

Draft MODIFICATION REPORT for Modification Proposal P132

Redefinition of Credit Cover Requirements to account for Reconciliation Charges

Prepared by: Settlement Standing Modification Group (SSMG)

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This document has been distributed in accordance with Section F2.1.10¹ of the Balancing and Settlement Code.

RECOMMENDATIONS

On the basis of the analysis, consultation and assessment undertaken in respect of this Modification Proposal during the Modification Procedure and the resultant findings of this report, the Panel recommends to the Authority that:

- **Proposed Modification P132 should not be made;**
- **If the Authority determines that Proposed Modification P132 should be made the Implementation Date should be 22 February 2005, if the Authority determination is received before 23 April 2004.**

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

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SUMMARY OF IMPACTED PARTIES AND DOCUMENTS

The following parties/documents have been identified as being potentially impacted by Modification Proposal P132.

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

| | |
|----------------------------------------------------|------------------------------------|
| Cost of implementing Proposed Modification: | £50,000+ 75 ELEXON man days |
| Operational/maintenance | £20,000 pa |

1 DESCRIPTION OF PROPOSED MODIFICATION AND ASSESSMENT AGAINST THE APPLICABLE BSC OBJECTIVES

1.1 Modification Proposal

Modification Proposal P132 'Redefinition of Credit Cover Requirements to account for Reconciliation Charges' (P132) was raised by TXU Direct Sales Limited on 19 June 2003. P132 proposes to redefine Credit Cover requirements to account for Reconciliation Charges, Trading Disputes and Past Notification Error (PNE) claims in order to ensure that credit is retained for a withdrawing or withdrawn Party to ensure future Settlement liabilities can be met.

Under the existing arrangements a Party may reduce its Credit Cover to the Minimum Eligible Amount (MEA) as defined in Section M 2.3.2 of the Code as follows:

"the "minimum eligible amount" is the lowest amount for which the Trading Party's Credit Cover Percentage, if it were redetermined for each Settlement Period in the waiting period on the assumption that the Trading Party's Credit Cover were equal to that amount, would be not greater than 75% in relation to any such Settlement Period."

A Party's Credit Cover Percentage is the ratio of its Energy Indebtedness to its Energy Credit Cover. Energy Indebtedness is an estimation of the energy traded by the Party over the last 29 Days. Currently, the calculation of Energy Indebtedness does not account for any potential changes following Reconciliation Runs and rectification of Trading Disputes or Past Notification Error (PNE) claims. Hence, the MEA for any Party which has not traded for 29 days will be zero.

As specified in Section A 5.1.3, a Party may not withdraw from the Code until several criteria have been fulfilled and these include:

(b) the Final Reconciliation Settlement Run has not been carried out in relation to the last Settlement Day, or the corresponding Payment Date is not yet past.

Therefore, a potential scenario exists whereby a Party ceases trading but is still registered in the Code, 29 days later the Party will be able to reduce its Credit Cover to zero (as its Energy Indebtedness for the last 29 days will be zero). However, the Party may still be liable to pay Trading Charges associated with Reconciliation Runs and rectification of Trading Disputes or PNE claims for Settlement Days for which it was trading. Following the 29 day period, after the last Settlement Day during which the Party has traded, any Trading Charges not paid by the Party would potentially have to be recovered via legal action.

P132 seeks to modify the methodology for calculating the Minimum Eligible Amount such that a Party which is no longer trading, or has withdrawn from the Code, will be required to maintain Credit Cover against potential liabilities relating to Reconciliation Runs, Trading Disputes or PNE claims.

It was proposed that ensuring withdrawing Parties have an obligation to provide Credit Cover for the full range of potential Trading Charges would reduce the possibility of those Parties who continue trading picking up liabilities of those Parties who have voluntarily ceased trading and hence promote competition in the generation and supply of electricity. Thus, P132 would better facilitate achievement of Applicable BSC Objective (c)².

It was further proposed that the ability to recover outstanding amounts from Credit Cover would be easier than pursuing Parties through legal routes and consequently would improve the administrative

² "Promoting effective competition in the generation and supply of electricity, and (so far as consistent therewith) promoting such competition in the sale and purchase of electricity."

efficiency of the Balancing and Settlement arrangements. Thus, P132 would better facilitate achievement of applicable BSC Objective (d)³.

The IWA for P132 was presented to the Balancing and Settlement Code Panel (Panel) on the 10 July 2003. The IWA highlighted several issues that required further definition. Therefore, it was agreed that P132 should be submitted to a 2-month definition procedure to be conducted by the Settlement Standing Modification Group (SSMG).

The SSMG met twice during the Definition Procedure and a Definition Consultation was issued to the industry. The Terms of Reference considered by the SSMG during the Definition Procedure were as follows:

- Form of the new Credit Cover obligation;
- Estimation of Potential Liabilities;
- Interaction between PNE claims process and P132 Modification Procedures.

On consideration of these issues the SSMG agreed that P132 would not better facilitate achievement of the Applicable BSC Objectives and therefore recommended to the Panel that P132 did not warrant further assessment and should be sent to the Report Phase with the recommendation to reject Proposed Modification P132. The Panel supported the rationale of the SSMG (section 1.4) and agreed to send P132 to the Report Phase.

1.2 Proposed Modification

If approved P132 would introduce new Credit Cover arrangements which would:

- Not change the existing Credit Cover arrangements for Parties continuing to trade;
- Require a Party wishing to withdraw from the Code to notify BSCCo on the discontinuation of Trading Activity;
- Require BSCCo, on notification of a Party's intent to withdraw from the Code, to calculate an amount of Credit Cover to be posted by such withdrawing Party;
- Include in the calculation of the Credit Cover required by a withdrawing Party potential liabilities resulting from future Reconciliation Runs, existing Trading Disputes and PNE claims;
- Require a withdrawing Party to post the amount of Credit Cover calculated by BSCCo; and
- Require this Credit Cover to be retained until all Reconciliation Runs, Trading Disputes and PNE claims included within the calculation of the amount had been processed.

1.3 Issues raised by the Proposed Modification

1.3.1 Form of the new Credit Cover obligation

The Modification Proposal was not specific on the changes required to the Credit Cover methodology which would ensure that a Party pays all their bills prior to withdrawal from the Code. The SSMG considered how the revised Credit Cover arrangements would function under P132. The following approach was agreed by the SSMG and endorsed by the Panel:

1. Party ceases trading activity and notifies BSCCo of its intention to withdraw from the Code;

³ "Promoting efficiency in the implementation and administration of the Balancing and Settlement arrangements".

2. BSCCo calculates the Credit Cover required to cover potential liabilities arising from Reconciliation Charges, Trading Disputes and Past Notification Error (PNE) claims (see section 1.3.2);
3. Withdrawing Party posts Credit Cover as calculated by BSCCo; and
4. This Credit Cover is maintained until all Reconciliation Runs, Trading Disputes and PNE claims included within the calculation have been processed.

These arrangements would have no impact on the existing Credit Cover arrangements for Parties continuing trading activity.

The SSMG recognised that this approach relies on the Party notifying BSCCo of its intent to withdraw. Therefore, a requirement for ECVAA to notify BSCCo of any Parties making material reductions in their Credit Cover would be introduced.

1.3.2 Estimating Liabilities

The Panel considered and endorsed the findings of the SSMG in relation to the approach for estimating potential liabilities of a withdrawing Party arising from Reconciliation Runs, Trading Disputes and PNE claims under P132 as outlined in this section.

1.3.2.1 Reconciliation

The SSMG considered the Reconciliation Trading Charges of a withdrawing Party, as detailed in the analysis contained in Annex 4.

Analysis indicated that there was potential for Reconciliation Trading Charges to sum to a significant amount during the extended timescales for withdrawal from the Code. However, it also indicated that it is not possible to predict whether these Trading Charges would result in a net payment to the Party, or whether there will be a payment made by the Party (as the net Trading Charges can be either positive or negative). It was the view of the SSMG that this highlights the difficulty with trying to account for Reconciliation in the Credit Cover arrangements.

If the average Reconciliation Trading Charge across the market were considered then the amount would be zero. However, the purpose of retaining Credit Cover is not to protect against the average case, rather to protect against the worst case scenario, where an individual Party accumulates significant liabilities which are unsecured. The only way this could be done for Reconciliation charges would be to estimate the amount for the worst case scenario and require all withdrawing Parties to cover that. On average this would mean withdrawing Parties would be required to hold a significant excess amount of Credit cover to protect against Reconciliation risk. It was the view of the SSMG that this would significantly increase the cost of leaving the market, which could ultimately prove a barrier to Parties entering the market (i.e. Parties will not only consider how costly it will be to enter the market but how costly it would be to leave should it not work out).

The SSMG considered an approach suggested via industry consultation whereby the absolute average variation between Settlement Final and Reconciliation Final Runs would be used to estimate potential settlement risk arising from Reconciliation Runs. The following example illustrates how this approach would not produce an accurate estimation of potential Settlement liabilities and would require Parties to hold significantly more Credit Cover than actually required.

In the table below the variation between Settlement Final and Reconciliation Final for six example Settlement Days is shown. As would be the case if the market were considered as a whole the average variation is zero. However the absolute average of these values is significantly greater than the total Reconciliation payments.

| Settlement Day | SF amount | R1 | R2 | R3 | RF | SF/ RF variation |
|-----------------------|-----------|-----|-----|-----|-----|------------------|
| 1 | 100 | +2 | -6 | +5 | -11 | -10 |
| 2 | 100 | -1 | +5 | +10 | -4 | +10 |
| 3 | 100 | +8 | -5 | +2 | -20 | -15 |
| 4 | 100 | -5 | +20 | -5 | +5 | +15 |
| 5 | 100 | +12 | -5 | +6 | -7 | -8 |
| 6 | 100 | -15 | +25 | -4 | +2 | +8 |

Total Reconciliation Payments 0
 Absolute Reconciliation Payments 66
 Average: 0
 Absolute Average: 11

It was the view of the SSMG that an approach whereby the absolute average variation between Settlement Final and Reconciliation Final runs was used to estimate potential settlement risk would require Withdrawing Parties to retain significantly more Credit Cover than is appropriate (i.e. would consistently over estimate the amount of Credit Cover required).

In conclusion, the SSMG agreed that it is not possible to produce a meaningful, non-zero, estimation of the Credit Cover required to protect against Reconciliation risk. In fact, it was agreed by the SSMG that the most appropriate amount was zero (as this was the most meaningful figure and had no associated cost), as required by the current arrangements.

1.3.2.2 Trading Disputes

The SSMG recognised that calculating the materiality liabilities relating to Trading Disputes would be complicated due to the timescales involved in the Trading Disputes process (Under Approved Modification P107-“Data Retention Requirements for Post-Final Trading Disputes”, to be implemented 4 November 2003, Trading Disputes can be raised up to 20 months after the Settlement Day).

For Trading Disputes which had been considered and accepted by the TDC, an estimate of the materiality would be known. Therefore, it was agreed by the SSMG that only potential liabilities arising from those Trading Disputes considered and accepted by the TDC would be included in the amount of Credit Cover required by a withdrawing Party under P132.

This approach would not protect against liabilities resulting from Trading Disputes raised after the calculation of the amount of Credit Cover to be posted by the withdrawing Party. Trading Disputes impacting the Party could be raised for up to 20 months after the last Settlement Day for which the Party was trading. It is not obvious that the number or materiality of such Trading Disputes could be predicted. Therefore, it was the view of the SSMG that no meaningful estimation of the liabilities arising from these potential future Trading Disputes could be made.

The SSMG considered the view presented via industry consultation during the Definition Procedure that it may be possible to utilise the estimate of the materiality provided by the raising Party during the Trading Disputes process, utilising that materiality against individual BSC Party’s metered takes an estimate of all BSC Parties liabilities could be calculated. However, the SSMG supported the view presented in one of the consultation responses that this would involve pre-judging the success of Trading Disputes and may be prejudicial to the Trading Dispute process.

1.3.2.3 PNE Claims

P132 seeks to oblige a withdrawing Party to place Credit cover for PNE claim liabilities. Therefore, the SSMG has considered the schedule for processing PNE claims and the time scales for progressing P132 in order to determine whether PNE claims would be processed prior to the earliest possible Implementation Date for P132.

The last of the PNE claims relates to 8 April 2002, therefore if it is possible to catch up with the Settlement Runs, all upheld claims will be rectified by 9 April 2004. Current understanding indicates that it will be possible to catch up on the Settlement Timetable by completing a number of runs on any given day. In the worst case scenario, where it is not possible to catch up on the Settlement Timetable, the latest date for rectification of PNE claims would be December 2004. The recommended Implementation Date for Proposed Modification P132 is 22 February 2005.

The SSMG considered the above and recognised that it is probable that all existing PNE claims will have been processed prior to the proposed implementation date for P132. However, the approach agreed by the SSMG would allow PNE claims to be included in the calculation of the Credit Cover amounts required for a withdrawing Party (if all claims had been processed the PNE contribution would be zero). This approach would also allow flexibility for any future PNE claims raised to be considered, for example as proposed by P128-“Correction of Erroneous Energy Contract Volume Notifications in Specifically Defined Limited Circumstances”.

The estimated materiality of existing PNE claims is known and could be used in the calculation of the Credit Cover amount required by a withdrawing Party under P132.

1.3.3 Legal Text

The SSMG agreed that it is not possible to define how potential Reconciliation and Trading Dispute claim liabilities should be estimated. As such, the SSMG agreed that no legal text would be commissioned for P132. At the Panel meeting of 11 September 2003 the Authority noted that no legal text was to be included within the P132 Modification Report.

1.3.4 Implementation Date

Section 2.7.7 b) of the Code requires that a proposed Implementation Date is included in all Modification Reports presented to the Authority. Therefore, although the SSMG was of the view that it is not possible to define how potential Reconciliation and Trading Dispute claim liabilities should be estimated, such that no legal text should be commissioned for P132, the following recommended Implementation Date was agreed for Proposed Modification P132;

- 22 February 2005, should the Authority determination be received before 23 April 2004.

1.4 Assessment of the Proposed Modification against the Applicable BSC Objectives

The Panel supported the SSMG conclusions and assessment of P132 against the Applicable BSC Objectives as outlined below;

1. It is not possible to define how potential Reconciliation and Trading Dispute claim liabilities should be estimated;
2. Reconciliation Trading Charges can be either negative or positive, therefore the current arrangements, requiring zero Credit Cover is retained for Reconciliation Runs, is as meaningful as any alternative and has no associated cost;

3. Requiring industry to expend money and effort in order to introduce new Credit Cover arrangements, which would not provide a more accurate estimation of potential liabilities, would discourage competition;
4. Requiring Credit Cover to be retained by withdrawing Parties is a barrier to entry; and
5. As a consequence P132 would not better facilitate the Applicable BSC Objectives. In particular there would be a negative effect on;

"(c) promoting effective competition in the generation and supply of electricity, and (so far as consistent therewith) promoting such competition in the sale and purchase of electricity."

1.5 Modification Group's cost benefit analysis of Proposed Modification

In assessing the Proposed Modification, the SSMG believed that the Proposed Modification would increase the ongoing central cost to the industry by approximately £20,000 pa (section 3). There would also be an additional cost to individual Parties withdrawing from the Code related to the requirement to retain Credit Cover.

The SSMG agreed that introducing new Credit Cover arrangements which would not provide a more accurate estimation of potential liabilities and could require Parties to retain an arbitrary level of Credit Cover would have negligible benefit.

Therefore, the SSMG concluded that the overall cost benefit analysis for Proposed Modification P132 was negative.

1.6 Alternative Modification

No Alternative Modification P132 was developed.

1.7 Governance and regulatory framework assessment

No impact of the Proposed Modification in the context of the statutory, regulatory and contractual framework within which the Code sits was identified.

2 RATIONALE FOR PANEL'S RECOMMENDATIONS

The Panel supported the rationale for the recommendations made by the SSMG with regard to Proposed Modification P132 (section 1.4) and on the basis of this rationale, the Panel recommends that Proposed Modification P132 should not be made.

The Panel was in agreement with the view of the SSMG that implementing P132 would introduce Credit Cover requirements which are less appropriate than the current arrangements and that this would have a negative overall effect on competition within the market. As such, the Panel agreed that, overall, Proposed Modification P132 would not better facilitate achievement of the Applicable BSC Objectives and that, in particular, there would be a negative effect on Applicable BSC Objective (c)⁴.

The Panel supported the conclusion of the SSMG that it is not possible to define how potential Reconciliation and Trading Dispute claim liabilities should be estimated and, as such, no legal text would be commissioned for P132. However, the Panel recognised the Code requirement to provide a proposed Implementation Date in all Modification Reports and supported the proposed Implementation Date recommended by the SSMG.

3 IMPACT ON BSC SYSTEMS AND PARTIES

An assessment has been undertaken in respect of BSC Systems and Parties and the following have been identified as potentially being impacted by the Proposed Modification.

3.1 BSCCo

In order to support Proposed Modification P132, BSCCo would be required to establish new systems and processes in order to calculate a level of Credit Cover to be retained by withdrawing Parties.

3.2 BSC Systems

| System / Process | Potential Impact of Proposed Modification |
|--------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Registration | No impact |
| Contract Notification | No impact |
| Credit Checking Systems | Changes required to ECVAA systems and processes in order to ensure Credit Cover is retained for withdrawing Parties in line with the amount notified by BSCCo. |
| Balancing Mechanism Activities | No impact |
| Collection and Aggregation of Metered Data | No impact |
| Supplier Volume Allocation | No impact |
| Settlement | No impact |
| Clearing, Invoicing and | No impact |

⁴ "c) Promoting effective competition in the generation and supply of electricity, and (so far as consistent therewith) promoting such competition in the sale and purchase of electricity."

| | |
|-----------|-----------|
| Payment | |
| Reporting | No impact |

The estimated cost of implementing these changes is £50,000. Approximately £20,000 pa would be further required to operate and maintain the P132 Credit Cover arrangements.

3.3 Parties and Party Agents

Parties withdrawing from the Code would be required to hold a level of Credit Cover as calculated by BSCCo. There would be no impact on Parties remaining within the Code.

4 IMPACT ON CODE AND DOCUMENTATION

4.1 Balancing and Settlement Code

| Item | Potential Impact of Proposed Modification |
|--------------------------------------------|---------------------------------------------------------------------|
| Section A: Parties and Participation | Changes would be required to the process for withdrawal of a Party. |
| Section M: Credit Cover and Credit Default | Changes would be required to the Credit Cover methodology. |

4.2 Code Subsidiary Documents

| Item | Potential Impact of Proposed Modification |
|-----------------------------------------------------|-------------------------------------------------------------|
| BSCP65: Registration of Parties and Exit Procedures | The withdrawal procedures would require amendment. |
| BSCP301: Clearing, Invoicing and Payment | Amended to reflect changes to the Credit Cover methodology. |

5 SUMMARY OF CONSULTATIONS

5.1 *Summary of draft Modification Report responses*

To be added following industry consultation on this draft Modification Report.

5.2 **Summary of Definition Consultation responses**

This section summarises the results of industry consultation during the Definition Procedure, the full responses are contained in Annex 3 (5 responses, representing 23 Parties, were received).

| Q.1. Do you support the principle of P132? | |
|---------------------------------------------------|----------------|
| Yes | 2 (7 Parties) |
| No | 2 (15 Parties) |
| No Comment | 1 (1 Party) |

There was support of the general principle of ensuring that Parties pay all their liabilities. However, the majority of respondents recognised that it would not be possible to define a method for estimating reconciliation liabilities which was more accurate than the current arrangements and, therefore, supported the view of the SSMG that P132 should be sent to report with the recommendation to reject. The view was also presented that requiring withdrawing Parties to maintain Credit Cover could act as a barrier to entry.

| Q.2. Do you believe that P132 requires further assessment? | |
|-------------------------------------------------------------------|----------------|
| Yes | 1 (6 Parties) |
| No | 3 (16 Parties) |
| No Comment | 1 (1 Party) |

There was majority support for the view of the SSMG that it was not possible to define a method for estimating potential reconciliation liabilities, which was more accurate than the current arrangements, such that there would be no value in further assessing P132. One respondent presented the view that it would be possible to produce an accurate, non-zero, estimation of potential reconciliation liabilities and, therefore, was of the opinion that P132 should be submitted to further assessment. The SSMG considered the approach to estimating potential Reconciliation liabilities suggested by this respondent and were of the view that it would over estimate the amount of Credit Cover to be held by Withdrawing Parties (see section 1.3.2.1).

| Q.3. Do you support the definition/approach? | |
|-----------------------------------------------------|----------------|
| Yes | 3 (8 Parties) |
| No | 1 (14 Parties) |
| No Comment | 1 (1 Party) |

The one respondent that did not support the definition/approach presented the view that, although the definition is consistent with the Proposed Modification, they did not support the Proposed Modification and, therefore, could not support the defined solution.

Q.4. Do you support the form of the new Credit Cover arrangement as defined by the SSMG?

| | |
|------------|----------------|
| Yes | 2 (7 Parties) |
| No | 2 (15 Parties) |
| No Comment | 1 (1 Party) |

There was support for the form of the new Credit Cover arrangement as defined by the SSMG. One respondent did not support the form of the new Credit Cover arrangements, as they did not support the Proposed Modification. One respondent presented the view that it would be possible to produce an accurate, non-zero, estimation of potential reconciliation liabilities. The SSMG considered the approach to estimating potential Reconciliation liabilities suggested by the respondent and agreed that it would over estimate the amount of Credit Cover to be held by Withdrawing Parties (see section 1.3.2.1).

Q.5. Do you agree with the view of the SSMG that it is not possible to specify a meaningful level of Credit Cover to protect against the Reconciliation risk of a withdrawing Party without requiring withdrawing Parties to hold an inappropriately large amount of Credit Cover?

| | |
|------------|----------------|
| Yes | 3 (16 Parties) |
| No | 1 (6 Parties) |
| No Comment | 1 (1 Party) |

There was majority support for the view of the SSMG that it was not possible to define a method for estimating potential reconciliation liabilities which was more accurate than the current arrangements. One respondent presented the view that it would be possible to produce an accurate, non-zero, estimation of potential reconciliation liabilities (see section 1.3.2.1).

Q.6. Do you agree with the view of the SSMG that it is only possible to produce a meaningful estimation of the potential liabilities arising from those Trading Disputes which had been considered and accepted by the TDC?

| | |
|------------|----------------|
| Yes | 2 (7 Parties) |
| No | 2 (15 Parties) |
| No Comment | 1 (1 Party) |

Two respondents presented the view that it may be possible to utilise the estimate of the materiality provided by a Party during the Trading Disputes process. Utilising that materiality against individual BSC Parties metered take, an estimate of BSC Parties liabilities could be calculated. However the SSMG supported the view in one of the consultation responses that this would involve pre-judging the success of Trading Disputes and may be prejudicial to the Trading Dispute process. Furthermore the SSMG noted that this approach would not address the issue that Trading Disputes affecting a Party could be raised up to 20 months after notification of that Parties intent to Withdraw from the Code.

6 SUMMARY OF TRANSMISSION COMPANY ANALYSIS

6.1 Analysis

Proposed Modification P132 does not impact the Transmission Company.

7 DOCUMENT CONTROL

7.1 Authorities

| Version | Date | Author | Reviewer | Change Reference |
|---------|----------|-----------------|-----------------|------------------|
| 0.1 | 22/09/03 | Change Delivery | Change Delivery | For Peer Review |
| 0.2 | 22/09/03 | Change Delivery | Industry | Industry Review |

7.2 References

| Ref | Document |
|---------|------------------------------------------------------------------------------------------------------------------------------------------------|
| P132 | Modification Proposal P132 'Redefinition of Credit Cover Requirements to account for Reconciliation Charges' |
| P132IWA | Initial Written Assessment for Modification Proposal P132 'Redefinition of Credit Cover Requirements to account for Reconciliation Charges' |
| P132DR | Definition Report for Modification Proposal P132 'Redefinition of Credit Cover Requirements to account for Reconciliation Charges' |

ANNEX 1 DRAFT LEGAL TEXT

As outlined in section 1.3, no legal text was prepared for P132. At the Panel meeting of 11 September 2003 the Authority noted that no legal text was to be included within the P132 Modification Report.

ANNEX 2 MODIFICATION GROUP DETAILS

The P132 Definition Report has been prepared by the SSMG, and the membership is detailed in the table below.

| Member | Organisation | Role |
|------------------|---------------------|--------------|
| Justin Andrews | ELEXON | Chairman |
| Roger Salomone | ELEXON | Chairman |
| Thomas Bowcutt | ELEXON | Lead Analyst |
| Phil Russell | TXU | Proposer |
| Paul Jones | Powergen | Member |
| Ben Willis | Npower | Member |
| Marie Branch | International Power | Member |
| Richard Lavender | National Grid | Member |
| Mark Manley | Centrica | Member |
| Steve Drummond | EDF Trading Ltd | Member |
| Joanne Ellis | Cornwall Consulting | Member |

In addition the following attendees have been present at one or more meetings during the Assessment Procedure:

| Member | Organisation | Role |
|-----------------|--------------|----------|
| Paul O'Donovan | Ofgem | Attendee |
| Jerome Williams | Ofgem | Attendee |

ANNEX 3 CONSULTATION RESPONSES

a Draft Modification Report Consultation

To be added after industry consultation

b Definition Consultation

Please refer to the Definition Report for Modification Proposal P132 'Redefinition of Credit Cover Requirements to account for Reconciliation Charges'.

ANNEX 4 CASE STUDY OF A WITHDRAWING PARTY

This section contains analysis of the Trading Charges of a large Supplier which had ceased trading and was in the process of withdrawing from the Code. Analysis was based on the Trading Charges generated for Payment Dates in an 8 month period following discontinuation of trading activity. This information was provided in order to assist the Settlement Standing Modification Group in their assessment of the materiality of Reconciliation Trading Charges generated by a withdrawing Party.

This section summarises results of the analysis of Trading Charges as illustrated in Graphs 1 to 8.

- **Chart 1: Trading Charge balances**

Chart 1 illustrates both the total balance of Trading Charges and a break down by run type. In this example Trading Charges generated at Settlement Final (SF) result in a positive balance (payment from the Party) of £2,755,221. Trading Charges generated from Reconciliation Runs result in a negative balance of -£1,064,250 (payment to the Party). Consequently the overall position, for the 8 month period considered, was a positive balance of £1,690,972.

- **Chart 2: Trading Charge Payments**

Chart 2 shows the Trading Charges generated from individual Reconciliation Runs. Trading Charges generated from SF runs were typically an order of magnitude larger than non-SF values and have been excluded from the chart for clarity (see Tables 1 and 2 for details of SF Trading Charges).

The largest SF Trading Charge observed was a payment from the Party of £493,965. The largest Reconciliation Trading Charge was a Payment to the Party of -£36,710.

- **Chart 3: Positive Negative Run Type split**

Chart 3 illustrates the split between positive and negative Trading Charges for each run type. The chart shows a swing from a 96% majority of payments from the Party for SF runs to a 9% minority for Reconciliation Final (RF) runs.

- **Chart 4: Fraction of Trading Charges by volume.**

Chart 4 shows the fraction of the total Trading Charges (absolute values), by cash volume, generated by each Run type within the 8 month period. The chart illustrates that 56% of Trading Charges were generated via SF Settlement Runs.

- **Chart 5: Fraction of positive trading charges by volume**

Chart 5 shows the fraction of positive Trading Charges (i.e. payments from the Party), by cash volume, which were generated by each run type within the 8 month period. The chart illustrates that 81% of the payments from the Party were generated via SF Runs.

- **Chart 6: Fraction of negative trading charges by volume**

Chart 6 shows the fraction of negative Trading Charges (i.e. payments to the Party), by cash volume, which were generated by each Run type. The chart illustrates that 6% of the payments to the Party were generated via SF Runs.

- **Charts 7 and 8: Average Trading Charges.**

Charts 7 and 8 show the average Trading Charges for each run type (Graph 8 contains a subset of the data from Graph 7 with SF values removed for clarity).

The average SF Trading Charges is £76,533.93. The average of the absolute SF Trading Charges is £83,159.45.

The average Reconciliation Trading Charges is -£1,627. The average of the absolute Reconciliation Trading Charges is £3,659.

- **Further Points**

Tables 1, 2 and 3 contain a selection of the raw data from which Charts 1-7 were derived. This data illustrates a further point of interest as follows.

Although the average Trading Charge associated with Reconciliation Runs is much lower than that for SF runs (see Charts 7-8), due to the Settlement timetable, a withdrawing Party will be liable to significantly more Reconciliation Runs than SF Runs. In the example 690 Runs were considered of which 654 were Reconciliation Runs. Hence Reconciliation Charges may have a significant contribution to the overall balance position of a Party in the process of withdrawing from the Code.

Chart 1:

Trading Charges Vs Payment Date by Run Type

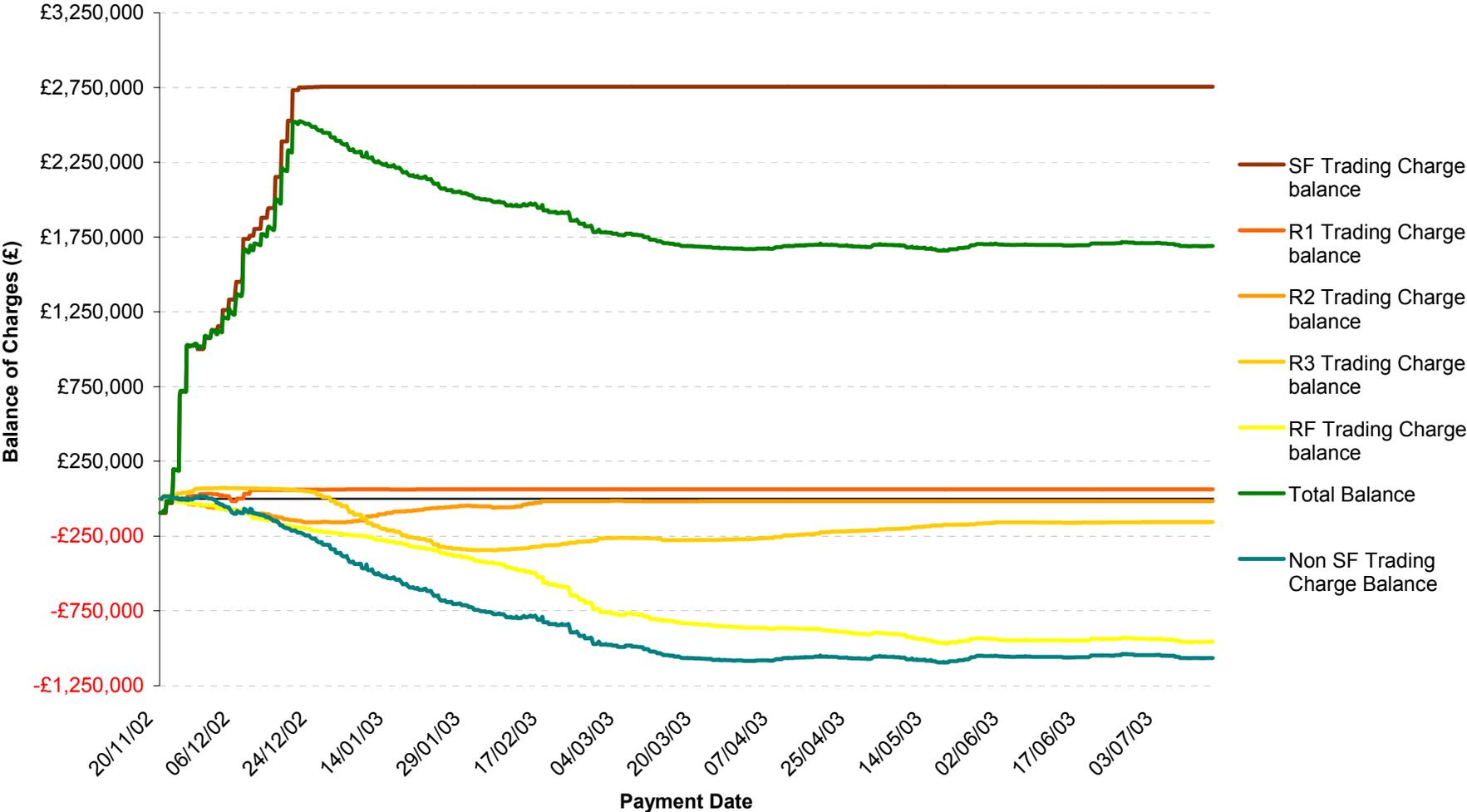


Chart 2:

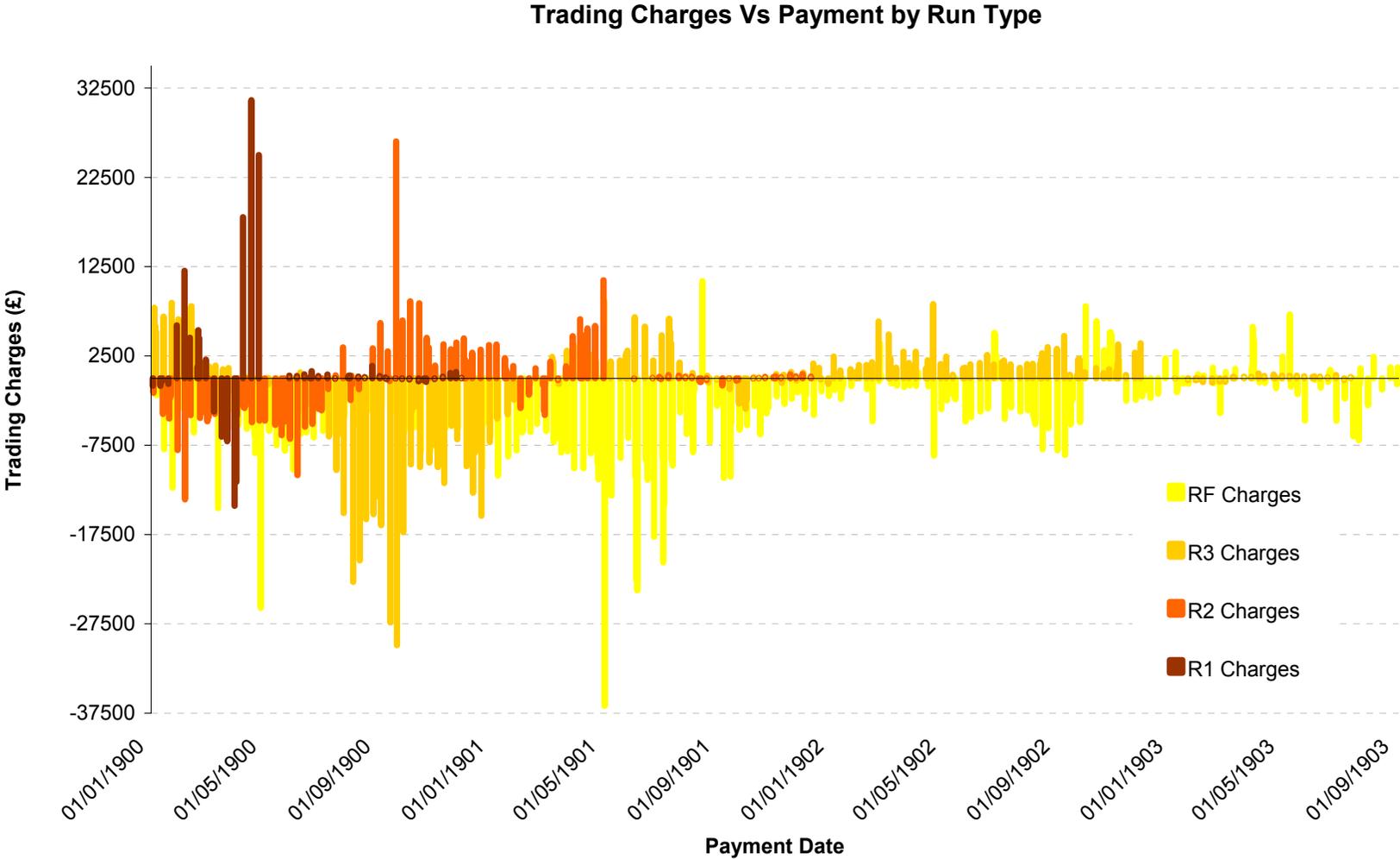


Chart 3:

Positive/ Negative Charge Split Vs Run Type by Volume

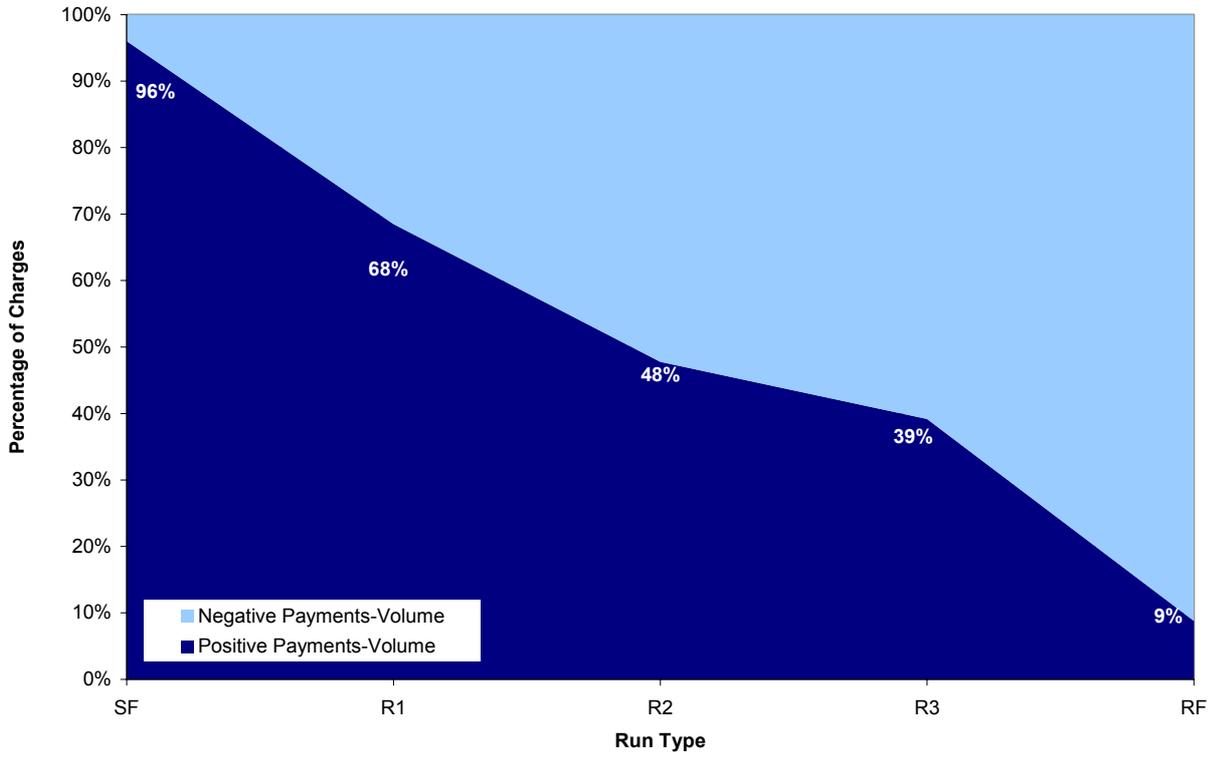


Chart 4:

Fraction of Total Trading Charges Vs Run Type by Volume

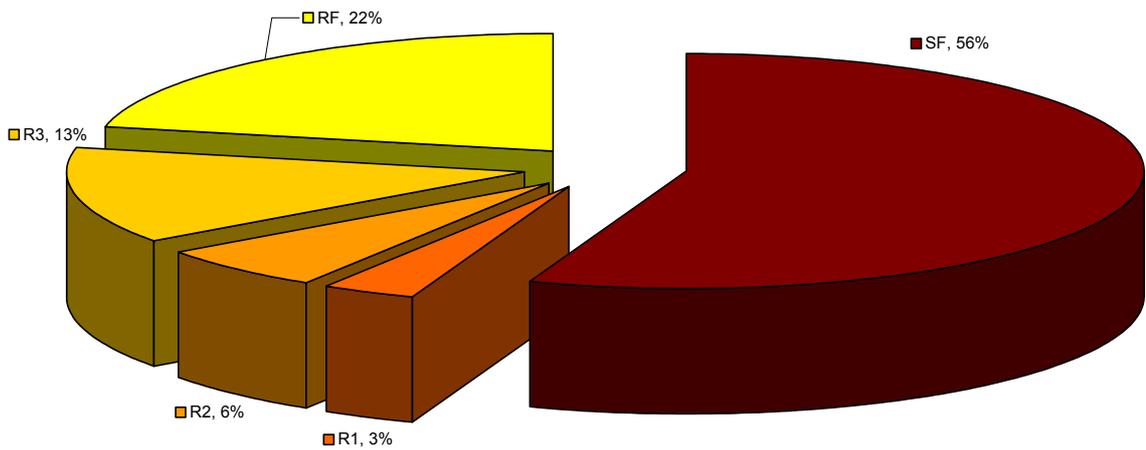


Chart 5:

Fraction of Positive Trading Charges Vs Run Type by Volume

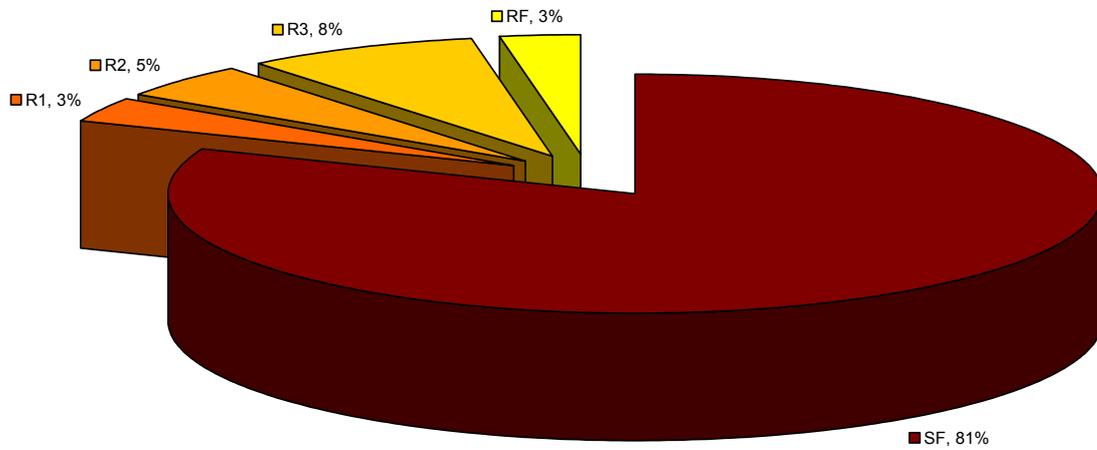


Chart 6:

Fraction of Negative Trading Charges Vs Run Type by Volume

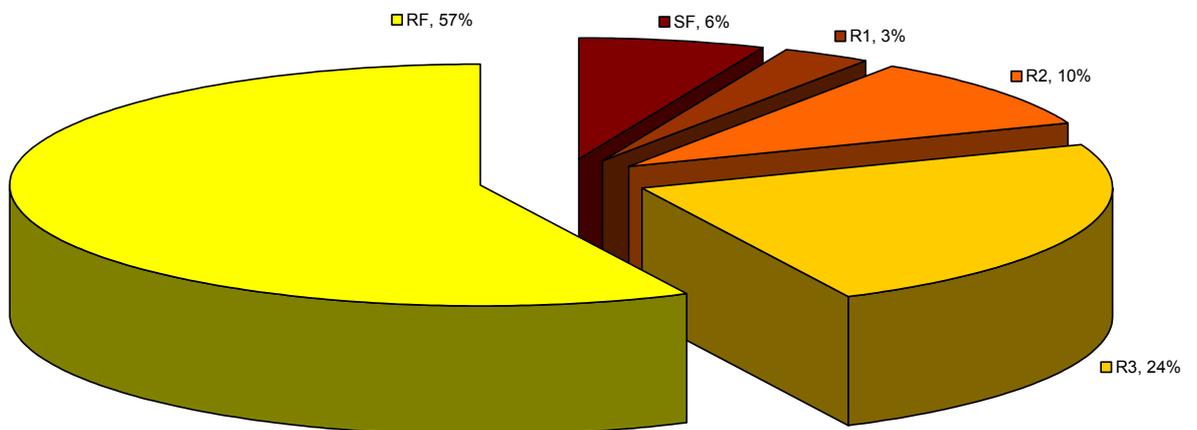


Chart 7:

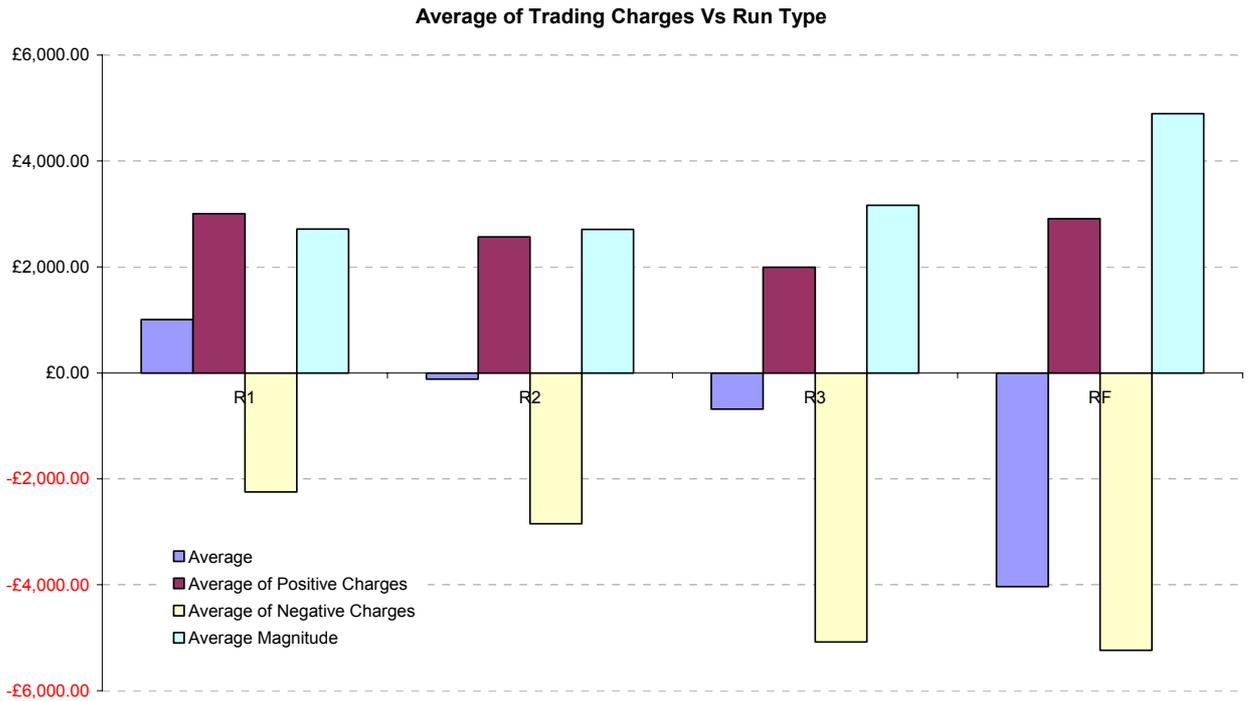
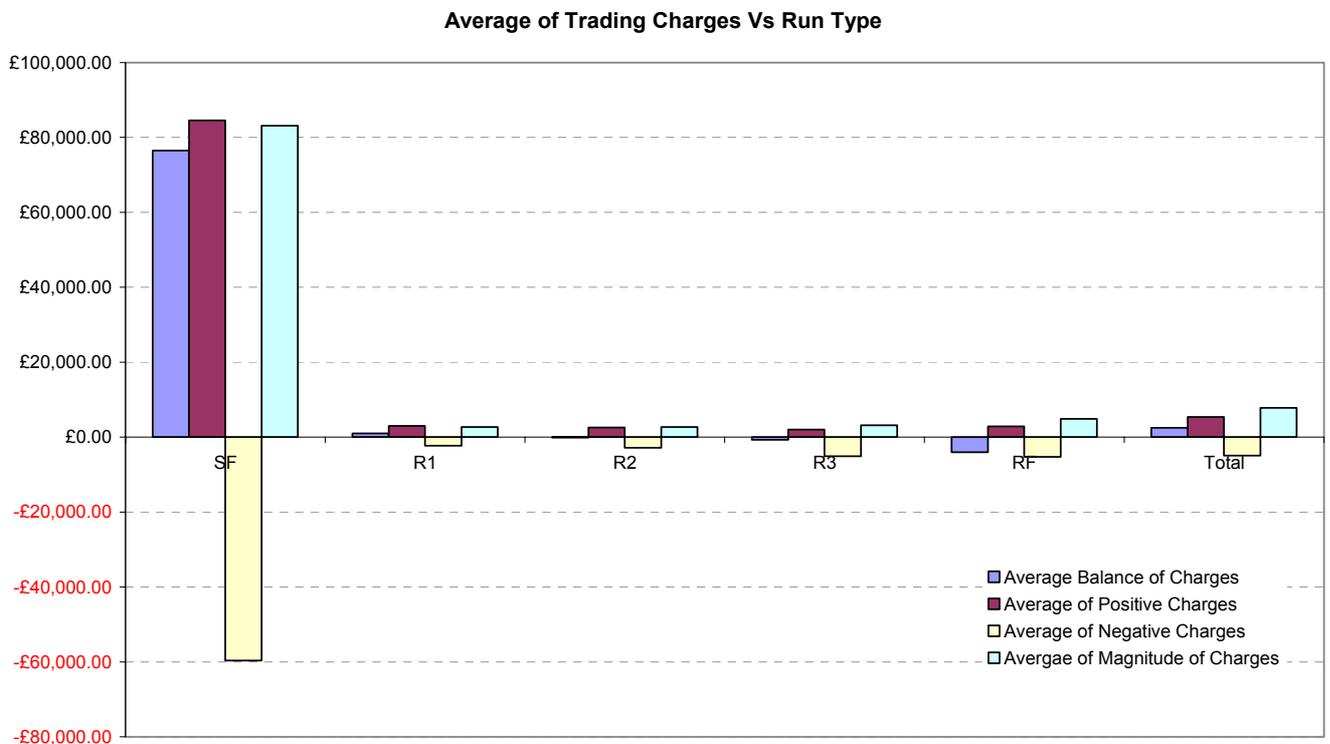


Chart 8:



Raw Data:**Totals:**

| | SF | R1 | R2 | R3 | RF | Total |
|------------------------|------------|-----------|-----------|-----------|-------------|--------------|
| Maximum | £493,965 | £31,164 | £26,529 | £8,656 | £10,887 | £493,965 |
| Minimum | -£94,711 | -£14,276 | -£13,580 | -£29,907 | -£36,710 | -£94,711 |
| Total | £2,755,221 | £63,273 | -£15,329 | -£155,763 | -£956,431 | £1,690,972 |
| Total Positive | £2,874,481 | £117,208 | £164,219 | £281,161 | £101,898 | £3,538,967 |
| Total Negative | -£119,259 | -£53,935 | -£179,548 | -£436,924 | -£1,058,329 | -£1,847,996 |
| Magnitude Total | £2,993,740 | £171,144 | £343,767 | £718,086 | £1,160,226 | £5,386,963 |
| Number | 36 | 63 | 127 | 227 | 237 | 690 |
| Number Positive | 34 | 39 | 64 | 141 | 35 | 313 |
| Number Negative | 2 | 24 | 63 | 86 | 202 | 377 |

Table 1: Individual Run data

Averages:

| | SF | R1 | R2 | R3 | RF | Total |
|--------------------------|-------------|------------|------------|------------|------------|--------------|
| Average | £76,533.93 | £1,004.33 | -£120.70 | -£686.18 | -£4,035.57 | £2,450.68 |
| Average Positive | £84,543.55 | £3,005.34 | £2,565.92 | £1,994.05 | £2,911.36 | £5,402.47 |
| Average Negative | -£59,629.71 | -£2,247.30 | -£2,849.97 | -£5,080.51 | -£5,239.25 | -£4,901.84 |
| Average Magnitude | £83,159.45 | £2,716.57 | £2,706.83 | £3,163.37 | £4,895.47 | £7,807.19 |

Table 2: Averages

Percentages:

| | SF | R1 | R2 | R3 | RF |
|--------------------------------------|-----------|-----------|-----------|-----------|-----------|
| % of Run Type Positive-Volume | 96% | 68% | 48% | 39% | 9% |
| % of Run Type Negative-Volume | 4% | 32% | 52% | 61% | 91% |
| % of Total Positive- Volume | 81% | 3% | 5% | 8% | 3% |
| % of Total Negative- Volume | 6% | 3% | 10% | 24% | 57% |
| % of Total Magnitude-Volume | 56% | 3% | 6% | 13% | 22% |

Table 3: Positive/ Negative Splits