

## Modification Proposal

**MP No: 11**  
(mandatory by BSCCo)

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

Revision Of Minimum Credit Cover Requirements

**Submission Date** (mandatory by proposer): 09 May 2001

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

The European Power Source Company (U.K.) Limited propose: the introduction of a minimum credit requirement for Trading Parties based on historical Energy Indebtedness (EI) levels. This proposal would not impact the default procedures (i.e., Level 1/Level 2) described in Section M.

According to this proposal, Trading Parties would be required to maintain a minimum level of Energy Credit Cover (ECC) in order to be able to transact. The minimum ECC required would be determined by ELEXON, or an appropriate third party, and would be based on the larger of (1) a predetermined GBP value or (2) a specified level of EI for each Trading Party that would be based on an assessment of that party's EI over the previous 12 months. For example, the minimum ECC calculated in (2) could be equal to the 20<sup>th</sup> highest level of EI reached in any one day over the preceeding 12 months. (This is roughly equivalent to a 95<sup>th</sup> percentile worst case level of EI.)

Minimum ECC levels would be reexamined by ELEXON, or another appropriate third party, at least each time a Trading Party has reached Level 2 Credit Default. Until 12 months of data is available, the minimum ECC level would be based on whatever data is available and would be reexamined at least each time a Trading Party has reached Level 1 or Level 2 Credit Default. Ideally, systems would be developed so that the minimum ECC level could be compared to historical EI on a daily basis.

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

Under the current credit arrangements provided by Section M, Trading Parties are expected to project their expected consumption and production volumes and post sufficient collateral with ELEXON to cover their projected EI level. This collateral then translates directly into the amount of ECC posted by that trading party. There is currently limited third-party oversight of the appropriateness of the ECC posted by Trading Parties.

In particular, a Trading Party could sets its own ECC limit at zero and attempt to remain in balance at the end of each settlement period. As a result, a Trading Party could accrue EI on the system without ever having posted collateral.

This proposal aims to modify the existing credit requirements so that Trading Parties are as fully protected as possible against EI that could arise due to the action of any one Trading Party by requiring a reasonable level of up-front collateral that, wherever possible, is based on historical trading data.

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

This proposal could result in several revisions to Section M.

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

No impact envisioned at this time.

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

Systems requirements for BSC and/or ELEXON to be explored. No additional system requirements envisioned for signatories to the BSC.

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

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

This proposal seeks to take advantage of the growing amount of trading data as it becomes available to further strengthen the BSC's existing credit requirements. In concept, this proposal aims to protect Trading Parties as fully as possible and facilitate trading by (1) setting minimum credit requirements for Trading Parties participating in the BSC, (2) minimising the frequency of Level 1 and Level 2 default and (3) ensuring that Trading Parties have limited exposure to liabilities arising from failure of other Trading Parties to cover their own EI.

Specifically, this Modification Proposal will assist in achieving the BSC Objective specified in Section B 1.2.1 (b) (ii) of achieving "an efficient, economic and co-ordinated operation by the Transmission Company of the Transmission System"; and the objective specified in Paragraph 7A (3)(d) of the Transmission Licence, namely "promoting efficiency in the implementation and administration of the balancing and settlement arrangements."

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**Attachments: NO**

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