

Modification Proposal – BSCP40/03	MP No: P306 <i>(mandatory by BSCCo)</i>
<p>Title of Modification Proposal <i>(mandatory by originator):</i></p> <p>Expanding the definition of a ‘Letter of Credit’ to include regulated insurance companies</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>It is proposed that the definition of a ‘Letter of Credit’ under the BSC is expanded to include regulated insurance companies that can provide “like for like” products to that of a bank, for example performance bonds. These insurance companies would normally be members of the International Credit Insurance & Surety Association (ICISA) and capable of providing security of a similar level and form as that provided by a bank. This would provide individual BSC Parties with additional options in which to provide Credit Cover under the BSC.</p> <p>It is anticipated that the following change to the BSC would need to be considered as part of the Modification’s Assessment:</p> <ul style="list-style-type: none"> • introduce a third option under Section M2.1.1 such as “c) a performance bond valid for an initial of not less than 3 months” and also defining the term “performance bond” under Section X Annex X-1, or • expand the definition of the term ‘letter of credit’ by including a performance bond issued by a regulated insurance company. This could be done by replacing the term “letter of credit” used in Section X Annex X-1 with “letter of credit/guarantee” to avoid any confusion. A new Annex M-4 would need to be inserted into Section M with an acceptable form of the wording applicable to the letter of guarantee. <p>However, we leave it open to the Workgroup to propose the most appropriate definition to implement our proposed solution.</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. Due to the current financial climate, there has been additional pressure applied to the energy industry with many banks and parent companies no longer meeting the high credit rating demanded across industry codes.</p> <p>In the case of the Balancing and Settlement Code (BSC), banks that are able to supply ‘Letters of Credit’ are defined as needing to meet one of the following criteria (Section X Annex X-1):</p> <ul style="list-style-type: none"> • Any United Kingdom clearing bank(s); or 	

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<ul style="list-style-type: none"> • Any other bank(s) which has (have) a long term debt rating of not less than a single rating of ‘A’¹ by Standard & Poor’s Corporation or by Moody’s Investors Services Inc.; or • Any other bank(s) as the Panel may approve. <p>During 2012 and 2013, Moody’s Investors Services Inc. (also referred to as Moody’s) and Standard & Poor’s downgraded several licensed banks. This resulted in a reduction in the number of financial institutions with an adequate credit rating to provide security on behalf of Trading Parties under the BSC. A smaller pool of prospective security providers, along with the potential for further downgrading, is unlikely to incentivise banks and similar entities to maintain or reduce charges for providing security. We consider that the pool of prospective providers should be expanded to include regulated insurance companies that can provide “like for like” products to that of a bank, which would provide more options to individual Parties, facilitating competition.</p> <p>Anecdotally, smaller companies find it cheaper to lodge cash than negotiate a ‘Letter of Credit’ with banks. The BSC currently requires Parties to lodge credit cover against its Energy Indebtedness, as detailed in BSC Section M 1.2.1. The provisions allow for this to be in either the form of a ‘Letter of Credit’ or Cash.</p>	
<p>Impact on Code <i>(optional by originator)</i></p> <p>P306 will impact BSC Sections M ‘Credit Cover and Credit Default’ and X Annex X-1 ‘General Glossary’.</p>	
<p>Impact on Core Industry Documents or System Operator-Transmission Owner Code <i>(optional by originator)</i></p> <p>None</p>	
<p>Impact on BSC Systems and Other Relevant Systems and Processes Used by Parties <i>(optional by originator)</i></p> <p>It is not anticipated that systems will be required due to the implementation of P306. Though, as the solution develops this will be confirmed as part of the Modification’s Assessment.</p>	
<p>Impact on other Configurable Items <i>(optional by originator)</i></p> <p>None</p>	

¹ An ‘A’ rating means a “Strong capacity to meet financial commitments, but somewhat susceptible to adverse economic conditions and changes in circumstances”.

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Justification for Proposed Modification with Reference to Applicable BSC Objectives <i>(mandatory by originator)</i>	
<p>Better facilitation of 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 proposal seeks to increase the range of providers capable of meeting the BSC requirements relating to the provision of security available to BSC Parties, thereby potentially improving competition and reducing costs incurred by Trading Parties under the BSC, 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: Yes / No <i>(delete as appropriate) (optional by originator)</i></p> <p>No</p>	
<p>Justification for Urgency Recommendation <i>(mandatory by originator if recommending progression as an Urgent Modification Proposal)</i></p> <p>N/A</p>	
<p>Self-Governance Recommended: Yes / No <i>(delete as appropriate) (optional by originator)</i></p> <p>Yes</p>	
<p>Justification for Self-Governance Recommendation <i>(mandatory by originator if recommending progression as Self-Governance Modification Proposal)</i></p> <p>This Modification Proposal is intended to increase the range of providers capable of meeting the BSC requirements relating to the provision of security and would not result in a reduction in the level of security currently provided by BSC Parties to the BSC Clearer. Consequently, we consider this change unlikely to have a material effect on any of the areas listed under the Self-Governance Criteria.</p>	
<p>Fast Track Self-Governance Recommended: Yes / No <i>(delete as appropriate) (optional by originator)</i></p> <p>No</p>	

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<p>Justification for Fast Track Self-Governance Recommendation (<i>mandatory by originator if recommending progression as Fast Track Self-Governance Modification Proposal</i>)</p> <p>N/A</p>	
<p>Should this Modification Proposal be considered exempt from any ongoing Significant Code Reviews? (<i>optional by originator in order to assist the Panel decide whether a Modification Proposal should undergo a SCR Suitability Assessment</i>)</p> <p>The proposer is not aware of any ongoing significant code review related to this modification proposal.</p>	
<p>Details of Proposer:</p> <p><i>Name.....Leonida Bandura.....</i></p> <p><i>Organisation...E.ON UK.....</i></p> <p><i>Telephone Number....02476 182536.....</i></p> <p><i>Email Address.....Leonida.Bandura@eon-uk.com.....</i></p>	
<p>Details of Proposer’s Representative:</p> <p><i>Name..... Leonida Bandura</i></p> <p><i>Organisation... E.ON UK</i></p> <p><i>Telephone Number.....02476 182536.....</i></p> <p><i>Email address... Leonida.Bandura@eon-uk.com</i></p>	
<p>Details of Proposer’s Representative:</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>	

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Attachments: Yes / No <i>(delete as appropriate) (mandatory by originator)</i> If Yes, Title and No. of Pages of Each Attachment:	