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DRAFT 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
0.2	17/03/03	Dena Harris	John Lucas	Technical Review
0.3	18/03/03	Change Delivery	BSC Parties	For Consultation

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 Authorities2

b Distribution2

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 Recommendations4

2 Introduction5

3 History of Proposed Modification5

4 Description of the Modification5

5 Rationale for Panel Recommendations6

6 Legal Text to Give Effect to the Modification6

7 Assessment.....7

8 Summary of Representations7

8.1 Arguments Supporting the Panel Recommendations8

8.2 Arguments Against the Panel Recommendations.....8

8.3 Panel Discussion of Representations8

Annex 1 Cost Summary9

Annex 2 Representations9

A2.1 Summary of Representations.....9

A2.2 Detailed Responses.....9

Annex 3 Legal Text9

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.

XX responses to the draft Modification Report consultation were received. XX responses (XX Balancing and Settlement Code Parties (BSC Parties) and XX non BSC Parties) supported the Panel's recommendations and XX (XX BSC Parties and XX non BSC Parties) did not support the Panel's

recommendations. [insert sentence to say if they raised any new issues]. A summary of the responses received is given in section 8.

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 Annex 1.

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. *XX responses, representing XX BSC Parties, were received. [Insert sentence to say if the Panel recommends or rejected the Modification on the basis of the consultation responses].*

The draft Modification Report was presented to the Panel meeting of 10 April 2003 and at this meeting the Panel agreed [insert details of any Panel decisions that take place at the Panel meeting].

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. 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 they occur (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.

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 (13 March 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 is 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 is 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 would be disadvantaged as they would not know a Party was in Level 1 Credit Default until 0900 hours whereas larger Parties 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 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 SUMMARY OF REPRESENTATIONS

The draft Modification Report was issued for consultation on 18 March 2003 with responses due back on 27 March 2003. *XX responses were received representing XX BSC Parties and XX non BSC Parties.*

- *XX responses (XX BSC Parties) supported the recommendation that the Proposed Modification should be made;*
- *XX responses (XX BSC Parties) supported the recommended Implementation Date;*
- *XX responses (XX BSC Parties) supported the Legal Drafting;*
- *XX response (XX BSC Parties) did not support the Panel recommendations; and*
- *XX response had no comment.*

The views expressed in the responses are summarised below:

Respondent	No. BSC Parties Represented	No. non BSC Parties Represented	Agree with Recommendations	Agree with Legal Drafting	Agree with Implementation Date
TOTAL (X)	X	X	X	X	X

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 8.1 and 8.2.

8.1 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:

- *[insert details of any arguments raised in consultation responses]*

8.2 Arguments Against the Panel Recommendations

The following arguments, raised in the consultation responses, did not support the Panel recommendation that the Proposed Modification be made;

- *[insert details of any arguments raised in consultation responses]*

8.3 Panel Discussion of Representations

At the Panel meeting of 13 March 2003, the arguments raised in the consultation responses were presented.

[Insert details of any Panel discussions relating to the consultation responses]

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. All of these costs are expected to be minor.

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			
Do not support recommendations			
No Comment			
Total			

Representations were received from the following parties:

No	Company	File Number	No. BSC Parties Represented	No. non BSC Parties Represented	Views
1.					
2.					
3.					
4.					
5.					
6.					
7.					
8.					
9.					
10.					
11.					

A2.2 Detailed Responses

[Insert copies of responses received]

ANNEX 3 LEGAL TEXT

See attached document (P118 Legal drafting version 1).