

MODIFICATION REPORT for Modification Proposal P132

Redefinition of Credit Cover Requirements to account for Reconciliation Charges

Prepared by ELEXON on behalf of the BSC Panel

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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; or**
 - **Should an Authority determination be received on or after this date, but prior to 23 October 2004 then the Implementation Date should be 1 November 2005.**

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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 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 such that potential 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 M2.3.2 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 A5.1.3, 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 future liabilities relating to Reconciliation Runs, Trading Disputes or PNE claims.

It was proposed that ensuring that 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.

ELEXON's Initial Written Assessment (IWA) of 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.

As part of the Report Phase, ELEXON issued a draft Modification Report containing the Panel's provisional recommendations to industry for consultation. Three responses, two in support of the Panel's provisional recommendations and one expressing no opinion, were received. A summary of the responses received is provided in Section 5 of this report and each response is reproduced in full in Annex 3.

The draft Modification Report, and the responses received to the consultation on that report, were presented to the Panel on 9 October 2003. The Panel, unanimously, confirmed its provisional recommendation – that P132 should not be made because its implementation would not better facilitate achievement of the Applicable BSC Objectives.

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.

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

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;
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 would 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). However, one Panel member noted that it is customary, in futures market for example, for credit cover to be required and used as protection against the worst possible outcome rather than the expected outcome.

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, including the Proposer of P132, 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 F2.7.7 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 there was no net cost benefit for Proposed Modification P132.

1.6 Alternative Modification

No Alternative Modification was developed.

1.7 Governance and regulatory framework assessment

No impact to 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 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."

System / Process	Potential Impact of Proposed Modification
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

This section summarises the results of industry consultation on the draft Modification Report, the full responses are contained in Annex 3 (3 responses, representing 21 Parties, were received).

No substantive new arguments were expressed by any of the consultation respondents that had not been discussed by the SSMG during its consideration of P132.

Q.1. Do you agree with the Panel's views on P132 and the provisional recommendation to the Authority contained in the draft Modification Report that P132 should not be made?	
Yes	2 (20 Parties)
No	0
No Comment	1 (Party)

All respondents, who expressed a view, support the Panel's views on P132 and the provisional recommendation to the Authority contained in the draft Modification Report that P132 should not be made. One respondent identified no impact from P132.

One respondent, although indicating support of the principle behind the Modification Proposal, supported the view of the SSMG that Proposed Modification P132 was not practical.

One respondent presented the view that, as it is not possible to assess accurately the level of Credit Cover required by a withdrawing Party, requiring such a Party to hold Credit Cover would effectively be covering the risk associated with the inability to forecast accurately the extent of any liabilities. As such, the respondent believed Proposed Modification P132 would present a barrier to exiting the market. Furthermore, the respondent indicated that the current arrangements, whereby remaining Parties underwrite the risk associated with withdrawing Parties was considered more appropriate than Proposed Modification P132.

Q.2. Do you agree with the Panel's provisional recommendation concerning the Implementation Date for P132?	
Yes	2 (20 Parties)
No	0
No Comment	1 (Party)

All respondents, who expressed a view, support the Panel's provisional recommendation concerning the Implementation Date for P132. One respondent identified no impact from P132.

Q.2. Are there any further comments on P132 that you wish to make?

One respondent, in support of the recommendation that P132 should not be made, presented the view that ongoing protection for Parties against the risk of default on reconciliation charges and PNE claim amounts should be provided via some alternative method. However, the respondent was not specific on what the mechanism for this might be.

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
0.3	30/09/03	Change Delivery	Change Delivery	Technical Review
0.4	03/10/03	Change Delivery	Panel	For Decision

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 LEGAL TEXT

As outlined in section 1.3, no legal text was prepared for P132. At the Panel meeting of 9 October 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****Responses from P132 Draft Report Consultation**

Consultation issued 22/09/03

Representations were received from the following parties:

No	Company	File Number	No. BSC Parties Represented	No. Non-Parties Represented
1.	Powergen	P132_DR_001	14	0
2.	Aquila Networks	P132_DR_002	1	0
3.	Scottish Power	P132_DR_003	6	0

P132_DR_001 – Powergen

Respondent:	Powergen UK plc
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, Consolidator & Exemptable Generator

Q	Question	Response	Rationale
1.	Do you agree with the Panel's views on P132 and the provisional recommendation to the Authority contained in the draft Modification Report that P132 should not be made? <i>Please give rationale.</i>	Yes	It is not possible to assess accurately whether a withdrawing Party is likely to owe money in these circumstances, let alone ascertain the magnitude of cover which should be left. If the withdrawing Party is required to hold credit cover then it is fully covering the risk associated with this inability to forecast accurately the extent of any liabilities. This would present a barrier to exiting the market. Alternatively, the remaining Parties could underwrite the risk (ie as now). This spreads the risk across the Parties who are only exposed if the withdrawing Party ends up owing money <u>and</u> does not honour its debt. It must be borne in mind that these Parties are withdrawing in a controlled manner so we should not automatically assume that they will default.
2.	Do you agree with the Panel's provisional recommendation concerning the Implementation Date for P132? <i>Please give rationale.</i>	Yes	
3.	Are there any further comments on P132 that you wish to make?	No	

P132_DR_002 – Aquila Networks

Please find that there is no impact to Aquila Networks Plc systems and/or processes.

regards

Rachael Gardener

Deregulation Control Group &
Distribution Support Office
AQUILA NETWORKS

P132_DR_003 – Scottish Power

Respondent:	Name John W Russell (SAIC Ltd)
No. of BSC Parties Represented	6
BSC Parties Represented	<i>Please list all BSC Parties responding on behalf of (including the respondent company if relevant).</i> 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	
Non BSC Parties represented	<i>Please list all non BSC Parties responding on behalf of (including the respondent company if relevant).</i>
Role of Respondent	Supplier / Generator / Trader / Consolidator / Exemptable Generator / Party Agent

Q	Question	Response	Rationale
1.	Do you agree with the Panel's views on P132 and the provisional recommendation to the Authority contained in the draft Modification Report that P132 should not be made? <i>Please give rationale.</i>	Yes	<i>Although we agree in principle with the sentiment behind this modification, we also agree with the argument put forward by SSMG that the modification as currently drafted is not practical.</i>
2.	Do you agree with the Panel's provisional recommendation concerning the Implementation Date for P132? <i>Please give rationale.</i>	Yes	<i>Notwithstanding the fact that we disagree with this modification; the implementation date would appear to be appropriate.</i>
3.	Are there any further comments on P132 that you wish to make?	Yes	<i>The materiality estimates for PNE claims are such that "successful" claimants stand to lose significant amounts of their PNE recoveries due to the withdrawal of parties from the BSC. These claimants have invested significant amounts of time and effort in pursuit of their claims and should not be denied recovery of sums identified as due to them under the process. Although net reconciliation sums are zero across the market, it is more likely that unanticipated reconciliation charges payable will precipitate default by a party than recoverable charges. Ongoing protection for Parties against the risk of default in reconciliation charges should be provided</i>

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:

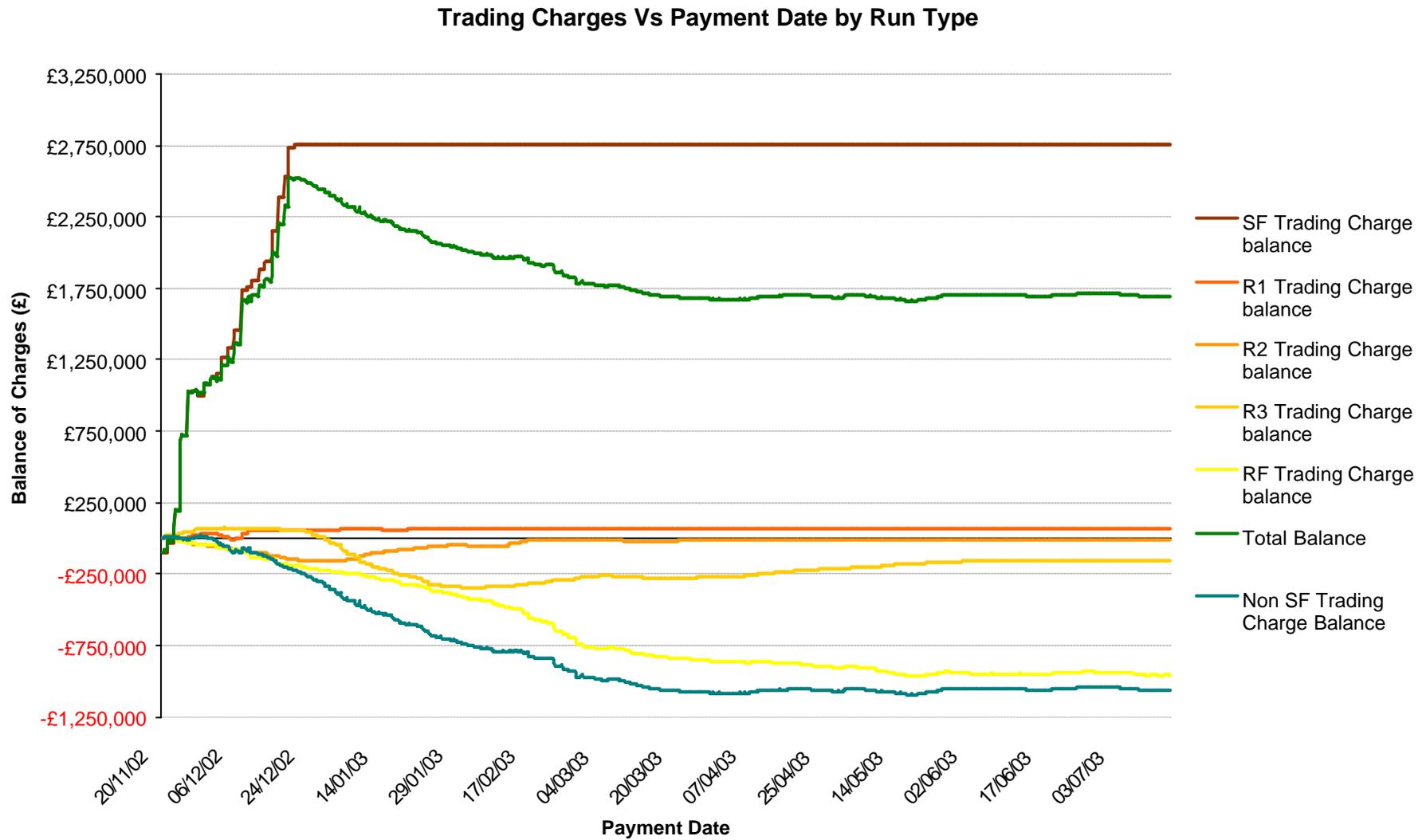


Chart 2:

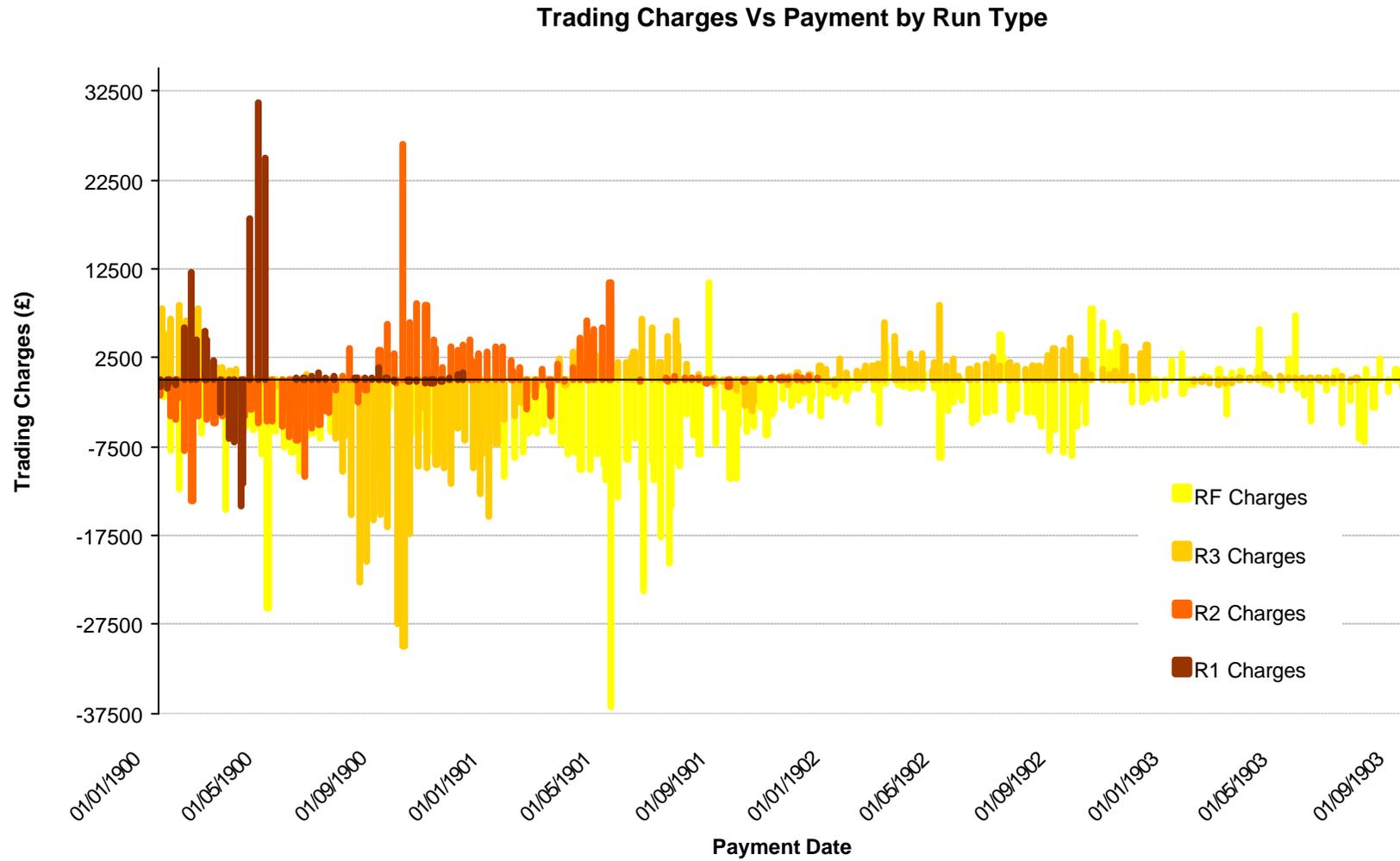


Chart 3:

Postive/ Negative Charge Split Vs Run Type by Volume

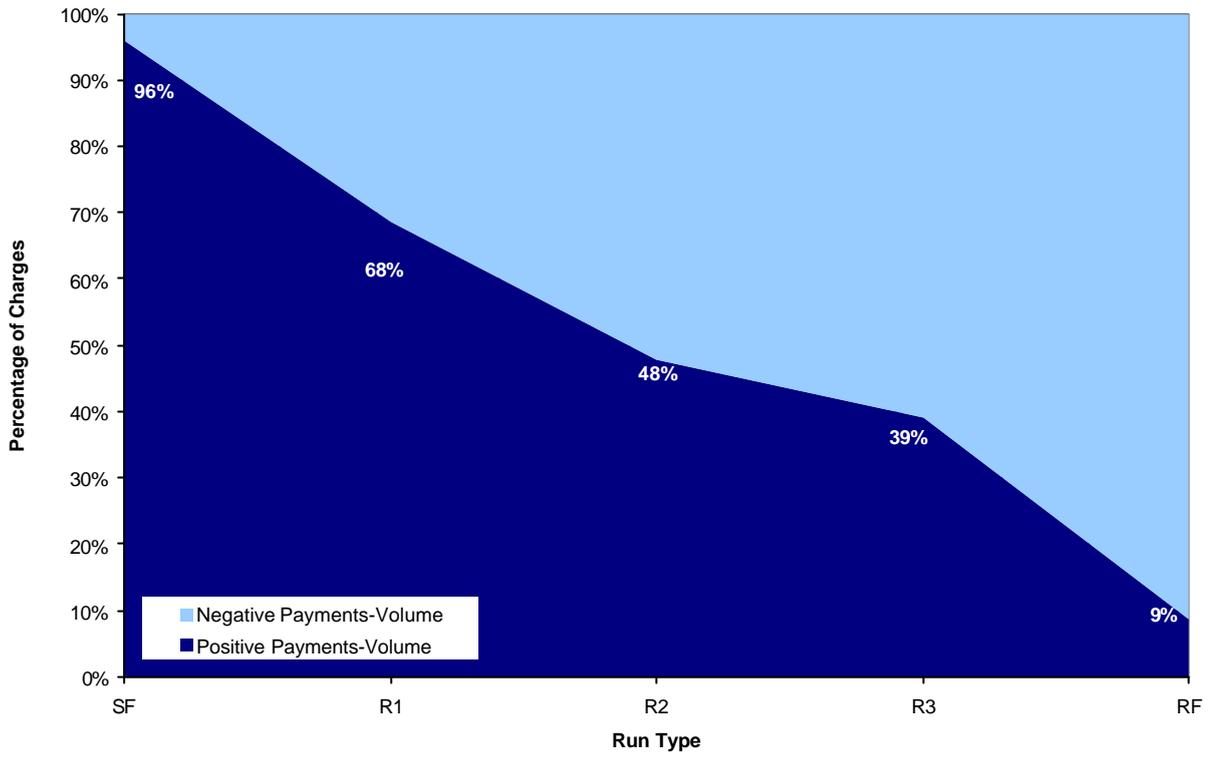


Chart 4:

Fraction of Total Trading Charges Vs Run Type by Volume

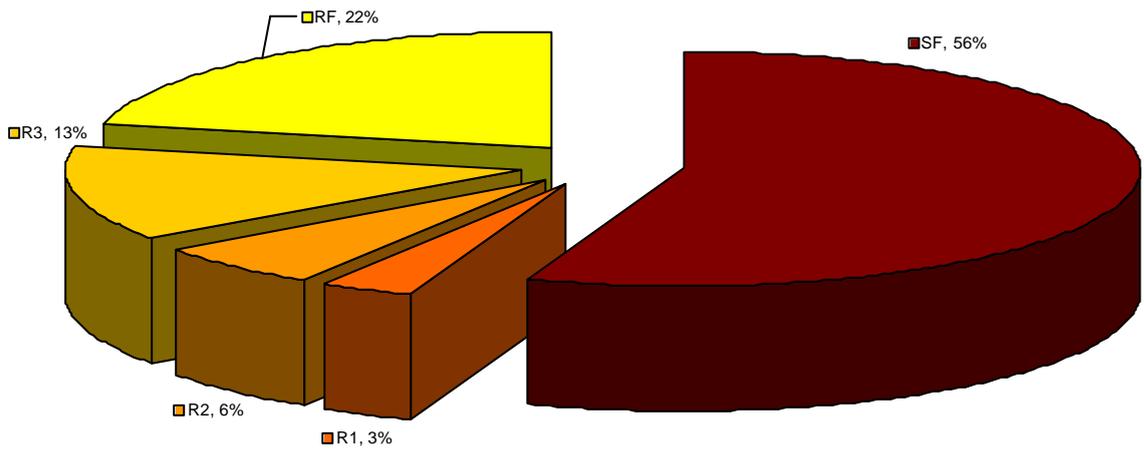


Chart 5:

Fraction of Positive Trading Charges Vs Run Type by Volume

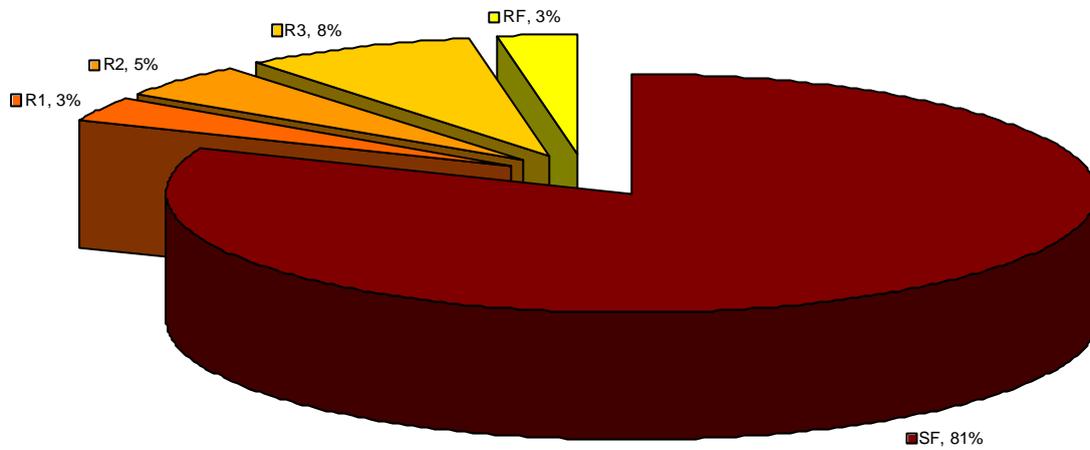


Chart 6:

Fraction of Negative Trading Charges Vs Run Type by Volume

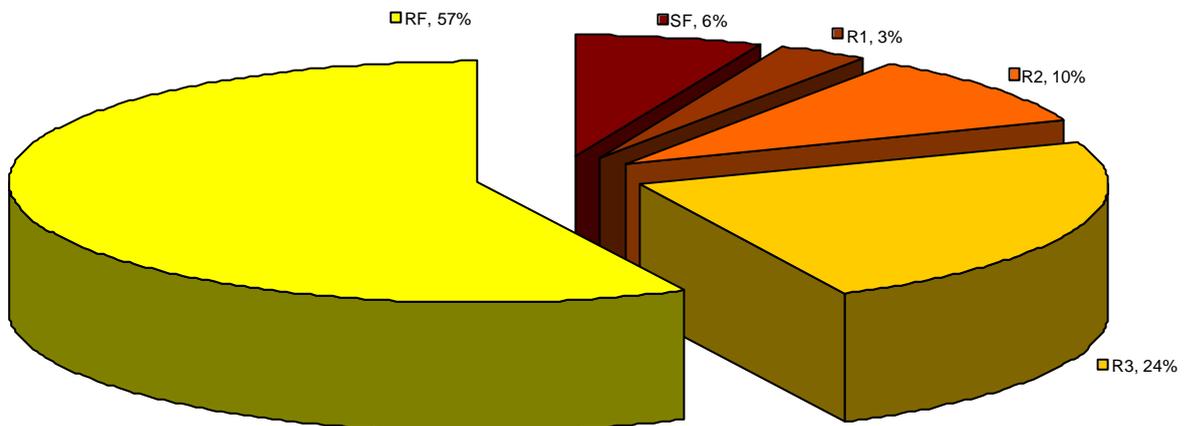


Chart 7:

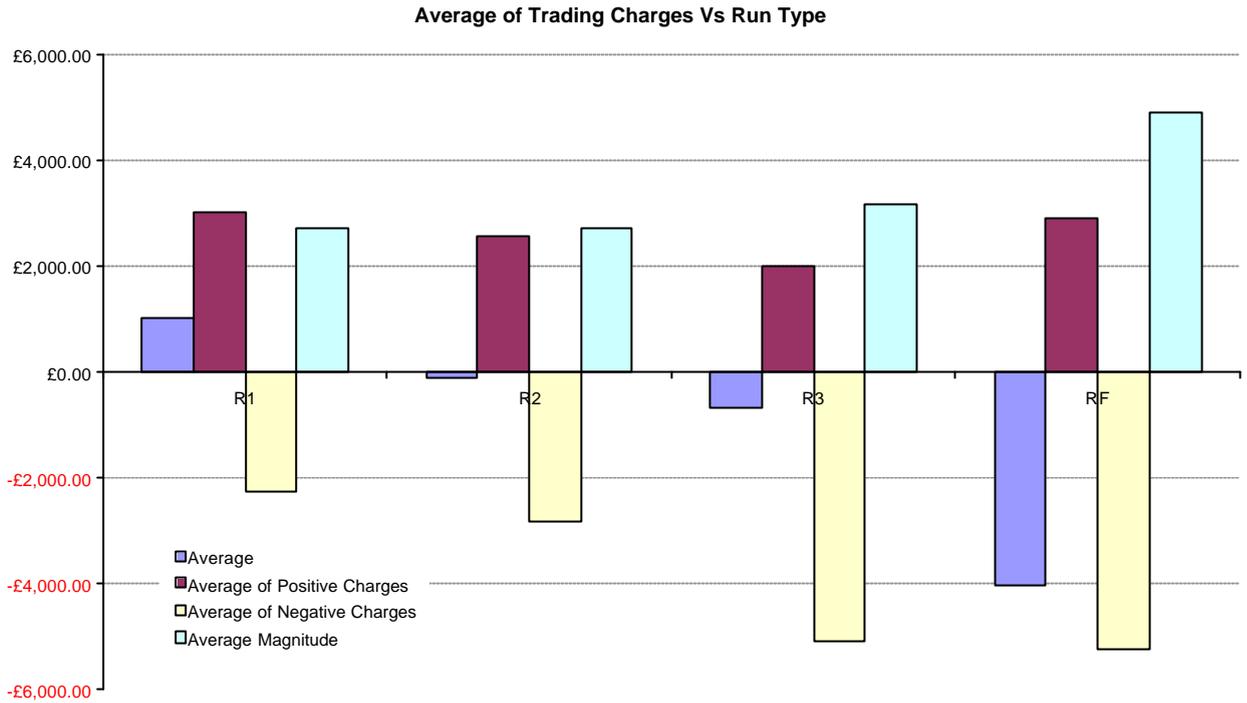
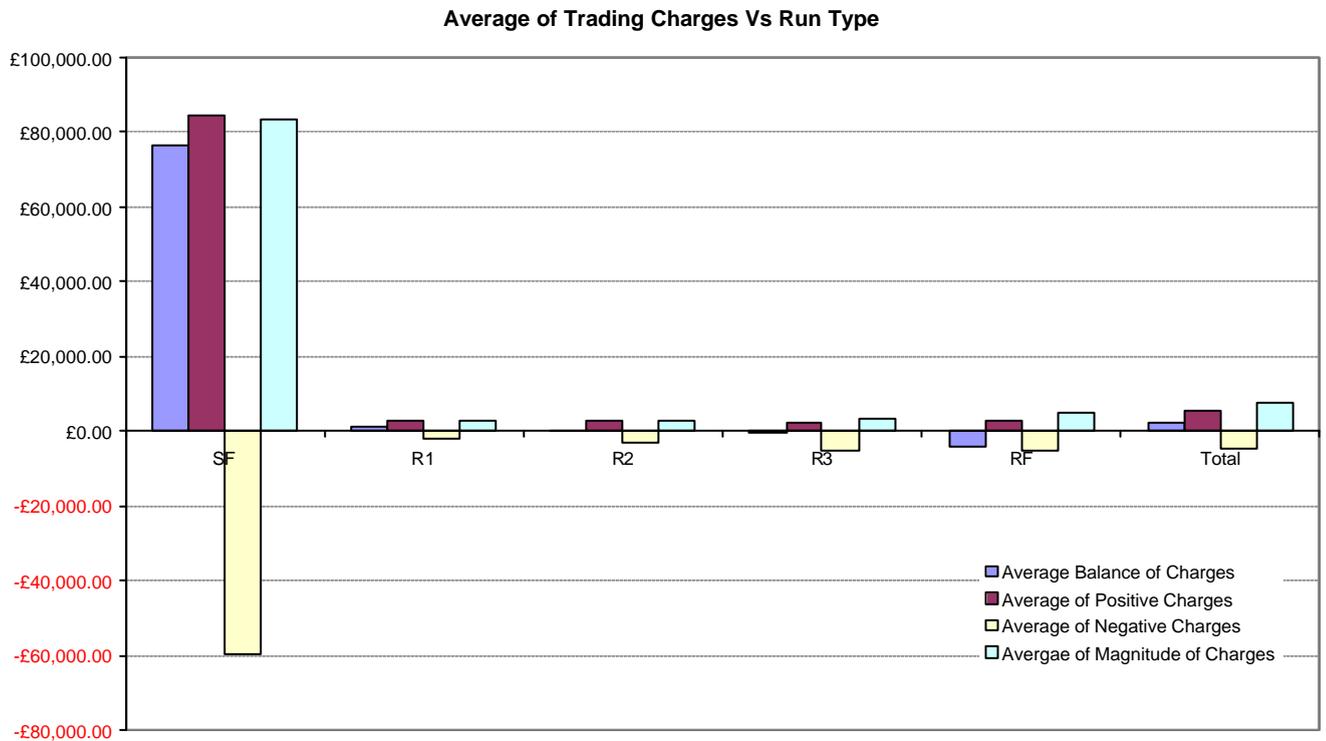


Chart 8:



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