

Responses from P142 Assessment Consultation

Consultation issued 03/11/03

Representations were received from the following parties:

No.	Company	File Number	No. BSC Parties Represented	No. Non-Parties Represented
1.	Intergen	P142_ASS_001	4	1
2.	Powergen	P142_ASS_002	14	0
3.	EDF Energy	P142_ASS_003	9	0
4.	Aquila Networks	P142_ASS_004	1	0
5.	Goldman Sachs	P142_ASS_005	2	0
6.	Scottish Power	P142_ASS_006	6	0
7.	EDF Trading	P142_ASS_007	2	0
8.	British Gas Trading	P142_ASS_008	5	0

P142_ASS_001 – Intergen

Respondent:	<i>Murray Rennie</i>
No. of BSC Parties Represented	4
BSC Parties Represented	Coryton Energy Company Limited Intergen Trading and Shipping Limited Spalding Energy Company Limited Rocksavage Power Company Limited
No. of Non BSC Parties Represented	1
Non BSC Parties represented	InterGen UK LTD
Role of Respondent	<i>Generator</i>

Q	Question	Response	Rationale
1.	Do you believe Proposed Modification P142 better facilitates the achievement of the Applicable BSC Objectives ? <i>Please give rationale and state objective(s)</i>	Yes	The proposal should enable Trading Parties to have a controlled response to Credit Default procedures and to resolve any such circumstances without being exposed to significant imbalance charges. The proposal would therefore better facilitate BSC Objective d, where costs incurred by the BSCCo are spread between BSC parties. With the insufficient liquidity and credit limitations the opportunity to trade out of Credit Default may be reduced, impacting upon BSC Objective b(iii).
2.	Do you believe there are any alternative solutions that the Modification Group has not identified and that should be considered? <i>Please give rationale</i>	No	

Q	Question	Response	Rationale
3.	<p>Do you believe there are any issues that have not been identified thus far that should be considered as part of the Assessment Procedure?</p> <p><i>If yes, please give rationale</i></p>	No	
4.	<p>If you agree that a Level 2 default cure period should be put in place, do you believe this should end at 11:00 on the next Business Day, or should more or less time be given?</p> <p><i>Please give rationale</i></p>	Yes	11:00 would allow the necessary time for relevant staff members to be informed and the correct action to be taken
5.	<p>If you agree that a Level 2 default cure period should be put in place, do you believe this should be applied to 90-100% CCP breaches where the Query Period does not overlap business hours at all, or should it also apply where the Query Period overlaps less than two business hours?</p> <p><i>Please give rationale</i></p>		The default cure period should apply to 90-100% CCP breaches where the Query Period overlaps less than two business hours. This will enable a trading party to verify their own credit calculations and if appropriate give a default query notice. The additional time will also enable additional credit to be lodged if required.

P142_ASS_002 – Powergen

Respondent:	Powergen
No. of BSC Parties Represented	14
BSC Parties Represented	Powergen UK plc, Powergen Retail Limited, Cottam Development Centre Limited, TXU Europe Drakelow Limited, TXU Europe Ironbridge Limited, TXU Europe High Marnham Limited, Midlands Gas Limited, Western Gas Limited, TXU Europe (AHG) Limited, TXU Europe (AH Online) Limited, Citigen (London) Limited, Severn Trent Energy Limited (known as TXU Europe (AHST) Limited), TXU Europe (AHGD) Limited and Ownlabel Energy Limited
No. of Non BSC Parties Represented	-
Non BSC Parties represented	-
Role of Respondent	Supplier, Generator, Trader & Exemptable Generator.

Q	Question	Response	Rationale
1.	Do you believe Proposed Modification P142 better facilitates the achievement of the Applicable BSC Objectives ? <i>Please give rationale and state objective(s)</i>	Yes	It strikes an appropriate balance between allowing parties sufficient reasonable time to lodge credit cover in the event of Level 2 Credit Default and limiting BSC Parties' credit risk.
2.	Do you believe there are any alternative solutions that the Modification Group has not identified and that should be considered? <i>Please give rationale</i>	No	
3.	Do you believe there are any issues that have not been identified thus far that should be considered as part of the Assessment Procedure? <i>If yes, please give rationale</i>	No	

Q	Question	Response	Rationale
4.	<p>If you agree that a Level 2 default cure period should be put in place, do you believe this should end at 11:00 on the next Business Day, or should more or less time be given?</p> <p><i>Please give rationale</i></p>	No	<p>11.00 may be too early. It may be more realistic to give participants until 12.00 noon to lodge additional credit cover. This would still give other Parties comfort in terms of protection against situations where the Party concerned is not able to raise additional funds.</p>
5.	<p>If you agree that a Level 2 default cure period should be put in place, do you believe this should be applied to 90-100% CCP breaches where the Query Period does not overlap business hours at all, or should it also apply where the Query Period overlaps less than two business hours?</p> <p><i>Please give rationale</i></p>	No	<p>It would appear consistent to allow participants the same minimum time to lodge additional credit cover. Therefore, these provisions should come into force where the query period overlaps with a fewer number of hours in a business day, than is allowed for in the proposed cure period. This in the context of the proposed modification would mean an overlap of 2 hours. However, we would suggest that 3 hours would be more realistic as outlined in 4 above.</p>

P142_ASS_003 – EDF Energy

Respondent:	Paul Chesterman
No. of BSC Parties Represented	9
BSC Parties Represented	EDF Energy Networks (EPN) plc; EDF Energy Networks (LPN) plc EDF Energy Networks (SPN) plc; EDF Energy (Sutton Bridge Power) EDF Energy (Cottam Power) Ltd; EDF Energy (West Burton Power) Ltd; EDF Energy plc; London Energy plc; Seaboard Energy Limited
No. of Non BSC Parties Represented	
Non BSC Parties represented	
Role of Respondent	Supplier / Generator / Party Agent / Distribution Business

Q	Question	Response	Rationale
1.	Do you believe Proposed Modification P142 better facilitates the achievement of the Applicable BSC Objectives ? <i>Please give rationale and state objective(s)</i>	Yes	
2.	Do you believe there are any alternative solutions that the Modification Group has not identified and that should be considered? <i>Please give rationale</i>	No	
3.	Do you believe there are any issues that have not been identified thus far that should be considered as part of the Assessment Procedure? <i>If yes, please give rationale</i>	No	

Q	Question	Response	Rationale
4.	<p>If you agree that a Level 2 default cure period should be put in place, do you believe this should end at 11:00 on the next Business Day, or should more or less time be given?</p> <p><i>Please give rationale</i></p>	Yes	
5.	<p>If you agree that a Level 2 default cure period should be put in place, do you believe this should be applied to 90-100% CCP breaches where the Query Period does not overlap business hours at all, or should it also apply where the Query Period overlaps less than two business hours?</p> <p><i>Please give rationale</i></p>	Yes	<p>EDF Energy believe that all Level 2 breaches should be allowed the Level 2 default cure period, regardless of whether the Query Period contains Business Hours or not. We believe that this would give Trading Parties time to lodge extra Credit Cover on the next occurring Business Day.</p>

P142_ASS_004 – Aquila Networks

Please find that there is no impact to Aquila Networks Plc systems and/or processes

P142_ASS_005 – Goldman Sachs

Respondent:	<i>Name Sana Habib</i>
No. of BSC Parties Represented	<i>2</i>
BSC Parties Represented	<i>J Aron & Company, The European Power Source CO UK Ltd</i>
No. of Non BSC Parties Represented	<i>None</i>
Non BSC Parties represented	<i>N/A</i>
Role of Respondent	<i>Trader</i>

Q	Question	Response	Rationale
1.	Do you believe Proposed Modification P142 better facilitates the achievement of the Applicable BSC Objectives ? <i>Please give rationale and state objective(s)</i>	No	We do not support the introduction of a Level 2 default cure period. The current Credit Cover arrangements are structured to provide protection for the market against a Party defaulting with unsecured liabilities owing to Elexon. We feel that dilution of the deterrent effect of Level 2 default removes incentives for Parties to pro-actively manage their Credit Cover and may increase the occurrence of Level 2 defaults. This modification will also increase the risk of insufficient collateral being available at the time of default and hence the risk that other Parties may receive a share of these liabilities. Both of these factors discourage effective competition in the market and therefore the modification will not better facilitate achievement of BSC Objective (c).
2.	Do you believe there are any alternative solutions that the Modification Group has not identified and that should be considered? <i>Please give rationale</i>	No	
3.	Do you believe there are any issues that have not been identified thus far that should be considered as part of the Assessment Procedure? <i>If yes, please give rationale</i>	No	

Q	Question	Response	Rationale
4.	<p>If you agree that a Level 2 default cure period should be put in place, do you believe this should end at 11:00 on the next Business Day, or should more or less time be given?</p> <p><i>Please give rationale</i></p>		Do not agree that this should be put in place
5.	<p>If you agree that a Level 2 default cure period should be put in place, do you believe this should be applied to 90-100% CCP breaches where the Query Period does not overlap business hours at all, or should it also apply where the Query Period overlaps less than two business hours?</p> <p><i>Please give rationale</i></p>		Do not agree that this should be put in place

P142_ASS_006 – Scottish Power

Respondent:	Man Kwong Liu (SAIC Ltd)
No. of BSC Parties Represented	6
BSC Parties Represented	Scottish Power UK plc; ScottishPower Energy Management Ltd.; ScottishPower Generation Ltd; ScottishPower Energy Retail Ltd.; SP Transmission Ltd; SP Manweb plc.
No. of Non BSC Parties Represented	
Non BSC Parties represented	
Role of Respondent	Supplier / Generator / Trader / Consolidator / Exemptable Generator / Party Agent

Q	Question	Response	Rationale
1.	<p>Do you believe Proposed Modification P142 better facilitates the achievement of the Applicable BSC Objectives ?</p> <p><i>Please give rationale and state objective(s)</i></p>	Yes	<p>We support P142 and agree with the argument that “the need for providing protection for the market against exposure to the unpaid Trading Charges of a Party needs to be pragmatically balanced against the ability of a financially sound BSC Party to resolve Credit Default circumstances without being exposed to significant imbalance charges”. As suggested, if credit level inadvertently deteriorates over the weekend or public holidays, there needs to be adequate time and practical arrangement for a party to resolve the situation.</p> <p>P144 enables Parties who are technically and inadvertently in breach of Level 2 credit limits the opportunity to correct this breach without damage to their reputation by publication of the “default” on the BMRA website.</p> <p>We therefore agree that P142 better achieves the above and better facilitates Applicable BSC Objectives (c) and (d).</p> <p>We also support Implementation Option 3 “<i>whereby the two hours specified for the default cure period is entirely for the party to lodge credit cover</i>”, when only confirmation of fund transferred is required. i.e. funds have left the parties accounts rather than funds actually lodged at destination account, as in practice transfer of funds could take a longer period of time.</p>
2.	<p>Do you believe there are any alternative solutions that the Modification Group has not identified and that should be considered?</p> <p><i>Please give rationale</i></p>	No	

Q	Question	Response	Rationale
3.	<p>Do you believe there are any issues that have not been identified thus far that should be considered as part of the Assessment Procedure?</p> <p><i>If yes, please give rationale</i></p>	No	
4.	<p>If you agree that a Level 2 default cure period should be put in place, do you believe this should end at 11:00 on the next Business Day, or should more or less time be given?</p> <p><i>Please give rationale</i></p>	Yes	<p>As mentioned above, this modification will remove a great deal of uncertainty over the provision of credit cover and will provide a safety net for parties who inadvertently breach Level 2 outwith banking hours. There may be a case for a longer period, due to some companies' due process. However, we accept 2 hours probably is a good compromise between practicality and credit protection.</p>
5.	<p>If you agree that a Level 2 default cure period should be put in place, do you believe this should be applied to 90-100% CCP breaches where the Query Period does not overlap business hours at all, or should it also apply where the Query Period overlaps less than two business hours?</p> <p><i>Please give rationale</i></p>	Yes	<p>We believe that a minimum 2 hours (banking) should be available for parties to resolve this credit default situation.</p>

P142_ASS_007 – EDF Trading

Respondent:	<i>Name EdF Trading Ltd</i>
No. of BSC Parties Represented	<i>2</i>
BSC Parties Represented	<i>EdF Trading Ltd and EdF (Generation)</i>
No. of Non BSC Parties Represented	<i>None</i>
Non BSC Parties represented	<i>N/A</i>
Role of Respondent	<i>Trader/Generator</i>

Q	Question	Response	Rationale
1.	Do you believe Proposed Modification P142 better facilitates the achievement of the Applicable BSC Objectives ? <i>Please give rationale and state objective(s)</i>	Yes	The modification does better facilitate BSC Objective (c), because it reduces incentives for the over-provision of Credit Cover and therefore reduce the opportunity cost of excessive collateral being lodged for this purpose. Furthermore .a Party breaching 90% outside business hours may be left with no alternative but to trade out of their position. This may result in the Party adopting a non-optimal trading position purely to manage their CCP, despite having Credit Cover in excess of their estimated outstanding Trading Charges, which in turn may impact upon System Buy and Sell Price.
2.	Do you believe there are any alternative solutions that the Modification Group has not identified and that should be considered? <i>Please give rationale</i>	No	
3.	Do you believe there are any issues that have not been identified thus far that should be considered as part of the Assessment Procedure? <i>If yes, please give rationale</i>	No	

Q	Question	Response	Rationale
4.	<p>If you agree that a Level 2 default cure period should be put in place, do you believe this should end at 11:00 on the next Business Day, or should more or less time be given?</p> <p><i>Please give rationale</i></p>	No	<p>11 am may be a bit tight, depending on the internal management structures, especially on a Monday morning and so 12 noon would be preferred.</p>
5.	<p>If you agree that a Level 2 default cure period should be put in place, do you believe this should be applied to 90-100% CCP breaches where the Query Period does not overlap business hours at all, or should it also apply where the Query Period overlaps less than two business hours?</p> <p><i>Please give rationale</i></p>	No	<p>The proposed cure period should definitely be put in place for breaches outside business hours and it would not be unreasonable to have a lead in period prior to the close of business hours, perhaps 1 hour. Consideration should be given, if this was considered acceptable, as to whether this should apply generally or only prior to weekends or holiday periods.</p>

P142_ASS_008 – British Gas Trading

Respondent:	Mark Manley
No. of BSC Parties Represented	1
BSC Parties Represented	British Gas Trading
No. of Non BSC Parties Represented	
Non BSC Parties represented	
Role of Respondent	

Q	Question	Response	Rationale
1.	<p>Do you believe Proposed Modification P142 better facilitates the achievement of the Applicable BSC Objectives ?</p> <p><i>Please give rationale and state objective(s)</i></p>	Yes	<p>BGT believes that Modification Proposal P142 does better facilitate Applicable BSC Objective (c). In a specific set of circumstances the proposed solution allows a financially sound entity more options than are currently available under the existing baseline whilst not increasing the risk for BSC Parties. BGT see the 'nuclear' option of rejecting Parties contract notifications as the final step. Therefore if Parties are allowed additional time to trade out of their position or lodge additional credit this is a positive step, as it will better facilitate competition in the sale and generation of electricity.</p> <p>Within the consultation document BGT note the other perceived benefit of the proposal. The document suggests that Parties are currently obligated to post excessive levels of credit cover and this modification may remove that requirement. Whilst BGT are supportive of developments that result in Parties lodging an appropriate amount of credit cover BGT do not believe this modification will have a significant effect on BSC Parties behaviour in respect of lodging credit cover. BGT believe this modification will have a negligible impact in this area and we are therefore unconvinced that this modification may remove a perceived barrier to entry.</p>
2.	<p>Do you believe there are any alternative solutions that the Modification Group has not identified and that should be considered?</p> <p><i>Please give rationale</i></p>	No	
3.	<p>Do you believe there are any issues that have not been identified thus far that should be considered as part of the Assessment Procedure?</p> <p><i>If yes, please give rationale</i></p>	No	

Q	Question	Response	Rationale
4.	<p>If you agree that a Level 2 default cure period should be put in place, do you believe this should end at 11:00 on the next Business Day, or should more or less time be given?</p> <p><i>Please give rationale</i></p>	Yes	<p>BGT agrees the proposed timeframe seems sensible. The 2-hour default cure period provides some additional flexibility without introducing significant new risks for BSC Parties. BGT believes 2 hours will provide sufficient time for a financially sound entity to lodge additional credit cover. BGT would not support any extension to this window.</p>
5.	<p>If you agree that a Level 2 default cure period should be put in place, do you believe this should be applied to 90-100% CCP breaches where the Query Period does not overlap business hours at all, or should it also apply where the Query Period overlaps less than two business hours?</p> <p><i>Please give rationale</i></p>	Yes	<p>BGT support the inclusion of a Level 2-default cure period and believe the criteria proposed to be appropriate. BGT believe the default cure period should only be valid if there is no overlap of business hours at all. BGT note the defect within the modification report, which appears to relate to problems occurring outside of business hours. This approach appears to be consistent with the defect identified in the modification proposal.</p> <p>BGT recognises that this solution potentially introduces inconsistencies however from a simplicity perspective BGT believe this option to be preferable. BGT also believe that a prudent Party that was not in financial difficulty would be aware of their increasing indebtedness and would be undertaking contingency measures to manage their credit position. If this escalation was occurring during business hours this should negate the need for the out of hours Level 2-default cure period.</p>