

Responses from P140 Assessment Consultation

Consultation issued 06 January 2004

Representations were received from the following parties:

No	Company	File Number	No. BSC Parties Represented	No. Non-Parties Represented
1.	Entergy-Koch Trading Limited	P140_ASS_001	1	0
2.	Scottish Power UK plc	P140_ASS_002	6	0
3.	EDF Trading Ltd and EDF (Generation)	P140_ASS_003	2	0
4.	Aquila Networks plc	P140_ASS_004	1	0
5.	British Gas Trading	P140_ASS_005	1	0
6.	National Grid	P140_ASS_006	1	0
7.	Powergen	P140_ASS_007	14	0
8.	Scottish and Southern Energy	P140_ASS_008	5	0
9.	British Energy Power & Energy Trading Ltd	P140_ASS_009	3	0

P140_ASS_001 – Entergy-Koch Trading Limited

Respondent:	<i>Entergy-Koch Trading Limited</i>
No. of BSC Parties Represented	1
BSC Parties Represented	ENTERGY
No. of Non BSC Parties Represented	<i>none</i>
Non BSC Parties represented	N/A
Role of Respondent	<i>Trader</i>

Q	Question	Response	Rationale
1.	<p>How would your organisation be affected by the under-estimation of Trading Charges for Interconnector Users resulting from the current Energy Indebtedness calculation?</p> <p><i>Please provide quantitative detail of the extent of this risk, if possible.</i></p> <p>Please note that any financial information provided in response to this question will be treated in strictest confidence.</p>		<p>Since EKT's only BM unit is the interconnector, its CAQCE (excl IC units) is zero, therefore EKT is only required to provide Credit Cover calculated on actual trading imbalance charges accrued over the previous 29 days. Since NETA Go-Live EKT has not accrued trading charges in any one 29 period of [¹]. Due to the current methodology for calculating IC energy indebtedness basing the CALF on historic data, EKT has a BMCAEC of [¹] and a BMCAIC of [¹] per SP. During Dec-03 EKT imported an average of [¹] MW per SP, which according to the current calculation meant that EKT would effectively be out of balance for [¹] per SP requiring extra credit cover of [¹] for the estimated 8 days where actual data is not available.</p>

¹ Data item removed from publicly visible consultation responses at respondent's request.

Q	Question	Response	Rationale
2.	<p>Please can you provide an estimation of the annual cost to your organisation of lodging Credit Cover against Trading Charges. This figure should be expressed as a percentage of the face value of the Credit Cover.</p> <p><i>Please give rationale.</i></p> <p>Please note that any financial information provided in response to this question will be treated in strictest confidence.</p>	[²]	This equates to the charges levied by EKT's bank to provide the letter of credit.
3.	<p>Would your organisation reduce the levels of Credit Cover they have lodged were Modification Proposal P140 to be approved and implemented?</p> <p><i>Please give rationale and magnitude of any reduction.</i></p> <p>Please note that any financial information provided in response to this question will be treated in strictest confidence.</p>	Yes	EKT would reduce credit cover from [²], in line with actual historic imbalance charges.
4.	<p>Do you agree with the SSMG's view that the benefits of P140 (outlined in Section 4 of the attached Second Consultation Document) outweigh the costs (per Section 7) sufficiently that P140 will better facilitate achievement of the Applicable BSC Objectives</p> <p><i>Please give rationale and state objective(s)</i></p>	Yes	The benefit of tracking actual imbalances rather than estimated imbalances will avoid charges being under-estimated for counterparts who export on the IC and will also reduce the cost of trading on the IC thereby facilitating greater competition.
5.	Are there any further comments on P140 that you wish to make?	No	

² Data item removed from publicly visible consultation responses at respondent's request.

P140_ASS_002 – Scottish Power UK plc

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

Q	Question	Response	Rationale

Q	Question	Response	Rationale
1.	<p>How would your organisation be affected by the under-estimation of Trading Charges for Interconnector Users resulting from the current Energy Indebtedness calculation?</p> <p><i>Please provide quantitative detail of the extent of this risk, if possible.</i></p> <p>Please note that any financial information provided in response to this question will be treated in strictest confidence.</p>		<p>Additional Credit Cover required can be significant where market prices in period used for Energy Indebtedness calculation are significantly lower than actual market prices. Under existing methodology, historical low market prices may result in low Interconnector utilisation and hence a low CALF value. High current market prices result in higher Interconnector utilisation and notified contract volumes but the low historical CALF value applied results in a high Energy Indebtedness value. The impact on energy Indebtedness could be as high as difference between zero and full utilisation of available Interconnector capacity.</p>
2.	<p>Please can you provide an estimation of the annual cost to your organisation of lodging Credit Cover against Trading Charges. This figure should be expressed as a percentage of the face value of the Credit Cover.</p> <p><i>Please give rationale.</i></p> <p>Please note that any financial information provided in response to this question will be treated in strictest confidence.</p>	[³]	<p>Opportunity cost between interest paid on credit cover by Elexon and Company cost of capital.</p>
3.	<p>Would your organisation reduce the levels of Credit Cover they have lodged were Modification Proposal P140 to be approved and implemented?</p> <p><i>Please give rationale and magnitude of any reduction.</i></p> <p>Please note that any financial information provided in response to this question will be treated in strictest confidence.</p>	Yes	<p>Potential reduction [³].</p>

³ Data item removed from publicly visible consultation responses at respondent's request.

Q	Question	Response	Rationale
4.	Do you agree with the SSMG's view that the benefits of P140 (outlined in Section 4 of the attached Second Consultation Document) outweigh the costs (per Section 7) sufficiently that P140 will better facilitate achievement of the Applicable BSC Objectives <i>Please give rationale and state objective(s)</i>	Yes	This Modification will result in a more accurate estimate of potential balancing charges, enabling the release of excess credit cover collateral posted with Elexon. We therefore believe P140 would better facilitate Applicable BSC Objective (c) – 'Promoting effective competition.....'
5.	Are there any further comments on P140 that you wish to make?	No	

P140_ASS_003 – EDF Trading Ltd and EDF (Generation)

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

Q	Question	Response ⁵	Rationale

Q	Question	Response ⁵	Rationale
1.	<p>How would your organisation be affected by the under-estimation of Trading Charges for Interconnector Users resulting from the current Energy Indebtedness calculation?</p> <p><i>Please provide quantitative detail of the extent of this risk, if possible.</i></p> <p>Please note that any financial information provided in response to this question will be treated in strictest confidence.</p>		<p>Our view is that the amount of Credit Cover required to be posted by a Party should equate as close as possible to the risk posed by that Party on the rest of the market. At present the CEI calculation for Interconnector Users can produce some very odd results that require careful action to avoid or monitor and respond to, or it can seriously underestimate the CEI and pose a greater risk to other parties not involved in interconnector trading. Underestimation of CC is as bad as overestimation and any effort to correct miscalculations should be supported.</p>
2.	<p>Please can you provide an estimation of the annual cost to your organisation of lodging Credit Cover against Trading Charges. This figure should be expressed as a percentage of the face value of the Credit Cover.</p> <p><i>Please give rationale.</i></p> <p>Please note that any financial information provided in response to this question will be treated in strictest confidence.</p>	[⁴]	<p>The amount of credit cover needed has varied considerably over the past two years, [⁴] and it is kept under control at the moment and by regularly appealing the CALF values assigned to our BMUs.</p>
3.	<p>Would your organisation reduce the levels of Credit Cover they have lodged were Modification Proposal P140 to be approved and implemented?</p> <p><i>Please give rationale and magnitude of any reduction.</i></p> <p>Please note that any financial information provided in response to this question will be treated in strictest confidence.</p>	Yes	<p>It would be to a value that was closer to the risk posed to the market ie that it couldn't deliver to the market at times of short term within day Interconnector unavailability.</p>

⁴ Data item removed from publicly visible consultation responses at respondent's request.

Q	Question	Response ⁵	Rationale
4.	Do you agree with the SSMG's view that the benefits of P140 (outlined in Section 4 of the attached Second Consultation Document) outweigh the costs (per Section 7) sufficiently that P140 will better facilitate achievement of the Applicable BSC Objectives <i>Please give rationale and state objective(s)</i>	Yes	Half the cost can probably be discounted because this mod would not be implemented as a stand alone project. Nevertheless the cost is high, but its benefit is through getting a more meaningful figure into the Credit Cover calculation. This is likely to encourage use of the interconnectors and will negate the need to regularly appeal the particular CALF calculations by IUs. Objectives C and D would be bettered.
5.	Are there any further comments on P140 that you wish to make?	Yes	Were this Mod not to go ahead, then another possibility that would help the Interconnector Users (especially those who are not portfolio parties) by calculating CALF on a different basis for those BMUs. Since the risk is correlated to the availability of the interconnector in question then use of a Load Factor that is close to that of the interconnector maybe a cheap and viable alternative. This doesn't solve the problems for all but it would help and be less costly to operate.

P140_ASS_004 – Aquila Networks PLC

Good Morning,

Aquila Networks PLC would like to return a response of 'No Comment' to P140 Assessment Consultation (SECOND CONSULTATION).

Regards,

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

P140_ASS_005 – British Gas Trading

Respondent:	Mark Manley
No. of BSC Parties Represented	
BSC Parties Represented	British Gas Trading
No. of Non BSC Parties Represented	
Non BSC Parties represented	
Role of Respondent	

Q	Question	Response	Rationale
1.	<p>How would your organisation be affected by the under-estimation of Trading Charges for Interconnector Users resulting from the current Energy Indebtedness calculation?</p> <p><i>Please provide quantitative detail of the extent of this risk, if possible.</i></p> <p>Please note that any financial information provided in response to this question will be treated in strictest confidence.</p>		<p>SGT would be impacted by the current calculation in the event of Party entering Level 2 Credit Default and insufficient credit cover being lodged to cover that Party's Trading Charge liability. In this scenario due to the smearing liability, BSC Party's would assume responsibility for that under recovery. In line with the funding share calculation SGT would be liable for a significant proportion of the under recovery. The effect on SGT would be dependent upon the size of the Party and the level of under recovery. In extreme circumstances i.e. a large BSC Party defaulting on their liability the scale of the short fall may not be able to be borne by SGT within our current pricing structure and may need to be passed through to customers in the form of a price increase.</p> <p>It is very difficult to quantify the risk but based on the analysis provided as part of the consultation the effect could be significant.</p>
2.	Please can you provide an estimation of the annual cost to your organisation of lodging Credit Cover against Trading Charges. This figure should be expressed as a		

Q	Question	Response	Rationale
	<p>percentage of the face value of the Credit Cover. <i>Please give rationale.</i></p> <p>Please note that any financial information provided in response to this question will be treated in strictest confidence.</p>		
3.	<p>Would your organisation reduce the levels of Credit Cover they have lodged were Modification Proposal P140 to be approved and implemented? <i>Please give rationale and magnitude of any reduction.</i></p> <p>Please note that any financial information provided in response to this question will be treated in strictest confidence.</p>	No	<p>BGT note the benefits of this modification proposal and support the proposal, as it will more accurately reflect Interconnector Users' energy indebtedness. Interconnector Users may be part of a larger organisation and have other credit risks from Supplier or Generator related activities. Therefore this modification would mean that the benefits of more accurately representing the credit position for the Interconnector would feed through into the Portfolio position. The risks of entering Level 2 Credit Default, which could be financial, or PR related are significant. In view of the size of those risks and the relatively small scale of benefits that BGT could accrue from reducing its credit cover, BGT would not at this point be looking to reduce the levels of credit cover lodged.</p> <p>Despite BGT's intention not to reduce the level of credit cover lodged BGT still believe this modification significantly improves the current baseline. BGT believes the perceived benefit of Party's being able to reduce the amount of credit cover lodged is a bit of a 'red herring'. BGT believe the main benefit derived from this proposal is via Party's energy indebtedness being more accurately represented. Based on the analysis undertaken by BSCCo the proposed methodology calculates energy indebtedness much more accurately. BGT believes it is essential that BSC Party's energy indebtedness is represented as accurately as possible so it reduces the likelihood and more importantly the potential level of bad debt.</p>
4.	Do you agree with the SSMG's view that the benefits of	Yes	BGT stated its support for this modification proposal during the first

Q	Question	Response	Rationale
	<p>P140 (outlined in Section 4 of the attached Second Consultation Document) outweigh the costs (per Section 7) sufficiently that P140 will better facilitate achievement of the Applicable BSC Objectives</p> <p><i>Please give rationale and state objective(s)</i></p>		<p>assessment consultation and BGT continues to support this proposal. Whilst noting the implementation costs, the level of inaccuracies between the current and the proposed methodology illustrates the potential for a bad debt to mask a Party's energy indebtedness. The effect of a bad debt and the way that would be smeared amongst BSC Party's could distort competition. Therefore any improvements in the calculation will reduce that distortion and thereby better facilitate competition in the generation and supply of electricity.</p>
5.	Are there any further comments on P140 that you wish to make?	No	No

P140_ASS_006 – National Grid

Respondent:	Name National Grid
No. of BSC Parties Represented	One
BSC Parties Represented	Please list all BSC Parties responding on behalf of (including the respondent company if relevant).
No. of Non BSC Parties Represented	None
Non BSC Parties represented	Please list all non BSC Parties responding on behalf of (including the respondent company if relevant).None
Role of Respondent	(Supplier/Generator/ Trader / Consolidator / Exemptable Generator / BSC Agent / Party Agent / other – please state ⁵) BSC Party

Q	Question	Response ⁵	Rationale
1.	<p>How would your organisation be affected by the under-estimation of Trading Charges for Interconnector Users resulting from the current Energy Indebtedness calculation?</p> <p><i>Please provide quantitative detail of the extent of this risk, if possible.</i></p> <p>Please note that any financial information provided in response to this question will be treated in strictest confidence.</p>		<p>Underestimation of Trading Charges would not adversely affect the IEA except to the extent that if the Company (ies) were to go into default then the cost would be passed to all Market Participants. We would not expect however such charges to be onerous, given that the exposure would be limited to the difference between the actual and the estimated subject to a maximum limited by the physical flow.</p>

⁵ Delete as appropriate – please do not use strikeout, this is to make it easier to analyse the responses

Q	Question	Response ⁵	Rationale
2.	<p>Please can you provide an estimation of the annual cost to your organisation of lodging Credit Cover against Trading Charges. This figure should be expressed as a percentage of the face value of the Credit Cover.</p> <p><i>Please give rationale.</i></p> <p>Please note that any financial information provided in response to this question will be treated in strictest confidence.</p>	%	Low annual cost to the organisation in percentage terms.
3.	<p>Would your organisation reduce the levels of Credit Cover they have lodged were Modification Proposal P140 to be approved and implemented?</p> <p><i>Please give rationale and magnitude of any reduction.</i></p> <p>Please note that any financial information provided in response to this question will be treated in strictest confidence.</p>	No	The credit cover provisions that we make relate to our activities as Interconnector Error Administrator only. Our credit cover position is based on the management of the sum of deemed metered volumes against the actual deemed metered volumes and we manage the flow around these levels. On this basis it is unlikely that we would modify our level credit cover as a direct result of any changes brought forward by this modification.
4.	<p>Do you agree with the SSMG's view that the benefits of P140 (outlined in Section 4 of the attached Second Consultation Document) outweigh the costs (per Section 7) sufficiently that P140 will better facilitate achievement of the Applicable BSC Objectives</p> <p><i>Please give rationale and state objective(s)</i></p>		We believe that the intent of the modification provides a more accurate solution for Interconnector Users, as it utilises latest available information as the basis for credit calculation rather than an estimation approach. As a result the costs for Interconnector Users are reduced and we believe that the incidence of default for this group of Parties would also be reduced. However we support the views expressed by the Panel that the implementation costs are significant and suggest that further consideration needs to be given to alternative options for implementation. Additionally it must be beholden upon Market Participants to quantify the benefits associated with this modification and hence justify its implementation. A number of issues were raised in the impact assessment that need to be resolved (as outlined below) and that could assist with providing a reduced cost implementation option.

Q	Question	Response⁵	Rationale
5.	Are there any further comments on P140 that you wish to make?	Yes	<p>The proposed solution for P140 is based on a requirement for National Grid to produce and submit a separate data file containing Interconnector BMU FPNs pre-Gate Closure. However, as PN data only becomes finalised at Gate Closure we do not believe we can satisfy this requirement. If this solution is adopted any supporting legal text will need to acknowledge the fact that this data is more correctly "latest available PN data" rather than FPN. We understand that Elexon are considering this issue. We believe that there is a risk that any PN data provided pre-Gate Closure may subsequently be revised after our submission to ECVAA and result in incorrect credit calculations.</p> <p>FPN data is already available within an existing report provided by National Grid to the BMRA. Whilst this information is provided on a timescale not later than 15 minutes following Gate Closure, we believe that this is suitable to meet the requirements of the credit checking calculation. Utilising the existing flow would avoid unnecessary development work and the associated timescales and complexity could be avoided. Additionally this approach would ensure that the finalised ie. Gate Closure PN was provided and there was no risk of credit calculations being undertaken using incorrect data. We believe that the use of data from an existing information flow could offer a reduced cost solution and address some of the concerns on the cost benefit of the modification.</p> <p>We have already identified that we would require a period of at least six months notice in order to implement the proposed changes required for this modification based on the development and provision of a separate file solution. We would like to add that against the background of commitments on other modifications and our planned systems releases we would be unable to implement this change for the November '04 BSC Systems Release.</p> <p>1.1</p>

P140_ASS_007 – Powergen

Respondent:	Powergen
No. of BSC Parties Represented	14
BSC Parties Represented	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
No. of Non BSC Parties Represented	-
Non BSC Parties represented	-
Role of Respondent	Supplier, Generator, Trader & Exemptable Generator.

Q	Question	Response	1.2 Rationale

Q	Question	Response	1.2 Rationale
1.	<p>How would your organisation be affected by the under-estimation of Trading Charges for Interconnector Users resulting from the current Energy Indebtedness calculation?</p> <p><i>Please provide quantitative detail of the extent of this risk, if possible.</i></p> <p>Please note that any financial information provided in response to this question will be treated in strictest confidence.</p>		We would be less exposed to the potential risk of an interconnector Party defaulting for a period when its trading charges had been significantly underestimated by the present methodology.
2.	<p>Please can you provide an estimation of the annual cost to your organisation of lodging Credit Cover against Trading Charges. This figure should be expressed as a percentage of the face value of the Credit Cover.</p> <p><i>Please give rationale.</i></p> <p>Please note that any financial information provided in response to this question will be treated in strictest confidence.</p>	%	The answer to this question depends on the particular method, or combination of methods, a Party is using to provide credit cover. Providing cash will incur that Party's cost of capital, whilst letters of credit generally cost around 1% ⁶ of the face value of the credit cover.
3.	<p>Would your organisation reduce the levels of Credit Cover they have lodged were Modification Proposal P140 to be approved and implemented?</p> <p><i>Please give rationale and magnitude of any reduction.</i></p> <p>Please note that any financial information provided in response to this question will be treated in strictest confidence.</p>	No	The consultation appears to suggest that interconnector Parties would on average be required to increase the amount of credit cover held, as the present arrangements appear to underestimate interconnector trading charges. We do not think that it will considerably alter our credit cover levels.

⁶ Respondent indicates that this is a general estimate of industry cost of Credit Cover and should not be taken as Party specific.

Q	Question	Response	1.2 Rationale
4.	Do you agree with the SSMG's view that the benefits of P140 (outlined in Section 4 of the attached Second Consultation Document) outweigh the costs (per Section 7) sufficiently that P140 will better facilitate achievement of the Applicable BSC Objectives <i>1.3 Please give rationale and state objective(s)</i>	Yes	On balance we would agree, although the quoted costs do appear to be high.
5.	Are there any further comments on P140 that you wish to make?	No	

P140_ASS_008 – 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 five questions contained within your note of 6th January 2004, and the associated Modification Report for P140, we have the following comments to make (subject to all the financial information we have provided in response to questions 1, 2 and 3 being treated in strictest confidence): -

Q1 How would your organisation be affected by the under-estimation of Trading Charges for Interconnector Users resulting from the current Energy Indebtedness calculation? Please provide quantitative detail of the extent of this risk, if possible. Please note that any financial information provided in response to this question will be treated in strictest confidence.

We believe we would be adversely affected should a Party get into credit difficulty and other market participants are required to provide funding in accordance with their Default Shares.

Q2 Please can you provide an estimation of the annual cost to your organisation of lodging Credit Cover against Trading Charges. This figure should be expressed as a percentage of the face value of the Credit Cover. Please give rationale. Please note that any financial information provided in response to this question will be treated in strictest confidence.

The following information (in respect of this Question 2 only) is provided on the basis that it is done in accordance with section 105 (3) (d) of the Utilities Act 2000, namely that is "it is made by one licence holder to another and is required by that other licence holder for purposes connected with carrying on of relevant activities". The improper disclosure of this information would contravene the Act and could render the discloser guilty of an offence and liable to conviction. Our estimation of the annual cost to our organisation of lodging credit cover against trading charges is circa [⁷].

Q3 Would your organisation reduce the levels of Credit Cover they have lodged were Modification Proposal P140 to be approved and implemented? Please give rationale and magnitude of any reduction. Please note that any financial information provided in response to this question will be treated in strictest confidence.

On balance, if P140 were approved, we believe it is likely to lead to a reduction in the levels of credit cover lodged.

⁷ Data item removed from publicly visible consultation responses at respondent's request.

Q4 Do you agree with the SSMG's view that the benefits of P140 (outlined in Section 4 of the attached Second Consultation Document) outweigh the costs (per Section 7) sufficiently that P140 will better facilitate achievement of the Applicable BSC Objectives Please give rationale and state objective(s)

On balance we do not believe that the benefits of P140 would outweigh the implementation costs.

Q5 Are there any further comments on P140 that you wish to make?

We are concerned at the comments in the last paragraph in section 1 "Introduction" of the consultation document. Whilst we endorse the principle of reducing the amount of 'repeat' information contained in documentation associated with Modifications sent out, we believe there is a responsibility on Elexon (where this approach is followed) to facilitate the availability of this 'repeat' information documentation to all BSC Parties; i.e. those unable to participate in the Modification Group meetings etc.

In particular, we believe that were there is a list of "Related Documents" (as listed in Annex II of this consultation document) then copies of these related documents should either be placed on the Elexon website (within the specific page relating to the Modification in question) or a website address be provided to allow BSC parties to easily find the documentation. Otherwise this approach of referring to (but not making easily available to all BSC Parties) related documentation should be curtailed.

Regards

Garth Graham
Scottish and Southern Energy plc

P140_ASS_009 – British Energy Power & Energy Trading Ltd

Respondent:	Martin Mate
No. of BSC Parties Represented	3
BSC Parties Represented	British Energy Power & Energy Trading Ltd, British Energy Generation Ltd, Eggborough Power Ltd
No. of Non BSC Parties Represented	-
Non BSC Parties represented	-
Role of Respondent	Supplier/Generator/Trader/Consolidator/Exemptable Generator/Party Agent

Q	Question	Response	Rationale
1.	<p>How would your organisation be affected by the under-estimation of Trading Charges for Interconnector Users resulting from the current Energy Indebtedness calculation?</p> <p><i>Please provide quantitative detail of the extent of this risk, if possible.</i></p> <p>Please note that any financial information provided in response to this question will be treated in strictest confidence.</p>		<p>Impact on British Energy:</p> <ul style="list-style-type: none"> (a) The BSC may not provide warning that a Party which is an interconnector user is trading while unable to pay its debts; and (b) BE would be required to fund a market share (about 13%) of any unpaid BSC charges in the event that a Party which is an interconnector user fails to pay its trading charges. This is in addition to the bilateral risk associated with trading with a party using the interconnector. <p>BE is not using it's Interconnector BM Units in a significant way, so is not currently directly affected by the related credit requirements.</p>

Q	Question	Response	Rationale
2.	<p>Please can you provide an estimation of the annual cost to your organisation of lodging Credit Cover against Trading Charges. This figure should be expressed as a percentage of the face value of the Credit Cover.</p> <p><i>Please give rationale.</i></p> <p>Please note that any financial information provided in response to this question will be treated in strictest confidence.</p>	%	Not directly relevant.
3.	<p>Would your organisation reduce the levels of Credit Cover they have lodged were Modification Proposal P140 to be approved and implemented?</p> <p><i>Please give rationale and magnitude of any reduction.</i></p> <p>Please note that any financial information provided in response to this question will be treated in strictest confidence.</p>	No	Not applicable.

Q	Question	Response	Rationale
4.	<p>Do you agree with the SSMG's view that the benefits of P140 (outlined in Section 4 of the attached Second Consultation Document) outweigh the costs (per Section 7) sufficiently that P140 will better facilitate achievement of the Applicable BSC Objectives</p> <p><i>Please give rationale and state objective(s)</i></p>	No	<p>We suspect that most interconnector users have access to credit at a cost no more than 5%, with most large players having access to much lower rates, say 1%. The maximum recent over-provision of credit, for a short period, is indicated to be £6.2m. Eliminating this over-provision would save at most between £62k and £300k/annum for those providing it. Most parties using the interconnector are active in other areas of the market, where the credit indebtedness provisions are also approximate, and probably choose to post sufficient credit in a consolidated form to avoid credit defaults arising from shortcomings of the credit calculations overall. Over-provision for interconnector BM Units is capable of covering other parts of a party's portfolio. We do not consider the level of real saving justifies the cost, which could be in excess of £1m. BSC Objective (d) (cost efficiency) is not met.</p> <p>Additionally, it should be noted that the credit indebtedness calculation is approximate for all parties, and probably results in under or over provision in many cases. Improving the approximation just for interconnectors can be considered not to meet BSC Objective (c), because it discriminates in favour of interconnectors. A proposal which improves the accuracy of the credit indebtedness calculation for all parties might be more successful in meeting both BSC objectives (b) and (c).</p>

Q	Question	Response	Rationale
5.	Are there any further comments on P140 that you wish to make?	Yes	<p>It is disappointing that the costs appear to have escalated so dramatically since the first consultation in November 2003. Costs could exceed £1m, whereas a figure nearer £250k was indicated at the initial consultation. Why have the costs been estimated as part of a stand-alone release? Would they be less as part of a timetabled major release?</p> <p>The proposal has considerable merit in improving the accuracy of routine credit calculations for interconnectors, but should not be restricted just to interconnector BM Units. PN is probably a better estimate of metering than GC/DC/CALF for most BM Units which provide PN. Those which do not provide PN, or routinely provide inaccurate PN, could be excluded by use of a software flag. Note that the BSC quantity "Period Expected Metered Volume, QME" (PN + accepted bid/offers) would be a better measure than PN, and software should be readily available to determine it in near real time.</p> <p>A proposal with more merit would allow real or estimated meter data for all BM Units to be transferred to the credit calculation at a much earlier stage, with default data for missing values set so as to incentivise early provision of meter data. Use of PN data could be a fallback, with GC/DC/CALF for BM Units which for some reason cannot have real metering collected or estimated quickly and/or do not submit PN. Unfortunately, extrapolation of the cost estimate for P140 suggests that such a modification is unlikely to be cost-benefit justified.</p> <p>It is a concern that current methods of estimating Interconnector BM Unit energy may at times be producing a significant underestimate of relevant parties actual credit indebtedness. Our comments above relating to more wide-ranging improvements to the credit indebtedness estimation method apply equally to this effect.</p>

