

## Responses from P152 Assessment Consultation

Consultation issued 09 January 2004

Representations were received from the following parties:

<b>No</b>	<b>Company</b>	<b>File Number</b>	<b>No. BSC Parties Represented</b>	<b>No. Non-Parties Represented</b>
1.	Shotton Combined Heat and Power (SCHP) Limited	P152_ASS_001	1	0
2.	Scottish Power UK plc	P152_ASS_002	6	0
3.	EDF Energy Networks (EPN) plc	P152_ASS_003	9	0
4.	Aquila Networks plc	P152_ASS_004	1	0
5.	Scottish and Southern Energy	P152_ASS_005	5	0
6.	EDF Trading Ltd and EDF (Generation)	P152_ASS_006	2	0
7.	British Gas Trading (BGT)	P152_ASS_007	1	0

**P152\_ASS\_001 – Shotton Combined Heat and Power (SCHP) Limited**

<b>Respondent:</b>	Roger Marsh and Michael Horrock
<b>No. of BSC Parties Represented</b>	1
<b>BSC Parties Represented</b>	Shotton Combined Heat and Power (SCHP) Limited
<b>No. of Non BSC Parties Represented</b>	
<b>Non BSC Parties represented</b>	
<b>Role of Respondent</b>	Administrative receivers of Shotton Combined Heat and Power (SCHP) Limited

<b>1.1</b>	<b>Question</b>	<b>Response</b>	<b>Rationale</b>
1.	<p>Do you believe Proposed Modification P152 better facilitates the achievement of the Applicable BSC Objectives?</p> <p>Please give rationale and state objective(s)</p>	Yes	<p>Modification P127 (approved by the Authority on 23 December 2003) defines the time period over which an insolvent Trading Party can claim back its unused Credit Cover as RF (14 months). However, where an insolvent Trading Party has ceased trading and paid all its accrued Trading Charges and met all its liabilities and obligations under the BSC, in all respects but for insolvency being identical to a non-defaulting Trading Party, we submit that P127 is insufficient as it can lead to serious financial difficulties for receivers, administrators and insolvency practitioners.</p> <p><b>To this end, we believe P152 extends P127 and better facilitates Applicable BSC Objectives (c) and (d) for the reasons set out in the Proposal and as elaborated below.</b></p> <p><b>(i) Objective (c)</b></p> <p>The inability of a Party in default under Section H3.1.1(g) to recover any of its Credit Cover when its Energy Indebtedness is less than or equal to zero</p>

1.1	Question	Response	Rationale
			<p>and the other requirements of P152 have been met, constitutes a barrier to entry.</p> <p>Removing this barrier would better promote effective competition in the generation and supply of electricity as well as in the sale and purchase of electricity (BSC Objective (c)).</p> <p>Although a new market entrant may not be deterred from entry by the current rules, in the case of a receiver, administrator or insolvency practitioner faced with the decision of running or mothballing a plant, the fact that funds will remain trapped as security for a significant period of time, subsequent to the eventual cessation of trading and sale of the asset (having met all the other requirements of P152), act a material disincentive to continuing or restarting generation and enhance the economic argument for plant mothballing. This is particularly true if funds are not readily available to be posted for Credit Cover. <b>Note that receivers only have the Trading Party's own assets for the purposes of posting Credit Cover and meeting liabilities and have no other access to funds – they do not use their own funds for this purpose.</b> It is clear that the consequent withdrawal of capacity will inhibit competition.</p>

1.1	Question	Response	Rationale
			<p>(A receiver, administrators or other insolvency practitioners is, broadly speaking, subject to a legal duty to act in the best interests of the relevant creditors which duty includes proactively gathering in and realising the assets of a Trading Party.)</p> <p>Additionally, entities connected to the relevant Trading Party (by virtue of being either lenders or commercial counterparties) could be relying to a material extent on funds which would have been released in any other circumstances given that the Trading Party has ceased trading. The release of these funds would enable the Trading Party to better meet its obligations to other BSC Parties, which again gives better effect to Applicable BSC Objective (c).</p>
			<p>We note that the Panel has accepted (see ELEXON's report on P132) that if a Trading Party not in Default ceases trading, it need not post or retain Credit Cover in respect of Trading Disputes and PNE Claims. Therefore holding back of funds for a Trading Party in technical default (and generally in the position of P152) to underwrite this risk when no other party is required to do so (irrespective of its financial position or ability to meet PNE or Trading Dispute claims) is an inconsistency in the Credit Cover calculations.</p>

1.1	Question	Response	Rationale
			<p>Finally, we are informed that the probability of a significant payment arising out of the Reconciliation Runs is very much lower for Generators than for Suppliers. The principle underlying the Credit Cover calculation reflects the specific trading position and strategy of the BSC Party in question, irrespective of the position of other BSC Parties. The locking in or trapping of funds thereby distorts this specificity of Credit Cover and creates an asymmetry between the level of Credit Cover and reconciliation payment risk for Generators in Default and Suppliers in Default respectively. This is in violation of the principle underpinning the Credit Cover calculation.</p> <p><b>The transition to a fully competitive market involves eliminating inconsistencies in the treatment and application of Credit Cover between Trading Parties. The proposed modification ensures greater consistency in the treatment of Credit Cover calculations and so further enhances Applicable BSC Objective (c).</b></p> <p><b>(ii) Objective (d)</b></p> <p>Modification P127 allows the recovery of unused Credit Cover for an insolvent Trading Party after a 14-month period. We submit that this does not constitute an equitable, timely or appropriate remedy if the Trading Party has ceased trading, and paid all its accrued Trading Charges and met all its liabilities and obligations under the BSC, in light of the concerns detailed in the modification Proposal for P152.</p> <p>Requiring Credit Cover to remain in place for 14 months longer than other Parties who have ceased trading may induce Parties to seek remedies outside the BSC with the consequent cost and time implications, and if this period was extended to DF (as long as 28 months) the likelihood of Parties seeking alternative remedies would increase significantly. It is therefore</p>

1.1	Question	Response	Rationale
			<p>submitted that there are strong arguments of merit in favour of BSC Objective (d), notwithstanding the forthcoming implementation of P127.</p> <p><b>Therefore, the modification is likely to promote more effectively Applicable BSC Objective (d), namely efficiency in the implementation and administration of the balancing and settlement arrangements.</b> It will reduce the need for parties to seek their remedies in alternative fora (and outside the BSC), which would have material time and cost implications not only for the BSC but also for BSCCo, which would have to deal with any such applications.</p>
2.	<p>Do you think that Parties in default under H3.1.1(g) that have fulfilled the criteria outlined in P152 pose more of a risk to industry in terms of lack of payment of reconciliation charges, than solvent Parties withdrawing from the Code?</p> <p>Please give rationale</p>	No	<p>A Trading Party in Default under H3.1.1(g), but which has fulfilled the proposed criteria in P152, does not necessarily pose more of a risk to the industry in terms of lack of payment of reconciliation charges, than solvent Parties withdrawing from the Code.</p> <p>This is because a Default under H3.1.1(g) may be technical only, as such a Trading Party may not be insolvent and could own significant assets, including cash. In addition, it is entirely possible that a Trading Party (not in Default) may have a similar or worse credit-standing than one that is in Default. For example, a Party not in Default could voluntarily liquidate itself and cease trading after the return of its Credit Cover thereby creating a greater risk of non-payment of reconciliation charges than a Party in Default that meets the P152 criteria. It is clear from the report on Modification Proposal P132 that this risk is considered acceptable to industry and for the reasons described in the paragraph below, it is inequitable to treat a party fulfilling the requirements of P152 differently.</p> <p>The Credit Cover calculation under the BSC draws no distinction between a solvent Trading Party and an insolvent Trading Party. Second, a Trading</p>

1.1	Question	Response	Rationale
			<p>Party that goes into Default is under no obligation to increase its Credit Cover as a result of such Default. Therefore it would follow that a Trading Party whose Credit Cover requirement has been reduced to zero (in accordance with the Minimum Eligible Amount calculation in the BSC) should be entitled to the return of such Credit Cover irrespective of whether it is in Default under Section H3.1.1 (g) or otherwise.</p>
3.	<p>Do you believe there are any alternative solutions that the Modification Group has not identified and that should be considered? Please give rationale</p>	No	<p>As stated in response to Question 4 below, we believe option 1 is the most appropriate. However, the Modification Proposal highlighted three possible alternatives, each of which we believe are appropriate for consideration for implementation.</p>
4.	<p>Four options for the mechanism by which Parties will receive their Credit Cover back have been developed (see consultation document Sections). Which, if any, do you prefer? Please give rationale and if none are considered suitable state suggested alternative.</p>	Option 1	<p>Option 1 is the most equitable and appropriate solution as the calculation of Credit Cover required for all Trading Parties whilst they are actively trading is based on the Minimum Eligible Amount (the “<b>MEA</b>”).</p> <p>The method of calculation applies regardless of a Party’s creditworthiness and whether or not it is in Default. If a Party in Default meets the criteria in P152 the MEA is zero but unlike a Party that is not in Default and which also has a MEA of zero, it cannot withdraw all or any of its Credit Cover upon ceasing trading. The Party not in Default has the ability to withdraw irrespective of its financial position or ability to meet reconciliation and other future payments.</p> <p>As explained in response to question 2 above, a Party in Default whose Credit Cover is frozen may have a better ability to meet future payments than a Party withdrawing all of its Credit Cover. The logical solution to such inequitable treatment is to permit a Defaulting Party that satisfies the criteria in P152 to withdraw all its credit cover on the same basis as any other Party.</p>

1.1	Question	Response	Rationale
5.	<p>If</p> <p>a) you prefer Option 2a, can you suggest an appropriate sliding scale that could be used?</p> <p>b) you prefer Option 2b, can you suggest an appropriate percentage that could be retained for security (see Section 2.10 for what was used in P&amp;SA)</p>		<p>Whilst our preference remains for Option 1 (for the reasons outlined above), if Option 2a were to be implemented, the sliding scale should be based upon a statistical analysis of further amounts falling due and payable, and the likely quantum of such amounts in respect of the relevant Trading Party.</p> <p>Trading Parties in Default (under the condition of P152) should not be penalised by holding a level of Credit Cover necessary to meet a worst-case scenario, incommensurate to the real potential settlement risks arising from Reconciliation Runs in respect of that Trading Party.</p> <p>We note the discussions concerning whether it is appropriate to draw a distinction in scale and/or retention percentage between Suppliers and Generators. Our understanding is that the size of potential liability for Generators is likely to decrease very sharply over time such that it is very small relative to the original level of Credit Cover required, whilst using the Case Study of a large supplier shown as Annex 4 of Modification Document P132, Reconciliation Run payments are seen to be making a significant contribution to the overall balance for such a Trading Party withdrawing from the Code. This should be reflected in the level of retention. We have no objection to such a distinction being made to reflect the different future uncertainties in the reconciliation payments of Suppliers and Generators.</p>
6.	<p>For the relevant options (2a, 2b and potentially 3) should the time at which the relevant Party can receive the remainder of its Credit Cover be at the Final Reconciliation or Dispute Final Run?</p> <p>Please give rationale</p>	RF	<p>Final Reconciliation Settlement Run ("<b>RF</b>") should be the relevant date for three reasons:</p> <p>(i) This issue was considered very recently in relation to P127 - see section 1.6 of the Modification Report. Whilst it was acknowledged that allowing insolvent parties to withdraw at RF posed a risk in respect of contingent liabilities arising after that date, it was</p>



1.1	Question	Response	Rationale
			<p>concluded that the risk was acceptable. It was also noted that the same risk existed in respect of other parties withdrawing from the BSC, and that this had been accepted as part of the baseline of the BSC. In rejecting P132, it was concluded that this baseline should not be changed.</p> <p>(ii) DF is inherently uncertain. Under the BSC U2.2.4 it states that DF will be a date not more than 28 months after the Settlement Date subject to BSC P6.5.1(c). BSC P6.5.1(c) provides for this 28-month deadline to be extended in circumstances where the Panel determines that a Past Notification Error occurred that still requires rectifying. Therefore, DF, unlike RF, is not a fixed date for it can be extended indefinitely beyond 28 months under the BSC. Further, it is not possible to say with certainty at RF whether a DF will in fact occur at all. This uncertainty would significantly increase the likelihood that a Party satisfying the criteria of P152 would take action to recover its Credit Cover outside of the BSC.</p> <p>(iii) If insolvent Parties satisfied the conditions entitling them to retrieve their Credit Cover under both P152 and P127, they would simply withdraw from the BSC at RF and retrieve the balance of their Credit Cover back pursuant to P127 rather than wait a further 14 months (or possibly longer if BSC P6.5.1(c) applied) to get their Credit Cover back under P152.</p>
7.	<p>Does P152 raise any issues that you believe have not been identified so far and that should be progressed as pare of the Assessment Procedure? Please give rationale</p>	No	

1.1	Question	Response	Rationale
8.	Are there any further comments on P152 that you wish to make?	Yes	<p>The second line of the Introduction section of the Consultation Document should read "... (P152) was raised by Roger Marsh and Michael Horrocks of PricewaterhouseCoopers acting as administrative receivers of Shotton Combined Heat and Power (SCHP) Limited on 1 December 2003." That is to say, these are personal appointments to the named individuals, both of whom are also partners of PricewaterhouseCoopers. Could you please amend and make a note for future reference.</p> <p><b>It is therefore incorrect to say that PricewaterhouseCoopers is the administrative receiver of Shotton Combined Heat and Power Limited. PricewaterhouseCoopers is taking instructions from the administrative receivers but is not acting, in any capacity, in its own name.</b></p>

P152\_ASS\_002 - Scottish Power UK plc

<b>Respondent:</b>	John W Russell (SAIC Ltd)
<b>No. of BSC Parties Represented</b>	6
<b>BSC Parties Represented</b>	Scottish Power UK plc; ScottishPower Energy Management Ltd.; ScottishPower Generation Ltd; ScottishPower Energy Retail Ltd.; SP Transmission Ltd; SP Manweb plc.
<b>No. of Non BSC Parties Represented</b>	0
<b>Non BSC Parties represented</b>	
<b>Role of Respondent</b>	Supplier / Generator / Trader / Consolidator / Exemptable Generator / Party Agent

Q	Question	Response	Rationale
1.	Do you believe Proposed Modification P152 better facilitates the achievement of the Applicable BSC Objectives? Please give rationale and state objective(s)	<b>Yes</b>	<i>Administrators might be disinclined to post credit cover if they believed it would not be returned once a buyer had been secured. If no credit cover was posted, the party would be unable to trade and competition in the market consequently reduced. Applicable Objective C, therefore, seems most suitable.</i>
2.	Do you think that Parties in default under H3.1.1(g) that have fulfilled the criteria outlined in P152 pose more of a risk to industry in terms of lack of payment of reconciliation charges, than solvent Parties withdrawing from the Code? Please give rationale	<b>No</b>	<i>If the criteria are satisfied, then the risk should be no greater. All trading charges will have been paid in full by a party in default only under H3.1.1(g) suggesting only a very small risk to other BSC members. At the same time, a solvent party may leave the code but then fail to meet further liabilities arising from subsequent reconciliation. Nonetheless, it should be a requirement of any change implemented under P152 that a buyer has been secured for the defaulting party and that the buyer has agreed to assume all present and future liabilities accrued under the BSC.</i>

Q	Question	Response	Rationale
3.	<p>Do you believe there are any alternative solutions that the Modification Group has not identified and that should be considered?</p> <p>Please give rationale</p>	<b>No</b>	<p><i>The only alternative identified by the group required different treatment of Parties, depending on their role within the BSC. However, some parties perform multiple roles, which would make this section of the code both difficult to implement and discriminatory.</i></p>
4.	<p>Four options for the mechanism by which Parties will receive their Credit Cover back have been developed (see consultation document Sections). Which, if any, do you prefer?</p> <p>Please give rationale and if none are considered suitable state suggested alternative.</p>	<b>Option 1 and Option 3</b>	<p><i>A combination of 1 and 3 would be preferable.</i></p> <p><i>2a and 2b would be too complex; either requiring detailed analysis or the application of arbitrary figures, at each event. This does not add to the efficiency of the BSC and would increase the costs of any solution.</i></p> <p><i>Using 1 or 3 in isolation might be problematic. In particular, the Panel may not wish to have their powers extended in this regard, but we also believe that the code should at least prescribe a set of guidelines that the Panel could refer to. However, simply applying Option 1 would remove the situational aspect that Option 3 would otherwise provide. Nonetheless, there may be instances where there is clear justification for the return of credit cover without involving the Panel.</i></p> <p><i>Therefore, we would argue that, where the administrator has secured a buyer that is willing to assume the debts of the defaulting party, their CALF value could be recalculated under M 2.3, as with a non-defaulting party, allowing them to reclaim the credit cover. However, where a buyer has not been found, or where the buyer does not assume the debts, but the other criteria set down in the proposal have been met, the matter should be referred to the Panel for decision.</i></p>

Q	Question	Response	Rationale
5.	<p>If</p> <p>c) you prefer Option 2a, can you suggest an appropriate sliding scale that could be used?</p> <p>d) you prefer Option 2b, can you suggest an appropriate percentage that could be retained for security (see Section 2.10 for what was used in P&amp;SA)</p>		N/A
6.	<p>For the relevant options (2a, 2b and potentially 3) should the time at which the relevant Party can receive the remainder of its Credit Cover be at the Final Reconciliation or Dispute Final Run? Please give rationale</p>	<b>Non-Specific (see rationale)</b>	<i>In the case of 3, it is our view that the same timescale should be employed as for a non-defaulting party wishing to reduce its credit cover. This would see the credit cover returned either upon application, after satisfying the requirements of M 2.3 or, in the case of a party that has not found a buyer to assume its liabilities under the BSC, following Panel approval.</i>
7.	<p>Does P152 raise any issues that you believe have not been identified so far and that should be progressed as pare of the Assessment Procedure? Please give rationale</p>	<b>No</b>	
8.	<p>Are there any further comments on P152 that you wish to make?</p>	<b>No</b>	

**P152\_ASS\_003 – EDF Energy Networks (EPN) plc**

<b>Respondent:</b>	Tony Diccico
<b>No. of BSC Parties Represented</b>	9
<b>BSC Parties Represented</b>	EDF Energy Networks (EPN) plc; EDF Energy Networks (LPN) plc EDF Energy Networks (SPN) plc; EDF Energy (Sutton Bridge Power) EDF Energy (Cottam Power) Ltd; EDF Energy (West Burton Power) Ltd; EDF Energy plc; London Energy plc; Seeboard Energy Limited
<b>No. of Non BSC Parties Represented</b>	0
<b>Non BSC Parties represented</b>	N/A
<b>Role of Respondent</b>	Supplier/Generator/ Trader

<b>1.7</b>	<b>Question</b>	<b>Response</b>	<b>Rationale</b>
1.	Do you believe Proposed Modification P152 better facilitates the achievement of the Applicable BSC Objectives? Please give rationale and state objective(s)	No	The introduction of P152 would represents an increased risk to the remaining signatories of the Code after the defaulting Party has withdrawn. This would not better facilitate achievement of the Applicable BSC Objectives. Furthermore, for a number of proposed options it is necessary to define the percentage of Credit Cover required and EDF Energy believe that it would be difficult to determine this level without it being arbitrary.
2.	Do you think that Parties in default under H3.1.1(g) that have fulfilled the criteria outlined in P152 pose more of a risk to industry in terms of lack of payment of reconciliation charges, than solvent Parties withdrawing from the Code? Please give rationale	Yes	Yes, EDF Energy believe that there is a higher probability that there will be someone to pay future reconciliation charges for a Party who withdraws from the Code in a controlled manner, as stated in Section 2.1.2. of the Assessment Consultation report.

1.7	Question	Response	Rationale
3.	<p>Do you believe there are any alternative solutions that the Modification Group has not identified and that should be considered? Please give rationale</p>	No	EDF Energy believes that all appropriate alternatives have been explored by the SSMG.
4.	<p>Four options for the mechanism by which Parties will receive their Credit Cover back have been developed (see consultation document Sections). Which, if any, do you prefer? Please give rationale and if none are considered suitable state suggested alternative.</p>	None	EDF Energy believes that a defaulting Party should not be allowed to remove its Credit Cover from the Code as this represents too much risk for the remaining participants.
5.	<p>If  e) you prefer Option 2a, can you suggest an appropriate sliding scale that could be used?  f) you prefer Option 2b, can you suggest an appropriate percentage that could be retained for security (see Section 2.10 for what was used in P&amp;SA)</p>	N/A	
6.	<p>For the relevant options (2a, 2b and potentially 3) should the time at which the relevant Party can receive the remainder of its Credit Cover be at the Final Reconciliation or Dispute Final Run? Please give rationale</p>	DF	EDF Energy believe that a defaulting Party should have Credit Cover lodge to cover any reconciliation charges that may arise from the Disputes Final Settlement Run. This would represent a lower level of risk for the remaining market participants. The latest Audit resulted in BSC Auditor issuing a qualified audit, data quality issues are likely to be around for some time. This will mean re-running settlement disputes runs after Final Reconciliation Settlement Runs have been performed. Retaining Credit Cover provides a reassurance that whenever a dispute process is finalised there will be funds available from all Parties to cover their liabilities.

1.7	Question	Response	Rationale
7.	Does P152 raise any issues that you believe have not been identified so far and that should be progressed as pare of the Assessment Procedure? Please give rationale	No	
8.	Are there any further comments on P152 that you wish to make?	Yes	Generally, it would be good to review whether Credit Cover should cover outstanding reconciliation charges as well, and not be limited to just trading charges.



**P152\_ASS\_004 – Aquila Networks plc**

Good Afternoon,

Midlands Electricity formally (Aquila Networks PLC) would like to return a response of 'No Comment' to P152 Assessment Consultation.

Regards,

Deborah Hayward  
Distribution Support Office &  
Deregulation Control Group  
Midlands Electricity

## **P152\_ASS\_005 – Scottish and Southern Energy**

Dear Sirs,

This response is sent on behalf of Scottish and Southern Energy, Southern Electric, Keadby Generation Ltd., Medway Power Ltd., and SSE Energy Supply Ltd.

In relation to the eight questions contained within your note of 9th January 2004, and the associated Assessment Consultation for P152, we have the following comments to make:-

Q1 Do you believe Proposed Modification P152 better facilitates the achievement of the Applicable BSC Objectives? Please give rationale and state objective(s)

On balance yes we do believe that Proposed Modification P152 better facilitates the achievement of the Applicable BSC Objectives as it should be the feature of a market that Parties are free to leave (as well as join) subject to them meeting certain criteria, which, in the case of them exiting the market, should be that they have paid all costs and fees due by them to the BSC community. In the case of a defaulting Party such costs and fees will amount to much less than the level expected at Initial Settlement. On the balance of probabilities it therefore seems unnecessary to further penalise Parties experiencing financial hardship by continuing to tie up working capital that is not needed to protect the BSC community.

Q2 Do you think that Parties in default under H3.1.1(g) that have fulfilled the criteria outlined in P152 pose more of a risk to industry in terms of lack of payment of reconciliation charges, than solvent Parties withdrawing from the Code? Please give rationale

Yes. By the very fact that they are in default. It poses more of a risk to the BSC community as these Parties, due to the reconciliation timeframe, could amass costs and /or fees due to the BSC community and any significant sums are likely to be withheld by the Administrator subject to the ranking of the claims from creditors.

Q3 Do you believe there are any alternative solutions that the Modification Group has not identified and that should be considered? Please give rationale

No.

Q4 Four options for the mechanism by which Parties will receive their Credit Cover back have been developed (see consultation document Sections). Which, if any, do you prefer? Please give rationale and if none are considered suitable state suggested alternative.

We prefer Option 3, that is by way of Panel decision as cases will vary, and this approach allows the Panel to judge the situation on the merits of the case at hand.

Q5 If (a) you prefer Option 2a, can you suggest an appropriate sliding scale that could be used?

(b) you prefer Option 2b, can you suggest an appropriate percentage that could be retained for security (see Section 2.10 for what was used in P&SA)

Not Applicable (see our response to Q4 above).

Q6 For the relevant options (2a, 2b and potentially 3) should the time at which the relevant Party can receive the remainder of its Credit Cover be at the Final Reconciliation or Dispute Final Run? Please give rationale

Dispute Final Run. DF should be used until such time as DFs are not common place (as they are now) when it should revert to RF (which should be the most common approach).

Q7 Does P152 raise any issues that you believe have not been identified so far and that should be progressed as part of the Assessment Procedure? Please give rationale

Nothing further at this time.

Q8 Are there any further comments on P152 that you wish to make?

Nothing further at this time.

Regards

Garth Graham  
Scottish and Southern Energy plc

**P152\_ASS\_006 – EDF Trading Ltd and EDF (Generation)**

<b>Respondent:</b>	Steve Drummond
<b>No. of BSC Parties Represented</b>	2
<b>BSC Parties Represented</b>	EDF Trading Ltd and EDF (Generation)
<b>No. of Non BSC Parties Represented</b>	None
<b>Non BSC Parties represented</b>	N/A
<b>Role of Respondent</b>	Trader/Generator

<b>1.8</b>	<b>Question</b>	<b>Response</b>	<b>Rationale</b>
1.	Do you believe Proposed Modification P152 better facilitates the achievement of the Applicable BSC Objectives? Please give rationale and state objective(s)	No	There is an argument that the modification might encourage plant to be offered back to the market following financial difficulties, but this enhancement would be slight. Whereas, should P152 be approved, there would be an increased risk (albeit small) to the remaining BSC Parties after the defaulting Party has withdrawn. Overall, it can not be considered therefore to better facilitate achievement of the Applicable BSC Objectives.
2.	Do you think that Parties in default under H3.1.1(g) that have fulfilled the criteria outlined in P152 pose more of a risk to industry in terms of lack of payment of reconciliation charges, than solvent Parties withdrawing from the Code? Please give rationale	Yes	Albeit small, there has to be an increased finite risk to the remaining parties. Even if the insolvent party is still there, the liability would be amongst the list of other creditors with the strong likelihood that any recompense would be limited.
3.	Do you believe there are any alternative solutions that the Modification Group has not identified and that should be considered? Please give rationale	No	

1.8	Question	Response	Rationale
4.	<p>Four options for the mechanism by which Parties will receive their Credit Cover back have been developed (see consultation document Sections). Which, if any, do you prefer? Please give rationale and if none are considered suitable state suggested alternative.</p>	None	Option 1 places the risk on the remaining parties and options 2a, 2b and 3 all require a determination of an intermediate figure based on the perceived risk of future payment. Until such time as a demonstrably fair system can be made to quantify such risk then the status quo has to remain.
5.	<p>If</p> <p>g) you prefer Option 2a, can you suggest an appropriate sliding scale that could be used?</p> <p>h) you prefer Option 2b, can you suggest an appropriate percentage that could be retained for security (see Section 2.10 for what was used in P&amp;SA)</p>	No	The use of any intermediate figure is fraught with difficulties because such figures would inevitably have to be arbitrary. For that reason also it makes Option 3 very difficult as well. Hence only Option 1 is a viable alternative should the mod be approved.
6.	<p>For the relevant options (2a, 2b and potentially 3) should the time at which the relevant Party can receive the remainder of its Credit Cover be at the Final Reconciliation or Dispute Final Run? Please give rationale</p>	DF	Awaiting the DF Run would minimise the risk to remaining parties but it is acknowledged that for consistency following P127 approval that the RF Run might be deemed to be the most appropriate for the time being. Were this to be the case it may well be that another mod would be raised to ensure that all defaulting parties did have to wait for the DF Run.
7.	<p>Does P152 raise any issues that you believe have not been identified so far and that should be progressed as part of the Assessment Procedure? Please give rationale</p>	No	
8.	<p>Are there any further comments on P152 that you wish to make?</p>	No	

**P152\_ASS\_007 - British Gas Trading (BGT)**

<b>Respondent:</b>	Mark Manley
<b>No. of BSC Parties Represented</b>	
<b>BSC Parties Represented</b>	British Gas Trading (BGT)
<b>No. of Non BSC Parties Represented</b>	
<b>Non BSC Parties represented</b>	
<b>Role of Respondent</b>	

<b>1.9</b>	<b>Question</b>	<b>Response</b>	<b>Rationale</b>
1.	<p>Do you believe Proposed Modification P152 better facilitates the achievement of the Applicable BSC Objectives?</p> <p>Please give rationale and state objective(s)</p>	No	<p>BGT do not believe the proposed modification does better facilitate the Applicable BSC Objectives. BGT recognise the concerns of the proposer at the time of raising the proposal. There was no mechanism available within the BSC for an Insolvent Party to recover their outstanding credit cover. However BGT note the recent Authority decision in respect of P127 which provides such a route for Insolvent Party to reclaim any unused credit cover after the final reconciliation run. BGT believe that at the time P152 raised there was a defect within the BSC, However BGT believe that approval of P127 has removed the defect and no defect now exists within the BSC.</p> <p>BGT note one of the reasons provided by the proposer for P152 better facilitating Applicable BSC Objective (c). The proposer asserts there is a barrier to entry with the current rules due to having to leave funds trapped as security. BGT do not believe the exit process for an Insolvent Party would factor heavily in the decision making process of a potential new entrant when considering acceding to the BSC. Furthermore BGT believe the risk of being liable for a bad debt may constitute more of a barrier to</p>

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			<p>entry due to the perception of risk. BGT believe the current baseline helps to minimise that risk.</p> <p>The proposer also asserts that Applicable BSC Objective (d) will be better facilitated as the proposal will reduce the risk that Parties will chase the return of their credit cover through litigation. BGT concur with the modification group that the likelihood of a Party instigating legal proceedings has been mitigated by the Approval of P127. The cost and timescales associated with such a process are unlikely to be justified in light of the P127 decision making process.</p>
2.	<p>Do you think that Parties in default under H3.1.1(g) that have fulfilled the criteria outlined in P152 pose more of a risk to industry in terms of lack of payment of reconciliation charges, than solvent Parties withdrawing from the Code?</p> <p>1.10 Please give rationale</p>	Yes	<p>As a general rule BGT perceive that a Party in default due to insolvency is a greater risk than a solvent Party. BGT do recognise there are instances when this is not the case, an example of which was the run off process prior to and after the disposal of Shotton CHP.</p> <p>BGT do have some concerns about the ability of a solvent Party to request a Minimum Eligible Amount calculation and the impact this could have on their ability to pay future reconciliation charges. However fundamentally BGT believe that an insolvent Party poses a greater risk in respect of non-payment of Trading Charges.</p>
3.	<p>Do you believe there are any alternative solutions that the Modification Group has not identified and that should be considered?</p> <p>Please give rationale</p>	No	
4.	<p>Four options for the mechanism by which Parties will receive their Credit Cover back have been developed (see consultation document Sections). Which, if any, do you prefer?</p>	<p>Option 1/ /Option 2a/ /Option 2b /Option 3/</p>	<p>BGT does not support the modification proposal and as such does not believe any of the proposed options provide an appropriate level of assurance.</p>

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	<p>Please give rationale and if none are considered suitable state suggested alternative.</p>	<p>/None/</p>	<p>Option 1 significantly increases the risks faced by the remaining signatories to the BSC. BGT believes this option is too risky and would reduce the chances of BSCCo recovering any future liabilities that may accrue through future reconciliation runs. Under this option BSCCo's position as a creditor would be altered from that of a secured to a unsecured creditor. BGT believe BSCCo's ability to recover future liabilities would be severely diminished under this option.</p> <p>Option 2 would be BGTs' preferred choice as it is the lowest risk option as it releases the credit cover lodged on a scaled basis with the ability to prevent release in defined circumstances. However BGT does not believe that such a sliding scale percentage could be calculated with any suitable level of justification. Therefore the percentage reduction would be arbitrary and as such the assumption could not be justified. BGT also recognise the added level of complexity that this would introduce and the consequential impact this would have on the cost of developing the solution.</p> <p>BGT has similar concerns with Option 3 as it with Option 2 namely the arbitrary method of defining the sliding scale reduction.</p> <p>BGT does not support the option of passing the responsibility to the Panel to consider each instance on a case by case basis. This introduces an element of subjectivity, which could cause issues in respect of consistency of treatment for defaulting Parties.</p> <p>Furthermore BGT does not agree with the view that this power fits with the responsibility the Panel already has in respect of the treatment of defaulting Parties. The Panel can choose to allow a Party to recommence trading.</p>



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			<p>However in doing so the Panel is protected by the mechanistic calculation of a Party's energy indebtedness. If a Party breaches the levels specified in the BSC then the Panel can suspend the ability of a Party to trade. The Panel does not have the ability to acquire cash from a Party that is not paying its Trading liabilities.</p>
5.	<p>If</p> <ul style="list-style-type: none"> <li>i) you prefer Option 2a, can you suggest an appropriate sliding scale that could be used?</li> <li>j) you prefer Option 2b, can you suggest an appropriate percentage that could be retained for security (see Section 2.10 for what was used in P&amp;SA)</li> </ul>	No	
6.	<p>For the relevant options (2a, 2b and potentially 3) should the time at which the relevant Party can receive the remainder of its Credit Cover be at the Final Reconciliation or Dispute Final Run? Please give rationale</p>	DF	<p>BGT believe that a Party should be able to reclaim any unused credit cover after the Dispute Final Run (DF) or once BSCCo has stated that no DF Run will take place. This is consistent with the view BGT expressed when responding to the Assessment phase of P127.</p> <p>BGT believe the materiality of DF Runs or Extra Settlement Determinations (ESDs) can be significant. BGT believe it would be prudent for a Party's credit cover to remain in place until all potential Trading Charge liabilities have been settled.</p>
7.	<p>Does P152 raise any issues that you believe have not been identified so far and that should be progressed as pare of the Assessment Procedure? Please give rationale</p>	No	
8.	<p>Are there any further comments on P152 that you wish to make?</p>	No	