

Modification Proposal – BSCP40/03	MP No: P307 (mandatory by BSCCo)
<p>Title of Modification Proposal <i>(mandatory by originator)</i></p> <p>Amendments to Credit Default arrangements</p>	
<p>Submission Date <i>(mandatory by originator)</i></p> <p>4 June 2014</p>	
<p>Description of Proposed Modification <i>(mandatory by originator)</i></p> <p>This Modification proposes to amend the timings, triggers and thresholds under Section M of the BSC in relation to Credit Default.</p> <p>We propose to amend the Query Period to include a minimum of five consecutive Working Hours during a single Working Day, to allow Parties sufficient time to lodge more credit upon breaching the relevant threshold to receive a ‘level 1 default notice’. We propose that the Query Period is amended to contain a consecutive period of five Working Hours to allow for internal validation, authorisation and payment processes, as well as bank transfers to increase credit cover.</p> <p>We are open to the views of the Modification Workgroup as to whether revisions to the cure periods and the 75%, 80%, 90% and 100% thresholds are also required in response to this issue. We note that the 2011 BSC Review looked at the rules for Credit Default, and consider that the Workgroup should look at the review’s conclusions and proposed solutions as part of this Modification.</p>	
<p>Description of Issue or Defect that Modification Proposal Seeks to Address <i>(mandatory by originator)</i></p> <p>The level of credit held across the energy industry is in some cases exceptionally high, above and beyond the actual risk that market participants are likely to incur. In particular, the BSC requires BSC Parties to lodge credit cover in excess of their maximum energy indebtedness, due to Parties needing to keep their Credit Cover Percentage below the 80% threshold to avoid a level 1 default notice. Following such a notice, the Party has at least a 24 hour Query Period before any consequences; however the consequences can be significant.</p> <p>Where the Query Period commences after 17:00 on a Friday and any time through to Sunday morning, there can be a scenario where there are very few or no Working Hours in which the Party can lodge further Credit Cover with BSCCo. For instance, if the Credit Cover Percentage exceeds 100% during the Query Period then Energy Contract Volume Notifications and Metered Volume Reallocation Notifications will be refused and rejected at the end of the Query Period until the Credit Cover Percentage falls below 75%. The Party would therefore have no option other than to buy energy during the Query Period and notify energy contracts to reduce their Credit Cover Percentage. This action can incur significant costs to the Party.</p>	

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<p>Alternatively, the Party can lodge sufficient Credit Cover to provide the headroom needed to avoid encountering this situation at all. This again puts up the costs of meeting the credit arrangements. The credit cover that is lodged under the BSC appears to cover a large part of the “tail risk” where the largest losses occur, but in terms of probability are very unlikely.</p>	
<p>Impact on Code <i>(optional by originator)</i></p> <p>Section M ‘Credit Cover and Credit Default’.</p>	
<p>Impact on Core Industry Documents or System Operator-Transmission Owner Code <i>(optional by originator)</i></p> <p>None anticipated.</p>	
<p>Impact on BSC Systems and Other Relevant Systems and Processes Used by Parties <i>(optional by originator)</i></p> <p>Credit timings, triggers and thresholds are applied in the ECVAAs system. However, some parameters, such as the query period, can be entered manually following a Credit Default.</p>	
<p>Impact on other Configurable Items <i>(optional by originator)</i></p> <p>To be determined.</p>	
<p>Justification for Proposed Modification with Reference to Applicable BSC Objectives <i>(mandatory by originator)</i></p> <p>We consider that this Modification would better facilitate Applicable BSC Objective (c):</p> <p><i>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.</i></p> <p>This Modification would allow BSC Parties to reduce the margin of credit provided under the BSC. Extension of the query period would reduce the risk of Credit Default consequences and contract refusal or rejection. Parties entering Credit Default over a weekend would have the option of providing additional funds to resolve the default. This reduction in credit would increase competition within the industry by reducing the costs incurred by participants, in particular smaller Parties, in lodging credit and consequently be of benefit to customers.</p>	
<p>Is there a likely material environmental impact? <i>(optional by originator)</i></p> <p>No</p>	
<p>Urgency Recommended: No <i>(delete as appropriate) (optional by originator)</i></p>	

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Justification for Urgency Recommendation (mandatory by originator if recommending progression as an Urgent Modification Proposal)	
N/A	
Self-Governance Recommended: No (delete as appropriate) (optional by originator)	
Justification for Self-Governance Recommendation (mandatory by originator if recommending progression as Self-Governance Modification Proposal)	
N/A	
Fast Track Self-Governance Recommended: No (delete as appropriate) (optional by originator)	
Justification for Fast Track Self-Governance Recommendation (mandatory by originator if recommending progression as Fast Track Self-Governance Modification Proposal)	
N/A	
Should this Modification Proposal be considered exempt from any ongoing Significant Code Reviews? (optional by originator in order to assist the Panel decide whether a Modification Proposal should undergo a SCR Suitability Assessment)	
N/A – no ongoing SCRs.	
Details of Proposer:	
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<p>Details of Representative's Alternate:</p> <p><i>Name.....Kyle Martin.....</i></p> <p><i>Organisation.....Energy UK.....</i></p> <p><i>Telephone Number.....02077471834.....</i></p> <p><i>Email address.....Kyle.Martin@energy-uk.org.uk.....</i></p>	
<p>Attachments: No (delete as appropriate) (mandatory by originator)</p> <p>If Yes, Title and No. of Pages of Each Attachment:</p> <p>N/A</p>	