/>	
TAA <input type="checkbox"/>	R <input type="checkbox"/>	Settlement Agreement for Scotland <input type="checkbox"/>	
CRA <input type="checkbox"/>	S <input type="checkbox"/>	Distribution Codes <input type="checkbox"/>	
Teleswitch Agent <input type="checkbox"/>	T <input type="checkbox"/>	Distribution Use of System Agreements <input type="checkbox"/>	
SVAA <input type="checkbox"/>	U <input type="checkbox"/>	Distribution Connection Agreements <input type="checkbox"/>	
BSC Auditor <input type="checkbox"/>	V <input type="checkbox"/>	BSCCo	
Profile Administrator <input type="checkbox"/>	W <input type="checkbox"/>	Internal Working Procedures <input checked="" type="checkbox"/>	
Certification Agent <input type="checkbox"/>	X <input type="checkbox"/>	Other Documents	
MIDP <input type="checkbox"/>		Transmission Licence <input type="checkbox"/>	
TLFA <input type="checkbox"/>			
Other Agents			
SMRA <input type="checkbox"/>			
Data Transmission Provider <input type="checkbox"/>			

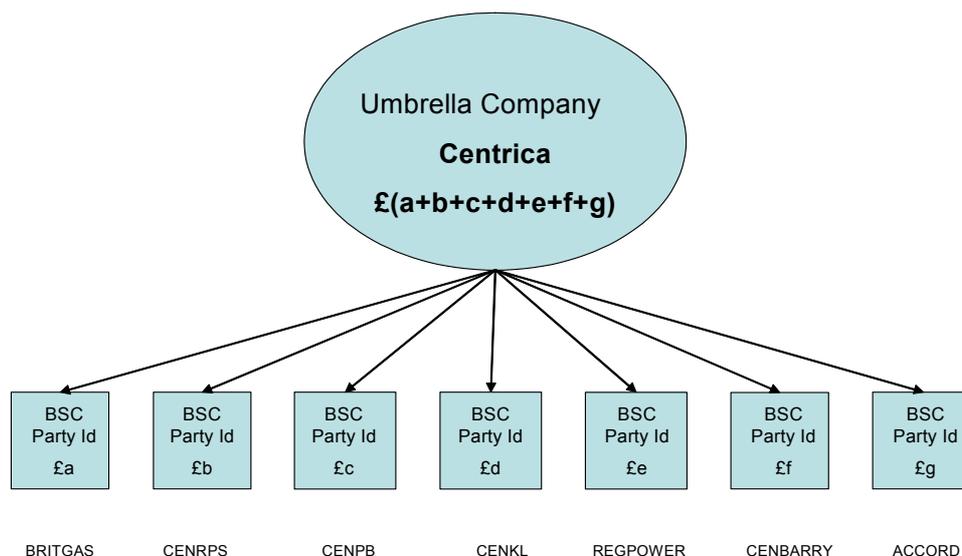
1 DESCRIPTION OF PROPOSED MODIFICATION

1.1 Modification Proposal

Modification Proposal P158 'Introducing the Ability to Lodge a Consolidated Letter of Credit' ("P158"), was raised by British Gas Trading ("BGT") on 27 January 2004. P158 seeks to modify the Balancing and Settlement Code ("the Code") to allow a group of BSC Parties to lodge a single consolidated Letter of Credit (LoC). The consolidated LoC would be sub-divided and specific amounts of Credit Cover allocated against each BSC Party/BSC Party Id³, as opposed to posting an individual LoC for each BSC Party. The Proposer asserts that P158 will not alter the method of calculating a Party's Energy Indebtedness (pursuant to Section M 1.2 of the Code), which will still be calculated at a BSC Party level rather than against a group of BSC Parties.

The Proposer intends that P158 be introduced on a voluntary basis. Figure 1 below, diagrammatically explains how the consolidated LoC would be sub-divided against a number of BSC Parties.

Figure 1: Example Sub-division of a consolidated Letter of Credit



Currently the Code specifies, pursuant to Section M 2.1.1, that a LoC can only be lodged against an individual Trading Party. The Code only provides provisions for a Trading Party to apply for a single Letter of Credit (Annex M-1), thus preventing a group of Trading Parties from lodging a consolidated LoC.

The Code considers each Trading Party's application of Credit Cover on a separate basis and the Proposer believes this to be a defect within the current drafting of the Code. The Proposer therefore, believes that it would be appropriate for an additional consolidated Letter of Credit application form to be included in Section M 'Credit Cover and Credit Default' of the Code - potentially referenced as 'Annex M-2' which would allow a group of BSC Parties to lodge a consolidated LoC.

The Proposer asserts that P158 would assist BSCCo ('ELEXON') and the Funds Administration Agent ("FAA") in managing the Credit Cover process. P158 will reduce the number of Credit Cover applications submitted

³ Reference to BSC Party Id in the Modification refers to the unique Id given to each BSC Party (see Section A 4.3.3 of the Code) and should not be confused with the Supplier Id allocated to Supply Businesses and defined in Section S 1.3.
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by BSC Parties and therefore reduce the administrative burden placed on the FAA. The Proposer also believes that P158 would reduce the level of monitoring required by the FAA as P158 will reduce the monitoring obligations of the FAA as set out in the Code (detailed in Section M 2.2.3) - whereby the FAA notifies BSC Parties in advance of their impending LoC expiry date.

The Proposer also believes that P158 would benefit BSC Parties by making the process of sourcing a LoC more efficient and it will also reduce the administrative process of managing a Party's Credit Cover requirements.

The Proposer believes that P158 would better facilitate achievement of Applicable BSC Objective (c) – "Promoting effective competition in the generation and supply of electricity and promoting competition in the sale and purchase of electricity", as BSC Parties will be able to source Credit Cover more efficiently. It will also reduce the administration of having to refresh several LoCs a year.

Furthermore the Proposer believes that P158 would better facilitate the achievement of Applicable BSC Objective (d) – "Promoting efficiency in the implementation and administration of the balancing and settlement arrangements", by reducing administrative burdens on BSC Parties, BSCCo and the FAA.

1.2 Issues raised by the Modification Proposal

An initial assessment of Modification Proposal P158 has identified the following potential areas of impact, and issues which will need to be considered and addressed in progressing the Modification Proposal:

- **Criteria for qualifying for a consolidated LoC** – Consideration is required as to who can apply for a consolidated LoC, i.e. whether this should only apply to affiliated companies / companies within the same group, or whether the process should be extended such that any arbitrary group of unrelated BSC Parties can elect to submit a consolidated LoC. In either instance, consideration should be given to the implications of, and the process to be followed where, one or more of the BSC Parties to whom the LoC applied left the group, and / or other BSC Parties joined the group;
- **Apportionment of LoC** – Consideration is required to be given as to whether the apportionment of Credit Cover between BSC Parties is to be fixed at the point at which the LoC is first provided, or whether the credit could be dynamically reallocated between the BSC Parties covered by the LoC at any point, following a yet to be defined process;
- **Reduction in Credit Cover** - In the event that a BSC Party covered by the consolidated LoC wishes to reduce its Credit Cover the Modification Proposal implies that it will have to continue to go through the 'minimum eligible amount' (MEA) process, as detailed in Section M 2.3 of the Code, as the Proposal asserts that once Credit Cover has been apportioned, the currently defined processes for managing that Credit Cover will apply to each BSC Party. However, this process may be impacted by P158, for example if a dynamic apportionment process which bypasses the MEA process is defined, and thus any impacts and amendments will need to be identified;
- **Increase in Credit Cover** - In the event that a BSC Party covered by the consolidated LoC wishes to increase its Credit Cover, processes for doing so may need to be defined. For example the increase could be achieved from the re-apportionment of credit from another Party covered by the LoC, or could be achieved by replacing the LoC with a new one for an increased amount, or even by lodging a new LoC specific to the one BSC Party for the additional amount required;
- **Default** – Issues may arise from having a consolidated LoC under different Default circumstances, for example:
 - i) **Default under the Code:** Currently, if a Party Defaults under the Code, pursuant to Section H.3.2.1, its Credit Cover is frozen, and this may have implications on the consolidated LoC and require a new / amended process for managing this;

- ii) **Payment Default:** If a Party is unable to pay its Trading Charges the BSCCo may decide to call upon any lodged Credit Cover, and the implications of calling on a consolidated LoC should be explored, specifically for the example where the default amount exceeds the apportioned Credit Cover;
- iii) **Credit Default:** Issues may arise where a Party with a consolidated LoC fails to comply with renewal time-scales, potentially resulting in the entire LoC becoming invalid, impacting all the BSC Parties covered by the LoC; and
- iv) **Status of BSC Parties:** Where a Party defaults, the Panel is obliged to take decisions in relation to that Party. Therefore consideration should be given as to whether a consolidated LoC prevents BSC Parties from being treated as individual entities by the Panel, or obliges the Panel to take different decisions.

The Modification Group should consider the implications of a consolidated LoC on the above circumstances.

- **Application to LoCs Only** – The Modification Proposal limits the consolidation of credit to LoCs only, by implication excluding cash cover. Therefore the rationale for this constraint should be explored, and where it is considered appropriate by the Modification Group, the process may be expanded to include the consolidation of other forms of credit; and
- **Legal / Commercial Issues** – The use of a consolidated LoC may create legal and / or commercial issues where multiple BSC Parties are covered by a single LoC. Therefore this aspect should be explored by the Modification Group to ensure that there are no legal / commercial inconsistencies with this approach.

BSCCo recommends that these issues be included in the Modification Group's Terms of Reference.

BSCCo proposes that the Settlement Standing Modification Group perform the Assessment of P158.

2 COSTS⁴

PROGRESSING MODIFICATION PROPOSAL

Demand Led Cost	£ 0
ELEXON Resource	45 Man days (equating to approximately £8,450)

3 INITIAL ASSESSMENT OF IMPACTS OF MODIFICATION PROPOSAL

3.1 Impact on BSC Systems and processes

An initial assessment has been undertaken in respect of all BSC Systems and processes and the following have been identified as potentially being impacted by the Modification Proposal.

⁴ Clarification of the meanings of the cost terms in this section can be found in annex 3 of this report
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BSC System / Process	Potential Impact of Proposed Modification
Registration	No Impact
Contract Notification	No Impact
Credit Checking	It is possible that the management of Credit Cover undertaken by the FAA will be impacted. The actual impacts will be assessed further by the Modification Group.
Balancing Mechanism Activities	No Impact
Collection and Aggregation of Metered Data	No Impact
Supplier Volume Allocation	No Impact
Settlement	No Impact
Clearing, Invoicing and Payment	This process may be impacted and will need further assessment by the Modification group.
Reporting	No Impact
Contingencies	No Impact
Dispute Resolution	No Impact

3.2 Impact on other systems and processes used by Parties

An initial assessment has been undertaken in respect of systems and processes used by Parties and the following area has been identified as potentially being impacted by the Modification Proposal.

System / Process	Potential Impact of Proposed Modification
Lodging Credit	P158 may potentially reduce the administration burden on BSC Parties in the lodging and renewing of Credit Cover.

3.3 Impact on documentation

3.3.1 Impact on Balancing and Settlement Code

An initial assessment has been undertaken in respect of all Sections of the Code and the following Sections have been identified as potentially being impacted by the Modification Proposal.

Item	Potential Impact of Proposed Modification
H	Section H of the Code may potentially be impacted by P158, in particular section H 3 which is concerned with Default.
M	Section M of the Code will require amendment to reflect the processes for lodging and managing LoCs.
N	Section N of the Code may potentially be impacted by P158, in particular section N 9, which is concerned with Payment Default and Credit Default.

3.3.2 Impact on Code Subsidiary Documents

An initial assessment has been undertaken in respect of all Code Subsidiary Documents and the following documents have been identified as potentially being impacted by the Modification Proposal.

Item	Potential Impact of Proposed Modification
FAA SD	The FAA Service Description may potentially be impacted by P158 to ensure that the processes relating to the changes of Credit Cover can accommodate a group of BSC Parties.
BSCP301	The process for re-structuring the credit allocations would need to be defined.

3.4 Impact on other configurable items

An initial assessment has been undertaken in respect of other configurable items and the following area has been identified as potentially being impacted by the Modification Proposal.

Item	Potential Impact of Proposed Modification
FAA URS	The FAA User Requirements Specification will be impacted by the requirements to reflect the changes to the management process defined in the FAA Service Description.

4 IMPACT ON BSCCO

An initial assessment has been undertaken in respect of BSCCo and the following areas have been identified as potentially being impacted by the Modification Proposal.

Area of Business	Potential Impact of Proposed Modification
BSCCo Procedures	If P158 was to have an affect on Default, this may potentially impact the Panel. This will need further investigation by the Modification Group.
BSCCo Contracts (Excluding BSC Agent Contracts)	No impact
Other (e.g. costs, staffing, etc.)	No impact

5 RATIONALE FOR BSCCO'S RECOMMENDATIONS TO THE PANEL

BSCCo recommend that the Panel submit P158 to a 2-month Assessment Procedure, to be undertaken by the Settlement Standing Modification Group.

BSCCo believes that the issues associated with the Modification Proposal are clearly defined and sufficiently detailed enough within this Initial Written Assessment to be assessed further by a Modification Group.

6 PROCESS, TIMETABLE AND COST FOR PROGRESSING THE MODIFICATION PROPOSAL

BSCCo recommends that P158 Modification Proposal be submitted to the Settlement Standing Modification Group (SSMG) for further assessment. The SSMG should be actioned to provide its report to the Panel on 8 April 2004.

It is estimated that the progression of this Modification will require:

- Three Modification Group meetings; and
- One industry consultation.

The proposed timetable for the progression of P158 is shown in Annex 2 of this report.

It is estimated that the progression of P158 through the modification process will require zero third party costs from the demand led funds and operationally 45 ELEXON man days effort. This estimate is based on current information and may be subject to change.

The cost of implementing any Proposed or Alternative Modification will be determined during the Assessment Procedure.

7 DOCUMENT CONTROL

7.1 Authorities

Version	Date	Author	Reviewer	Reason for Review
0.1	4/2/04	Michelle Spurden	Sarah Parsons	Initial draft
0.2	4/2/04	Michelle Spurden	Sarah Parsons	Initial draft
0.3	4/2/04	Michelle Spurden	Sarah Parsons	Initial draft

7.2 References

Ref No.	Document Title	Owner	Issue Date	Version

ANNEX 1 MODIFICATION PROPOSAL

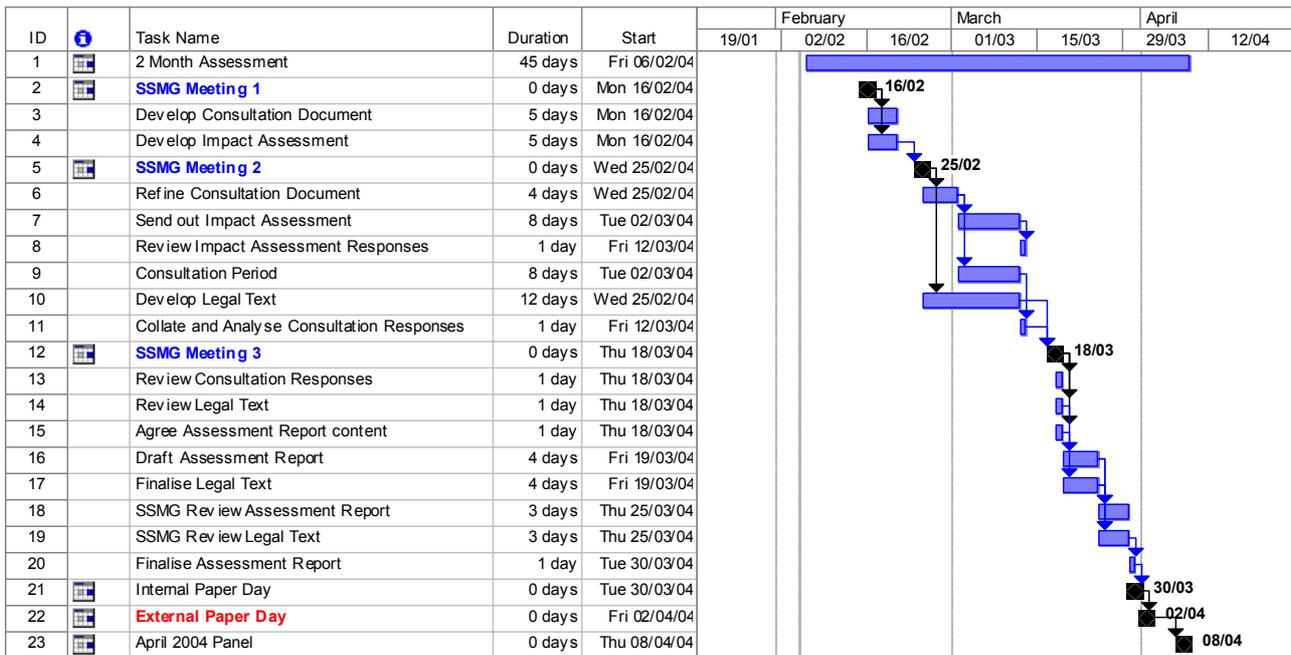
Modification Proposal	MP No:158 <i>(mandatory by BSCCo)</i>
Title of Modification Proposal <i>(mandatory by originator):</i>	
Introducing the ability to lodge a consolidated Letter of Credit (LoC)	
Submission Date <i>(mandatory by originator):</i> 27 January 2004	
Description of Proposed Modification <i>(mandatory by originator)</i>	
<p>Credit can be lodged in the form of a LoC or cash or as a combination of the two. This modification is seeking to allow a Party which owns multiple BSC Party Ids to be able to lodge a single consolidated LoC, rather than having to post an individual LoC for each Party Id. The consolidated LoC would need to be sub-divided and an amount of credit allocated against each Party Id. The proposer believes this modification proposal could be introduced on a voluntary basis.</p> <p>This proposal is not intended to alter the method of calculating a Party's energy indebtedness i.e. energy indebtedness would still be calculated at a Party Id level rather than against an affiliate group.</p>	

Modification Proposal	MP No:158 <i>(mandatory by BSCCo)</i>
Description of Issue or Defect that Modification Proposal Seeks to Address <i>(mandatory by originator)</i>	
<p>The BSC prevents a Party which owns more than 1 BSC Party Id lodging consolidated credit cover against the group of trading parties. The proposer believes this to be a defect within the current drafting of the BSC.</p> <p>BGT believes the proposal will assist BSCCo and the BSCCo Agent (Funds Administration Agent (FAA)) in managing the process after credit cover has been lodged. BGT also believes this proposed change will increase the efficiency of the process in terms of lodging credit for a BSC Party.</p> <p>This modification will lessen the monitoring required by the FAA in ensuring credit cover gets renewed. It should also assist BSCCo in the event of a Party with multiple BSC Party Ids going into Default by reducing the number of LoC on which BSCCo may have to draw.</p> <p>BGT also believe it will benefit BSC Parties as it will reduce the administrative burden of lodging and having to refresh credit cover several times a year for a Party with multiple BSC Party Ids. The modification will also allow a Party with multiple BSC Party Ids to source credit cover in a more efficient manner thus reducing costs.</p>	
Impact on Code <i>(optional by Originator)</i>	
<p>BGT is of the view that Section M of the BSC will need amending to give effect to the proposed change. An additional Annex may need to be drafted which could be utilised by a BSC Party wishing to lodge a consolidated LoC.</p>	
Impact on Core Industry Documents <i>(optional by Originator)</i>	
<p>BGT believe the FAA Service Description may be impacted and may need amending to recognise a consolidated LoC.</p>	
Impact on BSC Systems and Other Relevant Systems and Processes Used by Parties <i>(optional by originator)</i>	
<p>BGT does not believe that this modification proposal should require any changes to be made to BSC Systems. Some processes may be impacted by this proposed change.</p>	
Impact on other Configurable Items <i>(optional by originator)</i>	
<p>BGT is not aware of any changes that may be necessary to the other configurable items.</p>	

Modification Proposal	MP No:158 <i>(mandatory by BSCCo)</i>
Justification for Proposed Modification with Reference to Applicable BSC Objectives <i>(mandatory by originator)</i>	
<p>BGT believe this modification proposal will better facilitate Applicable BSC Objective (c) "Promoting effective competition in the generation and supply of electricity and 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" in the following ways:-</p> <ul style="list-style-type: none"> • From a BSC Party perspective it will provide an administrative and financial benefit in terms of monitoring and sourcing credit cover. • It should reduce the level of monitoring required by the FAA in meeting their obligations as detailed in Section M 2.2.3 of the BSC. This requires that the FAA notify BSC Parties in advance of the impending expiry of their LoC. The modification should therefore reduce the administrative burden in monitoring and notifying BSC Parties. • It should also assist BSCCo in the event of a BSC Party being placed in default in the event of Insolvency. A consolidated LoC will reduce the monitoring required by BSCCo in monitoring the expiry date of individual LoC it will also improve the efficiency of the process as it will reduce the number of counter parts that ELEXON need to negotiate with to draw on the credit cover lodged. 	
Details of Proposer:	
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Details of Representative's Alternate:	
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Organisation BGT	
Telephone Number 01753 758384	
Email address horace.wheeler@centrica.co.uk	

Modification Proposal	MP No:158 <i>(mandatory by BSCCo)</i>
Attachments: No	

ANNEX 2 GANTT CHART



ANNEX 3 CLARIFICATION OF COSTS

PROGRESSING MODIFICATION PROPOSAL	
Demand Led Cost	This is the third party cost of progressing a Modification Proposal through the Modification Procedures in accordance with Section F of the Code. Service Provider Impact Assessments are covered by a contractual charge and so the Demand Led cost will typically be zero unless external Legal assistance or external consultancy is required.
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.