

INITIAL WRITTEN ASSESSMENT for Modification Proposal P132 Redefinition of Credit Cover Requirements to account for Reconciliation Charges

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 it is recommended that the Panel:

- **DETERMINE that Modification Proposal P132 be submitted to the Definition Procedure, in accordance with Section F2.5 of the Code;**
- **AGREE the Definition Procedure timetable such that a Definition Report should be completed and submitted to the Panel for consideration at their meeting of 11 September 2003;**
- **DETERMINE that the Definition Procedure should be undertaken by the Settlement Standing Modification Group; and**
- **AGREE any refinement to the Modification Group 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/bscrel_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 (as shown by the shaded boxes) are potentially impacted by Modification Proposal P132.

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

Estimated cost for progressing P129 through Modification Procedures	£ 5,500 + 108 ELEXON man days
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1 DESCRIPTION OF PROPOSED MODIFICATION

Modification Proposal P132 'Redefinition of Credit Cover Requirements to account for Reconciliation Charges' (P132) was raised by TXU Direct Sales Limited on 19 June 2003. P132 proposes to redefine Credit Cover Requirements to account for Reconciliation Charges, Trading Disputes and Past Notification Error (PNE) claims in order to ensure that credit is retained for a withdrawing or withdrawn Party to ensure future Settlement liabilities can be met.

Under the existing arrangements a Party may only reduce its Credit Cover to the Minimum Eligible Amount (MEA) as defined in Section M2.3.2 of the Code as follows:

*"the **"minimum eligible amount"** is the lowest amount for which the Trading Party's Credit Cover Percentage, if it were redetermined for each Settlement Period in the waiting period on the assumption that the Trading Party's Credit Cover were equal to that amount, would be not greater than 75% in relation to any such Settlement Period."*

A Party's Credit Cover Percentage is the ratio of its Energy Indebtedness to its Energy Credit Cover. Energy Indebtedness is an estimation of the energy traded by the Party over the last 29 Days. Currently the calculation of Energy Indebtedness does not account for any potential changes following Reconciliation Runs and rectification of Trading Disputes or Past Notification Error (PNE) claims outside the 29 day window. Hence the MEA for any Party which has not traded for 29 days will be zero.

As specified in Section A5.1.3 a Party may not withdraw from the Code until several criteria have been fulfilled and these include:

(b) the Final Reconciliation Settlement Run has not been carried out in relation to the last Settlement Day, or the corresponding Payment Date is not yet past.

Therefore a potential scenario exists whereby a Party ceases trading but is still registered in the Code, 29 days later the Party will be able to reduce its Credit Cover to zero (as its Energy Indebtedness for the last 29 days will be zero). However the Party may still be liable to pay Trading Charges associated with Reconciliation Runs and rectification of Trading Disputes or PNE claims for Settlement Days for which it was trading. Following the 29 day period after the last Settlement Day for which the Party has traded any Trading Charges not paid by the Party would potentially have to be recovered via legal action.

P132 seeks to modify the methodology for calculating the Minimum Eligible Amount such that a Party which is no longer trading or has withdrawn from the Code will be required to maintain Credit Cover against potential liabilities relating to Reconciliation Runs, rectification of Trading Disputes or PNE claims.

1.1 Issues raised by the Modification Proposal

An initial assessment of P132 has identified the following potential areas of impact and issues which will need to be considered and addressed during progression of the Modification Proposal.

1.1.1 Definition Issues

- **Form of the new Credit Cover obligation**

The Modification Proposal is not specific on the changes required to the methodology for calculating the MEA which would ensure a Party pays all their final bills prior to withdrawal from the Code.

Changing the MEA calculation stops Parties reducing their Credit Cover below a certain level, however it doesn't oblige them to post that much Credit Cover in the first place. There is currently no explicit requirement on Parties to post Credit Cover equal to their MEA.

The reason for this is that the current MEA calculation is the reverse of the Credit Cover Percentage calculation, and therefore Parties are implicitly obliged to post at least their MEA by the Credit Default arrangements. However, changing the MEA formula without changing the Credit Cover Percentage formula would break this link, and Parties would be free to post less than their MEA (unless a new obligation is introduced).

The Modification Proposal is not specific as to whether the arrangements would apply to all Parties. One approach would be for the new arrangements to only apply to Parties who've stopped trading (this may be considered unfair to that class of Party, and could also create an incentive for Parties to keep their intentions secret). This would also present issues relating to the definition of when a Party has stopped trading.

It will only be possible to fully understand the assessment issues associated with P132 once the changes to the methodology for calculating MEA are fully defined.

- **Estimating Liabilities**

The Modification doesn't specify how to estimate the potential Reconciliation Run, Trading Dispute or PNE claim liabilities.

In particular, calculating the materiality liabilities relating to Trading Disputes is complicated due to the timescales involved in the Trading Disputes process (Under Approved Modification P107 Trading Disputes can be raised up to 20 months after the Settlement Day). Furthermore any requirement for the BSC Systems to incorporate liabilities relating to either Trading Disputes or PNE claims would require new interfaces and processes between Central Systems and BSCCo.

Both the timescales and the issues for the Assessment Procedure will only be fully understood once the approach to calculating Reconciliation Run, Trading Dispute or PNE claim liabilities is fully defined.

1.1.2 Assessment Issues

In order to assess P132 it will be necessary to determine whether the reduction in risk from obliging Parties to maintain Credit Cover against potential Reconciliation Run, Trading Dispute or PNE claim liabilities outweighs the costs and issues associated with the amended Credit Cover requirements. The scope and extent of the issues involved in making this determination are dependent on the solution defined however the following areas will be relevant:

- **System and Process Impacts**

Changes to the Credit Cover methodology may require changes to both BSC Agent and BSCCo systems and processes. In order to account for Reconciliation liabilities changes will be required to BSC Agent Systems and processes. In order to account for Trading Dispute and PNE claim liabilities new processes may be required by both BSC Agents and BSCCo. Furthermore new interfaces between BSCCo and Central Systems may be required. The extent of the impact and the changes required will be dependent both on the changes to the Credit Cover methodology and the approach used to estimate liabilities.

- **Impact on Parties**

There is a potential requirement for some or all Parties to post additional Credit Cover. However, the Parties affected and the extent of the requirement is dependent on the changes to Credit Cover methodology and approach to calculating liabilities.

- **Potential Barrier to Entry**

The potential requirement for Parties to post additional Credit Cover either whilst trading within the Code or on withdrawal may be considered a barrier to market entry. The effects of this are dependent on the solution defined and will require assessment.

- **Current processes for recovering costs from Parties**

Currently, if a Party or withdrawn Party fails to pay Trading Charges and no Credit Cover is available the amounts due will be recovered via legal action. Under P132 a Party or withdrawn Party may have Credit Cover in place at all times such that legal action can be avoided. However, the relative costs and benefits of each approach for recovering the amounts due will require consideration.

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 impacts have been identified.

BSC System/Process	Potential Impact of Proposed Modification
Energy Contract Volume Aggregation Agent	<p>This Modification may require a substantial change to the rules and mechanism for the Credit Cover calculation of Minimum Eligible Amount.</p> <p>A new interface between the ECVAA and BSCCo may be required.</p> <p>The Credit Default arrangements may be impacted.</p> <p>Until the solution is defined it is not possible to assess the full impact.</p>
Settlement Administration Agent	<p>Dependent on the solution defined the SAA systems and processes may be impacted.</p> <p>Until the solution is defined it is not possible to assess the full impact.</p>

2.2 Impact on other systems and processes used by Parties

Under P132 Parties may be required to post additional Credit Cover. Dependent on the solution defined this impact may be limited to those Parties withdrawing from the Code. The Parties affected and the extent of the requirement will be dependent on changes to the Credit Cover methodology and approach to calculating liabilities.

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 being impacted by the Modification Proposal.

Item	Potential Impact of Proposed Modification
Section A: Parties and Participation	Changes may be required to the processes for withdrawal of a Party.
Section M: Credit Cover and Credit Default	Changes will be required to the Credit Cover methodology.

2.3.2 Impact on Code Subsidiary Documents

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

Item	Potential Impact of Proposed Modification
BSCP65: Registration of Parties and Exit Procedures	The withdrawal procedures may require amendment.
BSCP301: Clearing, Invoicing and Payment	Amended to reflect changes to the Credit Cover methodology.

2.4 Impact on Core Industry Documents

An initial assessment has been undertaken in respect of Core Industry Documents and no impacts have been identified.

2.5 Impact on other configurable items

An initial assessment has been undertaken in respect of other configurable items and the following impacts have been identified.

Item	Potential Impact of Proposed Modification
Business Process Model	Updated to reflect changes to the Credit Cover and the withdrawal processes.
BSC Obligations Register	Updated to reflect amended obligations in relation to Credit Cover and the withdrawal processes.

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 the Modification Proposal.

Area of Business	
Assurance Department	Potential requirement to support the calculation of materiality liabilities related to Trading disputes.
P6 Claims	Potential requirement to support the calculation of materiality liabilities related to PNE claims.
Service Delivery	Requirement to support amendments to the Credit Cover Methodology
Market Entry	Requirement to support amendments to the processes for a withdrawing Party.
CVA Programme	Requirement to support implementation of System, Process and Documentation changes.

4 IMPACT ON BSC AGENT CONTRACTUAL ARRANGEMENTS

Initial assessment has been undertaken in respect of BSC Agent contractual arrangements and has indicated that amendments may be required to support changes to the BSC Agent systems and processes.

5 RATIONALE FOR BSCCO'S RECOMMENDATIONS TO THE PANEL

Initial assessment has highlighted several definition issues which require resolution before the assessment issues and timescales required can be fully understood. In light of these issues ELEXON recommends that this Modification Proposal be submitted to a 2-month Definition Procedure to be conducted by the Settlement Standing Modification Group (SSMG).

6 PROCESS AND TIMETABLE FOR PROGRESSING THE MODIFICATION PROPOSAL

The proposed timetable for progressing P132 is as follows:

Milestone	Date
July Panel Meeting	10 July 2003
Develop potential solutions	11 -15 July 2003 (3WD)
First SSMG meeting – Develop solution and highlight consultation issues	16 July 2003
Refine solution and develop consultation paperwork	17-24 July 2003 (6WD)
SSMG review consultation paperwork	25-29 July 2003 (3WD)
Finalise consultation paperwork	21-22 July 2003 (2WD)
Definition Consultation	23-30 July 2003 (6WD)

SSMG reviews consultation responses	1- 12 August 2003 (9WD)
Draft Definition Report	1 -7 August 2003 (6WD)
SSMG reviews draft definition report	8-12 August 2003 (3WD)
Second SSMG meeting- Discuss consultation responses and consider draft Definition Report	13 August 2003
Further drafting of Definition Report	14-20 August 2003 (5WD)
SSMG reviews Definition Report	22-26 August 2003 (3WD)
Third SSMG meeting (if required) - Finalise Definition Report	27 August 2003
Update Definition Report	28-29 August 2003 (2WD)
VASMG final review of Definition Report (if required)	1-3 September 2003 (3WD)
Finalisation and internal review of Definition Report	1-4 September 2003 (4WD)
Issue Definition Report to Panel	5 September 2003
September Panel Meeting	11 September 2003

7 DOCUMENT CONTROL

7.1 Authorities

Version	Date	Author	Reviewer	Change Reference
0.1		Change Delivery		Change Delivery Review
0.2		Change Delivery		Internal Review
1.0		Change Delivery		For Decision

ANNEX 1 MODIFICATION PROPOSAL

Modification Proposal – F76/01	MP No: 132 <i>(mandatory by BSCCo)</i>
Title of Modification Proposal <i>(mandatory by originator):</i>	
Redefinition of Credit Cover Requirements to account for Reconciliation Charges	
Submission Date <i>(mandatory by originator):</i> 19th June 2003	
Description of Proposed Modification <i>(mandatory by originator)</i>	
<p>The rules for the calculation of Minimum Eligible Amount would be amended to take account of the potential charges arising from reconciliation amounts (which would include Trading Disputes and Past Notification Errors).</p>	
Description of Issue or Defect that Modification Proposal Seeks to Address <i>(mandatory by originator)</i>	
<p>The current rules for establishing the Minimum Eligible Amount only look at a 29 day period. The consequence of this is that there is a potential for a Party who voluntarily ceases trading (as opposed to entering an insolvency process) to reduce their Credit Cover to zero prior to the completion of the 14 month reconciliation period and the resolution of Post Final Trading Disputes / Past Notification Errors.</p> <p>The modification aims to ensure that a withdrawing party will pay all his final bills prior to withdrawal from the BSC.</p>	

Modification Proposal – F76/01	MP No: 132 <i>(mandatory by BSCCo)</i>
Impact on Code <i>(optional by Originator)</i>	
Impact on Core Industry Documents <i>(optional by Originator)</i>	
Impact on BSC Systems and Other Relevant Systems and Processes Used by Parties <i>(optional by originator)</i>	
Impact on other Configurable Items <i>(optional by originator)</i>	

Modification Proposal – F76/01	MP No: 132 (mandatory by BSCCo)
<p>Justification for Proposed Modification with Reference to Applicable BSC Objectives (mandatory by originator)</p> <p>Ensuring that all Parties have an obligation to provide Credit Cover for the full range of potential Trading Charges would reduce the potential for those Parties who continue trading to pick up the liabilities of those Parties who have voluntarily ceased trading and hence promote competition in the generation and supply of electricity.</p> <p>The ability to recover outstanding amounts from Credit Cover would be easier than pursuing Parties through legal routes to attempt to recover outstanding amounts which become due once a Party has voluntarily ceased Trading and consequently would improve the administrative efficiency of the Balancing and Settlement arrangements.</p>	
<p>Details of Proposer:</p> <p>Name: Philip Russell</p> <p>Organisation: TXU Direct Sales Ltd</p> <p>Telephone Number: 07879 803 061</p> <p>Email Address: phil.russell@bigfoot.com</p>	
<p>Details of Proposer's Representative:</p> <p>Name: Lisa Waters</p> <p>Organisation: Waters Wye Associates</p> <p>Telephone Number: 020 7388 7169</p> <p>Email address: lisa@waterswye.co.uk</p>	
<p>Details of Representative's Alternate:</p> <p>Name: Philip Russell</p> <p>Organisation: TXU Direct Sales Ltd</p> <p>Telephone Number: 07879 803 061</p> <p>Email address: phil.russell@bigfoot.com</p>	

Modification Proposal – F76/01	MP No: 132 <i>(mandatory by BSCCo)</i>
Attachments: No	