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ASSESSMENT REPORT
MODIFICATION PROPOSAL P53 –
Changes to DC, GC and CALF and
the Effect on Energy Indebtedness

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

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0.1	05/02/02	Sarah Parsons		Trading Operations
0.1	05/02/02	Chris Rowell		Trading Strategy
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b Distribution

Name	Organisation

c Intellectual Property Rights and Copyright

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d Related Documentation

Reference	Document
Reference 1	Modification Proposal P35 'Changes to DC, GC and CALF and the Effect on Energy Indebtedness'
Reference 2	Initial Assessment of Modification Proposal P53 'Changes to DC, GC and CALF and the Effect on Energy Indebtedness' (IWA053) 13 December 2001
Reference 3	Modification Proposal P53 Assessment Consultation V1.0 25 January 2002
Reference 4	Modification Report 'Modification Proposal P2 – Revision of the Methodology for Assessing Credit Indebtedness' (MR002) 3 September 2001
Reference 5	Change Proposal CP 541 'Changes to BMCAEC / BMCAIC Affecting Energy Indebtedness Calculations Retrospectively'
Reference 6	Panel Paper 17/021 'Changes to Generation Capacity and Demand Capacity and the Effect on Credit Checking' 3 May 2001
Reference 7	ISG Paper ISG/05/040 'Change Proposals for Approval and Inclusion in Release 2 Project' 24 July 2001
Reference 8	Panel Paper 27/012 'BSC Systems Release 2 Project Progress'

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1 SUMMARY AND RECOMMENDATIONS

See separate document MAR053_10_Exec for the executive summary.

2 INTRODUCTION

This Report has been prepared by ELEXON Ltd., on behalf of the Balancing and Settlement Code Panel ('the Panel'), in accordance with the terms of the Balancing and Settlement Code ('BSC'). The BSC 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 Credit Modification Group. The Membership of the Modification Group was as follows:

Member	Organisation
Chris Rowell *	ELEXON (Chair)
Sarah Parsons *	ELEXON (Analyst)
Mandi Francis *	ELEXON (Analyst)
Andrew Foster	OM London Exchange
Libby Glazebrook	Edison Mission Energy
Ben Willis	Yorkshire Electricity
Sharif Islam	TotalFinaElf
Duncan Jack *	St. Clements Services
Bruno Plaskow	Innogy Plc
Fiona Grandison *	European Power Source Company (UK) Limited
Chris Price *	PowerGen
Richard Lavender *	Transmission Company
Jerome Williams	Ofgem

* Attendees of the CMG Meeting of 7 January 2002.

4 DESCRIPTION AND ASSESSMENT AGAINST THE APPLICABLE BSC OBJECTIVES

4.1 Background and History of Modification Proposal P53

4.1.1 Background and History

BM Unit Credit Assessment Export Capability (BMCAEC) and BM Unit Credit Assessment Import Capability (BMCAIC) are recalculated on any change to Demand Capacity and Generation Capacity respectively, and also as a consequence of any revision to Credit Assessment Load Factor (CALF) for a BM Unit. BMCAEC and BMCAIC are the key values utilised in the calculation of Energy Indebtedness for a Party, and therefore where the DC / GC / CALF values are not sufficiently accurate the resulting Energy Indebtedness values can be materially incorrect.

On 3 May 2001 a Panel Paper (17/021) entitled 'Changes to Generation Capacity and Demand Capacity and the Effect on Credit Checking', was presented to the Panel for decision. The paper (Reference 6) detailed the provisions of the Code regarding retrospective application of BM Unit Credit Assessment Export Capability (BMCAEC) and BM Unit Credit Assessment Import Capability (BMCAIC) values in Energy Indebtedness calculations.

The paper noted that:

- Section M 1.2.4 states that any amendment to BMCAEC / BMCAIC should be applied within Energy Indebtedness calculations, as if the change had been effective from the first of the 29 days that are utilised to provide a cumulative Energy Indebtedness value for a Party;
- Section K 3.4.6 (b) states that any revision to Demand Capacity or Generation Capacity should not result in the recalculation of Energy Indebtedness values for Settlement Periods prior to the Effective From Date of such revision;
- These two provisions are not conflicting as a consequence of the differing processes they represent, namely that Section K reflects seasonal revisions to Demand Capacity and / or Generation Capacity and thus it is not appropriate for these to be applied in accordance with Section M 1.2.4, whereas Section M reflects ad hoc (potentially mid season adjustments, or revisions on appeal) which should be applied accordingly; and
- Therefore as a consequence of the BSC Systems operating in accordance with Section K 3.4.6 (b) only, i.e. not capable of any retrospective application of revised values of BMCAEC / BMCAIC), the Paper proposed that ECVA be amended to support the application of BMCAEC / BMCAIC into Indebtedness calculations for ad hoc (non seasonal) amendments.

The Panel agreed with the conclusions and recommendations in the Paper and agreed that the relevant amendment to ECVA be progressed. To this end, Change Proposal (CP) 541 '*Changes to BMCAEC / BMCAIC affecting Energy Indebtedness Calculations Retrospectively*' was raised by ELEXON (Reference 5), proposing that ELEXON would determine when a BMCAEC / BMCAIC revision necessitates application in the Indebtedness calculations in accordance with Section M 1.2.4, and where this was the case, ELEXON would request that ECVA apply the revision in accordance with the Code Section M 1.2.4.

The Change Proposal (CP541) was provided to the BSC Central Service Agent for a High Level Impact Assessment (dated 5 June 2001), such impact assessment provided an indicative cost of £176,045 for development and implementation of the amendment to ECVA system functionality.

Consequently CP 541 was included in the batch of change proposals to be agreed for inclusion in the ELEXON BSC Systems Release 2 Project by the Imbalance Settlement Group (ISG). Thus ELEXON presented a paper to this effect to the ISG – ISG/05/040 'Change Proposals for Approval and Inclusion in Release 2 Project' on 24 July 2001 (Reference 7), for the ISG to determine which Change Proposals would comprise Release 2, and make a recommendation to this effect to the Panel Meeting of the 30 July 2001, via Panel Paper 27/012 'BSC Systems Release 2 Project Progress' (Reference 8).

Paper 27/012 states that "*ISG recommend rejection of this change [CP541] because of the impact of P2 which reduces effective period from 29 to 7 days. (Note this would require a modification to be raised to make the Code consistent with BSC Systems).*" The Panel (Final Minutes from Meeting 27, paragraph 8) "*REJECTED the Change Proposals which ISG recommended for rejection*", and by implication such rejection includes CP541. Therefore ELEXON was requested by the ISG (Meeting 07) to raise the appropriate Modification Proposal.

4.1.2 Interaction with Modification P2

Modification P2 'Revision of the Methodology for Assessing Credit Indebtedness' seeks to amend current methodology for calculating Energy Indebtedness with a more accurate and therefore representative methodology. The Modification is currently planned for implementation in September 2002.

Modification P2 (Modification Report, Reference 4) proposes that the calculation of indebtedness for credit checking purposes should be enhanced to use actual prices and metered volumes. The intent of this is to protect Parties from the expense of having to post inappropriate levels of credit cover, and also mitigate the risk of a defaulting Party having unsecured settlement liabilities.

Currently the Energy Indebtedness of a Party is calculated using an approximated assessment of the Parties' settlement exposure to Initial Settlement (i.e. when they actually settle). This calculation is based upon the known cumulative contract levels within ECVAA against the Party's potential export / import (a feature of the BM Unit Credit Assessment Export / Import Capability, hence the interaction with CP541). This calculation is acknowledged as inaccurate and approximate and as a consequence, Modification P2 is seeking to replace this methodology with one based upon a Party's actual Settlement liability, as calculated by the Settlement Administration Agent (SAA).

The ECVAA (the Agent responsible for calculating Energy Indebtedness values) will utilise actual output from SAA in the Indebtedness calculations, thus replacing the approximation with a significantly more accurate reflection of the Party's actual position. However, as a result of the Settlement timetable, this more accurate information is not available for the full period over which ECVAA calculates the indebtedness for a Party (29 days). Therefore the existing methodology will be retained for the period for which settlement data is not available.

The implementation of Modification P2 effectively means that inaccuracies in Indebtedness (and therefore Credit Cover levels) resulting from inaccurate BMCAIC / BMCAEC (resulting from inaccuracies in DC / GC / CALF) values, are reduced by a factor of four. This forms the basis of the ISG assertion that the implementation of Modification P2 effectively negates the requirement for retrospective application of revised BMCAEC / BMCAIC in Indebtedness calculations as a result of the reduced influence of inaccuracies in the variables utilised.

4.2 Description of the Proposed Modification

The proposed Modification is the removal of the obligation placed on the Energy Contract Volume Aggregation Agent (ECVAA) by the Code, Section M 1.2.4, to "*Upon any change in the value of BM Unit*

Credit Assessment Export Capability or BM Unit Credit Assessment Import Capability for a BM Unit, values of Energy Indebtedness (for relevant Trading Parties) shall be determined (in relation to Settlement Periods in and from the day on which, in accordance with paragraph 1.6, the change becomes effective) as though such change were effective with effect from the first of the 29 days referred to in paragraph 1.2.1."

The legal drafting to give effect to the proposed Modification is provided in ANNEX 1.

4.3 Applicable BSC Objectives

Section 1.3 sets out the rationale of the CMG with regards to Modification Proposal P53. The following is the summary of the CMG's view as to whether Modification Proposal P53 better facilitates achievement of the Applicable BSC Objectives.

The CMG believe that Modification Proposal P53 has an immaterial effect on the quality of Credit Cover. Furthermore, the CMG believes that Modification Proposal P53 makes the credit cover arrangements more robust and increases efficiency in ELEXON's administration of these arrangements. The CMG also noted that implementing Modification Proposal P53 enables more reliance on the reporting of Energy Indebtedness figures from the ECVAA (on the basis that the calculations would be in line with the Code requirements after the implementation of this Modification). On this basis, the CMG believe that this Modification Proposal better facilitates achievement of the Applicable BSC Objectives 3(c) and 3(d), as follows:

- (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.

5 IMPACT ON BSC AND BSCCO DOCUMENTATION

5.1 BSC

The Code, Section M 'Credit Cover and Credit Default' requires amendment to remove the obligation on the Energy Contract Volume Aggregation Agent to apply amended BM Unit Credit Assessment Export Capability (BMCAEC) / BM Unit Credit Assessment Import Capability (BMCAIC) in Energy Indebtedness calculations as if such change was effective for the first of the 29 days used in the calculation.

The proposed legal text is provided in ANNEX 1.

5.2 Code Subsidiary Documents

No impact.

5.3 BSCCo Memorandum and Articles of Association

No impact.

6 IMPACT ON BSC SYSTEMS

This Modification Proposal has no impact on the BSC Systems, as the amendment to the Code required to give effect to Modification Proposal P53 would not require any associated amendments to the BSC Central Service Agent / BSC Systems or associated processes.

7 IMPACT ON CORE INDUSTRY DOCUMENTS AND SUPPORTING ARRANGEMENTS

Modification Proposal P53 has no impact on any of the following Core Industry Documents / supporting arrangements:

- **Grid Code;**
- **Connection Use of System Code (CUSC);**
- **Supplemental Agreements;**
- **Ancillary Services Agreements (ASAs);**
- **Master Registration Agreement (MRA);**
- **Data Transfer Services Agreement (DTSA);**
- **British Grid Systems Agreement (BGSA);**
- **Use of Interconnector Agreement;**
- **Pooling and Settlement Agreement (PSA);**
- **Settlement Agreement for Scotland (SAS);**
- **Distribution Codes;**
- **Distribution Use of System Agreements (DUoSAs); and**
- **Distribution Connection Agreements.**

8 IMPACT ON ELEXON

There is no impact on ELEXON.

9 IMPACT ON PARTIES AND PARTY AGENTS

9.1 Parties

The Assessment Consultation responses indicate that some Parties are impacted by the amendment to the Balancing and Settlement Code, as a consequence of their systems (for calculating Energy Indebtedness) reflecting the obligations / requirements of the Code. However, these responses indicate that the impact is minimal.

The majority of consultation responses indicate that Modification Proposal P53 has no impact on Party systems and processes.

9.2 Party Agents

Modification Proposal P53 has no impact on Party Agents.

10 LEGAL ISSUES

None identified.

11 SUMMARY OF REPRESENTATIONS

The Transmission Company response is not included in the summary of consultation responses, as it is represented separately in Section 12 of this Assessment Report.

Nine responses (on behalf of fifty-one parties) were received in response to the consultation. All but one respondent supported Modification Proposal P53 and all respondents indicated that they believe that Modification Proposal P53 better facilitates achievement of the Applicable BSC Objectives.

The one respondent (on behalf of four parties) who does not support the proposed Modification, indicate that they support the Modification in principle, but believe there are some points regarding seasonal CALF appeals that also require modification.

Only one response stated that Modification Proposal P53 has an impact on their systems and processes, stating that the impact was estimated to be minor, and that thirty days notice of implementation would be sufficient. Of the remaining seven responses, five indicate that Modification Proposal P53 has no impact on their systems and processes and two had no comment.

12 SUMMARY OF TRANSMISSION COMPANY ANALYSIS

The Transmission Company response to the Assessment Consultation on Modification Proposal P53 (Reference 3) is provided in full in ANNEX 3.

To summarise, the Transmission Company supports Modification Proposal P53 on the basis that it better facilitates achievement of the Applicable BSC Objective 3(d) "Promoting efficiency in the implementation and administration of the balancing and settlement arrangements."

The Transmission Company asserts that the implementation of Modification Proposal P53 has no impact on their systems or processes.

13 PROJECT BRIEF

It is expected that the amendment to the Code required to give effect to Modification Proposal P53 be absorbed into an existing ELEXON BSC Release Project, without impacting other planned deliverables or incurring additional costs.

Given that a Party has indicated a requirement for 30 days notice of implementation, it is proposed that this Modification be implemented 30 Business Days from the Authority Decision.

ANNEX 1 – PROPOSED TEXT TO MODIFY THE BSC

a Conformed Version

Section M

1.2.4 ~~Upon any~~A change in the value of BM Unit Credit Assessment Export Capability or BM Unit Credit Assessment Import Capability for a BM Unit shall apply for the purposes of the determination of values of Credit Assessment Credited Energy Volume , values of Energy Indebtedness (for relevant Trading Parties) ~~shall be determined (in relation to respect of Settlement Periods in and from and including the first Settlement Period of the~~ day on which, in accordance with paragraph 1.6, the change becomes effective) ~~as though such change was effective with effect from the first of the 29 days referred to in paragraph 1.2.1.~~

b Clean Version

Section M

1.2.4 A change in the value of BM Unit Credit Assessment Export Capability or BM Unit Credit Assessment Import Capability for a BM Unit shall apply for the purposes of the determination of values of Credit Assessment Credited Energy Volume (for relevant Trading Parties) in respect of Settlement Periods from and including the first Settlement Period of the day on which, in accordance with paragraph 1.6, the change becomes effective.

ANNEX 2 – BSC AGENT IMPACT ASSESSMENTS

There is no impact on the BSC Central Service Agent from the implementation of Modification Proposal P53.

ANNEX 3 – TRANSMISSION COMPANY ANALYSIS

P53_ASS_002 – NGC

Organisation: NGC

Q	Question	Response
Q1	Do you support Modification Proposal P53?	YES Rationale: see below
Q2	Do you believe that Modification Proposal P53 better facilitates achievement of the Applicable BSC Objectives?	YES Rationale: We believe that P53 meets applicable objective (d).
Q3	Does Modification Proposal P53 impact your systems / processes?	NO. We have no involvement / interface with the ECVAAs values of Energy Indebtedness within our IS systems.

ANNEX 4 – ASSESSMENT CONSULTATION RESPONSES

See separate document MAR053_10_consult for the assessment consultation responses.