

**Responses from P142 Draft Report Consultation**

Consultation issued 19 December 2003

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>
<b>1.</b>	EDF Energy Networks	P142_MR_001	9	0
<b>2.</b>	Coryton Energy Company Limited Intergen Trading and Shipping Limited Spalding Energy Company Limited Rocksavage Power Company Limited	P142_MR_002	4	1
<b>3.</b>	Scottish Power UK Plc	P142_MR_003	6	0
<b>4.</b>	Aquila Networks Plc	P142_MR_004	1	0
<b>5.</b>	British Gas Trading	P142_MR_005	1	0
<b>6.</b>	Total Gas and Power Ltd	P142_MR_006	1	0
<b>7.</b>	Scottish and Southern	P142_MR_007	1	0
<b>8.</b>	Powergen	P142_MR_008	14	0
<b>9.</b>	Npower Ltd	P142_MR_009	10	0

## P142\_MR\_001 – EDF Energy Networks

<b>Respondent:</b>	Paul Chesterman
<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>	
<b>Non BSC Parties represented</b>	
<b>Role of Respondent</b>	Supplier / Generator / Party Agent / Distribution Business

1.1	Question	Response	Rationale
1.	Do you agree with the Panel's views on P142 and the provisional recommendation to the Authority contained in the draft Modification Report that P142 <b>should not</b> be made? Please give rationale.	Yes	We have previously supported the aim of P142, however we can not justify the cost estimate at £0.5 m.
2.	Do you agree that the legal text provided in the draft Modification Report correctly addresses the defect or issue identified in the Modification Proposal? Please give rationale.		As we are unable to give further support to this Mod, we will not resource any review of the draft legal text. We would expect Elexon to have carefully prepared this text.
3.	Do you agree with the Panel's provisional recommendation concerning the Implementation Date for P142? Please give rationale.	Yes	We assume that the Panel has been well advised.
4.	Do you believe there are any additional benefits to P142 that were not identified during the Assessment Procedure?	No	
5.	Are there any further comments on P142 that you wish to make?	No	

**P142\_MR\_002 – Coryton Energy Company Limited**

<b>Respondent:</b>	<i>Murray Rennie</i>
<b>No. of BSC Parties Represented</b>	4
<b>BSC Parties Represented</b>	Coryton Energy Company Limited InterGen Trading and Shipping Limited Spalding Energy Company Limited Rocksavage Power Company Limited
<b>No. of Non BSC Parties Represented</b>	1
<b>Non BSC Parties represented</b>	<i>InterGen UK Ltd</i>
<b>Role of Respondent</b>	<i>Generator</i>

<b>1.2</b>	<b>1.3 Question</b>	<b>Response</b>	<b>Rationale</b>
1.	Do you agree with the Panel's views on P142 and the provisional recommendation to the Authority contained in the draft Modification Report that P142 <b>should not</b> be made? Please give rationale.	No	Rejecting the proposal means that Trading Parties lose the opportunity to have a controlled response to addressing Level 2 Credit Default, allowing them to resolve any such circumstances without exposing themselves and other parties to significant imbalance charges.
2.	Do you agree that the legal text provided in the draft Modification Report correctly addresses the defect or issue identified in the Modification Proposal? Please give rationale.	Yes	No comment on this issue
3.	Do you agree with the Panel's provisional recommendation concerning the Implementation Date for P142? Please give rationale.	Yes	As we are in favour of this modification, an early implementation would be supported.
4.	Do you believe there are any additional benefits to P142 that were not identified during the Assessment Procedure?	No	
5.	Are there any further comments on P142 that you wish to make?	No	

## P142\_MR\_003 – 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

1.4	Question	Response	Rationale
1.	Do you agree with the Panel's views on P142 and the provisional recommendation to the Authority contained in the draft Modification Report that P142 <b>should not</b> be made? Please give rationale.	<b>No</b>	<p><i>ScottishPower disagree with the Panel's recommendation that this modification <b>should not</b> be made and fully support the SSMG recommendation that the modification <b>should be made</b>.</i></p> <p><i>We agree with the argument that "the need for providing protection for the market against exposure to the unpaid Trading Charges of a Party needs to be pragmatically balanced against the ability of a financially sound BSC Party to resolve Credit Default circumstances without being exposed to significant imbalance charges". As suggested, if credit level inadvertently deteriorates over the weekend or public holidays, there needs to be adequate time and practical arrangement for a party to resolve the situation.</i></p> <p><i>P142 enables Parties who are technically and inadvertently in breach of Level 2 credit limits the opportunity to correct this breach without damage to their reputation by publication of the "default" on the BMRA website.</i></p> <p><i>We therefore agree with the unanimous view of SSMG that this modification does better facilitate Applicable BSC Objective (c), whilst at the same time does not meet Applicable BSC Objective (d).</i></p>

1.4	Question	Response	Rationale
2.	Do you agree that the legal text provided in the draft Modification Report correctly addresses the defect or issue identified in the Modification Proposal? Please give rationale.	<b>Yes</b>	<i>We agree that the legal text would appear to be appropriate for this Modification.</i>
3.	Do you agree with the Panel's provisional recommendation concerning the Implementation Date for P142? Please give rationale.	<b>Yes</b>	<i>We agree with SSMG that the implementation date is the earliest that can be achieved.</i>
4.	Do you believe there are any additional benefits to P142 that were not identified during the Assessment Procedure?	<b>Yes</b>	<i>P142 enables Parties who are technically and inadvertently in breach of Level 2 credit limits the opportunity to correct this breach without damage to their reputation by publication of the "default" on the BMRA website.</i>
5.	Are there any further comments on P142 that you wish to make?	<b>Yes</b>	<p><i>The Panel noted that "P142 scenario incidents have been extremely rare historically" and that they "therefore believed that costs incurred to implement P142 were likely to be significant in relation to any benefit".</i></p> <p><i>Other than the benefits identified by SSMG there is a Business critical intangible benefit to considered, namely the damage to a reputation through publication of the "default" on the BMRA website.</i></p> <p><i>Although this may be "extremely rare" when it does happen (often through no fault of the party), it can result in a very damaging loss of reputation, which in Trading Circles can be ruinous.</i></p>

**P142\_MR\_004 – Aquila Networks Plc**

Good Morning,

Aquila Networks PLC would like to return a response of 'No Comment' to P142 Consultation on Draft Modification Report.

Regards,

Deborah Hayward  
Distribution Support Office &  
Deregulation & Control Group  
Aquila Networks plc

**P142\_MR\_005 – British Gas Trading**



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Our Ref.  
Your Ref.  
6 January 2004

Dear Sirs,

**Re: Modification Proposal P142 – Minor refinement to allow a Level 2 Default Cure period in defined circumstances**

Thank you for the opportunity of responding to this draft modification report considering Modification Proposal P142. British Gas Trading (BGT) does not agree with the Panel's provisional recommendation that the Modification Proposal should not be made.

BGT believes that the proposal represents an improvement against the current baseline, as it will allow a financially sound entity more options than are currently available to manage their credit position. Rejecting contract notifications or forcing a Party to trade out of a position when they are financially sound but have just misjudged their energy indebtedness appears to be a defect within the current baseline.

The proposed solution appears to be a pragmatic approach to the defect as it will provide BSC Parties with additional flexibility without increasing the risks faced by non affected Parties. The solution that was chosen was favoured because it was sufficiently constrained, so as not to increase the risks faced by BSC Parties whilst increasing the number of options available to a Party to resolve the issue. The Panel believed that these types of incident will occur on a rare basis and as such the benefits do not justify the implementation costs. BGT agree that this solution would be used relatively infrequently but believe this to be one of the reasons why the proposal better facilitates the Applicable BSC Objectives. If the solution were not constrained to such a limited set of circumstances then the proposal would have been unacceptable, as it would have introduced an unacceptable level of risk.

The Panel in reaching their decision focused on the cost of implementing the solution, BGT believes the benefits delivered by this modification outweigh the implementation costs. BGT understands that the solution would be deployed as part of a batched release and that some

of the costs quoted in the Assessment Report were stand alone costs and these would be significantly reduced if deployed as part of a batched release.

BGT concur with the proposed implementation date recommended by the Modification Group and endorsed by the Panel.

If you have any questions regarding this response please contact me 01753 758137.

Yours faithfully

Mark Manley  
Contract Manager

## P142\_MR\_006 – Total Gas and Power Ltd

<b>Respondent:</b>		<i>Sharif Islam</i>	
<b>No. of BSC Parties Represented</b>		1	
<b>BSC Parties Represented</b>		Total Gas & Power Ltd	
<b>No. of Non BSC Parties Represented</b>			
<b>Non BSC Parties represented</b>			
<b>Role of Respondent</b>		<i>(Supplier / Trader)</i>	
<b>1.5</b>	<b>Question</b>	<b>Response</b>	<b>Rationale</b>
1.	Do you agree with the Panel's views on P142 and the provisional recommendation to the Authority contained in the draft Modification Report that P142 <b>should not</b> be made? Please give rationale.	No	<p>The proposed cure period is of sufficient duration to allow any counterparty with available cash or bank lines of credit to increase their credit cover. The required action relates only to a cash transfer to top up existing security and there would be no requirement to replace existing security provided in the form of guarantees. Any cash deposit could be recovered at a later stage following an increase in guarantee security.</p> <p>The benefit of this modification arises through its impact on the determination of appropriate credit cover levels by <u>all</u> parties. As such the rarity of scenario incidents does not indicate P142 will provide little benefit, it more probably indicates the extent to which parties are currently over-providing credit cover to avoid the serious potential consequences of a level 2 default, which in turn implies that a real benefit should arise from the sensible matching of credit cover requirements to real exposures</p> <p>We note the CAP sub-group and Elexon's Monthly Trading Operations report have identified that BSC Parties are consistently providing excess collateral. The benefits of P142 will accrue to all parties through their ability to take into account the enhanced opportunity to cure a level 2 default when determining the appropriate level of credit security to be lodged. As a result the current very significant over-provision of credit cover could be reduced to reflect this process improvement. Assuming even a 5% reduction in the current excess credit security of £200M, direct cost savings to the industry could be in the region of £150K per annum and indirect cash opportunity cost savings per annum would likely be very significantly higher. Annual benefits of this magnitude clearly outweigh the associated one-off implementation and on-going administration costs.</p> <p>1.6</p>

2.	Do you agree that the legal text provided in the draft Modification Report correctly addresses the defect or issue identified in the Modification Proposal? Please give rationale.	Yes	
3.	Do you agree with the Panel's provisional recommendation concerning the Implementation Date for P142? Please give rationale.	Yes	
4.	Do you believe there are any additional benefits to P142 that were not identified during the Assessment Procedure?	Yes	We note the CAP sub-group and Elexon's Monthly Trading Operations report have identified that BSC Parties are consistently providing excess collateral. The benefits of P142 will accrue to all parties through their ability to take into account the enhanced opportunity to cure a level 2 default when determining the appropriate level of credit security to be lodged. As a result the current very significant over-provision of credit cover could be reduced to reflect this process improvement. Assuming even a 5% reduction in the current excess credit security of £200M, direct cost savings to the industry could be in the region of £150K per annum and indirect cash opportunity cost savings per annum would likely be very significantly higher. Annual benefits of this magnitude clearly outweigh the associated one-off implementation and on-going administration costs.
5.	Are there any further comments on P142 that you wish to make?	No	

**P142\_MR\_007 – Scottish and Southern**

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 five questions contained within your note of 19th December 2003, and the associated Modification Report for P142, we have the following comments to make:-

Q1 Do you agree with the Panel's views on P142 and the provisional recommendation to the Authority contained in the draft Modification Report that P142 should not be made? Please give rationale.

Yes, we agree with the proposed BSC Panel recommendation to the Authority that Modification Proposal P142 should not be made for the reasons we outlined in our response to the Assessment Consultation associated with this P142 Modification Proposal.

Briefly, we do not believe that by allowing the default cure period to last until two hours into the next Business Day that this will better achieve the applicable BSC Objectives. In our view all that will happen is that the risk that the market is exposed to (from the Party in the Level 2 situation) will be extended by two hours into the next Business Day. Parties need to actively manage their risk position in order to minimise (a) their exposure and (b) their cost of credit cover. Allowing Level 2 Parties a two hour 'grace' period will not incentivise those Parties to manage their risk position and therefore cannot be said to better achieve the applicable BSC Objectives.

In conclusion we do not believe that P142 better facilitates the achievement of any of the Applicable BSC Objectives and it should therefore be rejected.

Q2 Do you agree that the legal text provided in the draft Modification Report correctly addresses the defect or issue identified in the Modification Proposal? Please give rationale.

It would appear to do so.

Q3 Do you agree with the Panel's provisional recommendation concerning the Implementation Date for P142? Please give rationale.

If the Modification Proposal P142 is approved, we agree with the proposed BSC Panel recommendation on the timing for the Implementation Date, as outlined in the Modification Report.

Q4 Do you believe there are any additional benefits to P142 that were not identified during the Assessment Procedure?

No.

Q5 Are there any further comments on P142 that you wish to make?

Nothing further at this time.

Regards

Garth Graham  
Scottish and Southern plc

## P142\_MR\_008 – Powergen

<b>Respondent:</b>	Powergen
<b>No. of BSC Parties Represented</b>	14
<b>BSC Parties Represented</b>	Powergen UK plc, Powergen Retail Limited, Cottam Development Centre Limited, TXU Europe Drakelow Limited, TXU Europe Ironbridge Limited, TXU Europe High Marnham Limited, Midlands Gas Limited, Western Gas Limited, TXU Europe (AHG) Limited, TXU Europe (AH Online) Limited, Citigen (London) Limited, Severn Trent Energy Limited (known as TXU Europe (AHST) Limited), TXU Europe (AHGD) Limited and Ownlabel Energy Limited
<b>No. of Non BSC Parties Represented</b>	-
<b>Non BSC Parties represented</b>	-
<b>Role of Respondent</b>	Supplier, Generator, Trader & Exemptable Generator.

1.7	Question	Response	Rationale
1.	Do you agree with the Panel's views on P142 and the provisional recommendation to the Authority contained in the draft Modification Report that P142 <b>should not</b> be made? Please give rationale.	No	<p>We continue to support P142 which we believe strikes the correct balance between protecting parties from defaulting market participants and allowing enough time for parties in level 2 default situations to post additional security cover.</p> <p>The alternative would be to continue to force companies to trade their way out of the potential credit default which may be undesirable, or not possible.</p> <p>Also, calling an event of credit default unnecessarily may cause counterparties to mistakenly believe that the company is a bad credit risk and refuse to trade with it, exacerbating the situation.</p>
2.	Do you agree that the legal text provided in the draft Modification Report correctly addresses the defect or issue identified in the Modification Proposal? Please give rationale.	Yes	
3.	Do you agree with the Panel's provisional recommendation concerning the Implementation Date for P142? Please give rationale.	Yes	
4.	Do you believe there are any additional benefits to P142 that were not identified during the Assessment Procedure?	No	
5.	Are there any further comments on P142 that you wish to make?	No	

## P142\_MR\_009 – Npower

<b>Respondent:</b>	Npower Ltd
<b>No. of BSC Parties Represented</b>	10
<b>BSC Parties Represented</b>	RWE Trading GmbH, RWE Innogy plc, RWE Innogy Cogen plc, RWE Innogy Cogen Trading plc, Npower Ltd, Npower Direct Ltd, Npower Northern Ltd, Npower Northern Supply Ltd, Npower Yorkshire Ltd, Npower Yorkshire Supply Ltd
<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 / Consolidator / Exemptable Generator / Party Agent

1.8	1.9 Question	1.10 Response	1.11 Rationale
6.	Do you agree with the Panel's views on P142 and the provisional recommendation to the Authority contained in the draft Modification Report that P142 <b>should not</b> be made? Please give rationale.	1.12 Yes	1.13 We question whether any previous events of default would have benefited from additional time, if it had been available. Consequently, we feel that the high cost associated with the implementation of P142 is not justified by the intangible benefits.
7.	Do you agree that the legal text provided in the draft Modification Report correctly addresses the defect or issue identified in the Modification Proposal? Please give rationale.	1.14 Yes	1.15 We agree that the draft text addresses the defect highlighted in the modification.
8.	Do you agree with the Panel's provisional recommendation concerning the Implementation Date for P142? Please give rationale.	1.16 Yes	1.17
9.	Do you believe there are any additional benefits to P142 that were not identified during the Assessment Procedure?	1.18 No	1.19
10.	Are there any further comments on P142 that you wish to make?	1.20 No	1.21