

4.5. MP Form

Modification Proposal – BSCP40/03	MP No: P345 <i>(mandatory by BSCCo)</i>
Title of Modification Proposal <i>(mandatory by originator):</i> Reducing the CAP change notice period and improving its flexibility	
Submission Date <i>(mandatory by originator):</i> 2 June 2016	
Description of Proposed Modification <i>(mandatory by originator):</i> The Proposed Modification aims to: <ul style="list-style-type: none"> • Move the Credit Assessment Price (CAP) change notice period from the BSC to the CAP Review Guidance Document; and • Reduce the CAP change notice period from not earlier than the 20th Business Day following notification to not earlier than the 15th Business Day following notification. <p>The CAP Review Guidance Document is owned by the BSC Panel, and changes to it can only be made with the Panel's agreement. The notice period could therefore be changed in the future without a Modification or Change Proposal, subject to the agreement of the Panel.</p> <p>The BSC would retain an obligation that there must be a notice period, which shall be determined by the Panel and which must be consulted upon, and specify that the minimum notice period is 10 Business Days, i.e. a Modification would be required to make the notice period less than 10 Business Days.</p> <p>The Credit Committee, the BSC Panel and the industry support reducing the notice period from 20 Business Days to 15 Business Days.</p>	
Description of Issue or Defect that Modification Proposal Seeks to Address <i>(mandatory by originator)</i> CAP is used in the calculation of Actual Energy Indebtedness (AEI). The Credit Committee considers changing the CAP value if the difference between the CAP and a reference price breaches a predetermined value, as set out in the CAP Review Guidance Document. <p>At present, BSC Section M 'Credit Cover and Credit Default' includes a requirement that the effective date of any change to the CAP shall not be earlier than the 20th Business Day following the date of notification of the change. In practice this means that implementing a new CAP value takes on average six weeks from the breach to the implementation.</p> <p>Recent volatility in market prices means that there is a need for a more flexible process for changing the CAP to better reflect reference electricity prices. Reducing the notice period would enable CAP changes to be implemented more quickly, which would allow the CAP to reflect more recent data and react to market conditions more quickly. The benefit of a revised CAP</p>	

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<p>value being applied in the calculation of AEI would also be delivered more quickly.</p> <p>In addition, since the notice period is included in the BSC, a Modification is required to change it. This limits the flexibility of the CAP review process and means that a Modification is required for any change to this parameter.</p>	
<p>Impact on Code <i>(optional by originator)</i></p> <p>The required notice period for implementing a new CAP is included in BSC Section M.1.4.2 b).</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>None estimated. The choice for the implementation date is a manual process and does not require any system input.</p>	
<p>Impact on other Configurable Items <i>(optional by originator)</i></p> <p>None estimated (the CAP Review Guidance Document would be amended but is not a configurable item).</p>	
<p>Justification for Proposed Modification with Reference to Applicable BSC Objectives <i>(mandatory by originator)</i></p> <p>Due to the recent high volatility in market prices, there is a need for a more flexible process for changing the CAP to better reflect the level of electricity prices. Reducing the notice period for implementing a new CAP value will allow the Credit Committee to react faster in case of a sudden drop or increase in market prices to reflect System Prices more accurately. This will facilitate Objective (c) because having the most reflective value of CAP in place as quickly as possible will enable more accurate calculation of Parties' indebtedness and consequently Credit Cover requirements. Faster and more efficient calculation and securitisation of energy indebtedness will tend to promote effective competition in the generation and supply of electricity, as any under or over securitisation of indebtedness will be corrected more quickly, reducing unnecessary collateral burdens but equally minimising Parties' exposure to bad debt.</p> <p>Moving the notice period from the BSC to the CAP Review Guidance Document (while retaining a minimum notice requirement in the BSC) means that if it is considered beneficial to change the notice period in the future, this can be done without going through the BSC Modification process, whilst requiring industry consultation and oversight by the Credit Committee and BSC Panel. This will facilitate Objective (d) as it is promoting efficiency in the administration of the balancing and settlement arrangements.</p>	

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Is there a likely material environmental impact? <i>(optional by originator)</i> No.	
Urgency Recommended: No <i>(delete as appropriate) (optional by originator)</i>	
Justification for Urgency Recommendation <i>(mandatory by originator if recommending progression as an Urgent Modification Proposal)</i>	
Self-Governance Recommended: Yes <i>(delete as appropriate) (optional by originator)</i>	
Justification for Self-Governance Recommendation <i>(mandatory by originator if recommending progression as Self-Governance Modification Proposal)</i>	
<p>Reducing the notice period is a simple change with no system impacts and has already been consulted upon and recommended by both the Credit Committee and the BSC Panel. Moving the notice period from the BSC to the CAP Review Guidance Document makes the governance of this parameter more efficient while retaining appropriate oversight and consultation.</p> <p>Neither of these aspects will discriminate between different classes of Parties and neither has any material impact on the areas identified in the Self-Governance criteria. Whilst it is contended that the reduction in the notice period will benefit competition, this is a facilitating effect rather than an immediate material effect.</p>	
Fast Track Self-Governance Recommended: No <i>(delete as appropriate) (optional by originator)</i>	
Justification for Fast Track Self-Governance Recommendation <i>(mandatory by originator if recommending progression as Fast Track Self-Governance Modification Proposal)</i>	
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>	
Yes.	

Details of Proposer:

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

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