ELEXON

Draft MODIFICATION REPORT for Modification Proposal P152

Reduction of Credit Cover for a Trading Party in Default which has ceased trading and which has paid all accrued Trading Charges

Prepared by: P152 Modification Group

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This document has been distributed in accordance with Section F2.1.10[1] of the Balancing and Settlement Code.

RECOMMENDATIONS

The Balancing and Settlement Code Panel recommends:

- **that both the Proposed and Alternative Modification P152 should not be made;**

- **the P152 Implementation Date (in the event that the Authority determines that either be made) of 3 November 2004 if an Authority decision is received on or before 16 June 2004, or the 23 February 2005 if the Authority decision is received after 16 June 2004 but on or before 6 October 2004; and**

- **the proposed text for modifying the Code, as set out in the draft Modification Report.**

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[1] The current version of the Balancing and Settlement Code (the 'Code') can be found at www.elexon.co.uk/ta/bscrel_docs/bsc_code.html

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SUMMARY OF IMPACTED PARTIES AND DOCUMENTS

The following parties/documents have been identified as being potentially impacted by Modification Proposal P152.

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

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 P152 "Reduction of Credit Cover for a Trading Party in Default which has ceased trading and which has paid all accrued Trading Charges" ("P152") was raised on 1 December 2003 by Roger Marsh and Michael Horrocks of PricewaterhouseCoopers acting as administrative receivers of Shotton Combined Heat and Power (SCHP) Limited.

P152 seeks to enable a Party that is in Default for reasons of insolvency[2] and fulfils several criteria, to reduce or reclaim its Credit Cover as would a Party that has ceased trading under regular circumstances. Currently a Trading Party that is in Default is prevented from reducing its Credit Cover under the Balancing and Settlement Code (the Code) section M 2.3, under circumstances where, were it not in Default it would be allowed to do so. This remains the case if the Defaulting Party has stopped trading, paid all invoices and met other contractual obligations in respect of the Code although the Party does not necessarily pose a risk to other Parties.

The Proposer believes that since Credit Cover is intended to cover Energy Indebtedness, if a Party's Energy Indebtedness is zero or less, the Party should be entitled to consequently reduce its Credit Cover if the Party has no other liabilities under the Code.

The Proposer has set out several criteria that a Trading Party in Default for reasons of insolvency would have to fulfil before being able to reduce/claim back Credit Cover. These are that the Party has:

- Ceased all forms of trading pursuant to the Code;

- Paid all Trading Charges due on the Settlement Payment Date for the last Settlement Day on which it traded as well as all previously accrued Trading Charges;

- Transferred or de-registered any Relevant BM Units; and

- Had an Energy Indebtedness of zero or less than zero continuously over the previous 30 days.

Three possible alternative solutions were proposed. One is to treat the Party as any other Party that has ceased trading and allow the existing rules stated in M2.3 to apply to a Party in Default under H3.1.1(g) (option 1). The other suggestions are; reducing the Credit Cover based on a sliding scale at fixed intervals, reductions being based on the probability of further charges being accrued as reconciliation progresses, (option 2) and allowing the Panel to make the decision on whether the Credit Cover should be reduced for each individual case using the criteria listed above (option 3).

The Proposer believes that P152 better facilitates Applicable BSC Objectives (c), promoting effective competition in the generation and supply of electricity and (so far as is consistent therewith) promoting such competition in the sale and purchase of electricity, and (d), efficiency in the implementation and administration of the balancing and Settlement arrangements.

The Proposer asserts that applicable BSC Objective (c) is better facilitated for a number of reasons:

- Having to leave funds trapped as security after cessation of trading and reduction of Energy Indebtedness is a barrier to entry. More particularly, insolvency practitioners will be disinclined from running generating plants and trade in receivership for this reason;

- Insolvency practitioners and commercial counterparties or creditors may be relying on the funds that are tied up in Credit Cover;

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[2] This refers to being in Default under Section H3.1.1 (g) only.

- Trading Parties in insolvency Default will minimise the Credit Cover they post if they know they cannot reclaim it upon cessation of trading, thus will be more likely to go into Credit Default; and

- P152 ensures consistent treatment of Credit Cover calculations between Parties.

The Proposer also asserts that applicable BSC Objective (d) is better facilitated since Parties will not seek return of Credit Cover outside of the Code and this will save BSCCo time and cost.

The Proposer requested that P152 should be treated as urgent. Whilst BSCCo acknowledged the issues behind the Modification Proposal, it did not consider that these in themselves warranted urgency. Furthermore, BSCCo consider that changes to the Credit Cover arrangements should generally be given full and detailed assessment. Accordingly BSCCo declined to recommend urgency.

The Initial Written Assessment (IWA) was presented to the Panel at its meeting on 11 December 2003. The Panel recommended a 2 month Assessment Procedure with the Assessment Report being presented at the Panel meeting on the 12 February 2004. The P152 Modification Group met three times, on the 18 December 2003, 5 January 2004 and 28 January 2004. It issued one consultation document and one BSC Central System Agent impact assessment during the Assessment Procedure. The Panel considered the Assessment Report and the P152 Modification Group recommendations in respect of P152 at its meeting of 12 February 2004 and unanimously agreed with the recommendations of the P152 Modification Group, namely that neither Proposed Modification nor Alternative Modification P152 should be made. The Panel recommended that P152 be submitted to the Report Phase with a draft Modification Report being presented at its meeting on the 11 March 2004.

1.2   Proposed Modification

The Modification Group developed the following solution as part of the Proposed Modification. A Trading Party which is in Default solely by virtue of Section H 3.1.1 (g) i.e. it is insolvent or under administration, and wishes to reduce the amount of its Credit Cover can send notice to this effect to BSCCo. BSCCo will then perform the following checks which such a Trading Party has to satisfy. These are that the Party has:

- Ceased all forms of trading pursuant to the Code;

- Paid all Trading Charges due on the Settlement Payment Date for the last Settlement Day on which it traded as well as all previously accrued Trading Charges;

- Transferred or de-registered any Relevant BM Units; and

- Had an Energy Indebtedness of zero or less than zero continuously over the previous 30 days.

Once the Party has fulfilled these criteria they will be able to apply to the Panel in order to receive back a certain amount of their Credit Cover. This amount will be worked out based on the average of the positive Reconciliation Charges over the Reconciliation Timetable that the Party has been liable for over the past year of trading (or amount of time it has been trading, if less than a year). This calculation will be set out in the Code. The Party will then apply to the Panel to receive back the amount of Credit Cover less this calculated amount. The Panel will grant the Party this right unless it believes there are extenuating circumstances. The remainder of the Credit Cover will be returned to the Party at Final Reconciliation Run (RF)[3].

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[3] For the avoidance of doubt, the P152 Modification Group considered that although it, in agreement with a majority of the consultation responses, considered PF (Post Final Settlement Run) a suitable end point, the implementation of P127 which suggested an RF end point, means for practical reasons an RF end point was more appropriate.

1.3   Issues raised by the Proposed Modification

The following issues were considered during the Assessment of Proposed Modification P152:

- Assessment against the Applicable BSC Objectives;

- Risk profile to industry of Parties Defaulting under H3.1.1(g);

- Mechanism by which Parties should reduce or reclaim their Credit Cover – a list of three options was included in the Modification Proposal;

- Potential interaction between P152 and P127;

- The requirement for a cost effective and efficient solution;

- Legal text drafting; and

- Implementation Date.

These issues are discussed in the Assessment Report and are not covered further here.

1.4   Assessment of how the Proposed Modification will better facilitate the Applicable BSC Objectives

The Modification Group members were unanimous in concluding that the Proposed Modification would not better facilitate the achievement of Applicable BSC Objectives (c) and (d). However the Proposer, who was a Modification Group attendee, considered that P152 did better facilitate the achievement of Applicable BSC Objectives (c) and (d).   The Modification Group during its discussions considered the arguments for and against the Proposed Modification:

- Whether there is a requirement for P152 after the Implementation of the P127 Alternative Modification;

  One member of the Group suggested that since a Party such as that described in P152 can receive their Credit Cover back at RF (since P127 was approved) there is no longer a requirement for P152 as the defect is no longer valid. As a counter argument, it was pointed out that P127 was not raised to solve the same problem as P152 and as such did not consider all the issues and whilst it may be considered to go some of the way towards solving the defect outlined in P152 it does not go far enough.

- Whether reducing Credit Cover poses a risk to the market thus having a detrimental effect on promoting competition and the facilitation of Applicable BSC Objective (c);

  Several members of the Group considered that giving an insolvent Party any of their Credit Cover back before RF was a risk to the market and was not one it considered the industry would be willing to underwrite. These members believed that there was a greater risk that insolvent Parties would be unable to meet any liabilities which they may accrue in the future. The Proposer acknowledged that there was some risk but considered that not giving a Party any of their Credit Cover back before RF was inequitable and unreasonable. Some members of the Group acknowledged that it seemed reasonable to give a proportion of the Credit Cover back prior to RF, but that it was difficult to justify what this proportion should be as their did not seem to be a methodology that could accurately reflect a Party's future Trading Charges. Therefore some Credit Cover ought to be retained.

- Whether the ability to reduce Credit Cover encourages insolvent Parties to trade thus promoting competition and the facilitation of Applicable BSC Objective (c);

  The Proposer commented that the fact that funds would remain trapped as security for a significant period of time would act as a material disincentive to continue or restart generation

and would therefore enhance the economic argument for plant mothballing. However, the Group commented that the risk of being liable for a bad debt may constitute more of a barrier to entry than the Credit Cover requirements of an insolvent Party.

- Whether P152 better facilitates the achievement of Applicable BSC Objective (d);

  The Proposer considered that P152 would reduce the risk that Parties will seek the return of their Credit Cover through litigation. However it was commented that the likelihood of a Party instigating legal proceedings has been reduced by the approval of P127. In addition, were an insolvent Party to withdraw their funds and then not pay future Trading Charges, other Parties may decide to make claims against this Party outside the Code and the status of BSCCo would have changed from being a secured to an unsecured creditor hence having a lower likelihood of receiving monies due.

The Panel at its meeting on the 12 February 2004 considered the P152 Assessment Report. One Panel member questioned how the Group had responded to the Proposer's assertion that funds remaining trapped for some time would act as material disincentive to continue/restart generation. The Group considered that this was not the case because, since the approval of P127, a Party (after it has withdrawn) can reclaim its Credit Cover at RF. The group felt that this is a reasonable amount of time to have to wait and thus would not be a material disincentive. In addition, the Group considered that for a Party to receive its Credit Cover back before RF would be a risk to industry and hence a barrier to entry. The Panel asked if NGC had any comments to make on the issue of reduced incentive to continuing/restarting generation. NGC did not have any comments to add.

The Panel were unanimous in its agreement with the P152 Modification Group that P152 Proposed Modification did not better facilitate the achievement of the Applicable BSC Objectives and hence should not be made.

1.5   Modification Group's cost benefit analysis of Proposed Modification

The Modification Group sought to ensure that P152 be inexpensive to implement, given that the occurrence of the type of event that P152 covers is likely to be rare. The original costs received from the BSC Central Service Agent, included the development of a new script within the Energy Contract Volume Aggregation Agent (ECVAA) system to make the checks as to whether a Trading Party had fulfilled the criteria or not. This was considered excessive by the Group and in the limited time available an impact assessment on another more manual solution based on current working practices was sought. This resulted in a much smaller cost estimate. However the Group, in rejecting the Proposed Modification considered that the benefits of the Modification were not such that it warranted approval, and hence P152 did not justify the implementation costs however minimal.

1.6   Alternative Modification

The Modification Proposal for P152 made specific reference to the generic entity Trading Party[4]. The Group considered the differences between generators, Interconnector Users and other types of Trading Party. Other types of Trading Party have greater and more unpredictable variation in Reconciliation payments than generators and Interconnector Users. So the Group felt that for the latter two Party types it would be easier to predict Reconciliation Charges up to RF and hence use a sliding scale type mechanism for reclaiming Credit Cover whilst also limiting the risk of high Reconciliation payments falling due. One member of the Group had difficulty with this statement since it is does not cater for potential charges arising from Disputes that would cause greater variety in a generator's Reconciliation payments. However, the Group considered that including only generators in the P152 solution would

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[4] Trading Party covers a number of different types of Party, generators, Suppliers, Interconnector Users etc

enable a less arbitrary sliding scale to be used and would diminish the risk to the market of reducing Credit Cover.

The Group then considered how to define the types of Trading Party that would be encompassed by the Modification. There are many vertically integrated Parties and these Parties put up a single sum to serve as Credit Cover for a range of activities, hence singling out different types of activities for which Credit Cover can be returned is complicated and perhaps impractical. The Group thus concluded that it would have to include only pure generators or Interconnector Users with no supply side to their business.

The Group also considered charges a Party is liable for, that do not come under the category of Trading Charges. Several members of the Group were concerned that a Party that had not paid its BSCCo Charges could receive its Credit Cover back under P152. It was suggested that as part of the Alternative Modification a further criteria should be created to ensure that this could not be the case, "paid all BSCCo Charges up to the date of application to BSCCo". The Group recognised that the intent of Credit Cover was not to deal with BSCCo Charges but thought this criterion was a sensible additional one to use.

The Alternative Modification developed by the Group is as follows:

A pure generator or Interconnector User (i.e. a Party that has no Supply business at all);which has no Metered Volume Reallocation Notifications (MVRNs) with a Supplier; which is in Default solely by virtue of Section H 3.1.1 (g); and which wishes to reduce the amount of its Credit Cover can send notice to this effect to BSCCo. BSCCo will then perform the following checks which such a generator has to pass. These are that the Party has:

- Ceased all forms of trading pursuant to the Code;

- Paid all Trading Charges due on the Settlement Payment Date for the last Settlement Day on which it traded as well as all previously accrued Trading Charges;

- Paid all BSCCo Charges up to the date of application to BSCCo;

- Transferred or de-registered any Relevant BM Units; and

- Had an Energy Indebtedness of zero or less than zero continuously over the previous 30 days

Once the Party has fulfilled these criteria they will be able to apply to the Panel in order to receive back a certain amount of their Credit Cover. This amount will be worked out based on the average of the positive Reconciliation Charges over the Reconciliation Timetable that a Party has been liable for over the past year of trading (or amount of time it has been trading, if less than a year). This calculation will be set out in the Code. The Party will then apply to the Panel to receive back the amount of Credit Cover less this calculated amount. The Panel will grant the Party this right unless it believes there are extenuating circumstances. The remainder of the Credit Cover will be returned to the Party following the Final Reconciliation Run (RF).

1.7   Issues raised by the Alternative Modification

The issues raised by the Alternative Modification were similar to those raised by the Proposed Modification. Modification Group members were concerned about the risk to industry of generating Parties Defaulting under H3.1.1 (g). A majority of the Group considered that any Defaulting Party was more of a risk to the industry than non Defaulting Parties who cease trading. In addition the Group desired a cost effective solution.

These issues are discussed in the Assessment Report and are not covered further here.

1.8 Assessment of how the Alternative Modification will better facilitate the Applicable BSC Objectives

The Modification Group considered that the Alternative Modification better facilitated the Applicable BSC Objectives relative to the Proposed Modification, the criterion for a valid Alternative Modification, but not when compared to the current baseline.

Limiting the solution to pure generators and Interconnector Users would ensure that only those Parties with lower likelihood of variable Reconciliation Charges would be able to reduce their Credit Cover and in fact a two stage process based on historical average positive Reconciliation Charges is easier to implement for generators and Interconnector Users.

The Group felt that in addition the same arguments for and against the Proposed Modification applied to the Alternative with regards to the Applicable BSC Objectives (section 1.4 above).

Note: Subsequent to the final Modification Group meeting, the Proposer indicated support for the Alternative Modification. The restriction of scope better meets the Proposer's concerns in remedying the existing defect in the Code. The Proposer suggests that the average positive Reconciliation charge is an equitable and prudent level of Credit Cover to cover the future risk to BSC Parties as this is an objective measure that properly assesses the correct magnitude of this number. The Proposer wished to re-iterate that the Alternative Modification better facilitates the achievement of Applicable BSC Objectives (c) and (d). It considered that the focus of P152 was to further lower entry barriers to technically excellent insolvent Parties in the generation market, whilst keeping an equitable level of Credit Cover in place following the cessation of Trading in order to manage the industry risk. It will also lessen the need to resort to alternative means for the recovery of excess Credit Cover in an acceptable time frame for a distressed company.

The Panel was unanimous in its agreement with the P152 Modification Group that P152 Alternative Modification did not better facilitate the achievement of the Applicable BSC Objectives and hence should not be made.

1.9 Modification Group's cost benefit analysis of Alternative Modification

As with the Proposed Modification, the Modification Group sought a solution that would be inexpensive to implement, given that the occurrence of the event the Alternative is seeking to cover is likely to be rare. The original costs received from ECVAA included the development of a new script in the ECVAA system, to make the checks as to whether a Trading Party had fulfilled the criteria or not. This was considered excessive by the Group and in the limited time available an impact assessment on another more manual solution based on current working practices was sought. This resulted in a much smaller cost estimate. However the Group, in recommending rejection of the Alternative Modification considered that the benefits of the Modification were not such that it warranted approval, and hence P152 did not justify the costs however minimal.

1.10 Governance and regulatory framework assessment

During the assessment of the Proposed and Alternative Modification, the P152 Modification Group considered the wider implications of P152 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)). The P152 Modification Group was of the opinion that, were P152 to be implemented, there would be no such wider implications.

2 COSTS[5]

The costs for P152 are dependent on the outcome of other Modification Proposals and Change Proposals. Below is a short note to explain how. The table contains the costs based on the assumption that neither Modification Proposal P142 "Minor Refinement to allow a Level 2 Default Cure period in Defined Circumstances" nor Change Proposal CP974 "Full review of BSCP65" are approved or implemented. It therefore contains the summed costs of the ECVAA and the FAA worst case scenarios with regards to cost.

Energy Contract Volume Aggregation Agent (ECVAA)

The cost is £6k to implement P152 with a £7k charge every time the request is made. This is unless CP974 is approved in which case, instead, there will be a one off cost of £1k to update Local Working Iinstructions (LWIs).

"Given that ELEXON are able make the 3rd and 4th checks, then the price to set up the manual process for the 1st and 2nd checks under P152 will be around £6K. Every time there is a request to carry out these checks for a Party, the price will be about £7K (on a T&M basis using current rates).

It should be noted that the scripts for checks 1 & 2 are part of CP974. So if CP974 were ordered by ELEXON, then the price would be reduced to around £1K for updating the Local Work Instructions with no charge for performing checks 1 & 2." (See annex 4)

Funds Administration Agent (FAA)

The Defaulting Party could abandon the current minimum eligible amount (MEA) rules and receive its Credit Cover in 2 defined stages. The FAA currently liases closely with ELEXON in determining appropriate action for Defaulting Parties. Therefore agreeing the new process of relevant percentages of Credit Cover to be refunded could be assimilated into the existing working arrangements.

There may be a change required to the relevant BSCP (BSCP301) and the FAA's internal working procedures. There would be a minimal impact on service levels, subject to the provision of appropriate staff, and no impact on system performance.

Providing P142 is approved, the FAA can undertake P152 for no extra cost, if P142 is not approved P152 would incur that cost. The cost of P142 is £2k to implement and £12.5k per year operational. (See annex 4)

PROGRESSING MODIFICATION PROPOSAL

Demand Led Cost	£0
ELEXON Resource	65 Man days (equating to approximately £10,920)

IMPLEMENTATION COSTS

	Stand Alone Cost	P152 Incremental Cost	Tolerance

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[5] Clarification of the meanings of the cost terms in this section can be found in annex 5 of this report

Service Provider[6] Cost				
	Change Specific Cost	£8,000	£8,000	unknown
	Release Cost	£0		n/a
	Incremental Release Cost	£0	£0	n/a
	Total Service Provider Cost	£8,000	£8,000	unknown
Implementation Cost				
	External Audit	£500	£500	+/-25%
	Design Clarifications	£300	£300	+/-100%
	Additional Resource Costs	£0	£0	n/a
	Additional Testing and Audit Support Costs	£0		n/a
Total Demand Led Implementation Cost		£8,800	£8,800	unknown

ELEXON Implementation Resource Cost		13 Man days £5,200	13 Man days £5,200	+/- 5%
Total Implementation Cost		£14,000	£14,000	unknown

ONGOING SUPPORT AND MAINTENANCE COSTS

	Stand Alone Cost	P152 Incremental Cost	Tolerance
Service Provider Operation Cost	£19,500 per event	£19,500 per event	+/-0%
Service Provider Maintenance Cost	£800 per annum	£800 per annum	+/-0%
ELEXON Operational Cost	£0 per annum	£0 per annum	n/a

3   RATIONALE FOR PANEL'S RECOMMENDATIONS

The Panel considered the P152 Assessment Report at its meeting on 12 February 2004. It considered the rationale of the P152 Modification Group that led to its decision to reject both the Proposed and Alternative Modification. The reason was that P152 did not better facilitate Applicable BSC Objectives (c) and (d). The P152 Modification Group considered that the risk to the industry of being liable for a bad debt would be a barrier to entry and hence would not better facilitate competition and hence the

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[6] BSC Agent and non-BSC Agent Service Provider and software Costs

achievement of Applicable BSC Objective (c). In addition, the implementation of P127 - which enables a Party that is in Default by virtue of H3.1.1(g) and is withdrawing from the Code to reclaim its Credit Cover at RF - has both alleviated the defect outlined in P152 (a Party can reclaim its Credit Cover at RF and this is considered by the P152 Modification Group to be a reasonable compromise between allowing the insolvent Party to reduce its Credit Cover whilst not increasing the risk to industry and reducing competition), and has reduced the likelihood for remedies to be sought outside Code (see Assessment Report for details). The Panel concurred with the P152 Modification Group and made a unanimous decision to progress P152 to the Report Phase with a provisional recommendation to the Authority that neither Proposed nor Alternative Modifications should be made.

The Panel unanimously agreed with the P152 Modification Group's recommendation regarding the suggested Implementation Date of 3 November 2004 if an Authority decision is received on or before 16 June 2004, or the 23 February 2005 if the Authority decision is received after 16 June 2004, but on or before 6 October 2004. This would provide sufficient time for BSCCo and its BSC Agents to make the necessary changes to documentation and internal working procedures. The Group felt that to minimise the cost of implementation the Implementation Date should correspond with a scheduled BSC Systems release date.

The Panel also considered that the draft legal text prepared for both the Proposed and Alternative Modification to be appropriate and these will be consulted on as part of the Report Phase consultation.

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 and the Alternative Modification.

4.1 BSCCo

BSCCo will have to perform checks to ensure the relevant Party meets the criteria outlined. These will use current BSCCo systems and processes. In addition BSCCo will perform the calculation set out in the Code that is based on a measure of the average positive Reconciliation Charges a Party has been liable for historically. BSCCo will present these matters to the Panel. There will be a slight increase in the workload for the Panel and for BSCCo in supporting the Panel. BSCCo would then inform the FAA whether and by how much a Party can reduce their Credit Cover.

4.2 BSC Systems

See BSC Agent impact assessments in annex 4.

System / Process	Potential Impact of Proposed/Alternative Modification
Clearing, Invoicing and Payment	BSCCo will inform the FAA whether and by how much a Party can reduce their Credit Cover and the FAA will act accordingly – using a process assimilated into current working practices.

4.3 Parties and Party Agents

Parties meeting the criteria and wanting Credit Cover back are impacted by the new process but the impact is minimal since it is a manual process.

5   IMPACT ON CODE AND DOCUMENTATION

5.1   Balancing and Settlement Code

Both the Proposed Modification and the Alternative Modification will require changes to be made to Sections M and Section N, see legal text attached in annex 1.

5.2   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
BSCP301: Clearing, Invoicing and Payment	Changes to reflect the fact that Defaulting Parties under the specific circumstances outlined can reduce their Credit Cover according to the equation set out in the relevant section of the Code.
Funds Administration Agent (FAA) Service Description	Changes to reflect the fact that certain types of Defaulting Parties can reduce their Credit Cover by an amount specified to the FAA by BSCCo (calculated according to an equation set out in the Code).

5.3   BSCCo Memorandum and Articles of Association

No changes will be required to BSCCo Memorandum and Articles of Association as a consequence of either the Proposed Modification or Alternative Modification.

5.4   Impact on Core Industry Documents and supporting arrangements

An assessment has been undertaken in respect of Core Industry Documents and supporting arrangements an d no impact was identified.

6   SUMMARY OF CONSULTATIONS

Consultation question	Respondent agrees	Respondent disagrees	Opinion unexpressed
Do you agree with the Panel's views on P152 and the provisional recommendation to the Authority contained in the draft Modification Report that P152 should not be made?			
Do you agree with the Panel's view that the legal text provided in the draft Modification Report correctly addresses the defect or issue identified in the Modification Proposal?			
Do you agree with the Panel's provisional recommendation concerning the Implementation Date for P152?			
Do you believe that there are any impacts that have not been highlighted?			

[pending receipt]

6.1   Summary of the consultation responses

[pending receipt]

6.2   Comments and views of the Panel

[Pending deliberation]

7   SUMMARY OF TRANSMISSION COMPANY ANALYSIS

7.1   Analysis

The Transmission Company did not formally respond to the P152 consultation. It did however state that it is generally in support of the sentiment of the Modification Proposal but feels that the detail of the proposed solution should be the subject of Modification Group discussions in addition to consultation responses received.

8   SUMMARY OF EXTERNAL ADVICE

No external advice was sought.

9   DOCUMENT CONTROL

9.1   Authorities

Version	Date	Author	Reviewer
0.1	12/02/04	Dena Harris	Change Delivery
0.2	17/02/04	Dena Harris	Consultation

9.2   References

Ref	Document	Owner	Issue date	Version
P152AR	P152 Assessment Report "Reduction of Credit Cover for a Trading Party in Default which has ceased trading and which has paid all accrued Trading Charges" http://www.elexon.co.uk/docs/ta/modifications/modsprops/P152/P152AR10.pdf	ELEXON	09/01/04	1.0
P127RR	P127 Modification Report "Optional De-registration by Insolvent Party" http://www.elexon.co.uk/docs/ta/modifications/modsprops/hP127/P127RR10.pdf	ELEXON	15/10/03	1.0
P132MR	P132 Modification Report "Redefinition of Credit Cover Requirements to account for Reconciliation Charges" http://www.elexon.co.uk/docs/ta/modifications/modsprops/P132/P132RR10.pdf	ELEXON	15/10/03	1.0
MRP142	P142 Modification Report "Minor refinement to allow a Level 2 Default Cure period in defined circumstances" http://www.elexon.co.uk/docs/ta/modifications/modsprops/P142/MRP14210.pdf	ELEXON	20/01/04	1.0
CP974v.2	CP974 "Full review of BSCP65" http://www.elexon.co.uk/docs/ta/change/props/open/CP974.pdf	ELEXON	16/09/03	2.0

ANNEX 1   DRAFT LEGAL TEXT

- Text for Proposed Modification.

- Text for Alternative Modification.

ANNEX 2   MODIFICATION GROUP DETAILS

Member	Organisation	Email	18/12/03	05/01/04	28/01/04
Roger Salomone	ELEXON (Chairman)	Roger.salomone@elexon.co.uk	✔	✔	✔
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Helen Bray	London Electricity	Helen.Bray@edfenergy.com	✔	x	✔
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Joanne Ellis	Cornwall Consulting	joanne.ellis@cornwall-consulting.co.uk	✔	x	✔
Phil Russell	Not Applicable	Phil.russell@bigfoot.com	x	x	✔
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Steve Drummond	EDF Trading	steve.drummond@edftrading.com	✔	✔	✔

Attendee	Organisation	Email	18/12/03	05/01/04	28/01/04
Zaki Hassan	PricewaterhouseCoopers	zaki.hassan@uk.pwc.com	✔	x	✔
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Tim Sandford	Linklaters	tim.sandford@linklaters.com	x	✔	✔
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Jerome Williams	Ofgem	Jerome.Williams@Ofgem.gov.uk	✔	✔	✔

ANNEX 3   CONSULTATION RESPONSES

ANNEX 4   BSC AGENT IMPACT ASSESSMENTS

FAA Impact Assessment

NETA Change Form	ELEXON Reference
	P152AS
Title	**Version No.**
ion of Credit Cover for a Trading Party in Default which has trading and which has paid all accrued Trading Charges	*1.0*
	EPFAL Reference
	PI52

Type of Assessment	Date CP Received	Date IA Issued
DLIA / Quotation	28/1/04	3/2/04

Brief Summary of Change

P152 seeks to enable a Party that is in default for reasons of insolvency and fulfils several criteria, to reduce or reclaim its Credit Cover as would a Party that has ceased trading under regular circumstances.

Logica EPFAL's Proposed Solution

The FAA has been requested by ELEXON to respond to the 2 proposed solutions detailed in the P152 Requirement Specification. Firstly, the Sliding Scale proposal and secondly the solution whereby the Panel determines how much Credit Cover should be returned prior to the Final Reconciliation Run.

The Sliding Scale option (2b) would best suit the current working practices governing the FAA's custodianship of the trading Party's Credit Cover. The defaulting Party could abandon the current Minimum Eligible Amount (MEA) and receive its Credit Cover in 2 defined stages. The FAA currently liases closely with ELEXON in determining appropriate action for defaulting Party's. Therefore agreeing the new process of relevant percentages of credit cover to be refunded could be assimilated into the existing working arrangements.

Deviation from ELEXON's Solution / Requirements

Whilst the FAA would respect the determinations of any Panel decision in relation to Credit Cover reduction appeals, it believes that in the interest of audit requirements and uniformity the defaulting Party's interests would be best served if the FAA liased with ELEXON in co-ordinating reductions of Credit Cover.

Operational Solution and Impact

If option 2b is adopted the new process could subsumed into the existing working practices.

As part of the Operational Solution and Impact the FAA would propose a walkthrough of any new agreed processes

Testing Strategy

Unit		Change Specific		End to End	v

Module		Operational Acceptance	Ö	Participant Testing	
System		Performance		Parallel Running	
Regression		Volume		Deployment/ Backout	

Other:
N/A

Validated Assumptions
N/A

Outstanding Issues
N/A

Changes to Service
Services Impacted *[Tick boxes to show impacted systems and associated documentation]*

	Funds Transfer System	Other 1	Other 2

Software			
IDD Part 1	v		
IDD Part 2			
URS			
SS			
DS			
OSM			
RTP	*[indicate which Regression Test Pack will need to be updated]*		
Comms	*[provide commentary explaining how comms might be impacted]*		
Other	*[DR Sync Proc, Unplanned Outage Proc, Planned Outage Proc, etc]*		

Nature of Documentation Changes

There maybe a change required to the relevant BSCP and the FAA's internal working procedures

Nature / Size of System Changes

NA

Type of Release Costed:	Stand alone
Deployment Issues, eg Outage Requirements:	NA
Impact on Service Levels:	Minimal, subject to the provision of appropriate staff
Impact on System Performance:	No impact

Responsibilities of ELEXON

The FAA will require a closer working relation with ELEXON once a trading Party has been declared in default to ensure the correct percentage of cover is returned and to ensure all outstanding FAA liabilities have been met.

Acceptance Criteria

N/A

Any Other Information

N/A

Attachments

PRICING

Price Breakdown

Item description	ks	ex VAT)
Change Specific Cost		
Project Overhead		
Total Price		*[Price excluding VAT]*
Project Duration		*[Total project time in weeks]*
Operational Price (eg per annum or event)		*[Price excluding VAT per annum or event]*
Rationale		
ng the cost of implementing P142, 'Minor Refinement to allow a Level 2 Default Cure in Defined Circumstances', can be met the FAA can undertake the above Modification for a cost.		
Annual Maintenance Price		*[Price excluding VAT]*
Rationale		
N/A		
Validity Constraints		
N/A		
Authorised Signature		**Date Signed**

ECVAA Impact Assessment

ECVAA originally sent in an Impact Assessment (attached below) that was based on developing a new script to perform the criteria checks. It was asked to update its estimate and the following note was received:

"Given that ELEXON are able make the 3rd and 4th checks listed below, then the price to set up the manual process for the 1st and 2nd checks under P152 will be around £6K. Every time there is a request to carry out these checks for a Party, the price will be about £7K (on a T&M bases using current rates).

It should be noted that the scripts for checks 1 & 2 are part of CP974. So if CP974 were ordered by ELEXON, then the price would be reduced to around £1K for updating the Local Work Instructions with no charge for performing checks 1 & 2."

Original Impact Assessment

NETA Change Form	ELEXON Reference
	MP 152

Title	Version No.
Reduction of Credit Cover for a Trading Party in Default which has ceased trading and which has paid all accrued Trading Charges	Version 0.1
	LogicaCMG Reference
	ICR 577

Type of Assessment	Date CP Received	Date IA Issued
Impact Assessment	9-Jan-2004	23-Jan-2003

Brief Summary of Change

Enable a Party that is in default for reasons of insolvency and fulfils several criteria, to reduce or reclaim its Credit Cover as would a Party that has ceased trading under regular circumstances.

This assessment is against the P152 dated 1st December 2003

LogicaCMG's Proposed Solution

The Modification Proposal identified the following three possible alternatives, which may be appropriate to deal with the determination of a reduction in a Party's Credit Cover.

Option 1:
The Credit Cover could be determined in accordance with existing principles set out in the BSC.

Option 2:
Credit cover would be based on a Sliding Scale (multi-step & two-step)

Option 3:
The Panel has the discretion to decide the level of Credit Cover.

For all three Options LogicaCMG propose the development of a new script (or Oracle Report) to check that the criteria to apply for a reduction in Credit Cover have been met by a Participant.
For the specified Participant, the script will report:
BM Unit registrations.

Market Role registrations for the Party.

Effective Notifications.

Indebtedness for previous 30 days.

(For Option 2 and Option 3 it has been assumed that there is no ECVAA involvement .)

Deviation from ELEXON's Solution / Requirements					
none					

Operational Solution and Impact					
none					

Testing Strategy

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

Other:

Validated Assumptions

Outstanding Issues

It has been assume that there is no ECVAA involvement if the Sliding Scale (Option 2) or Panel Decision (Option 3) options are chosen.

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							
DS							
MSS				X			
OSM				X			
LWIs							
RTP	[None]						
Comms	[None]						
Other	[None]						

Nature of Documentation Changes
ECVAA URS / OSM / MSS will require update to describe the use of the new script, and the new trigger for the Minimum Eligible Amount calculation.

Nature / Size of System Changes
Small

Type of Release Costed:	Standalone Patch
Deployment Issues, e.g. Outage Requirements:	None
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
Documentation:- Address of ELEXON review comments leading to final DCR issue being provided. Software:- This is covered by the acceptance criterion 2 in the "CVA Program – Release Acceptance Criteria" document for the Feb03 release.

Any Other Information
None.

Attachments
P152 Price Presentation

PRICING		
Price Breakdown		
Item description	ks	**ex VAT)**
Change Specific		£19,140
Variable Release Costs		£4,679
Fixed Release Costs		£215,159
Total Price (ex VAT)		£238,977
Price Tolerance		0 %
Project Duration		4 weeks
Operational Price (e.g. per annum or event) (ex VAT)		£0
Rationale		
N/a		
Annual Maintenance Price (ex VAT)		£2,680
Rationale		
The Annual Maintenance Price is derived as 14% of the Change Specific Price.		

Validity Constraints
Price excludes provision for indexation of daily rates from 1st April 2004.
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 CP
No allowance is included for supporting PwC 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
The validity period for this quote is 30 days and the offer is based on the following payment schedule:
LogicaCMG will invoice in full for this change on deployment or within one month of the change being ready for deployment
Maintain charges will be invoiced monthly in arrears with part months charged pro rata

Authorised Signature	Date Signed

ANNEX 5   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. In order to give Stakeholders a feel for the estimated cost of implementing an Approved Modification the templates shown in Attachment 1 have 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	
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.

SERVICE PROVIDER[7] COSTS	
Change Specific Cost	Cost of the Service Provider(s) Systems development and other activities 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	Allowance for the cost of external audit of the delivery of the release. For CVA BSC Systems Releases this is typically estimated as 8% of the total Service Provider Costs, with a tolerance of +/- 20%. 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.
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 5% of the total Service

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[7] 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.

	Provider Costs, with a tolerance of +/- 100%.
Additional Resource Costs	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. For SVA BSC Systems Releases, this will include the management and operation of the Acceptance Testing and the associated testing environment. This cost relates solely to the short-term employment of contract staff to assist in the implementation of the release.
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, 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.

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.