

Modification Proposal – F76/01**MP No: 123***(mandatory by BSCCo)***Title of Modification Proposal** *(mandatory by originator):***Assessment of Credit Cover following a change in a Party's Portfolio****Submission Date** *(mandatory by originator):*26th March 2003**Description of Proposed Modification** *(mandatory by originator)*

1. Whenever there is reason to expect a material fall in net offtake at a BMU registered in SVA due to a change in the composition of metering systems comprised in that BMU, a Party may apply to reset both the Credit Assessment Load Factor (CALF) and the Demand Capacity (DC) of that BMU on the grounds of significant portfolio change.
2. These applications will be regardless of any applications for revision of CALF and DC made on any other grounds.
3. A successful application to change either the CALF or the DC would act as a trigger enabling the measures described in paragraphs 5 and 6 below to be used.
4. The revised CALF and/or DC will apply from a requested date regardless of the values prevailing at the start of the BSC season in question.
5. Following such change in the portfolio, BSCCo can be authorised by the Panel to use specific alternative measures to reassess the level of Actual Energy Indebtedness of the affected BMU where such measures are deemed more likely to reflect the level of metered energy offtaken at the BMU for the purposes of Energy Indebtedness calculation. BSCCo and the Trading Party will consequently disregard the Credit Cover percentage notified by the ECVAA under M3.1.4 for that Trading Party and BSCCo will recalculate such Credit Cover percentage using appropriate calculations derived from the alternative measures as soon as reasonably practicable after each Settlement Day.
6. Where such alternative calculations apply, BSCCo may instruct the ECVAA to suspend the submission of level 1 credit default notices (specified in M3.2.1) to the affected party or may use other means to nullify the effect of such notices issued (including the suspension of the start of the Query Period) on the basis that the values derived from the alternative calculation represent material doubt that the ECVAA calculation of Actual Energy Indebtedness offers a correct determination.

Description of Issue or Defect that Modification Proposal Seeks to Address *(mandatory by originator)*

For a Supplier with a BMU registered in SVA, there can be a significant change in the meter systems making up that BMU following the spring and autumn contract rounds or at other times where there is a significant portfolio change. This applies especially to portfolios that are predominantly in the Industrial and Commercial sector. Where the portfolio change leads to a reduction in BMCAIC (DC * CALF) the assessment of credit cover requirements can be skewed seriously against the affected Party.

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Typically, a revised portfolio cannot be accurately determined until very close to the start of new contracts. This means that the information on which a revised DC and CALF can be determined for such a BMU is usually not available at the time the CALF and DC are determined for the seasons. Furthermore, the CALF/DC for the months preceding the change of portfolio are likely to be reasonable on the basis of the original determination but then may become materially inaccurate subsequently. In order to address this issue, this proposal seeks to allow a reduction in DC and/or CALF made on specific grounds of portfolio reduction.

A change in portfolio affecting an SVA BMU can also significantly impact the calculation of Actual Energy Indebtedness where that is based on a share of GSP Group offtake that was significantly lower than the share prevailing following the portfolio change. This miscalculation will persist for a period of approximately 35 days until such time as the share of GSP Group take is calculated on the basis of the new portfolio. To address this, this proposal seeks to allow specific alternative measures to be applied by BSCCo for the recalculation of the Trading Party's Actual Energy Indebtedness that are more likely to reflect the metered offtake at such a BMU following a portfolio change.

Under M3.4.3(a), BSCCo can only determine that the assessment of Actual Energy Indebtedness is erroneous once the ECVAAs has submitted to it a copy of the level 1 default notice that has been submitted to the affected party. This allows the Party to raise a default query notice within a Query Period of 24 hours commencing from the time the default notice was received by the Party. This Query Period is regardless of holidays and weekends requiring both the Party and BSCCo to provide expensive resources in order to establish the materiality of any doubt as to the accuracy of the information used in the calculation of Actual Energy Indebtedness. BSCCo has no right to anticipate the information even where it has good reason to materially doubt the figures coming from the ECVAAs. To address this, this proposal seeks to allow BSCCo to maintain calculations for a period of time based on the approved alternative method and to use such calculations in preference to those made by the ECVAAs in the assessment of the Trading Party's Credit Cover Percentage and to suspend, or suspend the effect of level 1 default notices raised by the ECVAAs that were based on the original methodology.

Impact on Code *(optional by Originator)*

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It is likely that the processes required within this proposal will only be activated periodically and so manual systems operated by BSCCo can be substituted for systems changes that would otherwise need to be implemented by the ECVAA.

BSCCo will have a mandated alternative methodology for assessing material doubt as to the ECVAA calculation, exercised under the authority of the Panel. Given that the process will be triggered by a recalculation of DC and/or CALF, it will be feasible to calculate a share based on BMCAIC as a proportion of summated BMCAIC for all the SVA BMUs in a GSP Group and use this as a scaling factor for reducing QM_{ij} relative to that calculated by the ECVAA in T4.2.2 (noting that BMCAIC is used as a proxy for QM_{ij} in the credit calculations). Because this share will only change when there is a change to any DC or CALF that affects the GSP Group, this share will be reasonably constant in the short term. This can be used to either reassess all Trading Charges or potentially just to reassess the component of Trading Charges representing imbalance charges.

Furthermore, BSCCo will be able to use this methodology to recalculate Energy Indebtedness for the affected Party on an ongoing basis and will be able to reassess Actual Energy Indebtedness before any level 1 default notice is raised and this can therefore be done in normal business hours.

Impact on other Configurable Items *(optional by originator)*

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Justification for Proposed Modification with Reference to Applicable BSC Objectives *(mandatory by originator)*

A Trading Party with a significantly reduced portfolio (or a reorientation away from base load type customers) will face an excessive calculation of Energy Indebtedness, which will damage the Party’s competitive position. This distortion of the competitive market tends to discriminate against smaller Suppliers who specialise in the industrial and commercial sector, as the scale of the impact on their business is likely to be more material, potentially placing them in breach of the Code.

This Modification is in line with Condition C3 (3)(a) to (c) of the Transmission Licence, namely: promoting effective competition in the generation and supply of electricity, and (so far as consistent therewith) promoting such competition in the sale and purchase (as defined in the Transmission Licence) of electricity.

This also seeks to promote the efficient operation of the BSC by reducing the instances where unnecessary level 1 default notices are given, which must be queried and resolved in a tight timescale.

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Attachments: No *(delete as appropriate) (mandatory by originator)*

If Yes, Title and No. of Pages of Each Attachment: