

## Modification Proposal

**MP No: 76**  
(mandatory by BSCCo)

**Title of Modification Proposal** (mandatory by proposer):

Anomalies Associated With Negative Quantities Of Credit Cover

**Submission Date** (mandatory by proposer): 08 April 2002

**Description of Proposed Modification** (mandatory by proposer):

This proposal seeks to address anomalies that arise in the Credit Cover calculation when unpaid Trading Charges cause a Party's Credit Cover to become negative.

At present Section M2.1.3 of the Code defines the amount of a Trading Party's Credit Cover at any time as:

(a) the sum of the maximum undrawn amount for the time being of any Letter of Credit delivered by it, and the principal amount of any cash paid by it and credited to the Reserve Account by the FAA on behalf of the BSC Clearer

less

(b) the sum of any amounts payable by the Trading Party in respect of Trading Charges which have become due for payment and have not been paid by the Trading Party on the relevant Payments Date in accordance with Section N, and remain unpaid at such time.

Therefore if a Trading Party fails to pay any Trading Charges on the relevant Payment Date, the amount of non payment is deducted from the current level of Credit Cover by the Funds Administration Agent (FAA) and details of the new Credit Cover are sent to the Energy Contract Volume Aggregation Agent (ECVAA) for inclusion in the credit checking process.

However if the amount of non payment is greater than the current Energy Credit Cover, then the result will be a negative Energy Credit Cover. This will distort the effect of the credit checking calculations. For example if a Trading Party's Energy Credit Cover is 100MWh and their Energy Indebtedness is 200MWh, their Credit Cover Percentage will be 200% and they will be in Credit Default. However if the Trading Party fails to pay Trading Charges equivalent to 200MWh then their Energy Credit Cover will become -100MWh. If the Energy Indebtedness stays the same, the Credit Cover Percentage will be -200%. As this is a negative value, it will not flag the Trading Party as being in Credit Default even though they no longer have enough Credit Cover to secure their outstanding Settlement liabilities.

It is suggested that the definition of Credit Cover Percentage in Section M3.1.1. (a) be modified to take into account negative Credit Cover. Alternatively the definition of Credit Cover could be modified to say that non payments should be deducted from the amount of credit lodged, provided the Credit Cover never become less than zero. Another option would be to modify the definition of Energy Indebtedness to include the amount of unpaid Trading Charges.

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

Section M2.1.3. introduces a link between the Payment Default procedure and the Credit Default procedure by taking non payment of Trading Charges into account when calculating the amount of Credit Cover available to each Trading Party. As the amount of non payment may be greater than the amount of Credit Cover lodged by a Trading Party, then it is possible for the Energy Credit Cover to be negative. However the credit checking process does not accurately reflect a Trading Party's indebtedness position when a negative Energy Credit Cover is used.

We believe this modification proposal will reduce the bad debt risk faced by the industry. Under current arrangements a Party can continue notifying sales contracts and increasing its overall exposure to the industry until ECVNA authorisations are terminated by the Panel in accordance with Section H3.2 of the Code, which can ultimately be to the detriment of other Parties. This modification will allow the credit checking process to take into account occasions when the Trading Party has stopped paying Trading Charges and already has an unsecured debt.

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**Impact on Code** (optional by proposer):

Section M will require modifying to reflect any amended definitions.

**Impact on Core Industry Documents** (optional by proposer):

N/A

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

The credit checking process within the ECVA System may need changing if a modification to the calculation of Credit Cover Percentage is required.

**Impact on other Configurable Items** (optional by proposer):

N/A

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

We believe this modification proposal would better facilitate Applicable BSC Objective (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 as the overall credit risk faced by the industry would be reduced.

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**Attachments: NO**

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