

INITIAL WRITTEN ASSESSMENT for Modification Proposal P142 Minor refinement to allow a Level 2 Default Cure Period in defined circumstances

Prepared by: ELEXON¹ Limited

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This document has been distributed in accordance with Section F2.1.10² of the Balancing and Settlement Code.

RECOMMENDATIONS

On the basis of the initial assessment BSCCo recommends that the Panel:

- **DETERMINE that Modification Proposal P142 should be submitted to the Assessment Procedure;**
- **AGREE the Assessment Procedure timetable such that a Assessment Report should be completed and submitted to the Panel for consideration at its meeting of 11 December 2003;**
- **DETERMINE that the Assessment Procedure should be undertaken by the Settlement Standing Modification Group; and**
- **AGREE any refinement to the Modification Group's Terms of Reference.**

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¹ ELEXON Ltd currently fulfils the role of the Balancing and Settlement Code Company ('BSCCo'), pursuant to Annex X-1 of the Balancing and Settlement Code (the 'Code').

² The current version of the Code can be found at www.elexon.co.uk/ta/bscres_docs/bsc_code.html

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SUMMARY OF IMPACTED PARTIES AND DOCUMENTS

As far as BSCCo has been able to assess the following parties/documents have been initially identified as being potentially impacted by Modification Proposal P142.

Parties	Sections of the BSC	Code Subsidiary Documents	
Suppliers <input checked="" type="checkbox"/>	A <input type="checkbox"/>	BSC Procedures <input type="checkbox"/>	
Generators <input checked="" type="checkbox"/>	B <input type="checkbox"/>	Codes of Practice <input type="checkbox"/>	
Licence Exemptable Generators <input checked="" type="checkbox"/>	C <input type="checkbox"/>	BSC Service Descriptions <input checked="" type="checkbox"/>	
Transmission Company <input checked="" type="checkbox"/>	D <input type="checkbox"/>	Service Lines <input type="checkbox"/>	
Interconnector <input checked="" type="checkbox"/>	E <input type="checkbox"/>	Data Catalogues <input checked="" type="checkbox"/>	
Distribution System Operators <input type="checkbox"/>	F <input type="checkbox"/>	Communication Requirements Documents <input type="checkbox"/>	
Party Agents			
Data Aggregators <input type="checkbox"/>	G <input type="checkbox"/>	Reporting Catalogue <input checked="" type="checkbox"/>	
Data Collectors <input type="checkbox"/>	H <input type="checkbox"/>	MIDS <input type="checkbox"/>	
Meter Operator Agents <input type="checkbox"/>	J <input type="checkbox"/>	Core Industry Documents	
ECVNA <input type="checkbox"/>	K <input type="checkbox"/>	Grid Code <input type="checkbox"/>	
MVRNA <input type="checkbox"/>	L <input type="checkbox"/>	Supplemental Agreements <input type="checkbox"/>	
BSC Agents			
SAA <input type="checkbox"/>	M <input checked="" type="checkbox"/>	Ancillary Services Agreements <input type="checkbox"/>	
FAA <input checked="" type="checkbox"/>	N <input type="checkbox"/>	Master Registration Agreement <input type="checkbox"/>	
BMRA <input checked="" type="checkbox"/>	O <input type="checkbox"/>	Data Transfer Services Agreement <input type="checkbox"/>	
ECVAA <input checked="" type="checkbox"/>	P <input type="checkbox"/>	British Grid Systems Agreement <input type="checkbox"/>	
CDCA <input type="checkbox"/>	Q <input type="checkbox"/>	Use of Interconnector Agreement <input type="checkbox"/>	
TAA <input type="checkbox"/>	R <input type="checkbox"/>	Settlement Agreement for Scotland <input type="checkbox"/>	
CRA <input type="checkbox"/>	S <input type="checkbox"/>	Distribution Codes <input type="checkbox"/>	
Teleswitch Agent <input type="checkbox"/>	T <input type="checkbox"/>	Distribution Use of System Agreements <input type="checkbox"/>	
SVAA <input type="checkbox"/>	U <input type="checkbox"/>	Distribution Connection Agreements <input type="checkbox"/>	
BSC Auditor <input type="checkbox"/>	V <input type="checkbox"/>	BSCCo	
Profile Administrator <input type="checkbox"/>	W <input type="checkbox"/>	Internal Working Procedures <input checked="" type="checkbox"/>	
Certification Agent <input type="checkbox"/>	X <input type="checkbox"/>	Other Documents	
MIDP <input type="checkbox"/>		Transmission Licence <input type="checkbox"/>	
TFLA <input type="checkbox"/>			
Other Agents			
SMRA <input type="checkbox"/>			
Data Transmission Provider <input type="checkbox"/>			

Estimated cost for progressing P142 through Modification Procedures	£ 20,000 + 53 ELEXON man days
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1 DESCRIPTION OF MODIFICATION PROPOSAL

1.1 Modification Proposal

Modification Proposal P142 "Minor refinement to allow a Level 2 default cure period in defined circumstances" ("P142") was raised on 29 August 2003 by Total Gas and Power Ltd.

P142 seeks to modify the Balancing and Settlement Code (the "Code") such that a Party whose Credit Cover Percentage (CCP) exceeds 90% outside normal business hours, but does not breach 100%, should not be considered to be within Level 2 Credit Default until two hours into the next business day.

The Proposer contends that this two hour window would allow the Party to post additional Credit Cover to rectify the situation. It is suggested that P142 would provide a pragmatic balance between allowing financially sound Parties to rectify marginal breaches of 90% CCP through the lodging of additional Credit Cover, whilst protecting the market as a whole by limiting this right to Parties whose CCP remains below 100%.

The Proposer believes that this would meet the following Applicable BSC Objectives:

(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; and

(d) Promoting efficiency in the implementation and administration of the balancing and settlement arrangements.

It is contended that efficiency in the implementation and administration of the balancing and settlement arrangements will be met by filtering out spurious technical Credit Defaults. Furthermore this less punitive approach to 90% CCP breaches will discourage the lodging of excessive amounts of Credit Cover by Parties thereby promoting effective competition in the generation and supply of electricity.

1.2 Additional background

The Settlement Standing Modification Group (SSMG) considered a similar issue at its meeting on 20 August 2003.

SSMG Issue 5, raised by Powergen UK plc, questioned whether there should be a default cure period applied to Level 2 Credit Default, in order that a Party whose CCP breached 90% during a non-business day was not restricted to trading their way out of this CCP position if it could easily post more Credit Cover the next business day.

The SSMG was divided as to whether or not a default cure period should be available in such circumstances. It was recognised that the merits of including a default cure period are based upon a judgement of the appropriate balance between maintaining market security and providing defaulting Parties with sufficient time to post more Credit Cover.

1.3 Issues raised by the Modification Proposal

An initial assessment of P142 has identified the following potential areas of impact and issues which will need to be considered and addressed in progressing the Modification Proposal.

- Whether P142 would impact the number and type of 90% CCP breaches;
- If P142 will impact whether a Party chooses to actively manage its CCP position;
- Whether P142 would increase the complexity of Section M provisions whilst decreasing the deterrent of Level 2 Credit Default;

- Whether Parties should be allowed a default cure period to rectify instances of 90% CCP breaches in addition to their ongoing right to manage their positions so that they do not breach 90% CCP;
- Whether changes will be required to the authorisation notice (pursuant to Section M3.4) in order to separate the application of Level 1 and Level 2 Credit Default conditions;
- The need to conduct a full impact assessment on BSC Agent systems and documents. In particular, to determine whether a manual solution to implementing P142 would be possible or if ECVAA system changes will be required;
- If there would be a need to change ECVAA and BMRA software, as well as the scope and likely cost of such changes;
- The need to conduct a full impact assessment on FAA systems and documents, in particular to determine whether the FAA/ECVAA interface can implement changes to Credit Cover within prescribed timescales; and
- The need to establish whether the two hour period should be applied purely to payments through specified mechanisms.

These issues are to be put into the Modification Group's Terms of Reference.

2 INITIAL ASSESSMENT OF IMPACTS OF MODIFICATION PROPOSAL

2.1 Impact on BSC Systems and processes

An initial assessment has been undertaken in respect of all BSC Systems and processes and the following have been identified as potentially being impacted by P142.

BSC System / Process	Potential Impact of Modification Proposal
Credit Checking	<p>Section M3.4 only requires one authorisation notice to be in place to operate the provisions of both Level 1 and Level 2 Credit Default and ECVAA has built its processes in line with this. It is not clear from P142 whether it is intended to suspend both Level 1 and Level 2 Credit Default criteria where the conditions outlined by the Proposer are met. With either option, changes to ECVAA systems will be necessary.</p> <p>Changes to both ECVAA and BSCCo working procedures will be necessary.</p>
Clearing, Invoicing and Payment	<p>The FAA Service Description would not currently provide for P142 to be honoured, as it does not oblige the FAA to notify the ECVAA of additional Credit Cover lodged within two hours.</p> <p>Mechanisms for tracking the receipt of Credit Cover will also be necessary, in order to establish when received.</p>
Reporting	<p>Whether a manual solution (if possible) or an automated solution were adopted, the mechanisms for updating the Credit Default page on the BMRS will need to be updated.</p>

2.2 Impact on other systems and processes used by Parties

An initial assessment has been undertaken in respect of systems and processes used by Parties and the following have been identified as potentially being impacted by P142.

System / Process	Potential Impact of Modification Proposal
CCP Monitoring	P142 will change the application of Credit Default procedures. BSCCo is aware that many Parties actively manage their CCP position – P142 may impact how Parties parameterise their CCP monitoring.
Payment of funds	P142 provides for rectification of >90% CCP in limited circumstances within a limited timeframe. Parties may need to consider modifying their processes for lodging Credit Cover such that they could take advantage of P142 provisions were they to meet its criteria.

2.3 Impact on documentation

2.3.1 Impact on Balancing and Settlement Code

An initial assessment has been undertaken in respect of all Sections of the Code and the following Sections have been identified as potentially being impacted by the Modification Proposal.

Item	Potential Impact of Modification Proposal
M	Changes to the provisions relating to Credit Default.

2.3.2 Impact on Code Subsidiary Documents

An initial assessment has been undertaken in respect of all Code Subsidiary Documents and the following documents have been identified as potentially being impacted by the Modification Proposal.

Item	Potential Impact of Modification Proposal
ECVAA Service Description	Changes to the determination of Level 1 and Level 2 Credit Default (Level 1 is impacted due to shared use of authorisation notice)
FAA Service Description	Changes to requirements to update the ECVAA with Credit Cover changes attributed to each Party.
IDD Part 2	ECVAA-I006 (interface informing ECVAA of changes to Credit Cover held by FAA) will require amendment.

2.4 Impact on Core Industry Documents

An initial assessment has identified no Core Industry Documents would potentially be impacted by P142.

2.5 Impact on other configurable items

An initial assessment has been undertaken in respect of other configurable items and the following have been identified as potentially being impacted by P142.

Item	Potential Impact of Modification Proposal
ECVAA URS	Changes to the determination of Level 1 and Level 2 Credit Default (Level 1 is impacted due to shared use of authorisation notice).
ECVAA System Specification	Changes to the determination of Level 1 and Level 2 Credit Default (Level 1 is impacted due to shared use of authorisation notice).
ECVAA Design Specification	Changes to the determination of Level 1 and Level 2 Credit Default (Level 1 is impacted due to shared use of authorisation notice).
ECVAA Operational Services manual	Changes to the determination of Level 1 and Level 2 Credit Default (Level 1 is impacted due to shared use of authorisation notice).
BSCCo Local Working Instructions	Changes to the determination of Level 1 and Level 2 Credit Default (Level 1 is impacted due to shared use of authorisation notice).
FAA URS	Changes to requirements to update the ECVAA with Credit Cover changes attributed to each Party.
Business Process Model	Changes to the determination of Level 1 and Level 2 Credit Default (Level 1 is impacted due to shared use of authorisation notice). Changes to requirements to update the ECVAA with Credit Cover changes attributed to each Party.

3 IMPACT ON BSCCO

An initial assessment has been undertaken in respect of BSCCo and the following have been identified as potentially being impacted by P142.

Area of Business	Potential Impact of Modification Proposal
BSCCo Procedures	Provisions for when BSCCo may issue an authorisation notice pursuant to Section M3.4 will change. This will necessitate changes in Local Working Instruction(s) (LWI(s)).
Other (e.g. costs, staffing, etc.)	P142 would increase the complexity of Section M provisions whilst decreasing the deterrent of Level 2 Credit Default by allowing a default cure period in certain circumstances. BSCCo Service Delivery may see an uplift in both general queries relating to the application of Credit processes and in incurrences of 90% CCP breach to be managed.

4 IMPACT ON BSC AGENT CONTRACTUAL ARRANGEMENTS

An initial assessment has been undertaken in respect of BSC Agent contractual arrangements and the following have been identified as potentially being impacted by P142.

BSC Agent Contract	Potential Impact of Modification Proposal
Logica EPFAL (FAA)	Both the validation and checking of Credit Cover lodged by Parties and the subsequent notification to ECVAAs by FAA of changes are within timescales considerably quicker than those currently prescribed by the FAA Service Description. Contractual renegotiation may be necessary.

5 RATIONALE FOR BSCCO'S RECOMMENDATIONS TO THE PANEL

P142 proposes changes to the definition of Level 2 Credit Default and the ability of Parties to rectify 90% CCP where certain conditions are met. An initial assessment of P142 by BSCCo has suggested such changes may require changes to ECVAAs automated processes, as well as revisions to the FAA Service Description which does not currently comply with the solution suggested.

The nature of P142 means that the impact of any changes will affect BSCCo, the BSC Agent Systems (ECVAAs, FAA and BMRA) and all Parties.

Due to the wide scope of P142, BSCCo believe a 3 month Assessment Procedure would be required, to provide the Modification Group sufficient time to address the issues initially identified in section 1.2 of this report and provide an opportunity for a consultation, recognising the potential change in Credit Default and Credit Cover arrangements.

6 PROCESS, TIMETABLE AND COST FOR PROGRESSING THE MODIFICATION PROPOSAL

BSCCo recommends that P142 be submitted to the Settlement Standing Modification Group (SSMG) for further assessment with the Assessment Report presented to the Panel at its meeting on 11 December 2003.

It is estimated that the progression of P142 will require:

- Four Modification Group meetings
- One industry consultation
- One detailed level impact assessment
- One request for Transmission Company analysis

The proposed timetable for progression of P142 is shown in annex 2 of this report.

The cost of progressing P142 through the Modification Procedures is estimated to be £20,000 and require 53 ELEXON man days effort.

The cost of implementing any Proposed or Alternative Modification will be determined during the Assessment Procedure.

7 DOCUMENT CONTROL

7.1 Authorities

Version	Date	Author	Reviewer	Change Reference
0.1	04/09/03	Change Delivery		For Peer Review
0.2	04/09/03	Change Delivery		Formal Review
1.0	05/09/03	Change Delivery		Panel Decision

7.2 References

Ref	Document	Owner	Issue date	Version

ANNEX 1 MODIFICATION PROPOSAL

Modification Proposal	MP No: 142 <i>(mandatory by BSCCo)</i>
Title of Modification Proposal <i>(mandatory by proposer):</i> Minor refinement to allow a Level 2 Default cure period in defined circumstances	
Submission Date <i>(mandatory by proposer):</i> 29 August 2003	
Description of Proposed Modification <i>(mandatory by proposer):</i> <i>Before Credit Default and Credit Rejection occurs, allow parties who have fallen into level 2 credit default outside of normal business hours AND who have NOT breached 100% of their credit cover percentage a 2 hour window to post additional funds upon recommencing the next business day.</i>	
Description of Issue or Defect that Modification Proposal Seeks to Address <i>(mandatory by proposer):</i> <i>Due to restrictions on banking hours, for e.g. at the weekend, the ability to post monies outside of normal business hours to resolve a level 2 credit default is not currently a feasible option. Despite the willingness and preparedness of a party to resolve this default by posting additional monies as soon as banking hours recommence they may be exposed to their previously submitted contracts being rejected and being exposed to significant imbalance charges.</i> <i>We recognise the credit default procedures are designed to provide a mechanism such that BSC parties who are in genuine financial difficulties are prevented from incurring significant charges to which other BSC parties are exposed. However, this objective needs to be pragmatically balanced against the ability of a financially sound BSC party to resolve the credit default and not simply be exposed to significant imbalance charges due to rigidities within the arrangements.</i> <i>We consider the proposal, that contracts not be rejected until a 2 hour window is provided on the next business day to resolve the default, alongside the community safeguard that in any event the BSC parties Credit Cover Percentage does not exceed 100% provides such a balance.</i>	
Impact on Code <i>(optional by proposer):</i> Minor amendment of Section M	
Impact on Core Industry Documents <i>(optional by proposer):</i> None envisaged	
Impact on BSC Systems and Other Relevant Systems and Processes Used by Parties <i>(optional by proposer):</i> None envisaged, simply modifies the time at which BSCCo provides the ECVAA with the authorisation to begin the Level 2 Credit Default Rejection.	
Impact on other Configurable Items <i>(optional by proposer):</i>	

Modification Proposal	MP No: 142 <i>(mandatory by BSCCo)</i>
<p>Justification for Proposed Modification with Reference to Applicable BSC Objectives <i>(mandatory by proposer):</i></p> <p>Across the Industry there is a huge over provision of security for imbalance and the long term cost of this over provision is far greater than the expected credit losses. This proposal allows the Industry to place pragmatic credit levels and avoid credit default consequences due to mechanistic causes. It will enable companies to place credit levels commensurate with their trading activities and the true risk will promote effective competition. This proposal will also promote the efficiency and credibility of the balancing and settlement by filtering out spurious technical credit defaults.</p> <p>It would therefore meet Applicable BSC objectives (c) and (d).</p>	
<p>Details of Proposer:</p> <p style="padding-left: 40px;">Name: Sharif Islam Organisation: Total Gas & Power Ltd Telephone Number: 020 7318 6880 Email Address: sharif.islam@total.com</p>	
<p>Details of Proposer's Representative:</p> <p style="padding-left: 40px;">Name: Sharif Islam Organisation: Total Gas & Power Ltd Telephone Number: 020 7318 6880 Email Address: sharif.islam@total.com</p>	
<p>Details of Representative's Alternate:</p> <p style="padding-left: 40px;">Name: Steve Ladle Organisation: Total Gas & Power Ltd Telephone Number: 020 731 6814 Email Address: steve.ladle@total.com</p>	
<p>Attachments: NO If Yes, Title and No. of Pages of Each Attachment:</p>	

ANNEX 2 GANTT CHART

