

MODIFICATION REPORT for Modification Proposal P123 Assessment of Credit Cover following a change in a Party's Portfolio

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Determination

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 Balancing and Settlement Code Panel recommends that:

- **Proposed Modification P123 should be made;**
- **The P123 Implementation Date should be 27 February 2004 (for the Spring 2004 BSC Season), should the Authority determination be received on or before 17 November 2003. Should an Authority determination be received after this date, but prior to 12 January 2004 then the Implementation Date should be 31 May 2004 (for the Summer 2004 BSC Season).**

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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/bscres_docs/bsc_code.html

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II DOCUMENT CONTROL

a Authorities

Version	Date	Author	Signature	Change Reference
0.1	10/07/03	Mandi Francis		
0.2	17/07/03	Change Delivery		
0.3	05/08/03	Mandi Francis		
0.4	08/08/03	Change Delivery		
1.0	15/08/03	Change Delivery		

b Distribution

Name	Organisation
Each BSC Party	Various
Each BSC Agent	Various
The Gas and Electricity Markets Authority	Ofgem
Each BSC Panel Member	Various
Energywatch	Energywatch
Core Industry Document Owners	Various

c Related Documents

Reference	Document
Reference 1	Modification Proposal P123 'Assessment of Credit Cover following a change to a Party's Portfolio' Assessment Report (P123AR10, 4 July 2003)

1 SUMMARY AND RECOMMENDATIONS

1.1 Recommendation

Provided on the front cover of this Modification Report.

1.2 Background

The Assessment Report for Modification Proposal P123 (Reference 1) contains the detailed background and history of Modification Proposal P123, and this report can be found on the BSC Website, as follows:

<ftp://www.elexon.co.uk/ta/modifications/modsprops/P123/P123AR10.pdf>

Modification Proposal P123 'Assessment of Credit Cover following a change in a Party's Portfolio' (P123) was raised by BizzEnergy Limited on 26 March 2003. P123 seeks to introduce the ability for Lead Party's to be able to reduce the magnitude of Demand Capacity for any Supplier Base and Additional BM Units for periods during a BSC Year where demand differs as a consequence of portfolio change (loss of customers), for example contracting rounds in April and October.

Furthermore, P123 seeks to amend the process whereby material doubt is applied to credit default situations, to attempt to shorten the length of time between the Credit Default notices being issued by the Energy Contract Volume Aggregation Agent (ECVAA) and being either Authorised or cancelled by BSCCo, (cancelled by the application of material doubt), in order to provide BSC Parties with more certainty around the application of material doubt by BSCCo. In order to achieve this, the Panel will be obliged to establish and maintain a material doubt guideline that BSCCo will use when determining and applying material doubt.

The BSC Panel (the Panel), considered the Initial Written Assessment for P123 at their meeting of 10 April 2003, and agreed to submit Modification Proposal P123 to the Assessment Procedure, with the Assessment Report to be submitted for consideration at the Panel meeting of 10 July 2003. The Panel also agreed that the Assessment Procedure should be undertaken by the Settlement Standing Modification Group (SSMG).

At its meeting of 10 April 2003, the Panel also considered the Initial Written Assessment for Modification Proposal P122 'Assessment of Credit Cover during Holiday Periods' (P122), also raised by BizzEnergy Limited on 26 March 2003. The Panel noted the similarity of the issues that Modification Proposals P123 and P122 seek to address, but agreed that the Modifications are different enough and thus should be assessed as separate Modification Proposals. The Assessment Report for P122 was also presented to the Panel meeting of 10 July 2003 and the Modification Report for P122 will also be presented to the Panel meeting of 14 August 2003.

During the Assessment Procedure for P123, the SSMG met four times, on 15 and 28 April 2003, 27 May 2003 and 24 June 2003, to assess P123, define the requirements for the solution to the Modification Proposal, consider the consultation responses and impact assessments and to agree the recommendations to be made to the Panel in respect of P123.

To assist in the assessment of P123:

- A High Level Impact Assessment, based on the Requirements Specification was issued to the BSC Central Service Agent and BSCCo, with responses received in time for inclusion in the industry consultation;

- An Assessment Consultation aimed at determining industry opinion of the proposed solution for P123, including the results of the High Level Impact Assessment of the potential solutions, and requesting information for assisting the SSMG assessment of P123, was issued on 4 June 2003, with responses received by 16 June 2003;
- A request for an Impact Assessment, based on the consultation document, was issued in parallel with the assessment consultation for industry impact assessment (MC00056) and BSC Central Service Agent and BSCCo for detailed level impact assessment.

The SSMG unanimously agreed that Proposed Modification P123 should be made. The SSMG noted that the consultation responses (section 11 of the Assessment Report) supported that opinion.

The Panel considered the Assessment Report at its meeting of 10 July 2003, and unanimously agreed to provisionally endorse the recommendations of the SSMG that the Proposed Modification should be made. Therefore, the Panel agreed to submit P123 to the Report Phase.

The Panel further agreed that the Implementation Date should be should be 27 February 2004 (for the Spring 2004 BSC Season), should the Authority determination be received on or before 17 November 2003. Should an Authority determination be received after this date, but prior to 12 January 2004 then the Implementation Date should be 31 May 2004 (for the Summer 2004 BSC Season).

The Panel noted the:

- BSC Central Service Agent development and implementation costs associated with Proposed Modification P123 of £3,000, and the ongoing BSC Central Service Agent operate and maintain costs of approximately £0 per annum, provided that the number of Demand Capacity decreases do not exceed 1000 per annum (noting that if this threshold is exceeded, costs of £475 per man day effort will be incurred, not £475 per decrease); and
- ELEXON development and implementation effort of approximately 70 man days, with ongoing operational effort of 10 man days per annum.

The draft Modification Report, containing the provisional recommendations of the Panel, was provided to Industry for consultation on 17 July 2003, allowing 11 (full) working days for respondents (responses due 1 August 2003).

The majority of respondents (five out of six responses²) support the provisional recommendations of the Panel in respect of Proposed Modification P123. The responses did not contain any new, substantive arguments

The Panel considered the draft Modification Report and the consultation responses made in respect of the report at its meeting of 14 August 2003 and unanimously agreed its provisional recommendations in respect of P123, namely that the Proposed Modification should be made.

1.3 Rationale for Recommendations

The Panel supported the rationale for the recommendations made by the SSMG with regards to Proposed Modification P123 and on the basis of this rationale, the Panel provisionally recommended that Proposed Modification P123 should be made. The rationale of the SSMG was as follows:

The SSMG were unanimous in asserting that P123 better facilitates Applicable BSC Objective 3(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*', because P123 improves

² There was one 'no comment' response, and this has not been included in the summary of the responses.

competition by removing barriers to entry for certain industrial and commercial Suppliers, allowing them to maintain a more appropriate level of credit cover. This reduces their costs, thereby encouraging niche competitors and lowering the cost of market entry for new suppliers.

The SSMG also believed that, to a lesser extent, P123 better facilitates Applicable BSC Objective 3(d) '*Promoting efficiency in the implementation and administration of the balancing and settlement arrangements*', because the amendments to the Credit Default process identified by P123 may have the effect of improving efficiency in the Credit Cover and Credit Default arrangements, thus improving efficiency in BSCCo's handling of Credit Default.

The SSMG noted that the majority of the consultation responses made in respect of the assessment consultation (section 11 of the Assessment Report) supported the assertions of the SSMG with regards to the facilitation of the Applicable BSC Objectives.

1.4 Rationale for Proposed Implementation Date

During the Assessment Procedure for P123, the SSMG noted that the next widespread Portfolio change which this Modification could impact would be the April 2004 contracting round. The SSMG therefore indicated that it would be their preference to have an Implementation Date for P123 that would allow the mechanism proposed by the Modification to be in place in time for use prior to April 2004. The following sets out the timetable for the implementation, and provides the rationale for the Implementation Date provided for P123.

The solution to P123 agreed by the majority of the SSMG, requires the following to be undertaken during the implementation of the Modification Proposal:

- Amendment to the Code to include reference to the ability of a Party to make two downward changes to Demand Capacity per BM Unit and BSC Season, the requirement for BSCCo to maintain and make available the material doubt guidelines and the requirement for BSCCo to review evidence provided in respect of material doubt at the point of provision of the evidence by the relevant BSC Party;
- Implementing a process (within the Central Registration Agent (CRA)) to monitor the number of DC decreases, and to reject more than two per BSC Season for a BM Unit;
- Potential amendment to the BSCCo market monitoring system, TOMAS, for the purposes of verification of the Energy Indebtedness calculations in the determination of material doubt; and
- Amendment to the material doubt guidelines to set out the process whereby BSCCo determines and applies material doubt, with agreement of the material doubt guidelines by the Panel (potentially delegated to the Imbalance Settlement Group (ISG)).

It should be noted that the mechanism for monitoring the number of Demand Capacity decreases can be implemented either by the BSC Central Service Agent, by means of a manual solution (spreadsheet) in the Central Registration Agent (CRA), quoted as a £3,000 one off charge (no ongoing operational overhead), or by ELEXON, in Service Delivery (Customer Services Management (CSM)), quoted as 7 man days per annum.

It would therefore appear to be appropriate to implement the CRA solution and incur a one off development charge. However, this requires inclusion of the amendment in a BSC Systems Release. The first available release at this time will be the February 2004 Release, effectively meaning that the Implementation Date for P123 would be 1 March 2004 (i.e. coincident with the start of the following BSC Season).

There is still a requirement to develop the material doubt guidelines for P123 and ELEXON's Service Delivery department have stated a lead time of 14 weeks for the purposes developing and agreeing the material doubt guideline.

Therefore, since the process proposed by P123 makes it desirable to implement the Modification at the start of a BSC Season (to enable the 2 changes in a BSC Season), and the first (practical) BSC Season following submission of the Modification Report to the Authority will commence on 1 December 2003, there is insufficient time to get P123 implemented before the Winter BSC Season starts. Furthermore, it could be argued that the P123 only really needs to be in place in time for the April contracting round, given that implementation in time for the October (2003) round will not be reasonable. Therefore an Implementation Date of 27 February 2004 is proposed, thus putting P123 in place in time for the April 2004 contracting round.

The Modification Report will be provided to the Authority by 15 August 2003 for determination, and in order to allow the timetable for implementation for the Spring 2004 BSC Season to be met, a determination will be required by 17 November 2003. Where a decision is not received by this date, then the BSC Season that P123 will be available for will be the Summer 2004 BSC Season, and the second Implementation Date, namely requiring an Authority determination by 12 January 2003, reflects this.

2 INTRODUCTION

This Report has been prepared by ELEXON Ltd., on behalf of the Balancing and Settlement Code Panel ('the Panel'), in accordance with the terms of the Balancing and Settlement Code ('BSC'). The BSC is the legal document containing the rules of the balancing mechanism and imbalance settlement process and related governance provisions. ELEXON is the company that performs the role and functions of the BSCCo, as defined in the BSC.

This Modification Report is addressed and furnished to the Gas and Electricity Markets Authority ('the Authority') and none of the facts, opinions or statements contained herein may be relied upon by any other person. An electronic copy of this document can be found on the BSC website, at www.elexon.co.uk

3 HISTORY OF THE MODIFICATION

Modification Proposal P123 has been extensively assessed by the SSMG, and the detail of the assessment is provided in the Assessment Report for Modification Proposal P123 (Reference 1), and is therefore not repeated here.

4 DESCRIPTION OF PROPOSED MODIFICATION

The rationale of the SSMG, in determining the following solution, is set out in section 5 of the Assessment Report (Reference 1).

However, it should be noted that, in order to tie this solution back to the deliberations of the SSMG, the solution detailed in this section represents the following options considered and consulted on during the Assessment Procedure for P123:

- **Option 2:** Decreases to Demand Capacity mid BSC Season, without formal approval and without an associated CALF amendment; and

- **Material Doubt Option B:** Use the existing process for material doubt but enhance the current guidelines to include more formal guidelines on the type of calculations that BSCCo should be using for verifying material doubt, for example in the case of portfolio change and over holiday periods.

Therefore the solution / description of the Proposed Modification set out below is that proposed by the SSMG to the Panel, and subsequently by the Panel to the Authority as the solution giving effect to the agreed legal drafting for P123.

4.1.1 Decreases in the Magnitude of Demand Capacity

Parties will only be able to have two mid-season decreases to DC per BSC Season per Supplier BM Unit. If any more than two are received the CRA will reject them, noting that this requires amendment to the CRA validation rules.

The obligation, currently in the Code, to increase the magnitude of DC if the Party is aware that the maximum expected metered volume of a BM Unit increases by 1% or 0.5MW, remains and will not be changed.

BSCCo may wish to increase the frequency of the monitoring to ensure that Parties were not consistently exceeding the registered Demand Capacity.

4.1.2 Determination and Application of Material Doubt

The process for establishing material doubt in itself will be unchanged. Parties will be required to provide sufficient evidence to demonstrate to BSCCo that their case is valid, such that BSCCo can reach a view on material doubt and carry out any necessary calculations prior to any notice being issued, so that a final determination can be reached as soon as possible after the receipt of a Credit Default notice.

The change to the current process for P123 (and P122) is that the material doubt process will include a reference to a Panel guideline that BSCCo will be obliged to follow when reaching a determination on material doubt. The guideline may include a calculation that should be used by BSCCo when considering if there is an over calculation of Credit Cover Percentage. It should be noted that it is envisaged that the Panel may subsequently delegate authority for establishing and maintaining the material doubt guideline to the Imbalance Settlement Group (ISG). However, this should not be assumed.

Based on this calculation and on other circumstances as permitted in the guideline and the Code, BSCCo should be able to reach a determination on material doubt in as short a period of time as possible. This method would allow Parties to replicate the calculation themselves and be more certain that material doubt would be called on the Credit Default notice, thus allowing BSCCo to withhold any authorisation notice in respect of the Credit Default notice.

The Code amendments proposed for P123 (and P122) oblige BSCCo to review any evidence submitted as soon as reasonably practicable following receipt of the evidence. Furthermore, the material doubt guidelines should recommend that BSCCo provide the relevant Party with an indication of the materiality of the discrepancy as soon as the evidence has been assessed, thereby providing a degree of certainty.

BSCCo must verify the grounds for material doubt as soon as reasonably practicable following receipt of the Credit Default notice. This is to ensure that all circumstances merit the application of material doubt, thus ensuring that material doubt is not called erroneously, and thus BSC Parties are not exposed to the credit risk associated with a defaulting Party.

5 LEGAL TEXT TO GIVE EFFECT TO THE PROPOSED MODIFICATION

For the legal drafting to support Proposed Modification P123 see attached document '**P0123RR_Proposed Legal Text**'.

6 SUMMARY OF REPRESENTATIONS

Seven responses, on behalf of thirty-one Parties, were received in respect of the consultation on the Modification Report. The draft Modification Report was issued on 17 July 2003, allowing 11 working days for the consultation.

It should be noted that one respondent (1 Party) provided a 'no comment' response, and this response has not been included in the following summary.

The consultation responses do not contain any new, substantive arguments.

The consultation comprised four questions, and the responses made in respect of each question are summarised below. However, generally the majority of respondents supported the provisional recommendations of the Panel in respect of Proposed Modification P123, namely that the Proposed Modification be made, with a proposed Implementation Date of 27 February 2004 (for the Spring 2004 BSC Season), should the Authority determination be received on or before 17 November 2003. Should an Authority determination be received after this date, but prior to 12 January 2004 then the Implementation Date should be 31 May 2004 (for the Summer 2004 BSC Season). Furthermore, the majority agreed that the legal drafting provided to give effect to the Proposed Modification addresses the defect identified by the Modification Proposal.

One respondent indicated that they had concerns regarding the comments made in Section 1.2 of the Consultation Document, namely that "The SSMG unanimously agreed that Proposed Modification P123 should be made. The SSMG noted that the consultation responses (section 11 of the Assessment report) supported that opinion".

The respondent believes that the inference from this last sentence is that the consultation responses were also unanimous. The respondent further notes that of the eight responses received, two (25%) did not agree that P123 met the Applicable BSC Objectives (and therefore should NOT be made). Therefore the respondent believes that the draft Modification Report should have made this point clearly by, for example, saying that "The SSMG noted that the majority of consultation responses (section 11 of the Assessment report) supported that opinion".

ELEXON note the concern raised, but believe that the sentence can also be interpreted in the way that ELEXON meant it to be read, in that "The SSMG unanimously agreed that Proposed Modification P123 should be made. The SSMG noted that the consultation responses (section 11 of the Assessment report) supported that opinion", i.e. the consultation responses supported the opinion of the group that the Proposed Modification should be made, which was the case. Furthermore, readers of the draft Modification Report were directed at the Assessment Report for the full set of consultation responses, where the responses could be read in context.

In summary:

Q1 Do you agree with the Panel's views on P123 and the provisional recommendation to the Authority contained in the draft Modification Report that P123 should be made? Please give rationale.

Five respondents (26 Parties) support the provisional recommendation of the Panel that the Proposed Modification should be made. Rationale for supporting the Panel's provisional recommendation was given as:

- The Proposed Modification allows a better reflection of credit exposure, and thus mitigates the requirement to post excessive credit cover. This facilitates competition by reducing Supplier costs and risks;
- The material doubt part of the Proposed Modification allows BSCCo to work more efficiently, rather than imposing new requirements;
- P123 better facilitates Applicable BSC Objective (c) (improved competition), by removing a barrier to certain industrial and commercial Suppliers; and
- The Proposed Modification provides a pragmatic, low cost solution to the defect which ensures that the protection provided by the credit cover arrangements is not compromised. Furthermore, the Proposed Modification should provide sufficient comfort to Parties that they will not go into Credit Default purely due to an overstating of indebtedness following a portfolio change.

One respondent (4 Parties) did not support the provisional recommendation of the Panel that the Proposed Modification should be made, stating that the Proposed Modification does not better facilitate the Applicable BSC Objectives. No further rationale was provided.

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

Five respondents (26 Parties) agree with the view of the Panel that the legal text provided in the draft Modification Report correctly addresses the defect of issue identified in the Modification Proposal.

One respondent (4 Parties) does not believe that the proposed legal drafting addresses the defect / issues of the Proposed Modification, and the respondent proposes a thirty day period at the start of each BSC Season before any decrease in Demand Capacity can be made.

ELEXON have reviewed this proposal, and note that the Modification Group, during the Assessment Procedure for P123, consulted on the potential mechanism for implementing DC decreases within BSC Season and the same comment was made in the response by this respondent in respect of that consultation. The Modification Group considered all aspects of Demand Capacity decreases during the Assessment Procedure for P123, including the approach proposed by this respondent, and agreed that imposing a time restriction would not be appropriate for the rationale set out in the Assessment Report.

Q3 Do you agree with the Panel's provisional recommendation concerning the Implementation Date for P123? Please give rationale.

All respondents support the provisional recommendation of the Panel regarding the Implementation Date. One respondent noted that, should the Authority not make a

determination by 17 November 2003, that the Proposed Modification would not be in place in time for the April contracting round.

Q4 Are there any further comments on P123 that you wish to make?

Only one respondent (the Proposer, 1 Party) had any further comments. The response indicated that the material doubt guidelines could provide an efficient methodology for putting the intent of the proposals into effect, because experience shows that the problems that the Proposal seeks to address typically occur around midnight, even though a more rational view of the problem data involved can be made during the office hours before that, when the data comes available. It is the view of the Proposer that sufficient work can be done beforehand to allow a determination of material doubt (due to holiday effects) being made in minutes.

BSCCo believe this comment to accord with the intent of the Proposed Modification, specifically the amendments to the Code to oblige BSCCo to review evidence from Parties as soon as reasonable following receipt of the evidence, in an attempt to shorten the timescales for determining and applying material doubt.

ANNEX 1 – REPRESENTATIONS

Representations were received from the following parties:

No	Company	File Number	No. BSC Parties Represented	No. Non-Parties Represented
1.	BizzEnergy	P123_DR_001	1	0
2.	Aquila Networks	P123_DR_002	1	0
3.	NGT	P123_DR_003	1	0
4.	Innogy	P123_DR_004	9	0
5.	Powergen	P123_DR_005	14	0
6.	Scottish and Southern	P123_DR_006	4	0
7.	British Gas Trading	P123_DR_007	1	0

P123_DR_001 – BizzEnergy

Respondent:	<i>Name</i> Keith Munday
No. of BSC Parties Represented	1
BSC Parties Represented	<i>Please list all BSC Parties responding on behalf of (including the respondent company if relevant).</i> BizzEnergy
No. of Non BSC Parties Represented	0
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	<i>Supplier</i>

	Question	Response	Rationale
1.	Do you agree with the Panel's views on P123 and the provisional recommendation to the Authority contained in the draft Modification Report that P123 should be made? Please give rationale.	Yes	<p>The proposal allows a better reflection of the credit exposure of the community imposed by an individual supplier such that the affected party does not have to post excessive credit cover. Competition is facilitated by reducing supplier costs and risks.</p> <p>The material doubt part of the proposal will allow BSCCo to work more efficiently rather than imposing new requirements.</p>

	Question	Response	Rationale
2.	Do you agree with the Panel's view that the legal text provided in the draft Modification Report correctly addresses the defect or issue identified in the Modification Proposal? Please give rationale.	Yes	
3.	Do you agree with the Panel's provisional recommendation concerning the Implementation Date for P123? Please give rationale.	Yes	
4.	Are there any further comments on P123 that you wish to make?	Yes	The material doubt guidelines need to be devised with a view to efficiency of process because the impact of portfolio change on credit cover percentage will usually occur around midnight when the new II-Run file is loaded by the ECVA. Work done when the II-Run File comes available can allow a swift determination of material doubt.

P123_DR_002 – Aquila Networks

Please find that Aquila Networks Plc response to P123 Consultation on draft Modification Report is 'No Comment'.

P123_DR_003 – NGT

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

Q	Question	Response	Rationale
1.	Do you agree with the Panel's views on P123 and the provisional recommendation to the Authority contained in the draft Modification Report that P123 should be made? Please give rationale.	Yes	We believe that P123 better facilitates applicable BSC objective (c) namely "promoting effective competition in the generation and supply of electricity" by removing a

Q	Question	Response	Rationale
			barrier to certain Industrial and Commercial Suppliers.
2.	Do you agree with the Panel's view that the legal text provided in the draft Modification Report correctly addresses the defect or issue identified in the Modification Proposal? Please give rationale.	Yes	We agree with the Panel that the draft legal text will give effect to the solution identified in the Modification Report.
3.	Do you agree with the Panel's provisional recommendation concerning the Implementation Date for P123? Please give rationale.	Yes	We agree with the recommended Implementation Date, which is sufficient to allow establishment of P123 before the April 2004 contracting round.
4.	Are there any further comments on P123 that you wish to make?	No	

P123_DR_004 – Innogy

Respondent:	Ben Willis
No. of BSC Parties Represented	9
BSC Parties Represented	Innogy plc, Innogy Cogen Ltd, NP Cogen Trading Ltd, Npower Ltd, Npower Direct Ltd, Npower Northern Ltd, Npower Northern Supply Ltd, Npower Yorkshire Ltd and Npower Yorkshire Supply 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.	Do you agree with the Panel's views on P123 and the provisional recommendation to the Authority contained in the draft Modification Report that P123 should be made? Please give rationale.	Yes	
2.	Do you agree with the Panel's view that the legal text provided in the draft Modification Report correctly addresses the defect or issue identified in the Modification Proposal? Please give rationale.	Yes	
3.	Do you agree with the Panel's provisional recommendation concerning the Implementation Date for P123? Please give rationale.	Yes	
4.	Are there any further comments on P123 that you wish to make?	No	

P123_DR_005 – 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, Exemptable Generator

Q	Question	Response	Rationale
1.	Do you agree with the Panel's views on P123 and the provisional recommendation to the Authority contained in the draft Modification Report that P123 should be made? Please give rationale.	Yes	Like the proposed solution for P122, this proposal provides a pragmatic, low cost solution to the defect which ensures that the protection provided by the credit cover arrangements is not compromised. The ability to re-declare DC's, with revised guidelines for calling Material Doubt, should prove to be a sufficient safeguard against credit default being called purely as a result of an overstating of indebtedness, due to a change in a Party's portfolio.
2.	Do you agree with the Panel's view that the legal text provided in the draft Modification Report correctly addresses the defect or issue identified in the Modification Proposal? Please give rationale.	Yes	
3.	Do you agree with the Panel's provisional recommendation concerning the Implementation Date for P123? Please give rationale.	Yes	However, we note the solution will not be in place in time for the April contract round, should a decision from the Authority be forthcoming after 17 November 2003.
4.	Are there any further comments on P123 that you wish to make?	No	

P123_DR_006 – Scottish and Southern

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

In relation to the four questions listed in the Consultation Paper, contained within your note of 17th July 2003 concerning Modification Proposal P123, we have the following comments to make.

However, prior to commenting on the four questions we wish to record our deep concern at the comments made in Section 1.2 of the Consultation Document, namely that:-

"The SSMG unanimously agreed that Proposed Modification P123 should be made. The SSMG noted that the consultation responses (section 11 of the Assessment report) supported that opinion"

The clear inference from this last sentence is that the consultation responses were also unanimous. In fact of the eight responses received two (25%) did not agree that P123 met the Applicable BSC Objectives (and therefore should NOT be made). This latest consultation document should have made this point clearly by, for example, saying that "The SSMG noted that the majority of consultation responses (section 11 of the Assessment report) supported that opinion"

Our comments on the four questions are as follows:-

Q1 Do you agree with the Panel's views on P123 and the provisional recommendation to the Authority contained in the draft Modification Report that P123 should be made? Please give rationale.

No. We do not believe that Modification Proposal P123 better facilitates the achievement of the Applicable BSC Objectives.

Please note our response to any of the following questions should not be construed to lend support whatsoever to this Modification.

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

No. Whilst there may be merit in permitting there to be two decreases (in the DC of an SVA BM unit) per season (without the need for Panel approval), in order to correct the defect or issue identified in the Modification Proposal there needs to be a timeframe for this to ensure that Parties are incentivised to provide accurate DC data at the outset of each season. To this end it would be appropriate to only permit two decreases per season if no decreases occurs within the first 30 calendar days of the season starting. If there is a decrease within these 30 calendar days then the existing arrangements (regarding the need for Panel approval etc.) should apply. The draft legal text should be amended accordingly to reflect this.

Q3 Do you agree with the Panel's provisional recommendation concerning the Implementation Date for P123? Please give rationale.

If the Modification Proposal P123 is approved, we agree with the proposed BSC Panel recommendation on the timing for the Implementation Date, as outlined in Section 1.1 of the Modification Report.

Q4 Are there any further comments on P123 that you wish to make?

Nothing further at this time.

P123_DR_007 – BGT

Re: Modification Proposal P123 – Assessment of Credit Cover following a change in a Party's Portfolio

Thank you for the opportunity of responding to this draft modification report considering Modification Proposal P123. British Gas Trading (BGT) agrees the Modification Proposal will better facilitate Applicable BSC Objective (c). Obligating parties to lodge excessive levels of credit cover can be seen as a barrier to entry. Ensuring parties post the appropriate level of cover as detailed in the modification proposal can be seen to promote competition.

BGT believe the credit cover provisions within the BSC are there to provide BSC Parties with a reasonable level of protection against the risk of a party going into administration. Therefore the BSC should ensure that parties lodge an appropriate level of credit cover in respect of their contracted position. If a party loses a proportion of their portfolio they should be able to reduce their credit cover requirements appropriately to reflect their new portfolio.

BGT note the potential this modification provides for submitting erroneous capacity parameters and therefore believe it is important that ELEXON continue to undertake post season reviews of the submissions. BGT believe it is equally important that if a party is found to be abusing the process then ELEXON undertake appropriate measures to prevent this occurrence.

BGT agree P123 should be implemented as part of the CVA batch release program and the February 2004 release will allow BSC Parties to utilise the solution from the April 2004 contract round onwards.