

Modification Proposal

MP No: 178

(mandatory by BSCCo)

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

Reduction in the BSC withdrawal timescale for parties who have settled the vast majority of their trading debts.

Submission Date *(mandatory by proposer):* 4 October 2004

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

The BSC should be modified to allow parties who are non-physical traders or are only responsible for CVA registered meters to withdraw from the BSC anytime after the second reconciliation run (R2) after the last settlement day, on the condition they have met all the other criteria for withdrawal (Section A 5.1.3).

Accepting that all parties remain liable for further reconciliation (even after withdrawal – Section A 5.3.3(b)), parties withdrawing before the final reconciliation would be required to leave a cash deposit with Elexon for the purpose of covering any debts arising. This “withdrawal deposit” would be adjusted with each subsequent reconciliation (both deposits and withdrawals) and a final settlement statement and any remaining money would be returned to the party after the final reconciliation from their last settlement day.

The modification requires consideration of a number of details which have been discussed with the SSMG on 27 September 2004. Having considered the views of other participants, the details of this modification are as follows:

Definition of eligible parties – The BSC would allow the withdrawal of parties earlier than the current 14 months if they are non-supplier trading parties (as defined under Section M 2.3A.7). This definition already captures those parties who have no registered meters or are the registrant of meters only registered in CVA systems at the time of their last settlement day.

Withdrawal timing – Withdrawal should be allowed from R2. R2 is about 3 months (D+85) after the final trades of non-supplier parties. In the case of physical players this allows them time to have transferred their assets to another party (COBO is 30 days). Meter errors should also have been dealt with and it is reasonable to expect most material disputes to have been raised and resolved.

Withdrawal criteria – This modification is not designed to allow parties who owe money, have meters, live disputes etc out of the BSC. The current criteria for withdrawal should be met by a party within the period defined (D+85) and the existing criteria, apart from the timing, seem reasonable. The current criteria act as a prudent check that a party cannot withdraw from the BSC leaving liabilities and Section A 5.3.1 should therefore still apply, apart from the requirement to wait until the final reconciliation.

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Cover for final bills – As all parties are impacted by each reconciliation (though the amounts concerned may be minimal) the withdrawing party would be required to leave a cash “withdrawal deposit” with Elexon to cover reconciliations between their withdrawal and the final reconciliation (RF).

SSMG reviewed a number of options and favoured a deposit based on one (or a combination) of the following calculations:

1. The average percentage difference between R2 and RF CVA meter reads (based on GC) for all BMUs in the past year, then scale the number to the withdrawing party's BMUs multiplied by CAP (credit assessment price).
2. Calculate the average liability for all parties, subject to CVA systems, between R2 and RF and use the average + x% as the deposit.
3. Use a set amount based on the BSC charges that the party would avoid (currently £250/ month) multiplied by the months they avoid paying (11 at R2). [total cash deposit £2500 at R2].
4. A set amount [£2000] for all players that is reviewed annually by the Panel.

Option 1 would require a minimum amount for non-physical parties so could be used in conjunction with options 3 or 4 for non-physical players who have no BMUs. For options 1 and 2 the calculation could be done annually and applied to all parties.

The idea behind all of these options is to leave reasonable cover to ensure no costs are smeared between other BSC parties as a result of a withdrawal.

Extra Security - For all the options above it would be possible to also put in place a “ratchet” mechanism. If the party did use all of its deposit then Elexon would request an additional deposit based on:

1. The original amount divided by the months left [if £2500 was used in 5 months and extra £3000 would be asked for £500/month used times the next 6 months].
2. A multiple of the amount by which the breach occurred, multiplied by the months left [£5 (breach amount) x 6 (ratchet) x 3 (months to RF)].
3. Another proposal?

Parties should recognise that the minimum credit rules allow most of the parties covered by this modification to remove all of their credit cover. The introduction of an earlier release date, but with a cash deposit in fact provides remaining BSC parties with greater security than they currently have.

Form of deposit – Some parties currently do place cash deposits with Elexon for the purpose of covering charges. Withdrawing parties would also place a cash deposit with the FAA and Elexon would administer this in the same way as all cash deposits. As Elexon are already doing this for some parties there should not be any significant systems or administrative implications.

Settlement – For each reconciliation between withdrawal and RF the cash deposit would be used to settle the party without the need to send bills and collect/pay minimal amounts of money. After the RF the party would receive a final settlement bill (an aggregation of all the bills they would currently receive) and all remaining money would be returned to them.

Party ids – Central systems already have to maintain ids for the purposes of reconciliations (e.g. where a party COBOs an asset they remain liable for the trading charges up to RF). There should therefore be no new systems or processes to keep a withdrawing party's position whole for the purposes of reconciliation just because they have left the BSC.

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Disputes – The BSC does not allow a party to withdraw when it has sums accruable or payable that are subject to a dispute. This would not be altered. All parties can raise disputes after the 14 months anyway (P131 allows 20 months) so there is currently the potential for a reconciliation involving a dispute impacting a party who has already withdrawn. All parties are still liable reconciliation charges even after they withdraw and this would also not change (Section A 5.3.3(b)).

Insolvent parties – This modification would be designed only to allow parties who have paid their bills to withdraw from the BSC. Therefore parties in administration could withdraw after R2 if they had met the criteria in the BSC and the administrators were willing and able to leave the required cash deposit.

Voluntary – No party would be forced to go down this route, it would be voluntary and would allow withdrawal to be considered any time after R2 if a party met the criteria.

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

To improve the efficiency of the withdrawal process and to limit the costs and risks for all parties the withdrawal process should be improved to allow those who can withdraw, without leaving significant debt, to do so earlier than the current 14 months after their last settlement day.

The current process for withdrawing from the BSC has a number of flaws:

1. Companies who wish to withdraw from the BSC are concerned about the ongoing risks that they face as a result of being party to a contract when they are no longer operational in the market. They often do not have the staff or expertise to monitor the BSC and just want to pay their bills and make a timely exit from the market. During the withdrawal process parties have expressed concerns about their legal obligations and liabilities imposed by the BSC that they cannot manage. In all cases they have terminated all other contracts, transferred assets and wound up operations months before they can leave the BSC.
2. The withdrawal process for the parties this modification seeks to help currently results in considerable administrative costs for the withdrawing party for the purposes of chasing small amounts of money for the required 14 months for withdrawal.
3. Ease of exit from a market seems as important as ease of entry if the market is to encourage competition and keep the BSC as a contract between parties who are actually operating in the market.
4. The current 14 months to withdraw seems to have been designed around the reconciliation process that relates only to NHH meter registrants. There appears to be no compelling reason to treat parties not subject to SVAA activity in the same way.
5. Although this modification would not alter the settlement and invoicing work undertaken by Elexon and its service providers, it should put a stop to the work they do in supporting these parties. For example when an invoice goes to closed offices or staff who have left, and then is unpaid causing a credit default which Elexon try to stop. This work by Elexon is inefficient and costly to all BSC parties.

This modification would improve the BSC and its processes compared to the existing base-line.

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Impact on Code <i>(optional by proposer):</i>	
Impact on Core Industry Documents <i>(optional by proposer):</i>	
Impact on BSC Systems and Other Relevant Systems and Processes Used by Parties <i>(optional by proposer):</i>	
Impact on other Configurable Items <i>(optional by proposer):</i>	
Justification for Proposed Modification with Reference to Applicable BSC Objectives <i>(mandatory by proposer):</i>	
<p>The proposed modification would better facilitate the Applicable BSC Objectives (c) and (d).</p> <p>An efficient and competitive market allows a relatively easy means of entering and exiting the market. While players do not enter the market necessarily then intending to withdraw, it is a fact that companies change their activities, sell businesses and go into administration. In all of these circumstances the parties wish to remove themselves from commercial arrangements that underpin the businesses they are withdrawing from. With most counter-parties companies can renegotiate exit terms to manage risks and wind up activities. Under the BSC they are caught in a contract, with associated business risks and costs, which will delay their market exit. The other parties to the BSC are likewise left with a counter party who may breach the BSC and fail to pay small bills (resulting in the costs of recovery) because they no longer have the resources and expertise to monitor their position in the market. Competition would therefore be better served if withdrawing parties who have paid the vast majority of their bills are allowed to have simpler route for exiting the BSC in a timely manner.</p> <p>The efficient implementation and administration of the BSC will be greatly improved if Elexon has simpler routes to manage the affairs of a withdrawing party. By allowing parties to exit in a timely manner Elexon, and the BSC Agents, can focus their resources and activities on those parties who are BSC signatories. They would no longer have to chase small amounts of debt and manage accidental credit defaults etc. Instead internal process would manage any arising debts and credits, using the "withdrawal deposit" to settle the withdrawn party's position on behalf of the remaining signatories. One final statement would have to be sent to the withdrawn party after the final reconciliation along with the remaining "withdrawal deposit". By reducing the costs associated with managing the affairs of a party who has ceased trading but remains a signatory to the BSC and allowing Elexon to focus on active signatories the administration of the BSC would be more efficient.</p>	

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Attachments: NO

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