July 2002

ASSESSMENT REPORT FOR MODIFICATION PROPOSAL P76 ANOMALIES ASSOCIATED WITH NEGATIVE LEVELS OF CREDIT COVER

Prepared by the Credit Modification Group on behalf of the Balancing and Settlement Code Panel

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I DOCUMENT CONTROL

a Authorities

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0.1	11/06/02	J Ellis		Change Delivery
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b Distribution

Name	Organisation
Each BSC Party	Various
Each BSC Agent	Various
The Gas and Electricity Markets Authority	Ofgem
Each BSC Panel Member	Various
Energywatch	Energywatch
Core Industry Document Owners	Various

c References

Ref.	Document	Owner	Issue Date	Version
1.	Modification Proposal P76 'Anomalies Associated with Negative Levels of Credit Cover'	ELEXON	08/04/02	
2.	Initial Assessment of Modification Proposal P76 'Anomalies Associated with Negative Levels of Credit Cover'	ELEXON	12/04/02	1.0
3.	Requirements Specification to Support Modification P76	ELEXON	16/05/02	1.0
4.	Modification Proposal P76 Risk Assessment	ELEXON	05/06/02	1.0
5.	Assessment Report for Modification Proposal P2 'Revision of the Methodology for Assessing Credit Indebtedness'	ELEXON	20/07/01	1.0

Electronic copies of these documents can be found on the ELEXON website, at www.elexon.co.uk.

d Intellectual Property Rights and Copyright

II CONTENTS TABLE

1 SUMMARY AND RECOMMENDATIONS

1.1 Recommendations

On the basis of the analysis, consultation and assessment undertaken in respect of this Modification Proposal during the Assessment Phase, and the resultant findings of this report, the Credit Modification Group (CMG) invites the Balancing and Settlement Code Panel ('the Panel') to:

- **NOTE the P76 Assessment Report and the recommendations of the CMG;**
- **ENDORSE the recommendation of the CMG and proceed to the Report Phase in accordance with Section F2.7 of the Code;**
- **AGREE that the draft Modification Report contain a provisional recommendation that the Alternative Modification P76 should be made with an Implementation Date of 15 Working Days after the Authority decision;**
- **AGREE that the draft Modification Report contain a provisional recommendation that Modification Proposal P76 should not be made;**
- **In the event that the Authority determines that P76 should be made AGREE an Implementation Date of;**
  - **25 February 2003 if a determination is made by the Authority on or prior to 24 October 2002; or**
  - **24 June 2003 if a decision is received after 24 October 2002; and**
- **AGREE that the draft Modification Report be issued for consultation and submitted to the Panel meeting on 15 August 2002.**

1.2 Background

Modification Proposal P76 'Anomalies Associated with Negative Levels of Credit Cover' (P76), seeks to address anomalies that arise in the Credit Cover calculation when unpaid Trading Charges cause a Party's Credit Cover to become negative. It is suggested that the definition of Credit Cover Percentage in Section M3.1.1 of the Code be modified to take into account negative Credit Cover. This can be achieved by amending the equation used to calculate a Party's Credit Cover Percentage to make it robust to negative values of Credit Cover.

The proposer states that currently a BSC Party with negative Credit Cover can avoid being placed in Credit Default, as the equation for calculating Credit Cover Percentage is not robust for negative values of Credit Cover. The proposer therefore believes that P76 would reduce the bad debt risk faced by the industry and so would better facilitate 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.

The CMG considered the solution given in the Modification Proposal and the two alternative options detailed within it. The first option was to change the definition of Energy Indebtedness to include the amount of unpaid Trading Charges. The second option was to modify the definition of Credit Cover to say that non payments should be deducted from the amount of credit lodged, provided the Energy Credit Cover never became less than zero.

The Panel endorsed the recommendation to progress P76 to the Assessment Procedure in accordance with section F2.6 of the Balancing and Settlement Code ('the Code'). Details of the

consultation and assessment undertaken during the Assessment Procedure can be found in the following sections of this report:

- Section 4 provides a description of P76 and defines the extent to which the proposal would better facilitate the achievement of the Applicable BSC Objectives.
- Sections 5 to 9 assess the impact of P76 on the Code and Code Subsidiary Documents, BSC Systems, Core Industry Documents, ELEXON and BSC Parties.
- Section 10 summarises the representations made by BSC Parties to the consultation questions.

1.3 Rationale for Recommendations

The CMG discussed P76 and the two alternative options (as described in section 4) against the applicable BSC Objectives and all agreed that the second option should be considered as an Alternative Modification. It was also noted that the FAA currently follows the procedure described in option 2, i.e. setting negative Credit Cover values to zero, but the CMG agreed that a Modification to the Code is required to remove an inconsistency between the wording in the Code and the actions currently being undertaken by the FAA. In following the Code in its present form, a Party could insist that the actual negative value of Credit Cover be used instead of taking the value as zero.

The CMG agreed that the Assessment Report should contain a recommendation to reject the Modification Proposal and approve the Alternative Modification.

The Group's rationale for believing that a change to the Code was required (be it P76 or an appropriate Alternative) is that currently the 'loophole' in the Credit Cover Percentage equation could allow a Party with negative Credit Cover to insist that they are taken out of Credit Default, even if their Credit Cover was inadequate. The resultant credit risk to other BSC Parties represents a potential barrier to effective competition, and closing the 'loophole' would therefore better facilitate objective (c):

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.

The consultation responses received from BSC Parties also agreed with this view.

The CMG concluded that although the Modification Proposal and option 1 represent better technical solutions to the problem by treating the root cause of the problem, the Alternative Modification should be implemented. The rationale for this decision was that the Alternative Modification will still identify Parties who should be in Credit Default when their Credit Cover Percentage is negative (i.e. they have a positive Energy Indebtedness and a negative Energy Credit Cover) and this will reduce the risk faced by other BSC Parties. The likelihood of a Party having a negative value of Energy Credit Cover will be significantly decreased once Modification Proposal P2[1] (reference 5) is implemented, as identified in the risk assessment. The Credit Modification Group therefore, agreed that the additional cost of implementing the Modification Proposal or option 1 versus that of the Alternative Modification (option 2) was not justified. The relative development costs being £110,700 for the Modification Proposal and £160,000 for option 1, as they both involve changes to the Central Service Agents' software and £2,000 for the Alternative Modification, which only requires documentation changes.

[1] Modification Proposal P2 'Revision of the methodology for assessing Credit Indebtedness' is due to be implemented on 30 September 2002. The effect of this is summarised in 4.

2 INTRODUCTION

This Report has been prepared by ELEXON Ltd., on behalf of the Balancing and Settlement Code Panel, in accordance with the terms of the Balancing and Settlement Code. The Code is the legal document containing the rules of the Balancing Mechanism and imbalance settlement process and related governance provisions. ELEXON is the company that performs the role and functions of the BSCCo, as defined in the BSC.

An electronic copy of this document can be found on the BSC website, at www.elexon.co.uk.

3 MODIFICATION GROUP DETAILS

This Assessment Report has been prepared by the CMG. The Panel agreed at their meeting of 18 April 2002 that the standard Modification Group Terms of Reference should apply to the CMG, with the amendments detailed in Annex 1.

The Membership of the Modification Group was as follows:

Members	Organisation	Comments
Mike Downing	ELEXON (chairman)	
Catherine Robinson	BGT (Proposer's Alternative)	
Ben Willis	npower	
Geoff Allen	Powergen	
Duncan Jack	St Clements	Left after 1st CMG Meeting
Martin Wiles	LogicaEPFAL	
Alec Thompson	LE Group	Joined after 1st CMG Meeting
Richard Lavender	NGC	
Sarah Parsons	ELEXON / Aquila	

Attendees	Organisation	Comments
Paul O'Donovan	OFGEM	
Joanne Ellis	ELEXON (Lead Analyst)	Joined after 1st CMG Meeting
Nigel Williams	ELEXON	
John Lucas	ELEXON (Design Authority)	
Tom Cash	ELEXON	Joined after 1st CMG Meeting

4 DESCRIPTION AND ASSESSMENT AGAINST THE APPLICABLE BSC OBJECTIVES

4.1 The Proposed Modification

P76 was raised by British Gas Trading on 8 April 2002 and an Initial Written Assessment (IWA), reference 1, was considered by the Panel at their meeting of 18 April 2002. The Panel agreed that P76 should proceed to a three month Assessment Procedure, with an Assessment Report to be presented at their meeting of 18 July 2002.

P76 was raised to address anomalies associated with negative quantities of Credit Cover. It suggests that the definition of Credit Cover Percentage in Section M3.1.1 of the Code be modified to take into account negative Credit Cover, proposing this is achieved by amending the equation used to calculate a Party's Credit Cover Percentage to make it robust to negative values

of Credit Cover. A full description of the Modification Proposal is contained in reference 1 and a table showing the Credit Cover Percentage calculated using the three different methods considered is given in annex 2.

At its meeting on 23 April 2002 the CMG considered P76 and the two other options described within the proposal and agreed that a requirements specification (reference 3) was needed in order to allow assessment of the best solution. This was then used by the Central Services Agent and the Funds Administration Agent (FAA) to provide a detailed level impact assessment (DLIA). The results of these assessments were used by Parties to respond to the high level impact assessment (HLIA) and consultation questions.

Also at this meeting of the CMG, a risk assessment (reference 4) was requested in order to assist the CMG in assessing the risks associated with P76 and the two other options being considered.

The risk assessment serves two main purposes, firstly to provide a quantitative assessment of the materiality of negative Credit Cover and secondly to highlight the effect of the implementation of Modification Proposal P2[1] on the consideration of P76.

P76 is trying to remove the errors associated with using negative values of Energy Credit Cover in the Credit Cover Percentage calculation. The risk assessment quantifies the effect of this problem and assesses which of P76 and two other options, if any, would reduce the resulting credit risk faced by BSC Parties. The risk assessment suggests that there are currently three circumstances when negative Credit Cover could arise:

- If the Party is already in Credit Default. This would occur as a result of the Credit Cover Percentage rising above 80% when the Credit Cover reduced towards zero before becoming negative. In this case present controls are deemed sufficient.
- If the Trading Party has unpaid Trading Charges, but these are offset by monies owed to the Party for later settlement periods. In which case the unpaid money can be recovered via the set-off rules in Section N2.6 of the Code and so present controls are deemed sufficient.
- If the Energy Contract Volume Aggregation Agent (ECVAA) has incorrectly assessed the Indebtedness of a Party, due to inaccurate Trading Charge data, causing them to post insufficient Credit Cover. This is a distinct possibility, as Trading Charge data is currently based on estimated values, although after P2 has been implemented this situation is less likely to arise and P76 will address this issue.

It is important to consider the effect of the implementation of P2, as it will cause significant changes to the calculation of Energy Indebtedness and hence Credit Cover Percentage. Following the implementation of P2, ECVAA will have access to Trading Charge data from the Interim Information (II) Settlement run allowing it to calculate a Party's Energy Indebtedness much more accurately. A full description of P2 is contained in reference 5.

The different options and other issues that were considered by the CMG at its first meeting and subsequent meeting on 20 June 2002 are detailed in the sections below.

4.1.1 Modification Proposal Issues

P76 proposes a change to the equation for calculating a Party's Credit Cover Percentage outlined in section M3.1.1 of the Code, to make it robust to negative values of Credit Cover. The CMG agreed that this could be achieved by rearranging the equation so that negative values of Energy Credit Cover return a positive value of Credit Cover Percentage, which is always in excess of

100%. These changes would not affect positive values of Credit Cover, which will return the same value of Credit Cover Percentage as in the original equation.

The view of the CMG at the first meeting was that the original Modification Proposal would be the preferred option, pending the impact assessments and consultation responses.

The risk assessment found that implementing P76 would have no effect on the credit risk faced by BSC Parties unless the ECVAA system is incorrectly calculating a Party's indebtedness. After the implementation of P2, when ECVAA will have access to Trading Charge data from the II run, it is expected that ECVAA will be able to more accurately assess a Party's indebtedness.

At the second CMG Meeting of 20 June 2002, it was decided that the extra sophistication of Modification Proposal P76, compared to option 2 was not required. As the associated BSC Agent costs of P76 were high (£100,700) and the risk currently faced by BSC Parties is low, an Alternative Modification would be recommended.

4.1.2 Option 1

The first option considered by the CMG involved amending the definitions of Energy Indebtedness and Credit Cover, so that the amount of any unpaid Trading Charges is added to Energy Indebtedness, rather than subtracted from Energy Credit Cover.

The CMG discussed this option at their initial meeting and considered it a viable option, although they expressed doubts over the cost and the reliability of the option. Another concern expressed by the CMG was that this option would lead to Parties being able to default on paying Trading Charges for longer before they were placed under Credit Default.

Following the first CMG meeting, ECVAA expressed reservations over the calculation of Credit Cover Percentage as they believe it can lead to misleading results in certain circumstances. P76 doesn't address this issue and it was suggested that as this option does, it would be more appropriate for implementation than the original Modification Proposal.

An example of the problem is that if a Party has a Credit Cover of 10MWh and an Energy Indebtedness of 5MWh, its Credit Cover Percentage using both the existing equation and the equation proposed under P76 will be 50%, meaning that the Party's Credit position will be deemed to be acceptable. The suggestion is that if the Credit Cover consists of significant unpaid Trading Charges (e.g. 10,000MWh posted Credit reduced by 9,990MWh unpaid Trading Charges) then a Credit Cover Percentage of 50% is not an accurate representation of the Party's Credit position. This is because a relatively small fluctuation in unpaid Trading Charges will cause large fluctuations in Credit Cover Percentage (i.e. a 3.75MWh (0.04%) increase in Trading Charges will cause the Credit Cover Percentage to rise above 80%). In this example, implementation of option 1 would result in a Credit Cover Percentage of 99.95% and the Party would trigger the Level 2 Credit Default Process.

An alternative view was expressed after the meeting by a CMG member that the main purpose of the Credit Checking process was to ensure that a Party has adequate Credit Cover in place to pay settlement liabilities that have already been incurred. In the example above, it can be argued that this Party shouldn't be in Credit Default as it has enough Credit Cover to pay their settlement liabilities and that the unpaid Trading Charges would be dealt with through the Trading Default Process.

The risk assessment showed that this option will also only provide benefits if a Party's Energy Indebtedness is incorrectly calculated by ECVAA and for the reasons stated in the previous section, this is deemed unlikely.

At its second meeting, the CMG decided that although technically this is a better solution than option 2, the advantages over option 2 don't warrant the extra BSC Agent costs involved, £160,000 for option 1 compared to £2,000 for option 2. Therefore this option should be discarded and not considered as an Alternative Modification.

4.1.3 Option 2

The second option discussed by the CMG states that the definition of Credit Cover should be modified to eliminate negative values of Credit Cover. This is achieved by changing the definition of Credit Cover to state that non-payments should be deducted from the amount of credit lodged, with any ensuing negative values of Credit Cover being set to and treated as being equal to zero.

Section M3.1.1 of the Code specifies that if a Party's Credit Cover equals zero, then the following conditions apply:

- If Energy Indebtedness is greater than zero, Credit Cover Percentage is 1000%. In this case the Level 2 Credit Default process will be triggered as stated in Section M3.3 of the Code.
- If Energy Indebtedness is equal to zero, Credit Cover Percentage is 0%.
- If Energy Indebtedness is less than zero, Credit Cover Percentage is -1000%.

Thus, a Party with Trading Charges that exceed their posted Credit Cover and has a positive Energy Indebtedness will have a Credit Cover Percentage of 1000% and will immediately be subjected to the Credit Default process.

The FAA currently follows the procedure described above, i.e. setting negative Credit Cover to zero, but the CMG agreed that a Modification to the Code is required to remove an inconsistency between the wording in the Code and the actions currently being undertaken by the FAA. In following the Code in its present form, a Party could insist that the actual negative value of Credit Cover be used instead of taking the value as zero. Due to the weakness of the Credit Cover Percentage calculation in dealing with negative values of Credit Cover, this could lead to a Party being removed from Credit Default, despite the fact that they don't have enough Credit Cover posted to cover their Trading liabilities.

At its second meeting, the CMG agreed that the second option sufficiently dealt with the perceived problems with negative Credit Cover and due to its low BSC Agent implementation cost (£2,000) it was considered the most appropriate Alternative Modification.

4.1.4 Other Issues Discussed

As a separate issue, the CMG commented that some Parties have no Credit Cover lodged as they transfer all energy volumes using 100% MVRN. A problem then occurs if any reconciliation runs, prior to 100% MVRN, show that the Party has unpaid Trading Charges.

The CMG discussed the fact that charges associated with Reconciliation runs are not taken into account in the credit checking process and would still not be taken into account should P76 or either of the options discussed be implemented. The Credit Cover Percentage calculation only takes into account the last 29 days Trading Charges when calculating Energy Indebtedness and

so could potentially miss any large changes in charges that occur in Reconciliation runs. It was also noted that Reconciliation runs generally produce only small changes in a Party's Trading Charges and that with the Central Data Collection Agent improvement project they should become even less significant. Another important point to note is that even after P2 has been implemented there is still a likelihood of negative Credit Cover due to Reconciliation charges not being taken into account in the Credit calculations. It was agreed that this issue is outside the scope of P76, and should be progressed as a separate issue should the Panel decide that it is necessary.

Following the second CMG meeting, a concern was expressed that implementation of P76 or the Alternative Modification would lead to a significant increase in the risk of a BSC Party simultaneously triggering the Level 1 and Level 2 Credit Default processes. This situation would occur if a Party's Credit Cover Percentage increases from below 80% to above 90% in the space of one Settlement Period. The problem with simultaneously triggering the Level 1 and Level 2 Credit Default processes is that the Party is given just 24 hours to resolve the situation. This may lead to a Party having to try to arrange extra Credit Cover outside normal working hours, in order to prevent trading restrictions being placed upon them.

In response to the query regarding the increased risk of a Party simultaneously triggering the two Credit Default processes, a further analysis of P76 and the Alternative Modification has been conducted to investigate how they deal with negative values of Credit Cover. Three situations have been analysed:

- A Party has negative Energy Credit Cover and positive Energy Indebtedness
- A Party has negative Energy Credit Cover and zero Energy Indebtedness
- A Party has negative Energy Credit Cover and negative Energy Indebtedness

In the first situation, P76 and the Alternative Modification would both automatically trigger the Level 2 Credit Default process with the process proceeding as long as the Party had a negative Energy Credit Cover. This is unlikely to be a problem, as the Party would almost certainly already be in Credit Default before their Credit Cover became negative. Of the three situations discussed this is the most likely to occur and both the original and the Alternative Modification handle the situation adequately.

In the second situation, it was found that P76 and the Alternative Modification would differ in their treatment of Credit Cover Percentage. The Alternative Modification would return a zero value of Credit Cover Percentage when both Energy Credit Cover and Energy indebtedness are zero, as negative values of Energy Credit Cover are taken to be zero under the Alternative Modification. The original P76 would however return a value of Credit Cover Percentage over 100% for any negative value of Energy Credit Cover. Therefore a change in Energy Credit Cover from zero to a small negative value would result in a change in Credit Cover Percentage from zero to over 100% and hence a Party would immediately trigger both the Level 1 and Level 2 Credit Default Process. The original P76 handles the situation correctly and there is the risk of an increase in the number of Parties going straight into level 2 Credit Default if it is implemented, especially in the situation where a Party is maintaining its Energy Indebtedness at zero. However the likelihood of this situation arising is negligible.

In the third situation, P76 and the Alternative Modification would again differ in their treatment of Credit Cover Percentage. The Alternative Modification is weak in its treatment of simultaneous negative values of Energy Credit Cover and Energy Indebtedness and will return a Credit Cover Percentage of -1000% for any negative value of Energy Credit Cover. The original P76 will place

the Party in Credit Default as its Credit Cover becomes more negative, but as this is a gradual process, rather than a sudden step, the Party would trigger the Level 1 Credit Default process before triggering the Level 2 Default process. This situation is also unlikely to arise.

In summary, there will be no change in the number of Parties simultaneously triggering the two Credit Default processes if the Alternative Modification is implemented. However there is a risk of an increase if the original P76 proposal is implemented, especially in the situation where a Party is maintaining its Energy Indebtedness at zero

4.2 Assessment Against Applicable BSC Objectives

The Applicable BSC Objectives set out in paragraph 3 of Condition C3 of the Transmission licence are as follows:

(a) The efficient discharge by the Transmission Company of the obligations imposed under the Transmission Licence;

(b) The efficient, economic and co-ordinated operation by the Transmission Company of the Transmission System;

(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.

P76 was assessed against these objectives and the CMG concluded that it better facilitated 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.

The rationale behind this decision was that Parties with unsecured liabilities, who were avoiding being placed under Credit Default, were putting an additional credit risk on the other Trading Parties. Currently the 'loophole' identified in the Credit Cover Percentage equation could allow a Party with negative Credit Cover to insist that they are kept out of Credit Default, even if their Credit Cover was inadequate. Being exposed to this extra credit risk will discourage smaller Companies from becoming BSC Trading Parties. This would not promote competition in the trading of electricity and hence by removing this risk, it would better facilitate BSC Objective (c).

4.3 Alternative Modification

The CMG concluded that although the Modification Proposal represents a better technical solution to the problem by treating the root cause of the problem by changing the Credit Cover Percentage equation, the Alternative Modification should be implemented. The rationale for this decision was that the Alternative Modification will still identify Parties who should be in Credit Default when their Credit Cover Percentage is negative (i.e. they have a positive Energy Indebtedness and a negative Energy Credit Cover) and this will reduce the risk faced by other BSC Parties. The likelihood of a Party having a negative value of Energy Credit Cover will be significantly decreased once P2 is implemented, as identified in the risk assessment. The Credit Modification Group therefore, agreed that the additional cost of implementing the Modification Proposal versus that of the Alternative Modification was not justified. The relative development costs being £110,700 for the Modification Proposal as it would need a change to the Central

Service Agent software and £2,000 for the Alternative Modification, which only requires documentation changes.

The Alternative Modification (option 2 from section 4,) proposed by the CMG is to modify the definition of Credit Cover to eliminate negative values of Credit Cover. This is achieved by changing the definition of Credit Cover to state that non-payments should be deducted from the amount of credit lodged, with any ensuing negative values of Credit Cover being set to and treated as being equal to zero.

The FAA currently follows the procedure described above, i.e. setting negative Credit Cover values to zero, but the CMG agreed that a Modification to the Code is required to remove an inconsistency between the wording in the Code and the actions currently being undertaken by the FAA. In following the Code in its present form, a Party could insist that the actual negative value of Credit Cover be used instead of taking the value as zero.

5 IMPACT ON THE BSC, BSCCO AND CODE SUBSIDIARY DOCUMENTATION

5.1 The Balancing and Settlement Code

P76 and the Alternative Modification require minor changes to Section M of the Code. The changes to the legal text in the following sections are based on version 3.0 of the Code. If the baseline of the Code changes prior to the implementation of P76, or if other Modification Proposals are to be implemented at the same time as P76, the legal text may need to be amended. A summary of the changes is given below and a detailed red-lined version is included in annex 6.

5.1.1 Modification Proposal

The equation for calculating a Trading Party's Credit Cover Percentage outlined in section M3.1.1 will be altered to make it robust to negative values of Credit Cover. This will be achieved by rearranging the equation so that negative values of Energy Credit Cover return a positive value of Credit Cover Percentage, which is always in excess of 100%. Note that positive values of Credit Cover will return the same value of Credit Cover Percentage as in the original equation.

5.1.2 Alternative Modification

Section M2.1.3 will be amended to specify that if the value of Credit Cover is calculated as being less than zero, it should be set to and treated as being equal to zero.

5.2 Code Subsidiary Documents and BSCCo Memorandum and Articles of Association

The Code Subsidiary Documents and BSCCo Memorandum and Articles of Association have been assessed for impact and the only impacts identified are detailed below.

BSC Service Descriptions	The FAA Service Description will need to be updated if the Alternative Modification is approved, to reflect that Credit Cover should never have a negative value.

	The ECVAA Service Description will need to be updated if the original Modification Proposal is implemented.
NETA Data File Catalogue	The NETA Data File Catalogue (NDFC) will be impacted if the Alternative Modification is approved, as it will need to reflect that Credit Cover should never have a negative value.
BSCP301	Balancing and Settlement Code Procedure (BSCP) 301 'Clearing, Invoicing and Payment' will be impacted if the Alternative Modification is approved, as it will need to reflect that Credit Cover should never have a negative value.

6 IMPACT ON BSC SYSTEMS

DLIAs have been received from the Central Services Agent and the FAA. The full assessments are included in annex 3 and the impacts on BSC Systems are summarised below:

6.1 Clearing, Invoicing and Payment

Implementation of P76 would cause no change to FAA systems or processes. However, minor changes will be required to the FAA documentation should the Alternative Modification be approved. The FAA has estimated that these changes will take 2 man-days and cost approximately £2000.

6.2 Credit Checking Systems

Implementation of P76 will require changes to the ECVAA systems and documents to include the amended Credit Cover calculation. It is estimated that the development of this change will take 9 weeks and cost approximately £110,700 (ex VAT).

If the Alternative Modification is approved no change to the ECVAA systems and processes would be required, as changes to the FAA systems would prevent negative values of Credit Cover being supplied to ECVAA.

7 IMPACT ON CORE INDUSTRY DOCUMENTS AND SUPPORTING ARRANGEMENTS

The impact on Core Industry documents has been assessed as part of the impact assessment and no impacts have been identified.

8 IMPACT ON ELEXON

The impact on ELEXON systems and processes has been assessed and no impacts have been identified.

9 IMPACT ON BSC PARTIES

A HLIA was sent out on 5 June 2002 with responses due back on 18 June 2002. The CMG felt that P76 and the two options may have an impact the ability of Parties to balance their Credit Cover and therefore their Energy Indebtedness over the period in question, and may also impact

Parties verification of their own Energy Indebtedness. This issue was covered as part of the impact assessment and full details of the responses can be found in annex 4.

In summary, 7 responses to the HLIA were received from industry participants. Five of the responses stated that there was no impact for implementation of P76 or either of the options. Two Parties stated that there was minimal impact on their systems and processes. One of these Parties however stated that option 2 would take 3 months to implement and the other options would not take any significant time. The CMG requested that ELEXON clarify this response, as it did not fit with other responses. The response was clarified and it should have stated that option 1 would take three months to implement and that option 2 has no significant impact on the Party.

10 SUMMARY OF REPRESENTATIONS

A consultation document was sent out on 5 June 2002 with responses due on 18 June 2002. The consultation document asked which of P76 and the two options better facilitates the applicable BSC objectives. A total of 9 responses were received, representing 46 BSC Parties. The general consensus was that the second option would be the preferred choice, with 7 of the responses representing a total of 39 BSC Parties supporting this option. Full details of the responses can be found in annex 5 and a summary is shown in the table below.

No Comment		Modification Proposal		Option 1		Option 2	
Responses	Parties	Responses	Parties	Responses	Parties	Responses	Parties
1	1	0	0	1	5	7	40

At the second CMG meeting the consultation responses were discussed. The Party who initially stated that option 1 was their preferred choice was present at the meeting and following further discussion about option 2 during the meeting, agreed with the rest of the CMG that this option should be chosen. This lead to the CMG and all Parties responding to the consultation to reach a unanimous decision on option 2 being the preferred option.

11 PROJECT BRIEF

11.1 Modification Proposal

If P76 is approved, the changes to the Central Services will be co-ordinated by ELEXON and the table below summarises the Third Party costs of implementing P76.

Task	Time / Cost
Actual Implementation Time	**9 Weeks**
Total Development Cost	**£110,700**
Total Annual Maintenance Cost	**£1,292**

Assumptions:

- It is assumed that the number of Credit Limit warnings will not increase as a result of any solution implemented.
- Prices are taken at current rates.

- The changes to the Central Services Agents' systems will take an estimated 9 weeks and will need to be included as part of the BSC System release programme. Therefore the suggested Implementation Date if the original P76 Modification Proposal is accepted is to be 25 February 2003 if a decision is received from the Authority on or before 24 October 2002 or 24 June 2003 if a decision is received after 24 October 2002. This allows for management by ELEXON and implementation within the BSC System release program.

11.2 Alternative Modification

The Alternative Modification will have no effect on the Central Services Agent systems, therefore the suggested Implementation Date if the Alternative Modification is approved is 15 Working Days after the Authority determination is received. The Alternative Modification requires some minor changes to BSC documentation (as detailed in section 5.2), which will be updated with the first appropriate BSC Systems release after the Authority decision.

ANNEX 1 – TERMS OF REFERENCE

The full Terms of Reference for the CMG can be found on the Modification Groups page of the ELEXON website at www.elexon.co.uk/ta/modifications/mod_group.html.

The specific Terms of Reference that the CMG were asked to address when considering P76 were;

Assessment Procedure

1.1 The Modification Group will carry out an Assessment Procedure in respect of Modification Proposal P76 pursuant to Section F2.6 of the BSC.

1.2 The Modification Group will produce an Assessment Report for consideration at the BSC Panel Meeting on 18 July 2002.

1.3 The Modification Group shall consider and/or include in the Assessment Report as appropriate:

- An Assessment of the three solutions suggested in the Modification Proposal;
- The potential impact on the ECVAA and FAA; and
- The potential impact on Parties systems and processes.

ANNEX 2 – TABLE OF CREDIT COVER PERCENTAGES

The table below shows a comparison of the Credit Cover Percentages calculated using the different methods suggested in section 4.

The Credit Cover Posted is taken to be £10000 for all cases.

Energy Indebtedness[2]	Unpaid Trading Charges	Energy Credit Cover[2]	Comment	Credit Cover Percentage			
				Current Calculation	Modification Proposal	Option 1	Option 2
9000	0	10000	This accurately reflects the company's current credit position	**90%**	**90%**	**90%**	**90%**
-9000	0	10000	This accurately reflects the company's current credit position	-90%	-90%	-90%	-90%
9000	20000	-10000	The indebtedness significantly exceeds the Credit Cover & so the CCP should be > 100%	-90%	**290%**	**290%**	**1000%**
-11000	20000	-10000	The Party is close to having unsecured liabilities so the CCP should be > 100%	**110%**	**90%**	**90%**	-1000%
-9000	20000	-10000	The Party has unsecured liabilities, so the CCP should be > 100%	**90%**	**110%**	**110%**	-1000%
500	9000	1000	The CCP should higher than currently calculated as a small increase in trading charges would leave the Party with unsecured liabilities	50%	50%	**95%**	50%

Bold text shows situations where the Credit Default process has been triggered.

[2] The Energy Indebtedness and Energy Credit Cover calculated for option 1 are not shown below. However the Credit Cover Percentage has been calculated using the updated figures.

ANNEX 3 – BSC AGENT IMPACT ASSESSMENTS

DLIAs were conducted by the FAA and the Central Services Agent and are detailed below.

Note that the responses shown below are as received from the BSC Agents and for the purpose of the DLIA, the Modification Proposal, option 1 and option 2 are named Option 1, Option 2 and Option 3 respectively**.**

A3.1 FAA Detailed Level Impact Assessment

Option 1

- This option is favoured by the FAA.
- No change to FAA systems or procedures.
- No development charge.
- Assumptions: At the moment when a trading party has no credit cover there is no leverage to make them pay as the party may not be put into credit default. The FAA believe that changing the definition to take into account minus values would mean that a check can be put on the party's trading and they have more pressure on them to pay on time.
- The FAA currently do not report to ECVAA when a party with zero credit cover defaults. This would have to be put into effect.

Option 2

Significant changes would be needed to FTS2000. To add the unpaid trading charges to a party's Energy Indebtedness instead of subtracting from ECC a new flow to the ECVAA would be needed to maintain the BSC parties indebtedness. (see table below)

Interface ID:	Source: FAA	Title: Indebtedness Data	ITT reference:
Mechanism: Electronic data file transfer	Frequency: Continuous, when Indebtedness limit data changes	Volumes: 1 file sent per BSC Party initially. 1 file sent per BSC Party upon change to Indebtedness Limit	
Interface Requirement: The ECVAA Service shall receive Indebtedness Limit data from the FAA Service as and when a BSC Party's Indebtedness limit changes. Note: Currently the FAA service only operates during normal working hours and therefore Indebtedness Limit data will only be expected during these hours.			
The Indebtedness Limit data shall include: Party Credit Limit Details BSC Party ID BSC Party Name Effective From Settlement Date Indebtedness Limit (MWh)			

A new form would be developed to maintain this information; the form would contain BSC Party ID, BSC Party name, Effective from Settlement Date, Credit Limit (MWh) data entry details. A method for

accepting Acknowledgements from ECVAA to demonstrate the change has been accepted by ECVAA. A new table for Indebtedness maintanance would be developed to record the information being sent to ECVAA.

- Integration testing would be required between the FAA and ECVAA.
- There would be changes to the FAA IDD and to Credit Documentation.
- Assumptions: The indebtedness would be recorded as an actual amount and not as a percentage of the credit cover. The flow would follow the existing format for Credit Limit changes
- Impact on IDD: There would be a new flow between the FAA and ECVAA.
- Fixed price for Implementation of the Change:

  Design and Build

  6 days Designer @ £205 p.h = £9840

  15 days Developer @ £64.06 p.h =£7687.20

  5 days User Acceptance Testing @ £51.25 p.h =£2050

  5 days Integration Testing @ £38.44 p.h = £1537.60

  3 days Project Office Manager @ £51.25 p.h = £2050

  Total = £23,164.80

Option 3

Although the definition of credit cover will be amended there will be no impact on EPFAL operations. Under the current definition when a party has zero credit cover and there is a non payment, the credit cover is not reduced accordingly (like it would be if a party had put up credit cover) and so remains at zero.

Charge for update of configurable items:

1 day designer @ £205 p.h = £1640

1 day Project Office Manager @ £51.25 p.h = £410

Total = £2050

A3.2 Central Services Agent DLIA

NETA Change Form	**MP/CP/TP No:** MP76
	Logica reference: ICR380
Title: Anomalies Associated With Negative Levels Of Credit Cover.	
Identified by: BGT	**Date received:** 16-May-2002

Statement of requirement
Baseline affected: NETA Service Definition Baseline (V1.0)
Assumed changes over baseline: None
Description of Change: See attached original MP76.
Proposed solution: See attached original MP76.
Justification for Change: See attached original MP76.
Proposed changes to Service Levels: None.
Proposed changes to the Agreement: None.
Attachments/references: MP76.

To be completed by Logica			
	High Level Impact Assessment	Detailed Level Impact Assessment	Quotation
Tick which stage is being completed:		✓	
Signed by Logica Contract Manager:			
Date:		30-May-2002	
HLIA category: Small/Medium/Large/Other		Price for DLIA:	
If this is a Quotation, are consequential modifications needed to the DLIA? Yes/No.			

Logica's proposal
Logica's understanding of the requirement: At present, anomalies arise in the calculation of the percentage of Credit Cover when unpaid Trading Charges cause the Party's Credit Cover to become negative.

Logica's proposed design solution:

Option 1 – Amendment to definition of Credit Cover percentage
Amend URS, System specification, design specification and ECVAA to include amended Credit Cover calculation.

Option 2 – Amendment to definition of Energy Indebtness
Amend URS, System specification, design specification and ECVAA to include amended Credit Cover calculation. Amend IDD, loader, database and forms to add unpaid Trading charges to the incoming flow.

Option 3 – Amendment to definition of Credit Cover
As the FAA will supply MAX(0, ECC) to ECVAA, this option is deemed to have no impact on NETA Central Services, however we have not assessed this for any impact of FAA.

Consequential changes to Project Deliverables:
Option 1: ECVAA, URS, SS, DS
Option 2: ECVAA, URS, SS, DS, IDD, loader, database, forms
Option 3: none

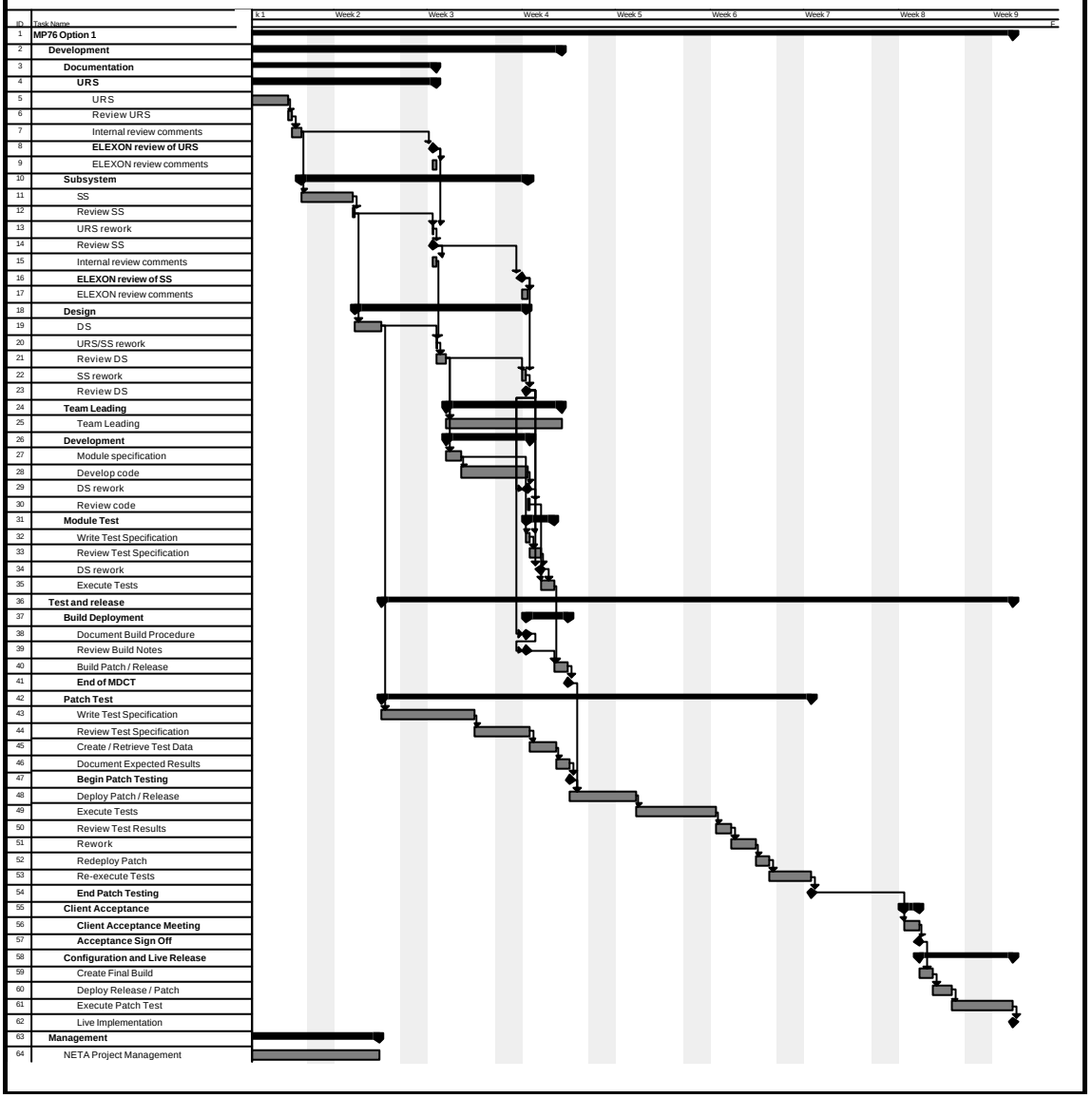
Consequential impact on BSC Service Users or Other Service Providers:

Testing strategy:

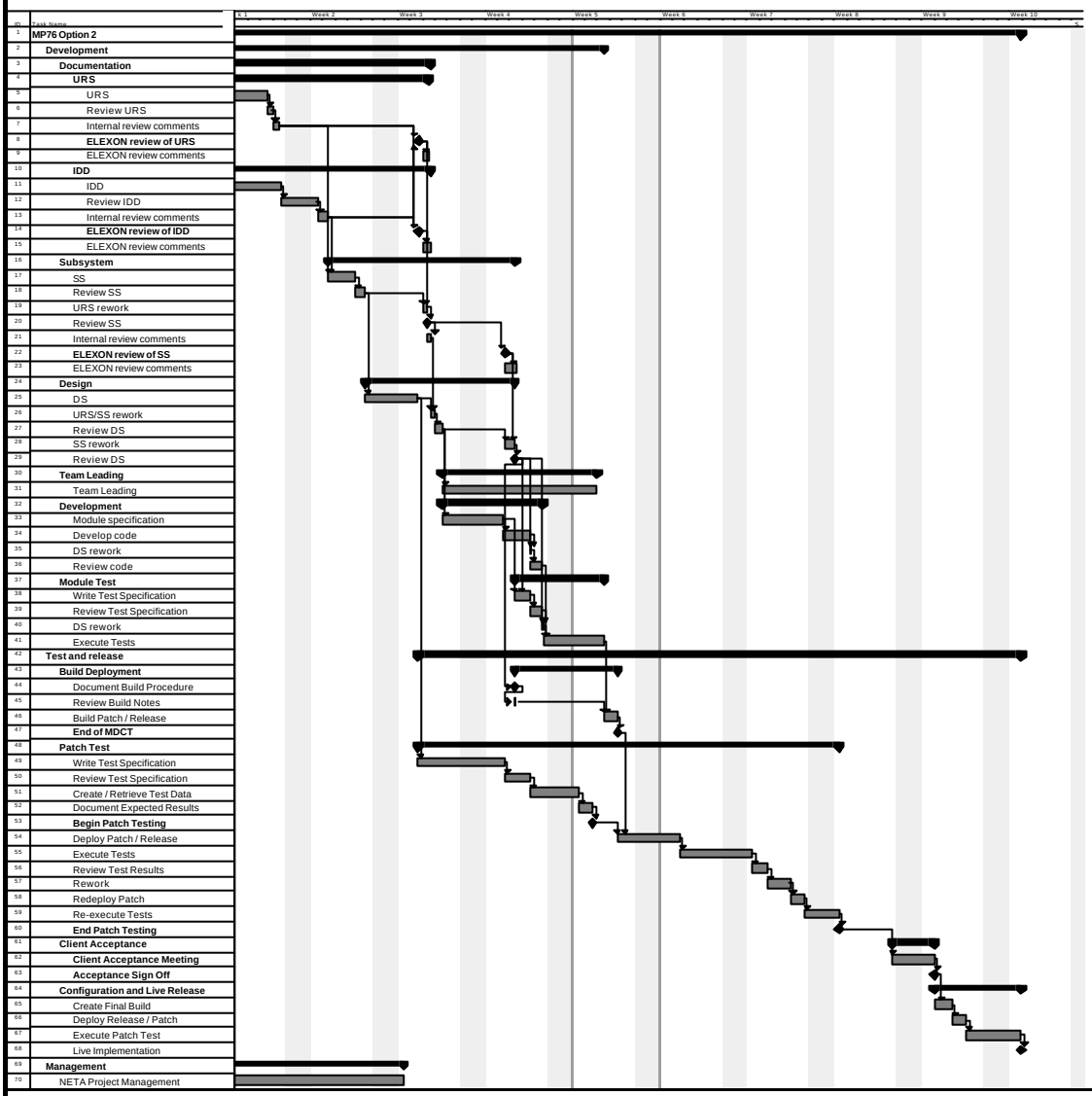
- Testing will only be performed on our own system with external interfaces being simulated as necessary. No allowance has been made for testing with external systems.
- No allowance has been made for ELEXON to witness testing.

Management plan for developing the Change:

Option 1



Option 2



Project plan for developing the Change:

Option 1: The estimated time to complete the development of this change is 9 weeks.
Option 2: The estimated time to complete the development of this change is 10 weeks.
Option 3: n/a

Method of deployment:

Option 1 – Patch	Is a planned outage required? Option 1 - Yes
Option 2 – Patch	Is a planned outage required? Option 2 - Yes
Option 3 – n/a	Is a planned outage required? Option 3 - n/a

Price for Design and Build:

Item description:	Price (ex VAT)	Type of price:
Option 1	£110 700	Fixed
Option 2	£136 900	Fixed
Option 3	£0	Fixed

Price for Operate and Maintain:

Item description:	Price	Type of price:
Operate – Option 1	£0	Fixed
Operate – Option 2	£0	Fixed
Operate – Option 3	£0	Fixed

Maintain – Option 1	£1 292	Fixed
Maintain – Option 2	£1 597	Fixed
Maintain – Option 3	£0	Fixed

If this is a DLIA or Quotation, is a price breakdown in the agreed format attached? Yes/No

Terms attaching to the offer

Validity period of offer: 30 days	**Type of offer:** Firm

Assumed start date:

Payment milestones:
(Option 1 & 2 only)
Logica will invoice 30% on receipt of Purchase Order or authorised start of work, 50% on completion of acceptance tests, 20% on deployment or one month after completion of acceptance tests, whichever is sooner.

Document turnaround time:
5 days

Impact on Service Levels:
None

Impact on performance of the System:

Other terms:

If this is a Quotation, is a draft contract amendment attached? Yes/No

Responsibilities of ELEXON:

- For all formal documentation which is subject to review, Logica shall provide one draft issue and a maximum of 5 working days has been allowed for ELEXON to review and comment on the updates. No allowance is included for addressing comments from ELEXON and only one iteration of all reviewed documents has been included in the price.
- Within reasonable levels, ELEXON will make available appropriate staff to assist Logica during the development of this change.

Assumptions made by Logica:

- For option 2, if a more complex formula was implemented that depended on the sign of the terms, it would be unlikely that there would be any further impact apart from that already costed.
- It is assumed that no change to NETA Central Services would be required for option 3, as the FAA would supply MAX(0, ECC) to ECVAA, however we have not assessed this for any changes to FAA. It is also assumed that no check is required for negative values, as this would add a cost to this option.
- It is assumed that the number of Credit Limit Warnings will not increase as a result of any solution implemented.
- Prices are taken at current rates.

Options and alternatives:

ANNEX 4 – BSC PARTY HIGH LEVEL IMPACT ASSESSMENT

The HLIA was issued on 5 June 2002, with the responses due back on 18 June 2002.

Responses were received from the following parties:

Carried out by	Comments
Geoff Allen Powergen UK Ltd.	Do you believe that the Modification Proposal and either of the proposed alternatives will have any impact on your systems and processes? **No.**
Clare Talbot National Grid	Do you believe that the Modification Proposal and either of the proposed alternatives will have any impact on your systems and processes? **No.**
Dave Morton SEEBOARD	Do you believe that the Modification Proposal and either of the proposed alternatives will have any impact on your systems and processes? **No.**
Rachel Ace British Energy	Do you believe that the Modification Proposal and either of the proposed alternatives will have any impact on your systems and processes? **Yes.** If YES, please give high-level cost estimates and development lead time for the Modification Proposal and each of the Alternative Options. Modification Proposal: Alternative Option 1: Low cost and low systems impact Alternative Option 2: 3 months lead time (see note below)
Sue Macklin Scottish and Southern Energy	Do you believe that the Modification Proposal and either of the proposed alternatives will have any impact on your systems and processes? **Yes** - minor impact. If YES, please give high-level cost estimates and development lead time for the Modification Proposal and each of the Alternative Options. Modification Proposal: Alternative Option 1: Alternative Option 2: We require an implementation period of at least 7 working days for either Option 1 or Option 2 Additional Comments: SSE supports the views expressed by Elexon in their Risk Assessment paper, in so much as the changes that will be implemented within P2 will increase the efficiency of the Energy Indebtedness calculation and much reduce the risk of the anomalies in negative credit cover attempting to be redressed. Any further sophistication, whilst still adding some value, will have a diminished cost benefit in light of this reduced risk. Bearing this in mind, and in order to keep the cost to the Industry down as a whole for implementing this change, we support proceeding with Alternative Option 2 as a bare minimum, on the understanding that it will not be implemented before P2 changes become effective, i.e. not before 30th September 2002.
Man Kwong Liu Scottish Power	Do you believe that the Modification Proposal and either of the proposed alternatives will have any impact on your systems and processes? * No. Only minor documentation change.
Ros Parsons Npower	Do you believe that the Modification Proposal and either of the proposed alternatives will have any impact on your systems and processes? **No.**

NOTE British Energy have clarified their response at the request of the Modification Group. The response should state that Option 1 will have 3 months lead time and that Option 2 will have low cost and low systems impact.

ANNEX 5 – CONSULTATIONS / REPRESENTATIONS

The Consultation was issued on 5 June 2002, with the responses due back on 18 June 2002.

Representations were received from the following parties, full details are given in section A5.2 and a summary is given in A5.1:

No	Company	File Number	No. Parties Represented
1	Electricity Direct	P76_ASS_001	1
2	Coryton Energy Company Ltd	P76_ASS_002	4
3	TXU	P76_ASS_003	21
4	Aquila Networks	P76_ASS_004	1
5	SEEBOARD	P76_ASS_005	1
6	London Electricity	P76_ASS_006	6
7	Scottish Power	P76_ASS_007	5
8	British Gas Trading	P76_ASS_008	1
9	Innogy (late response)	P76_ASS_009	6

A5.1 Summary of consultation Responses

The summary given below is extracted from the responses given by BSC Parties.

No Comment		Modification Proposal		Option 1		Option 2	
Responses	Parties	Responses	Parties	Responses	Parties	Responses	Parties
1	1	0	0	1	5	7	40

For Option 1

- This option offers the most accurate representation of Parties' payment default and estimated charges as a percentage of the amount of credit cover underwritten by their banks (Letter of credit). As a result, it is believed that it is the most efficient method in which to administer credit cover.

For Option 2

- This option can be implemented with the least cost to the industry and once P2 is in place provides as much protection as the more expensive options. This will better facilitate applicable BSC Objectives c and d.
- Provides an efficient method of ensuring that a party in payment default remains in credit default and cannot accumulate more trading charges, which may remain unpaid. This provides protection to other participants.
- The evidence of the Risk Assessment suggests that this anomaly is somewhat theoretical and unlikely to arise in normal operations in which case it is doubtful applicable BSC objectives can be satisfied unless implementation costs are insignificant. There is also the possibility that once P2 has been implemented, the more timeous notification of Parties' energy indebtedness renders the problem of negative Credit Cover Percentages, and hence a solution to it, redundant.
- Option 1 gives the correct solution, by ensuring that the ECVAA is aware of all debts, invoiced and un-invoiced, outstanding against a party, and thus covered by their credit provision, when assessing the latest credit position. This fulfils relevant objective (c). However, the consultation

states that the extra security provided through Option 1 will not be any greater than the lower cost Option 2. Consequently, it seems that Option 2 fulfils objectives (b), (c) and (d). Hence we support Option 2, on the grounds that it is the most efficient method of delivering the required functionality.

Other Comments

– The information provided within the consultation does not give enough detail on the administration and cost of adopting option 2. It is not fully understood how the process will deal with Parties' credit when it goes to zero. Further information would have been useful in the determination of question 1. [NOTE: A representative from the Party was present at the second VAMG meeting when the consultation responses were discussed. After further discussion of option 2 the Party agreed that option 2 would be their preferred solution.]

A5.2 Consultation Responses

76_ASS_001 – Electricity Direct

Respondent:	*Gareth Swales*	
Responding on Behalf of	*Electricity Direct (UK) Limited*	
Role of Respondent	*BSC Party*	
	Question	**Response** *(delete as appropriate)*
Q1	**Please state which of the Modification Proposal and two Alternative Options (as set out in the attached paper) do you believe better facilitates the applicable BSC objectives? Please give rationale for choice.**	Option 2
Rationale: From the findings and discussions in the risk assessment pack and with the immanent implementation of modification P2 we support the findings of the working group.		
Q2	**Do you have any further comments on Modification Proposal P76 that you wish to make?**	No
Please state your comments		

P76_ASS_002 – Coryton Energy Company Ltd

Respondent:	*Clara Anderson*	
Responding on Behalf of	*Coryton Energy Company Limited* *Intergen Trading and Shipping Limited* *Spalding Energy Company Limited* *Rocksavage Power Company Limited*	
Role of Respondent	*Commercial Operator*	
	Question	Response *(delete as appropriate)*
Q1	**Please state which of the Modification Proposal and two Alternative Options (as set out in the attached paper) do you believe better facilitates the applicable BSC objectives? Please give rationale for choice.**	Modification Proposal / Option 1/ **Option 2**

Rationale: Provides an efficient method of ensuring that a party in payment default remains in credit default and cannot accumulate more trading charges which may remain unpaid. This provides protection to other participants.		
Q2	**Do you have any further comments on Modification Proposal P76 that you wish to make?**	**Yes** / No
Please state your comments Would like to see this modification remain in force after the P2 implementation date regardless of the changes to energy indebtedness calculations.		

P76_ASS_003 – TXU

Respondent:	*Nicola Lea*	
Responding on Behalf of	*TXU Europe Energy Trading Ltd; Anglian Power Generators Ltd; Citigen; Peterborough Power Ltd; Shotton CHP Ltd; TXU Direct Sales Ltd; TXU Europe (AH Online) Ltd; TXU Europe (AHG) Ltd; TXU Europe (AHGD) Ltd; TXU Europe (Partington) Ltd; TXU Europe Drakelow Ltd; TXU Europe Energy Trading BV; TXU Europe High Marnham Ltd; TXU Europe Ironbridge Ltd; TXU Europe Merchant Generation Ltd; TXU Europe Rugeley Ltd; TXU UK Ltd; Norweb Energi Ltd; Western Gas Ltd; Midlands Gas Ltd; Severn Trent Ltd; OwnLabel Energy Ltd. (21 parties)*	
Role of Respondent	*BSC Parties*	
	Question	**Response** *(delete as appropriate)*
Q1	**Please state which of the Modification Proposal and two Alternative Options (as set out in the attached paper) do you believe better facilitates the applicable BSC objectives?** **Please give rationale for choice.**	~~Modification Proposal /~~ ~~Option 1/~~ Option 2
Rationale: Least cost option achieving similar results.		
Q2	**Do you have any further comments on Modification Proposal P76 that you wish to make?**	~~Yes /~~ No
Please state your comments		

P76_ASS_004 – Aquila Networks

Please find that Aquila Networks response to P76 Assessment Consultation is 'No Comment'.

regards
Rachael Gardener

Deregulation Control Group & Distribution Support Office
AQUILA NETWORKS

P76_ASS_005 – SEEBOARD

Respondent:	*Dave Morton*	
Responding on Behalf of	*SEEBOARD Energy*	
Role of Respondent	*Supplier*	
	Question	**Response** *(delete as appropriate)*
Q1	**Please state which of the Modification Proposal and two Alternative Options (as set out in the attached paper) do you believe better facilitates the applicable BSC objectives? Please give rationale for choice.**	Modification Proposal / Option 1/ Option 2
Rationale: The evidence of the Risk Assessment indicates Option 2 is the most effective fix to the anomaly identified by P76. It also suggests that this anomaly is somewhat theoretical and unlikely to arise in normal operations in which case it is doubtful applicable BSC objectives can be satisfied unless implementation costs are insignificant.		
Q2	**Do you have any further comments on Modification Proposal P76 that you wish to make?**	No
Please state your comments		

P76_ASS_006 – London Electricity

Respondent:	*Liz Anderson (LE Group)*	
Responding on Behalf of	*Please list all Parties responding on behalf of (including the respondent company if relevant).* *London Electricity Plc, SWEB Ltd, Jade Power Generation Ltd, Sutton Bridge Power Ltd, London Power Network Plc and Eastern Power Network Distribution Ltd.*	
Role of Respondent	*(BSC Party/Other – please state)* *Supplier and Generator*	
	Question	**Response** *(delete as appropriate)*
Q1	**Please state which of the Modification Proposal and two Alternative Options (as set out in the attached paper) do you believe better facilitates the applicable BSC objectives? Please give rationale for choice.**	Option 1
Rationale: Based on the information presented, this option offers the most accurate representation of Parties' payment default and estimated charges as a percentage of the amount of credit cover underwritten by their banks (Letter of credit). As a result, LE Group believes, at this time, that it is the most efficient method in which to administer credit cover.		
Q2	**Do you have any further comments on Modification Proposal P76 that you wish to make?**	Yes

Please state your comments
The information provided within the consultation does not give enough detail on the administration and cost of adopting option 2. It is not fully understood how the process will deal with Parties' credit when it goes to zero. Further information would have been useful in the determination of question 1.

A representative from the Party was present at the second VAMG meeting when the consultation responses were discussed. After further discussion of option 2 the Party agreed that option 2 would be their preferred solution.

P76_ASS_007 – Scottish Power

Respondent:	Man Kwong Liu	
Responding on Behalf of	*Please list all Parties responding on behalf of (including the respondent company if relevant).* Scottish Power UK Plc.; Scottish Power Energy Trading Ltd.; Scottish Power Generation Ltd.; Scottish Power Energy Retail Ltd.; SP Transmission Ltd.	
Role of Respondent	*(BSC Party/Other – please state)* BSC parties	
	Question	**Response** *(delete as appropriate)*
Q1	**Please state which of the Modification Proposal and two Alternative Options (as set out in the attached paper) do you believe better facilitates the applicable BSC objectives?** **Please give rationale for choice.**	Alternative Option 2
Rationale: Alternative Option 2 is the lowest cost solution. This ensures that there can be no credit cover percentage lower than 0% by altering the definition of Credit Cover in the BSC. It appears to have no cost in terms of a systems change. There is also the possibility that once P2 has been implemented, the more timeous notification of Parties' energy indebtedness renders the problem of negative Credit Cover Percentages, and hence a solution to it, redundant.		
Q2	**Do you have any further comments on Modification Proposal P76 that you wish to make?**	No
Please state your comments		

P76_ASS_008 – British Gas Trading

Respondent:	*Danielle Lane*	
Responding on Behalf of	*British Gas Trading Ltd*	
Role of Respondent	*BSC Party*	
	Question	**Response** *(delete as appropriate)*
Q1	**Please state which of the Modification Proposal and two Alternative Options (as set out in the attached paper) do you believe better facilitates the applicable BSC objectives?** **Please give rationale for choice.**	Option 2

Rationale:		
This option can be implemented at least cost to the industry and once P2 is in place provides as much protection as the more expensive options. We therefore believe this will better facilitate applicable BSC Objectives c and d.		
Q2	**Do you have any further comments on Modification Proposal P76 that you wish to make?**	No
Please state your comments		

P76_ASS_009 – Innogy

Respondent:	Ben Willis	
Responding on Behalf of	Innogy plc, Innogy Cogen Trading Ltd, Npower Ltd, Npower Direct Ltd, Npower Northern Ltd, Npower Yorkshire Ltd.	
Role of Respondent	BSC Party	
	Question	**Response** *(delete as appropriate)*
	Please state which of the Modification Proposal and two Alternative Options (as set out in the attached paper) do you believe better facilitates the applicable BSC objectives? Please give rationale for choice.	Option 2
Rationale:		
Option 1 gives the correct solution, by ensuring that the ECVAA is aware of all debts, invoiced and un-invoiced, outstanding against a party, and thus covered by their credit provision, when assessing the latest credit position. This fulfils relevant objective (c). However, the consultation states that the extra security provided through Option 1 will not be any greater than the lower cost Option 2. Consequently, it seems that Option 2 fulfils objectives (b), (c) and (d). Hence we support Option 2, on the grounds that it is the most efficient method of delivering the required functionality.		
	Do you have any further comments on Modification Proposal P76 that you wish to make?	No
Please state your comments		

ANNEX 6 – PROPOSED TEXT TO MODIFY THE BSC

The red-lined version of the proposed legal changes to the BSC is contained within a separate document (P076AR_LT_Final.doc).

The CMG has reviewed the attached legal text and has confirmed that it addresses the defect raised in P76 and that the detailed changes for P76 and for the Alternative Modification address the implementation methods discussed in the CMG meetings.