



APRIL 2003

MODIFICATION REPORT
MODIFICATION PROPOSAL P118 -
Increased efficiency in the
reporting of Credit Default
statements

Prepared by ELEXON on behalf of the Balancing
and Settlement Code Panel

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I DOCUMENT CONTROL

a Authorities

Version	Date	Author	Reviewer	Change Reference
0.1	10/03/03	Dena Harris	Roger Salomone	Initial Draft
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0.3	18/03/03	Change Delivery	BSC Parties	For Consultation
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0.5	01/04/03	Change Delivery	Change Delivery	Technical Review
0.6	04/04/03	Change Delivery	Change Delivery	Quality Review
0.7	04/04/03	Change Delivery	BSC Panel	For Decision
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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 References

Ref.	Document	Owner	Issue Date	Version
1.	Modification Proposal P118	ELEXON	19/02/03	1.0
2.	Modification P118 Initial Written Assessment	ELEXON	07/03/03	1.0
3.	CP703 Change Proposal 'Credit Default Process'	ELEXON	24/09/01	1.0

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II CONTENTS TABLE

I	Document Control	2
a	Authorities	2
b	Distribution	2
c	References	2
d	Intellectual Property Rights and Copyright.....	2
II	Contents Table	3
1	Summary and Recommendations	4
1.1	Recommendation.....	4
1.2	Background.....	4
1.3	Rationale for Recommendations	4
2	Introduction	5
3	History of Proposed Modification	5
4	Description of the Modification	6
5	Rationale for Panel Recommendations	6
6	Legal Text to Give Effect to the Modification	6
7	Assessment	7
8	Costs	7
9	Summary of Representations	8
9.1	Arguments Supporting the Panel Recommendations	8
9.2	Arguments Against the Panel Recommendations.....	8
9.3	Issues Raised Relating to legal text.....	9
9.4	Other Issues Raised.....	9
9.5	Panel Discussion of Representations	9
Annex 1	Cost Summary	10
Annex 2	Representations	10
A2.1	Summary of Representations.....	10
A2.2	Detailed Responses.....	10
Annex 3	Legal Text	18

1 SUMMARY AND RECOMMENDATIONS

1.1 Recommendation

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 P118 should be made; and

The Implementation Date should be:

- **24 June 2003, if a decision from the Authority is received prior to 4 June 2003; or**
- **15 Business Days after the Authority's decision, if a decision is received on or after 4 June 2003**

1.2 Background

Modification Proposal P118 'Increased efficiency in the reporting of Credit Default statements' (P118) seeks to amend section M.3.2.6(b) of the Balancing and Settlement Code ('the Code') to allow Level 1 Credit Default notices to be posted on either the Balancing Mechanism Reporting Service (BMRS) or BSC Website immediately after the expiry of the default cure period. This will remove the requirement to wait until 0900 hours the following day. P118 facilitates prompt reporting of the Credit Default once it has occurred, hence more efficient implementation of the Code.

Under section F2.1.1(d) of the Code, the Balancing and Settlement Code Panel ('the Panel') can raise a Modification Proposal on the recommendation of BSCCo to rectify minor inconsistencies, manifest errors or other minor consequential changes, or if they believe it would better facilitate the objective in Condition C3(3)(d) of the Transmission Licence, promoting efficiency in the implementation of the balancing and settlement arrangements.

An Initial Written Assessment (IWA) was submitted to the Panel on 13 March 2003 (Reference 2), and the Panel agreed with BSCCo's recommendation that P118 should proceed directly to the Report Phase as the changes proposed by P118 are of a minor and inconsequential nature. The Panel agreed that this would increase the efficiency of balancing and settlement arrangements and therefore better facilitate Applicable BSC Objective (d).

1.3 Rationale for Recommendations

The Panel agreed with BSCCo's recommendation that allowing Level 1 Credit Default notices to be posted immediately after the end of the default cure period will improve the efficiency of the balancing and settlement arrangements and therefore better facilitates achievement of the Applicable BSC Objective in Condition C3(3)(d) of the Transmission Licence.

- (d) Promoting efficiency in the implementation and administration of the balancing and settlement arrangements.

The Panel also noted that the proposed change will have no impact on any Party or BSC Systems in addition to those being implemented by CP703.

Six responses to the draft Modification Report consultation were received. Four responses (21 Parties) supported the Panel's recommendation that the Proposed Modification be made, one response (6 Parties) did not support the Panel's recommendations and one response (1 Party) had no comment.

Several issues were raised and these are detailed in section 9, one clarification to the legal text was also agreed.

2 INTRODUCTION

This Report has been prepared by ELEXON Ltd., on behalf of the Panel, in accordance with the terms of the Code. The Code 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 Code.

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 PROPOSED MODIFICATION

P118 was raised on 19 February 2003 by BSCCo, on behalf of the Panel, in accordance with Paragraph F2.1.1(d)(iv) of the Code. P118 was raised following a discussion of paper 58/013, at the Panel meeting on 19 February 2003. P118 seeks to allow Level 1 Credit Default notices to be posted on either the BMRS or BSC Website immediately after the expiry of the default cure period, thereby removing the requirement to wait until 0900 hours the following day.

The IWA was submitted to the Panel at its meeting on 13 March 2003. The IWA did not identify any major issues and therefore the Panel agreed that P118 be submitted directly to the Report Phase.

The Panel recommended that the Proposed Modification should be made. The Panel also agreed that in the event that the Authority determines that the Proposed Modification should be made, the Implementation Date should be:

- 24 June 2003 if a decision is received prior to 4 June 2003; or
- 15 Business Days after a decision, if it is received on or after 4 June 2003.

The costs highlighted for implementation of P118 are only for documentation updates and are discussed further in section 8.

On the basis of the IWA, the Panel supported the view that P118 better facilitates achievement of Applicable BSC Objective (d) as it promotes efficiency in the implementation and administration of the balancing and settlement arrangements.

A draft Modification Report for P118 was issued for consultation on 18 March 2002. Six responses, representing 28 BSC Parties, were received, 5 responses supported the provisional recommendation that the Proposed Modification be made. 1 Response disagreed with the recommendation and 1 response had no comment.

At the Panel Meeting on 10 April 2003 the draft Modification Report and consultation responses were discussed. The Panel reaffirmed their original recommendation that the Proposed Modification should be made and determined that the draft Modification Report should be sent to the Authority.

4 DESCRIPTION OF THE MODIFICATION

P118 seeks to amend section M.3.2.6(b) of the Code to allow Level 1 Credit Default notices to be posted on either the BMRS or BSC Website immediately after the expiry of the default cure period, thereby removing the requirement to wait until 0900 hours the following day.

Currently section M3.2.6(b) of the Code states that the default cure period expires at 2400 hours on the first Business Day after the day in which the Query Period expires. As soon as is reasonably practicable after 0900 hours on the following day, the Energy Contract Volume Aggregation Agent (ECVAA) must notify the Trading Party that it is in Level 1 Credit Default and must post a notice on the BMRS or BSC Website. Part of the posting process is currently performed manually, and therefore, according to members of the original NETA programme, the 0900 hours requirement is for practicality and therefore there is no requirement for BSCCo or BSC Agent to have staff available outside of normal working hours.

It should be noted that P118 does not change the time at which a Party enters Level 1 Credit Default: this occurs immediately after the end of the default cure period, irrespective of whether or not P118 is implemented. P118 merely facilitates prompt reporting of the Credit Default once it has occurred.

P118 proposes that a change to the Code should be made to allow the posting of Level 1 Credit Default notices as soon as practicable after the expiry of the default cure period. This releases ECVAA from the requirement to wait until 0900 hours the following day after the default cure period expires. Following the CVA June 03 BSC Systems Release and implementation of CP703 'Credit Default Process' (Reference 3), the ECVAA system will be capable of reporting Credit Default notices automatically to the Balancing Mechanism Reporting Agent (BMRA), therefore reporting time will no longer be dependent on staff availability. The notices will then be automatically published on the BMRS. Notices published on the BMRS will also be sent out to Parties via Tibco. As the functionality will now be included in the ECVAA system, using this functionality will provide a more efficient implementation of the Code.

5 RATIONALE FOR PANEL RECOMMENDATIONS

The Panel agreed with P118 that it will increase the efficiency of the Credit Default reporting process and therefore better facilitate Applicable BSC Objective (d).

The rationale for this is that following implementation of CP703, the BMRS will be able to automatically publish Credit Default notices. Removal of the requirement to wait until 0900 hours enables publishing of Credit Default notices as default is entered (ie directly at the end of the default cure period). This prompt reporting is possible and preferable.

Some issues were brought up by the Panel at their meeting on the 13 March 2003, (see section 7), however these were satisfactorily resolved.

6 LEGAL TEXT TO GIVE EFFECT TO THE MODIFICATION

Proposed Modification P118 requires changes to sections M, of the Code. A summary of the changes is given below and a detailed red lined version of the legal text is included in Annex 3. During the consultation on the draft Modification Report a clarification to the legal text was identified. This is detailed in section 9.3.

Section M (version 7.0): Changes are required to section M3 to allow Level 1 Credit Default statements to be reported promptly at the end of the default cure period.

The legal drafting included with this report is drafted against the version of the Code current on the date of the Panel meeting (10 April 2003). The legal drafting was checked against all Modifications that had been approved by the Authority on the date of the Panel meeting, including those that have not yet been implemented. If the baseline of the Code changes prior to implementation of P118, or if other Modification Proposals are to be implemented at the same time as P118, the legal text may need to be amended.

7 ASSESSMENT

The proposed changes are of a minor and inconsequential nature, and have no impact on any systems or processes other than BSCCo local work instructions (LWI).

During the Initial Assessment of P118, the following minor impacts on BSCCo's procedures and systems were identified:

- The LWI of BSCCo's Credit Default team will need to be updated to reflect the change in the process for reporting Level 1 Credit Default under section M3 of the Code; and
- The CVA programme will need to make sure that the implementation of CP703 remains consistent with P118.

Additional issues that were highlighted during the Initial Assessment were both regarding BSC Parties who choose not to have 24-hour staff cover (including smaller Parties, for whom the cost of 24-hour cover could be prohibitive);

- A member of the Panel suggested that smaller Parties may be at a disadvantage as they would only receive notification that they were in Credit Default at 0900 hours and other larger Parties would know before them as soon as the notice as posted 2400 hours. However the Party in question should expect to enter into Level 1 Credit Default at the end of the default cure period and are aware of this link.
- Another Panel member said that smaller non-defaulting Parties who operate only during the Business Day would be disadvantaged as they would not know a Party was in Level 1 Credit Default until 0900 hours whereas Parties who operate continuously would be aware as soon as it occurred. However the information is available to everyone to look at whenever they choose to and thus smaller Parties are not considered to be explicitly disadvantaged.

The above issues were discussed when the Initial Written Assessment was presented to the Panel on 13 March 2003. The Panel was satisfied with the responses provided to address these issues and recommended that the Proposed Modification P118 should be made.

8 COSTS

The only costs associated with the implementation of P118 will relate to documentation updates i.e. the cost of making changes to the Code and issuing the revised version; the cost of analysing potential interactions between P118 and other pending Modification Proposals; and the cost of updating BSCCo's LWI. Elexon effort to make these changes is estimated at 10 man days. There are no third party costs.

9 SUMMARY OF REPRESENTATIONS

The draft Modification Report was issued for consultation on 18 March 2003 with responses due back on 27 March 2003. Six responses were received representing 28 Parties.

- 4 responses supported the recommendation that the Proposed Modification should be made Modification and 1 response (1 Party) had no comment;
- 1 response (6 Parties) did not support the Proposed Modification due to concerns about the automation of publishing and the reduction in the resolution period for Level 1 Credit Default;
- 5 responses (27 Parties) supported the recommended Implementation Date whilst 1 response made no comment;
- 4 responses (23 BSC Parties) supported the legal drafting, whilst 2 responses made no comment. 1 response supported the legal drafting but suggested a minor amendment to it and this is addressed below;

The views expressed in the responses are summarised below:

Respondent	No. BSC Parties Represented	No. non BSC Parties Represented	Agree with Recommendation (Approve)	Agree with Legal Drafting	Agree with Implementation Date
NGC	1	0	✓	✓	✓
Scottish and Southern	4	0	✓	N/C	✓
Powergen	15	0	✓	✓	✓
Aquila Networks	1	0	N/C	N/C	N/C
Scottish Power Group	6	0	X	✓	✓
British Gas Trading	1	0	✓	✓	✓
TOTAL (6)	28	0	4(21)	4(23)	5(27)

Note: N/C = No comment

Annex 2 of this Modification Report contains a summary of the responses and copies of the actual responses received. A summary of the arguments and issues raised in the responses is given below in sections 9.1, 9.2, 9.3 and 9.4.

9.1 Arguments Supporting the Panel Recommendations

The following arguments were raised in the consultation responses, in support of the Panel recommendation that the Proposed Modification be made:

- Increased efficiency of the Credit Default reporting process; and
- Automating the posting of Credit Default notices will streamline the process.

9.2 Arguments Against the Panel Recommendations

The following arguments were raised by one respondent (6 BSC Parties), in the consultation responses, against the Panel recommendation that the Proposed Modification be made;

- The response expressed concern that automatic publishing of default notices after the cure period would occur without checking whether the default is genuine, thus increasing risk to Parties. However the extant authorisation process is unchanged by P118 and authorisation by BSCCo must be obtained before any notices are published.
- The response suggested the "additional hours" - between 2400 hours (expiry of the cure period) and 0900 hours - is useful to post additional collateral increasing credit. However both the Query Period and the default cure period can be used for this purpose and the "additional hours" are not

delaying entry into Level 1 Credit Default but are merely a reporting delay which was initially included for practicality (see section 4). Furthermore the ability to post credit between midnight and 0900 hours is limited.

- In addition the response suggested that as much discretion and discussion as possible should be given to a Party to resolve the Level 1 Credit Default problem especially in the case of mis-notification and thus they do not support the reduction in the resolution period that is proposed by P118. It should be noted that the Query Period and default cure period are used for discussion and to present material doubt regarding Credit Cover Percentage and automatic publication does not occur without authorisation.

9.3 Issues Raised Relating to legal text

Four responses concurred that the draft legal text delivers the intended objective of the Modification Proposal whilst two responses had no comment.

One respondent who supported the legal text commented that there appears to be a word omitted from the existing wording in section M 3.2.6. They believe it should read "that it is *in* Level 1 Credit Default" rather than the current drafting of "that it is Level 1 Credit Default".

BSCCo believe that this change does not alter the substance of the legal text and no further consultation is necessary, therefore the change has been made (see redlined drafting in Annex 3).

9.4 Other Issues Raised

The following issues, indirectly related to P118, were raised:

- One response believes the prompt reporting of BSC Parties entering Level 1 Credit Default could be further improved by providing additional notification to BSC Parties. Publication of this information on the BMRS website might not be seen by all BSC Parties, and they suggest that it also be communicated via a Tibco message and/or e-mail from the ECVAA this could improve the visibility of the incident. CP703 will send out a Tibco message for all items that are published on the BMRS, thus additional notification will be provided in the form suggested.
- One response expressed concern about automatic Level 2 Credit Default reporting adding that the relationship between Authorisation of Level 2 Credit Default and the Query Period should be more clearly defined. In addition the response called for the operational process for unwinding positions in the circumstances of a default to be addressed and clarified. These issues could be raised as Modification Proposals and/or discussed at a Standing Modification Group meeting.

9.5 Panel Discussion of Representations

At the Panel meeting of 10 April 2003, the arguments raised in the consultation responses were presented.

The Panel agreed with the recommendation that the Proposed Modification be made.

ANNEX 1 COST SUMMARY

The only costs associated with the implementation of P118 will relate to documentation updates i.e. the cost of making changes to the Code and issuing the revised version; the cost of analysing potential interactions between P118 and other pending Modification Proposals; and the cost of updating BSCCo's LWI. Elexon effort to make these changes is estimated at 10 man days. There are no third party costs.

ANNEX 2 REPRESENTATIONS

A2.1 Summary of Representations

The draft Modification Report was sent out for consultation on 18 March 2003 with responses due back on 27 March 2003. The table below gives a summary of the responses and the actual responses received are attached below.

	Responses	BSC Parties	Non BSC Parties
Support recommendations	4	21	0
Do not support recommendations	1	6	0
No Comment	1	1	0
Total	6	28	0

Representations were received from the following parties:

No	Company	File Number	No. BSC Parties Represented	No. non BSC Parties Represented	Use of Proforma
1.	NGC	P118_DR_001	1	0	
2.	Scottish and Southern	P118_DR_002	4	0	No
3.	Powergen	P118_DR_003	15	0	
4.	Aquila Networks	P118_DR_004	1	0	No
5.	Scottish Power	P118_DR_005	6	0	
6.	British Gas Trading	P118_DR_006	1	0	No

A2.2 Detailed Responses

P118_DR_001 – NGC

Respondent:	<i>National Grid</i>
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). National Grid</i>
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>

Role of Respondent and Parties represented	<i>(Supplier/Generator/ Trader / Consolidator / Exemptable Generator / BSC Agent / Party Agent / other – please state)</i> BSC Party
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Q	Question	Response	Rationale
1	Do you agree with the Panel's views on P118 and the provisional recommendation to the Authority contained in the draft Modification Report that P118 be made? Please give rationale.	Yes	We agree with the rationale of the Panel that this modification will increase the efficiency of the Credit Default reporting process.
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	The change is minor and clearly addresses the defect.
3	Do you agree with the Panel's provisional recommendation concerning the Implementation Date for P118? Please give rationale.	Yes	The rationale requires the implementation of CP707 to fully realise the benefits of P118 and therefore agree that the earliest practical implementation is 24 June 2003. After that, 15 business days following an Authority decision is appropriate as no BSC Systems are being updated.
4	Do you believe that there are any impacts that have not been highlighted? If yes please give details.	No	
5	Are there any further comments on P118 that you wish to make?	No	

P118_DR_002 – Scottish and Southern

THE RESPONSE RECEIVED WAS NOT IN THE FORMAT OF THE PROFORMA THEREFORE THE FOLLOWING ASSUMPTIONS HAVE BEEN MADE AS TO HOW THE RESPONDENTS VIEWS SHOULD BE PRESENTED.

Respondent:	Garth Graham
No. of BSC Parties Represented	4
BSC Parties Represented	Scottish and Southern Energy, Southern Electric, Keadby Generation Ltd. and SSE Energy Supply Ltd

Q1: Yes

Q2: No Comment

Q3: Yes

Q4: No Comment

Q5: No Comment

THESE HAVE BEEN VERIFIED WITH THE RESPONDENT AND THEY HAVE INDICATED THAT THEY ARE HAPPY WITH THE INTERPRETATION.

THE ACTUAL RESPONSE RECEIVED IS GIVEN BELOW:

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

Further to your note of 18th March 2003, and the associated draft Modification Report for P118, we agree with the proposed BSC Panel recommendation to the Authority that this Modification Proposal P118 should be made.

If the Modification Proposal P118 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.

Regards

Garth Graham
Scottish & Southern Energy plc

P118_DR_003 – Powergen

Respondent:	<i>Name</i> Christiane Sykes
No. of BSC Parties Represented	15
BSC Parties Represented	Powergen UK plc, Powergen Retail Limited, Diamond Power Generation 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	<i>Please list all non BSC Parties responding on behalf of (including the respondent company if relevant).</i>
Role of Respondent and Parties represented	Generator and supplier

Q	Question	Response	Rationale
1	Do you agree with the Panel's views on P118 and the provisional recommendation to the Authority contained in the draft Modification Report that P118 be made? Please give rationale.	Yes	The implementation of P118 should help to streamline the process by automating the posting of credit default notices. Where practical, Powergen supports any move that helps to combat some of the elongated processes surrounding the BSC. We concur that reporting credit default notices when they occur will lead to a more efficient and robust BSC, thus facilitating the objective in Condition C3 (3)(d) of the Transmission licence. We do not think that the proposal in any way discriminates against small Parties, as they should already be aware of their position when they enter into Level 1 Credit Default.
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	The amendment to the legal text in section M3.2.6 seems to provide the most simplistic way of addressing the defect.
3	Do you agree with the Panel's provisional recommendation concerning the Implementation Date for P118? Please give rationale.	Yes	The dates given are sensible in bringing about the timely implementation of the proposal, should the Authority wish to implement it.
4	Do you believe that there are any impacts that have not been highlighted? If yes please give details.	No	
5	Are there any further comments on P118 that you wish to make?	No	

P118_DR_004 – Aquila Networks

THE RESPONSE RECEIVED WAS NOT IN THE FORMAT OF THE PROFORMA THEREFORE THE FOLLOWING ASSUMPTIONS HAVE BEEN MADE AS TO HOW THE RESPONDENTS VIEWS SHOULD BE PRESENTED.

Respondent:	Rachael Gardener
No. of BSC Parties Represented	1
BSC Parties Represented	Aquila Networks

Q1: No Comment

Q2: No Comment

Q3: No Comment

Q4: No Comment

Q5: No Comment

THESE HAVE BEEN VERIFIED WITH THE RESPONDENT AND THEY HAVE INDICATED THAT THEY ARE HAPPY WITH THE INTERPRETATION.

THE ACTUAL RESPONSE RECEIVED IS GIVEN BELOW:

Please find that Aquila Networks Plc response to P118 Consultation on draft Modification Report is 'No Comment'.

regards
Rachael Gardener

Deregulation Control Group &
Distribution Support Office
AQUILA NETWORKS

P118_DR_005 – 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 Trading 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 and Parties represented	<i>(Supplier/Generator/ Trader / Consolidator / Exemptable Generator / BSC Agent / Party Agent / other – please state ¹)</i> Supplier / Generator / Trader / Consolidator / Exemptable Generator / Party Agent

Q	Question	Response	Rationale
1.	Do you agree with the Panel's views on P118 and the provisional recommendation to the Authority contained in the draft Modification Report that P118 be made? Please give rationale.	No	<i>Situations have arisen, where parties have strayed into Level 1 default through no fault of their own (mis-notification by other parties), and by using the "additional" hours after midnight (first banking time post 24:00hrs) to post additional collateral have successfully kept their name off the BMRS. We are therefore concerned that the process of automatic posting of default notices immediately after the cure period expiry, without checking whether the default is genuine or not (as in the above mentioned case) actually creates greater risk to parties.</i> <i>We believe the resolution of any level 1 default particularly in the case of mis-notification as mentioned above should be allowed as much time and as much discussion and discretion as possible by parties involved, before their reputation is damaged by publication on the BMRS in these circumstances.</i> <i>In a genuine default, this is only one channel of information and to reduce the remedy period and discretion may add risk rather than reducing it.</i>
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	<i>Notwithstanding that we disagree with the recommendation to approve P118, we would agree that the legal text appears to be appropriate.</i>

¹ Delete as appropriate – please do not use strikethrough, this is to make it easier to analyse the responses

Q	Question	Response	Rationale
3	Do you agree with the Panel's provisional recommendation concerning the Implementation Date for P118? Please give rationale.	Yes	<i>Notwithstanding that we disagree with the recommendation to approve P118, we would agree that the implementation date appears to be appropriate.</i>
4	Do you believe that there are any impacts that have not been highlighted? If yes please give details.	Yes	<i>P118 reduces the resolution period for default and the discretionary element of the process. This therefore impacts parties' credit reputation, particularly when the default is not genuine and through no fault of the affected party. This could have significant commercial and operational impact on the party.</i>
5	Are there any further comments on P118 that you wish to make?	Yes	<i>Although not directly affected by P118, we would view with greater concern if a similar automatic Level 2 Credit Default reporting was introduced, thereby significantly increasing the possibility that a party could be published on the BMRS as a result of mis-notification by another party. We recognise that "current practise" will not allow the Authorisation Notice to be issued until after the "Query Period", however we feel that for the "avoidance of doubt" at Level 2, the relationship between the creation of the Authorisation Notice, the Query Period and the Level 2 Credit default should be clearly stated The credit default process needs to be reviewed particularly when situations could arise as mentioned above, where parties are affected by default through no fault of their own and not genuine. Also, an area which would further assist in increasing the efficiency of the balancing and settlement arrangements would be to address and clarify the process for unwinding positions in the circumstances of a default. In circumstances where genuine credit events have occurred, confusion has been widespread over the process to unwind a bilateral power position. Not from a legal perspective but from an operational perspective.</i>

P118_DR_006 – British Gas Trading

THE RESPONSE RECEIVED WAS NOT IN THE FORMAT OF THE PROFORMA THEREFORE THE FOLLOWING ASSUMPTIONS HAVE BEEN MADE AS TO HOW THE RESPONDENTS VIEWS SHOULD BE PRESENTED.

Respondent:	Mark Manley
No. of BSC Parties Represented	1
BSC Parties Represented	British Gas Trading

Q1: Yes

Q2: Yes

Q3: Yes

Q4: No Comment

Q5: Yes (see below)

THESE HAVE BEEN VERIFIED WITH THE RESPONDENT AND THEY HAVE INDICATED THAT THEY ARE HAPPY WITH THE INTERPRETATION.

THE ACTUAL RESPONSE RECEIVED IS GIVEN BELOW:

Re: Modification Proposal P118 – Increased Efficiency in the Reporting of Credit Default Statements

Thank you for the opportunity of responding to this draft modification report considering Modification Proposal P118. British Gas Trading (BGT) supports the Modification Proposal as the prompt reporting of BSC Parties entering Level 1 Credit Default improves the efficiency of the process and can be seen to better facilitate Applicable BSC Objective (d).

In view of the link between CP703 'Credit Default Process' which will deliver the functionality to allow for 24/7 reporting BGT agrees with the proposed implementation date as specified in the draft Modification Report.

BGT concurs that the draft legal text delivers the intended objective of the Modification Proposal. However there does appear to be a word omitted from section M 3.2.6, BGT believes it should read "that it is *in* Level 1 Credit Default." This has no impact on the effect of the Modification Proposal but it would appear sensible if viable to tidy up the drafting of the section under this Modification Proposal.

BGT believe the prompt reporting of BSC Parties entering Level 1 Credit Default could be further improved by providing additional notification to BSC Parties. Publication of this information on the BMRS website might not be seen by all BSC Parties, if this information was also communicated via a Tibco message and or e-mail from the ECVAAs this could improve the visibility of the incident.

Yours faithfully

Mark Manley
Contract Manager

ANNEX 3 LEGAL TEXT

See attached document (P118 Legal drafting version 2).