

Modification Proposal

MP No: 69
(mandatory by BSCCo)

Title of Modification Proposal (mandatory by proposer):

Short-Term Measures To Alleviate The Inefficiencies Within The Present Credit Energy Indebtedness Methodology

Submission Date (mandatory by proposer): 01 February 2002

Description of Proposed Modification (mandatory by proposer):

This modification proposal seeks to extend the scope of material doubt within Section M3.4 such that Elexon shall;

- (i) on receiving evidence from a BSC trading party that indicates based upon the latest available data, it's actual and calculated energy indebtedness has not placed the party in 'actual' credit default, and
- (ii) based upon this data, be in a position to, conclude that material doubt exists regarding the energy indebtedness, as calculated under the current methodology, of the BSC Party, and thus
- (iii) withhold the necessary authorisation to the ECVA for pursuing level one and level two credit default procedures.

We anticipate the onus will be upon the BSC Trading Party to submit the appropriate evidence that details it's calculated actual energy indebtedness based upon a combination of those periods, where [meter] data is available, combined with the indebtedness as calculated under the current methodology, for periods where [meter] data is unavailable.

Description of Issue or Defect that Modification Proposal Seeks to Address (mandatory by proposer):

The current methodology for assessing credit energy indebtedness is widely regarded as over-estimating the indebtedness of certain parties and potentially obliging them to post unwarrantedly high levels of credit cover. Indeed, this was certainly a view endorsed by Ofgem in its decision letter on P2, Revision of the Methodology for Assessing Credit Indebtedness, where they indicate that Parties may have to provide up to £170 million of unwarranted credit cover at an estimated cost per annum of £1.7 million.

Initial disappointment at the lengthy lead-time until full implementation of P2 has increasingly turned into frustration at the lack of perceived coherence within the application of the present credit methodology, particularly when the principles for P2 have been agreed. We accept, however, the Panel within their determination of P2 discussed the requirement for an interim solution and concluded that it did not possess the vires for an interim fix, since it would constitute a separate modification proposal to P2.

Impact on Code (optional by proposer):

Insertion of additional evidence that may be submitted by a Party , for the purposes of Section M3.4, and if appropriate shall be construed to represent material doubt

Impact on Core Industry Documents (optional by proposer):

None envisaged

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Impact on BSC Systems and Other Relevant Systems and Processes Used by Parties (optional by proposer):

Since the onus will be upon a party to demonstrate and submit appropriate evidence to Elexon, we anticipate there should be few, if any, significant central systems impacts or modifications. For those parties who wish to operate as currently this proposal should have no impact.

Impact on other Configurable Items (optional by proposer):

None envisaged

Justification for Proposed Modification with Reference to Applicable BSC Objectives (mandatory by proposer):

We know from the P2 modification report the level of unwarranted credit cover is asymmetric compared to the level of insufficient cover, £170m vs £30m. We consider that trading parties are being exposed to significant risks and costs, as a result of inaccuracies arising from the current credit checking methodology. In some circumstances these costs are such that it may be prohibitively expensive to trade or continue trading.

This proposal attempts to alleviate some of the clear inefficiencies within the present credit methodology and proposes to bring forward one of the key advantages of P2, i.e. the use of available [meter] data within the determination of the 'actual' energy indebtedness of a BSC Trading Party. We have attempted, in formulating this modification, to ensure the balance is retained between parties retaining appropriate energy indebtedness credit cover, efficiency in the implementation and administration of the BSC, and minimal impact upon central systems impacts to ensure, if agreed, timely implementation i.e. before full P2 implementation.

We consider introducing a simple textual modification, with little systems impact, within the application of the current methodology should remove these artificial distortions and barriers to trading. For this modification to provide a useful benefit and allow temporary respite from the clear deficiencies within the present methodology we firmly consider it needs to be accorded Urgent Status to; a) allow implementation in a timely manner (before P2 implementation) and, b) since we recognise that for some BSC parties, we may fast be approaching the renewal date for those letters of credit initially placed to support imbalances, as calculated using the current methodology.

Furthermore, we recognise this proposal may impose a slight increase in the administrative burden upon BSCCo, however, in our view the costs to BSCCo are far outweighed by the financial burden imposed upon the industry by the application of the current credit methodology.

We therefore consider the applicable BSC objectives, as set out in Condition C3 of the Transmission Licence, this proposal would better facilitate, are the following:

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

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Attachments: YES

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

Proposed Legal Text, one page