

67/011



DEFINITION REPORT for Modification Proposal P132

Redefinition of Credit Cover Requirements to account for Reconciliation Charges

Date of issue: 5 September 2003 **Document reference:** P132DR
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This document has been distributed in accordance with Section F2.1.10¹ of the Balancing and Settlement Code.

RECOMMENDATIONS

The Settlement Standing Modification Group (SSMG) recommends that the Panel:

- **ENDORSE the recommendation of the Settlement Standing Modification Group and proceed to the Report Phase in accordance with Section F2.7 of the Code;**
- **AGREE that the draft Modification Report contains a provisional recommendation that the Proposed Modification P132 should not be made;**
- **NOTE that no Legal Text has been prepared with respect to the Proposed Modification;**
- **CONSULT with the Authority to determine if they would like the draft Modification Report to contain such Legal Text;**
- **AGREE a provisional Implementation Date of 22 February 2005, should the Authority determination be received before 23 April 2004; and**
- **AGREE that the draft Modification Report be issued for consultation and submitted to the Panel Meeting of 09 October 2003.**

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¹ The current version of the Balancing and Settlement Code (the 'Code') can be found at www.elexon.co.uk/ta/bscresl_docs/bsc_code.html

CONTENTS TABLE

Summary of impacted parties and documents		3
1	Description of Proposed Modification and assessment against the Applicable BSC Objectives.....	4
1.1	Modification Proposal	4
1.2	Proposed Modification	5
1.3	Issues raised	5
1.3.1	Form of the new Credit Cover obligation	5
1.3.2	Estimating Liabilities	6
1.4	Recommendations	9
2	Summary of consultation Responses	10
3	Summary of Transmission Company analysis	12
4	Summary of external advice.....	12
5	Process, timetable and costs for progressing the Modification Proposal	12
6	Document control	13
6.1	Authorities	13
6.2	References	13
Annex 1	Modification Group details	14
Annex 2	Case study of a withdrawing Party.....	15
Annex 3	Consultation responses	23

SUMMARY OF IMPACTED PARTIES AND DOCUMENTS

As far as BSCCo has been able to assess the following parties/documents have been identified as being 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"/>
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 type="checkbox"/>	D <input type="checkbox"/>	Service Lines <input type="checkbox"/>
Interconnector <input checked="" type="checkbox"/>	E <input type="checkbox"/>	Data Catalogues <input 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 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 type="checkbox"/>	N <input type="checkbox"/>	Master Registration Agreement <input type="checkbox"/>
BMRA <input 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 P132 through Modification Procedures	£ 1,000 + 24 ELEXON man days
Cost of implementing Proposed Modification:	
Change specific	£0
Operational/maintenance	£0
Total:	£ 1,000 + 24 ELEXON man days

1 DESCRIPTION OF PROPOSED MODIFICATION AND ASSESSMENT AGAINST THE APPLICABLE BSC OBJECTIVES

1.1 Modification Proposal

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 reduce its Credit Cover to the Minimum Eligible Amount (MEA) as defined in Section M 2.3.2 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. Hence the MEA for any Party which has not traded for 29 days will be zero.

As specified in Section A 5.1.3 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 during 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, Trading Disputes or PNE claims.

The IWA for P132 was presented to the Balancing and Settlement Code Panel (Panel) on the 10 July 2003. The IWA highlighted several issues that required further definition.

Therefore, it was agreed that P132 should be submitted to a 2-month definition procedure to be conducted by the Settlement Standing Modification Group (SSMG).

The SSMG met twice during the Definition Procedure and a Definition Consultation was issued to the industry. Definition Procedure Terms of Reference considered by the SSMG are as follows:

- **Form of the new Credit Cover obligation;**
- **Estimation of Potential Liabilities;**
- **Interaction between PNE claims process and P132 Modification Procedures.**

1.2 Proposed Modification

This section summarises P132 as defined by the SSMG.

If approved P132 would introduce new Credit Cover arrangements which would:

- **Not change the existing Credit Cover arrangements for Parties continuing to trade;**
- **Require a Party wishing to withdraw from the Code to notify BSCCo on the discontinuation of Trading Activity;**
- **Require that BSCCo be informed of any Parties making significant reductions in their Credit Cover;**
- **Require BSCCo to, on notification of a Party's intent to withdraw from the Code, calculate an amount of Credit Cover to be posted by such withdrawing Party;**
- **Include in the calculation of the Credit Cover required by a withdrawing Party potential liabilities resulting from future Reconciliation Runs, existing Trading Disputes and PNE claims;**
- **Require a withdrawing Party to post the amount of Credit Cover calculated by BSCCo; and**
- **Require this Credit Cover to be retained until all Reconciliation Runs, Trading Disputes and PNE claims included within the calculation of the amount had been processed.**

This definition was agreed by the SSMG on consideration of responses to industry consultation.

1.3 Issues raised

1.3.1 Form of the new Credit Cover obligation

The Modification Proposal was not specific on the changes required to the Credit Cover methodology which would ensure that a Party pays all their bills prior to withdrawal from the Code. The SSMG have considered how the revised Credit Cover arrangements would function under P132 and have agreed the following approach:

1. Party ceases trading activity and notifies BSCCo of its intention to withdraw from the Code;
2. BSCCo calculates the Credit Cover required to cover potential liabilities arising from Reconciliation Charges, Trading Disputes and Past Notification Error (PNE) claims (see section 1.3.2);
3. Withdrawing Party posts Credit Cover as calculated by BSCCo;
4. This Credit Cover is maintained until all Reconciliation Runs, Trading Disputes and PNE claims included within the calculation have been processed.

These arrangements would have no impact on the existing Credit Cover arrangements for Parties continuing trading activity.

The SSMG recognised that this approach relies on the Party notifying BSCCo of its intent to withdraw. Therefore, a requirement for ECVAAs to notify BSCCo of any Parties making material reductions in their Credit Cover would be introduced.

1.3.2 Estimating Liabilities

The SSMG have considered the approach for estimating potential liabilities of a withdrawing Party arising from Reconciliation Runs, Trading Disputes and PNE claims under P132 as outlined in this section.

1.3.2.1 Reconciliation

The SSMG considered the Reconciliation Trading Charges of a withdrawing Party, as detailed in the analysis contained in Annex 2.

Analysis indicated that there was potential for Reconciliation Trading Charges to sum to a significant amount during the extended timescales for withdrawal from the Code. However, it also indicated that it is not possible to predict whether these Trading Charges would result in a net payment to the Party, or whether there will be a payment made by the Party (as the net Trading Charges can be either positive or negative). It was the view of the SSMG that this highlights the difficulty with trying to account for Reconciliation in the Credit Cover arrangements.

If the average Reconciliation Trading Charge across the market were considered then the amount would be zero. However, the purpose of retaining Credit Cover is not to protect against the average case, rather to protect against the worst case scenario where an individual Party accumulates significant liabilities which are unsecured. The only way this could be done for Reconciliation charges would be to estimate the amount for the worst case scenario and require all withdrawing Parties to cover that. On average this would mean withdrawing Parties would be required to hold a significant excess amount of Credit cover to protect against Reconciliation risk. It was the view of the SSMG that this would significantly increase the costs of leaving the market, which could ultimately prove a barrier to Parties entering the market (i.e. Parties will not only consider how costly it will be to enter the market but how costly it would be to leave should it not work out).

The SSMG considered an approach suggested via industry consultation whereby the absolute average variation between Settlement Final and Reconciliation Final Runs could be used to estimate potential settlement risk arising from Reconciliation Runs. The following example illustrates how this approach would not produce an accurate estimation of

potential Settlement liabilities and would require Parties to hold significantly more Credit Cover than actually required.

In the table below the variation between Settlement Final and Reconciliation Final for six example Settlement Days is shown. As would be the case if the market were considered as a whole the average variation is zero. However the absolute average of these values is significantly greater than the total Reconciliation payments.

Settlement Day	SF amount	R1	R2	R3	RF	SF/ RF variation
1	100	+2	-6	+5	-11	-10
2	100	-1	+5	+10	-4	+10
3	100	+8	-5	+2	-20	-15
4	100	-5	+20	-5	+5	+15
5	100	+12	-5	+6	-7	-8
6	100	-15	+25	-4	+2	+8

Total Reconciliation Payments 0
 Absolute Reconciliation Payments 66
 Average: 0
 Absolute Average: 11

It was the view of the SSMG that approach whereby the absolute average variation between Settlement Final and Reconciliation Final runs was used to estimate potential settlement risk would require Withdrawing Parties to retain significantly more Credit Cover than is appropriate.

In conclusion the SSMG agreed that it is not possible to produce a meaningful estimation of the Credit Cover required to protect against Reconciliation risk. In fact it was agreed that the most appropriate estimation may be zero as required by the current arrangements.

1.3.2.2 Trading Disputes

The SSMG recognised that calculating the materiality liabilities relating to Trading Disputes would be complicated due to the timescales involved in the Trading Disputes process (Under Approved Modification P107-“Data Retention Requirements for Post-Final Trading Disputes”, to be implemented 4 November 2003, Trading Disputes can be raised up to 20 months after the Settlement Day).

For Trading Disputes which had been considered and accepted by the TDC an estimate of the materiality would known. Therefore, it was agreed by the SSMG that only potential liabilities arising from those Trading Disputes considered and accepted by the TDC would be included in the amount of Credit Cover required by a withdrawing Party under P132.

This approach would not protect against liabilities resulting from Trading Disputes raised after the calculation of the amount of Credit Cover to be posted by the withdrawing Party. Trading Disputes impacting the Party could be raised for up to 20 months after the last Settlement Day for which the Party was trading. It is not obvious that the number or materiality of such Trading Disputes could be predicted. Therefore, it was the view of the SSMG that no meaningful estimation of the liabilities arising from these potential future Trading Disputes could be made.

The SSMG considered the view presented via industry consultation that it may be possible to utilise the estimate of the materiality provided by the raising Party during the Trading Disputes process, utilising that materiality against individual BSC Party's metered takes an estimate of all BSC Parties liabilities could be calculated. However, the SSMG supported the view in one of the consultation responses that this would involve pre-judging the success of Trading Disputes and may be prejudicial to the Trading Dispute process.

1.3.2.3 PNE Claims

P132 seeks to oblige a withdrawing Party to place Credit cover for PNE claim liabilities. Therefore, the SSMG have considered the schedule for processing PNE claims and the time scales for progressing P132 in order to determine whether PNE claims would be processed prior to any potential implementation date for P132.

The last of the PNE claims relates to 8 April 2002, therefore if it is possible to catch up with the Settlement Runs, all upheld claims will be rectified by 9 April 2004. Current understanding indicates that it will be possible to catch up on the Settlement Timetable by completing a number of runs on any given day. In the worst case scenario, where it is not possible to catch up on the Settlement Timetable, the latest date for rectification of PNE claims would be December 2004.

Should the Panel determine that the Modification is to be progressed further it is likely that a two month Assessment Procedure would be required. i.e. Assessment Report to the Panel November 2003. The Draft Modification Report would then be considered by the Panel in December 2003 and the finalised version would reach the Authority by January 2004, the Authority would then require a period of time to consider the Modification prior to making its determination.

Therefore, as the Modification would require ECVAA System changes in order to implement any changes to the Credit Cover arrangements (and hence a seven month lead time), the earliest realistic implementation date for P132 would be November 2004 (In light of work scheduled to support implementation of P98-"Dual Notification of Contract Positions" the SSMG are recommending an Implementation Date of 22 February 2005 for P132).

The SSMG have considered the above and recognised that it is probable that all existing PNE claims will have been processed prior to any realistic implementation date for P132. However, the approach agreed by the SSMG would allow PNE claims to be included in the calculation of the Credit Cover amounts required for a withdrawing Party (if all claims had been processed the PNE contribution would be zero). This approach would also allow flexibility for any future PNE claims raised to be considered, for example as proposed by P128-"Correction of Erroneous Energy Contract Volume Notifications in Specifically Defined Limited Circumstances".

The estimated materiality of existing PNE claims is known and could be used in the calculation of the Credit Cover amount required by a withdrawing Party under P132.

1.4 Recommendations

This section outlines the conclusions of the SSMG and the resulting recommendations.

Findings of the SSMG relating to P132:

1. It is not possible to define how potential Reconciliation and Trading Dispute claim liabilities should be estimated;
2. Reconciliation Trading Charges can be either negative or positive, therefore the current arrangements, requiring zero Credit Cover is retained for Reconciliation Runs, is as meaningful as any alternative;
3. Requiring industry to expend money and effort in order to introduce new Credit Cover arrangements which would not provide a more accurate estimation of potential liabilities would discourage competition;
4. Requiring Credit Cover to be retained by withdrawing Parties is a barrier to entry;
5. As a consequence P132 would not better facilitate the Applicable BSC Objectives. In particular there would be a negative effect on;

"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."

In light of the fact it is not possible to define how potential Reconciliation and Trading Dispute claim liabilities should be estimated, the SSMG are of the view it is not possible to prepare Legal Text with respect to the Proposed Modification.

The SSMG recognise that there is an obligation under the Code to provide a recommend Implementation Date in all Modification Reports. Therefore, in light of work scheduled for the June and November 2004 Releases to support implementation of P98, the SSMG are of the view that 22 February 2005 is the most appropriate Implementation Date for P132.

Therefore, the Settlement Standing Modification Group (SSMG) recommends the Panel to:

- **ENDORSE the recommendation of the Settlement Standing Modification Group and proceed to the Report Phase in accordance with Section F2.7 of the Code;**
- **AGREE that the draft Modification Report contains a provisional recommendation that the Proposed Modification P132 should not be made;**
- **NOTE that no Legal Text has been prepared with respect to the Proposed Modification;**
- **CONSULT with the Authority to determine if they would like the draft Modification Report to contain such Legal Text;**
- **AGREE a provisional Implementation Date of 22 February 2005, should the Authority determination be received before 23 April 2004; and**
- **AGREE that the draft Modification Report be issued for consultation and submitted to the Panel Meeting of 09 October 2003.**

2 SUMMARY OF CONSULTATION RESPONSES

This section summarises the results of industry consultation, the full responses are contained in Annex 3 (5 responses, representing 23 Parties, were received).

Q.1. Do you support the principle of P132?	
Yes	2 (7 Parties)
No	2 (15 Parties)
No Comment	1 (1 Party)

There was support of the general principle of ensuring that Parties pay all their liabilities. However the majority of respondents recognised that it would not be possible to define a method for estimating reconciliation liabilities which was more accurate than the current arrangements and, therefore, supported the view of the SSMG that P132 should be sent to report with the recommendation to reject. The view was also presented that requiring withdrawing Parties to maintain Credit Cover could act as a barrier to entry.

Q.2. Do you believe that P132 requires further assessment?	
Yes	1 (6 Parties)
No	3 (16 Parties)
No Comment	1 (1 Party)

There was majority support for the view of the SSMG that it was not possible to define a method for estimating potential reconciliation liabilities which was more accurate than the current arrangements, such that there would be no value in further assessing P132. One respondent presented the view that it would be possible to produce an accurate, non-zero, estimation of potential reconciliation liabilities and, therefore, was of the opinion that P132 should be submitted to further assessment. The SSMG considered the approach to estimating potential Reconciliation liabilities suggested by this respondent and were of the view that it would over estimate the amount of Credit Cover to be held by Withdrawing Parties (see section 1.3.2.1).

Q.3. Do you support the definition/approach?	
Yes	3 (8 Parties)
No	1 (14 Parties)
No Comment	1 (1 Party)

The one respondent that did not support the definition/approach presented the view that, although the definition is consistent with the Proposed Modification, they did not support the Proposed Modification and, therefore, could not support the defined solution.

Q.4. Do you support the form of the new Credit Cover arrangement as defined by the SSMG?

Yes	2 (7 Parties)
No	2 (15 Parties)
No Comment	1 (1 Party)

There was support for the form of the new Credit Cover arrangement as defined by the SSMG. One respondent did not support the form of the new Credit Cover arrangements, as they did not support the Proposed Modification. One respondent presented the view that it would be possible to produce an accurate, non-zero, estimation of potential reconciliation liabilities. The SSMG considered the approach to estimating potential Reconciliation liabilities suggested by the respondent and agreed that it would over estimate the amount of Credit Cover to be held by Withdrawing Parties (see section 1.3.2.1).

Q.5. Do you agree with the view of the SSMG that it is not possible to specify a meaningful level of Credit Cover to protect against the Reconciliation risk of a withdrawing Party without requiring withdrawing Parties to hold an inappropriately large amount of Credit Cover?

Yes	3 (16 Parties)
No	1 (6 Parties)
No Comment	1 (1 Party)

There was majority support for the view of the SSMG that it was not possible to define a method for estimating potential reconciliation liabilities which was more accurate than the current arrangements. One respondent presented the view that it would be possible to produce an accurate, non-zero, estimation of potential reconciliation liabilities (see section 1.3.2.1).

Q.6. Do you agree with the view of the SSMG that it is only possible to produce a meaningful estimation of the potential liabilities arising from those Trading Disputes which had been considered and accepted by the TDC?

Yes	2 (7 Parties)
No	2 (15 Parties)
No Comment	1 (1 Party)

Two respondents presented the view that it may be possible to utilise the estimate of the materiality provided by a Party during the Trading Disputes process. Utilising that materiality against individual BSC Parties metered take, an estimate of BSC Parties liabilities could be calculated. However the SSMG supported the view in one of the consultation responses that this would involve pre-judging the success of Trading Disputes and may be prejudicial to the Trading Dispute process. Furthermore the SSMG noted that this approach would not address the issue that Trading Disputes affecting a Party could be raised up to 20 months after notification of that Parties intent to Withdraw from the Code.

Q.7. Are there any issues not identified in this report that you believe should be considered during the Assessment Procedure, should the Panel submit P132 to the Assessment Procedure?

Yes	0
No	4 (22 Parties)
No Comment	1 (1 Party)

No further issues were highlighted.

Q.8. Are there any Alternatives that you believe should be assessed?

Yes	0
No	4 (22 Parties)
No Comment	1 (1 Party)

No Alternative Modification was identified.

3 SUMMARY OF TRANSMISSION COMPANY ANALYSIS

Analysis not commissioned

4 SUMMARY OF EXTERNAL ADVICE

None undertaken

5 PROCESS, TIMETABLE AND COSTS FOR PROGRESSING THE MODIFICATION PROPOSAL

The SSMG recommends that this Modification Proposal proceed directly to Report Phase with the recommendation that P132 is rejected. An estimated budget was established and included in the initial written assessment to encompass the cost of BSCCo man days and 3rd party costs based on a 2 month Definition Procedure followed by a 3 month Assessment Procedure. Therefore, following completion of the Definition Procedure, there is a need to revise the budget for the Modification Proposal.

- **The original estimate for P132 was £5,500 and 108 ELEXON man days.**
- **The revised estimate for P132 is £1,000 and 24 ELEXON man days (of which £1,000 and 15 man days were expended during the Definition Procedure).**

6 DOCUMENT CONTROL

6.1 Authorities

Version	Date	Author	Reviewer	Change Reference
0.1	27/08/03	Change Delivery	SSMG, Change Delivery	Initial Draft for Review
0.2	01/09/03	Change Delivery	Change Delivery	Updated following review comments and issued for Formal Review
1.0	05/09/03		Panel	For Decision

6.2 References

Ref	Document
P132	Modification Proposal P132 'Redefinition of Credit Cover Requirements to account for Reconciliation Charges'
P132IWA	Initial Written Assessment for Modification Proposal P132 'Redefinition of Credit Cover Requirements to account for Reconciliation Charges'

ANNEX 1 MODIFICATION GROUP DETAILS

The P132 Definition Report has been prepared by the SSMG, and the membership is detailed in the table below.

Member	Organisation	Role
Justin Andrews	ELEXON	Chairman
Roger Salomone	ELEXON	Chairman
Thomas Bowcutt	ELEXON	Lead Analyst
Phil Russell	TXU	Proposer
Paul Jones	Powergen	Member
Ben Willis	Npower	Member
Marie Branch	International Power	Member
Richard Lavender	National Grid	Member
Mark Manley	Centrica	Member
Steve Drummond	EDF Trading Ltd	Member
Joanne Ellis	Cornwall Consulting	Member

In addition the following attendees have been present at one or more meetings during the Assessment Procedure:

Member	Organisation	Role
Paul O'Donovan	Ofgem	Attendee
Jerome Williams	Ofgem	Attendee

ANNEX 2 CASE STUDY OF A WITHDRAWING PARTY

This section contains analysis of the Trading Charges of a large Supplier which had ceased trading and was in the process of withdrawing from the Code. Analysis was based on the Trading Charges generated for Payment Dates in an 8 month period following discontinuation of trading activity. This information was provided in order to assist the Settlement Standing Modification Group in their assessment of the materiality of Reconciliation Trading Charges generated by a withdrawing Party.

This section summarises results of the analysis of Trading Charges as illustrated in Graphs 1 to 8.

- **Chart 1: Trading Charge balances**

Chart 1 illustrates both the total balance of Trading Charges and a break down by run type. In this example Trading Charges generated at Settlement Final (SF) result in a positive balance (payment from the Party) of £2,755,221. Trading Charges generated from Reconciliation Runs result in a negative balance of -£1,064,250 (payment to the Party). Consequently the overall position, for the 8 month period considered, was a positive balance of £1,690,972.

- **Chart 2: Trading Charge Payments**

Chart 2 shows the Trading Charges generated from individual Reconciliation Runs. Trading Charges generated from SF runs were typically an order of magnitude larger than non-SF values and have been excluded from the chart for clarity (see Tables 1 and 2 for details of SF Trading Charges).

The largest SF Trading Charge observed was a payment from the Party of £493,965. The largest Reconciliation Trading Charge was a Payment to the Party of -£36,710.

- **Chart 3: Positive Negative Run Type split**

Chart 3 illustrates the split between positive and negative Trading Charges for each run type. The chart shows a swing from a 96% majority of payments from the Party for SF runs to a 9% minority for Reconciliation Final (RF) runs.

- **Chart 4: Fraction of Trading Charges by volume.**

Chart 4 shows the fraction of the total Trading Charges (absolute values), by cash volume, generated by each Run type within the 8 month period. The chart illustrates that 56% of Trading Charges were generated via SF Settlement Runs.

- **Chart 5: Fraction of positive trading charges by volume**

Chart 5 shows the fraction of positive Trading Charges (i.e. payments from the Party), by cash volume, which were generated by each run type within the 8 month period. The chart illustrates that 81% of the payments from the Party were generated via SF Runs.

- **Chart 6: Fraction of negative trading charges by volume**

Chart 6 shows the fraction of negative Trading Charges (i.e. payments to the Party), by cash volume, which were generated by each Run type. The chart illustrates that 6% of the payments to the Party were generated via SF Runs.

- **Charts 7 and 8: Average Trading Charges.**

Charts 7 and 8 show the average Trading Charges for each run type (Graph 8 contains a subset of the data from Graph 7 with SF values removed for clarity).

The average SF Trading Charges is £76,533.93. The average of the absolute SF Trading Charges is £83,159.45.

The average Reconciliation Trading Charges is -£1,627. The average of the absolute Reconciliation Trading Charges is £3,659.

- **Further Points**

Tables 1, 2 and 3 contain a selection of the raw data from which Charts 1-7 were derived. This data illustrates a further point of interest as follows.

Although the average Trading Charge associated with Reconciliation Runs is much lower than that for SF runs (see Charts 7-8), due to the Settlement timetable, a withdrawing Party will be liable to significantly more Reconciliation Runs than SF Runs. In the example 690 Runs were considered of which 654 were Reconciliation Runs. Hence Reconciliation Charges may have a significant contribution to the overall balance position of a Party in the process of withdrawing from the Code.

Chart 1:

Trading Charges Vs Payment Date by Run Type

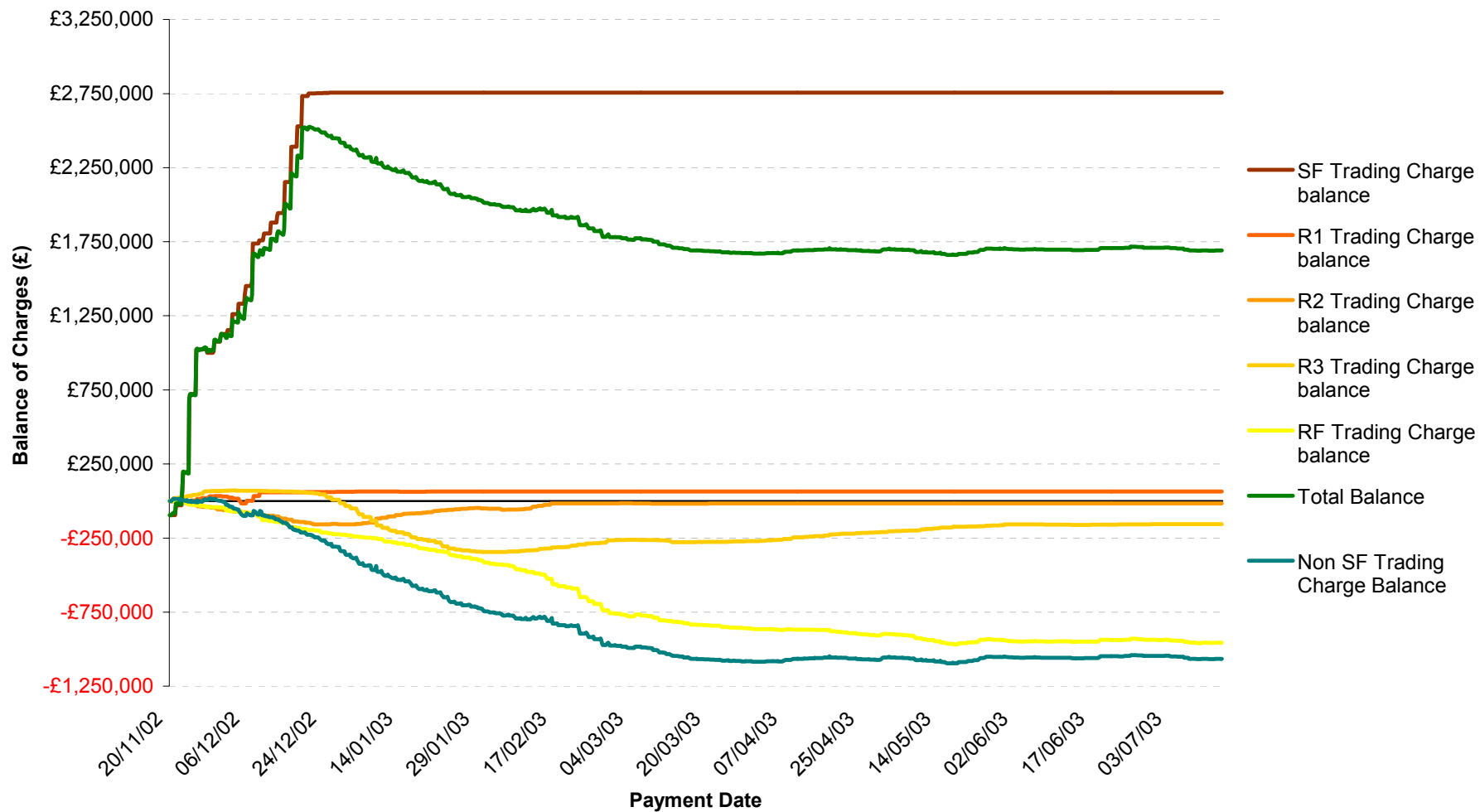


Chart 2:

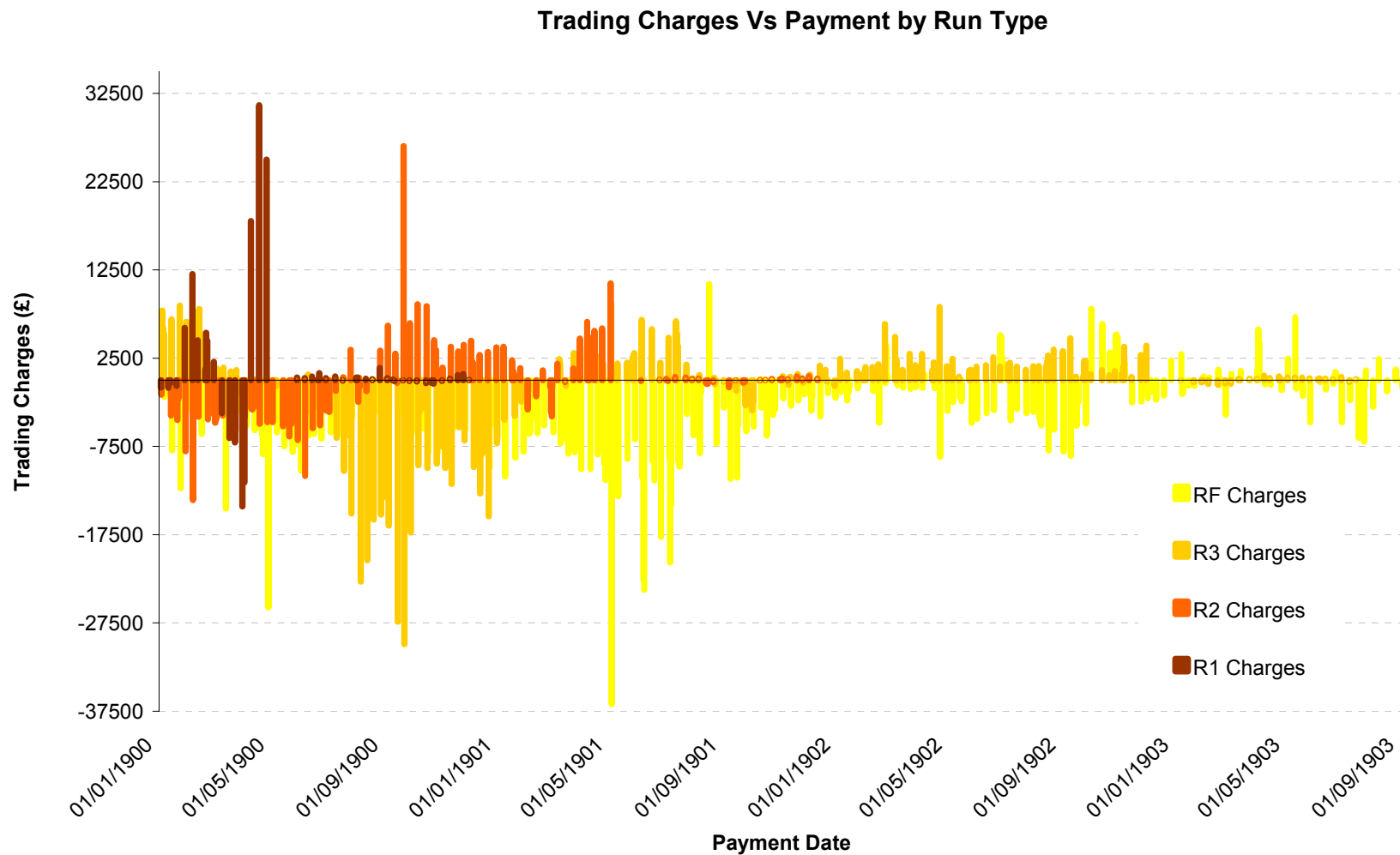


Chart 3:

Positive/ Negative Charge Split Vs Run Type by Volume

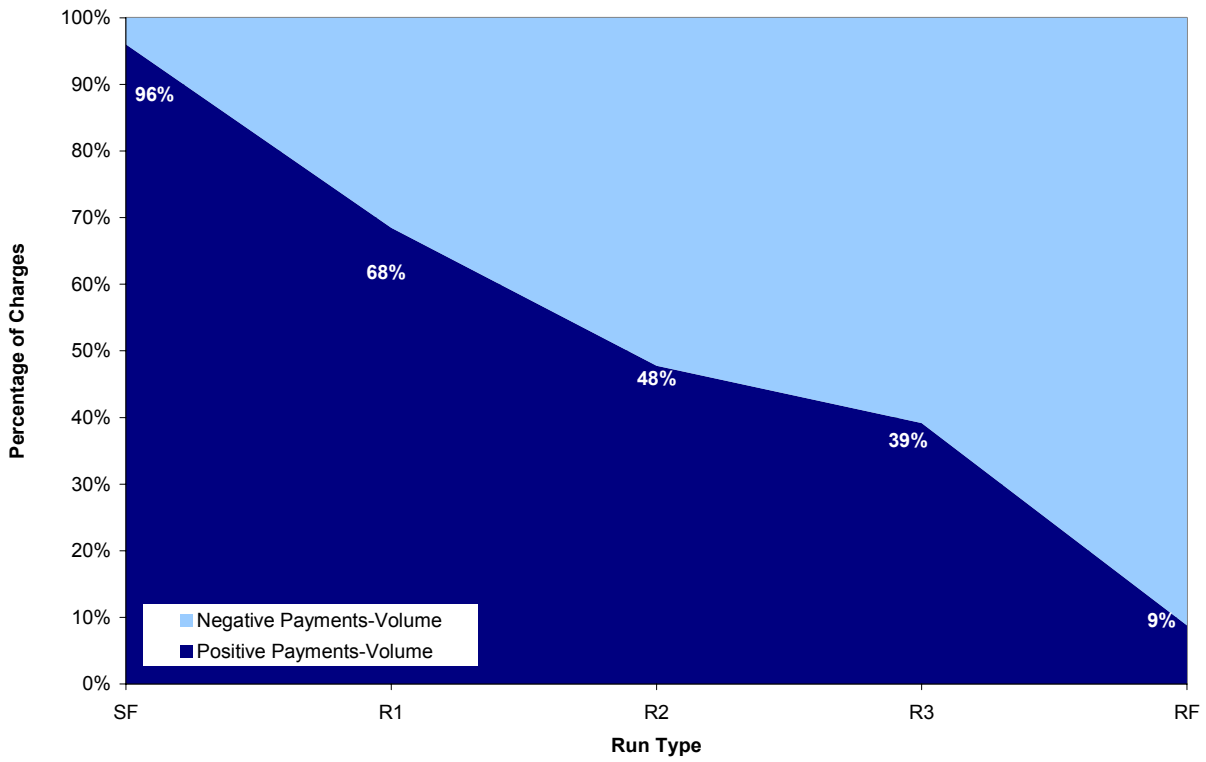
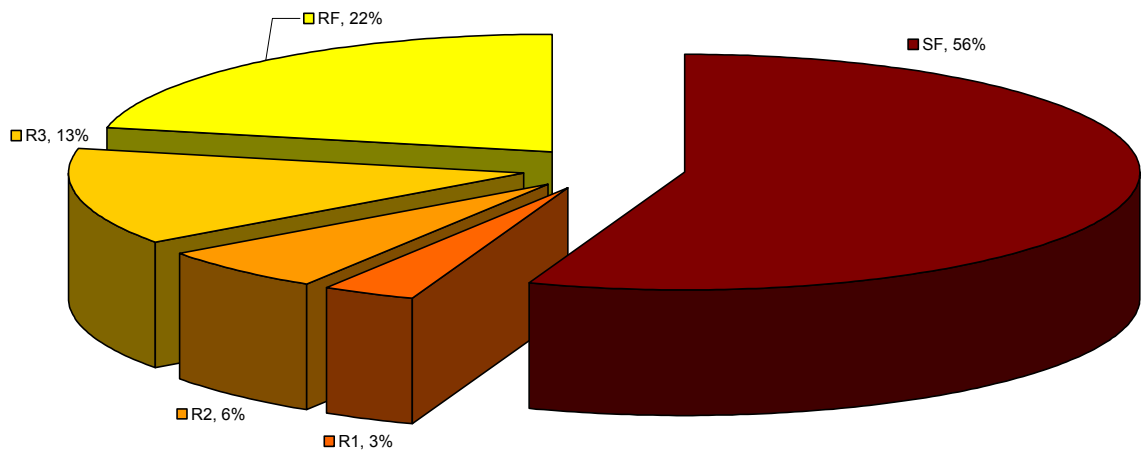


Chart 4:

Fraction of Total Trading Charges Vs Run Type by Volume



Fraction of Positive Trading Charges Vs Run Type by Volume

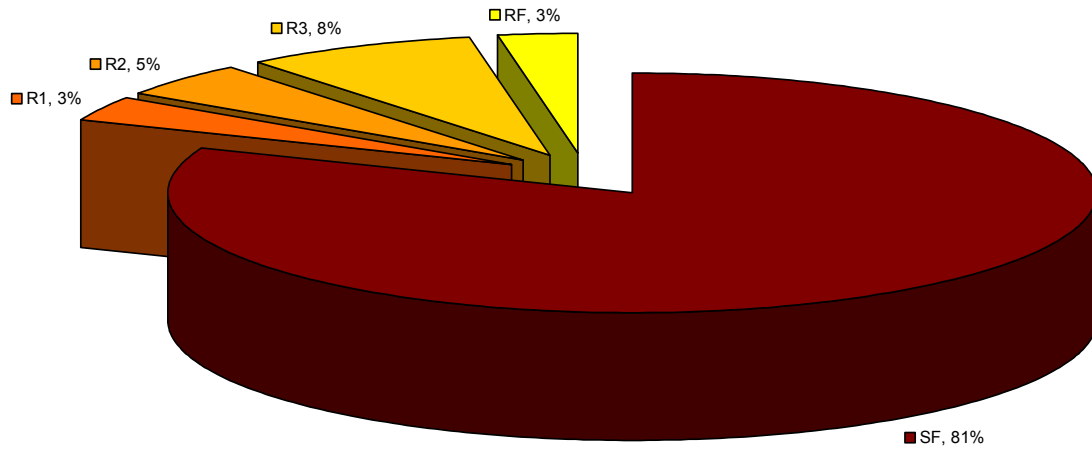


Chart 5:

Chart 6:

Fraction of Negative Trading Charges Vs Run Type by Volume

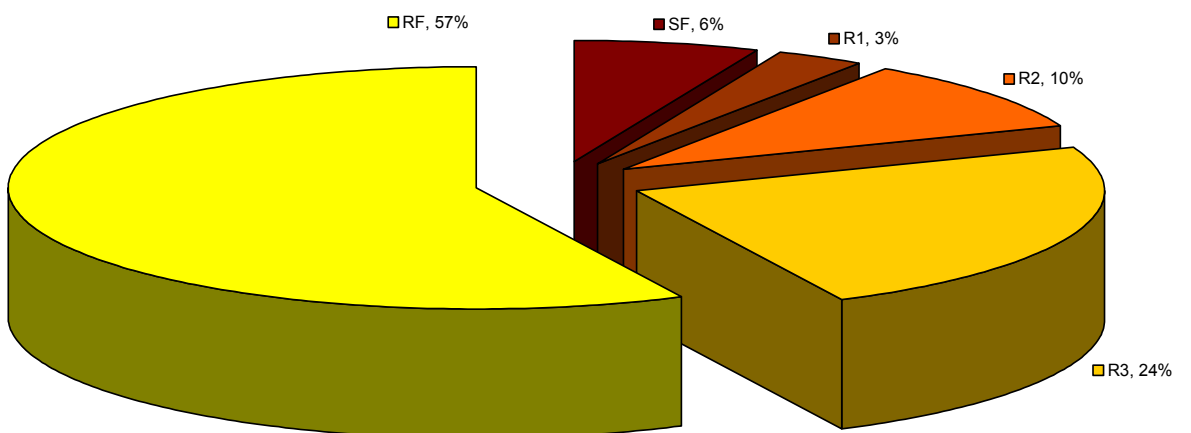


Chart 7:

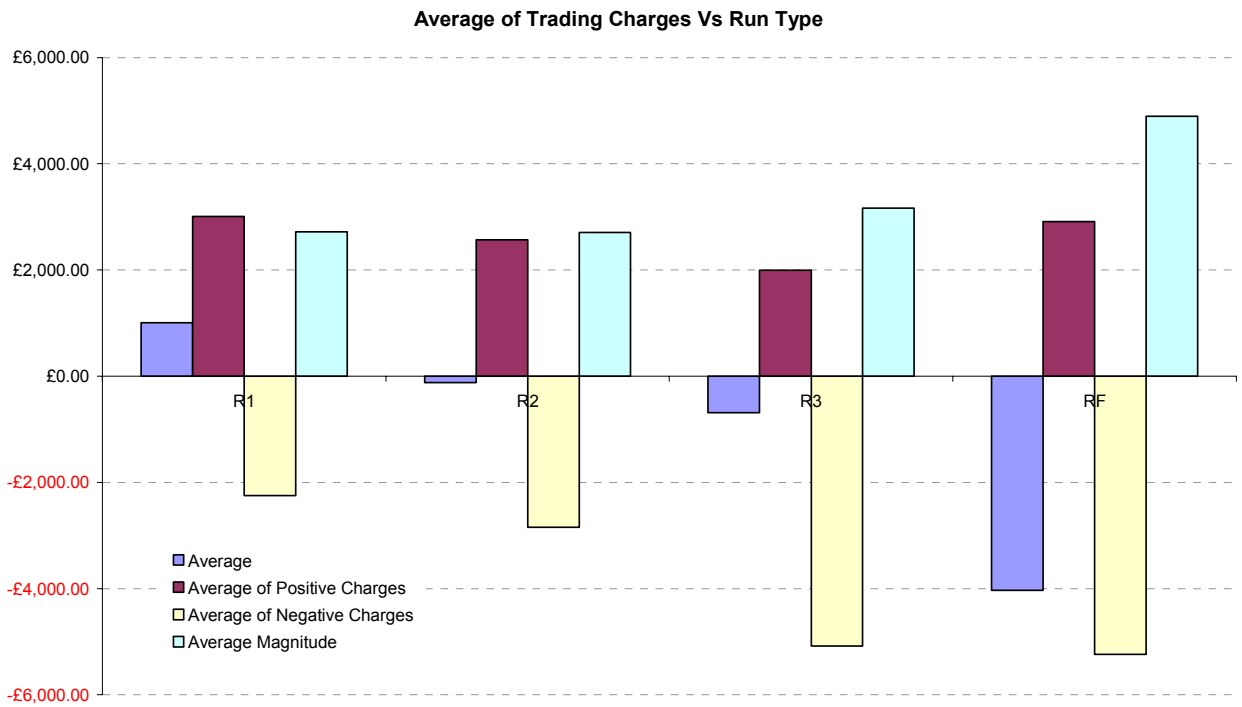
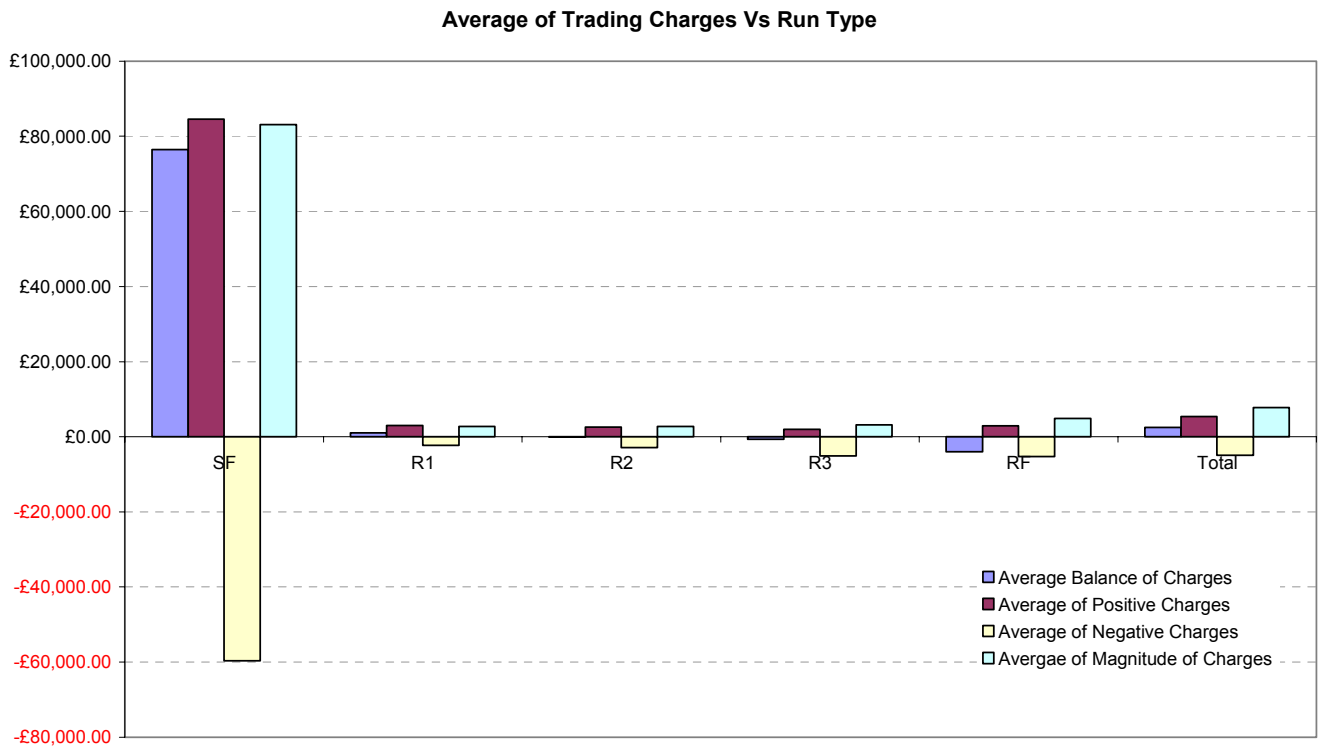


Chart 8:



Raw Data:**Totals:**

	SF	R1	R2	R3	RF	Total
Maximum	£493,965	£31,164	£26,529	£8,656	£10,887	£493,965
Minimum	-£94,711	-£14,276	-£13,580	-£29,907	-£36,710	-£94,711
Total	£2,755,221	£63,273	-£15,329	-£155,763	-£956,431	£1,690,972
Total Positive	£2,874,481	£117,208	£164,219	£281,161	£101,898	£3,538,967
Total Negative	-£119,259	-£53,935	-£179,548	-£436,924	-£1,058,329	-£1,847,996
Magnitude Total	£2,993,740	£171,144	£343,767	£718,086	£1,160,226	£5,386,963
Number	36	63	127	227	237	690
Number Positive	34	39	64	141	35	313
Number Negative	2	24	63	86	202	377

Table 1: Individual Run data

Averages:

	SF	R1	R2	R3	RF	Total
Average	£76,533.93	£1,004.33	-£120.70	-£686.18	-£4,035.57	£2,450.68
Average Positive	£84,543.55	£3,005.34	£2,565.92	£1,994.05	£2,911.36	£5,402.47
Average Negative	-£59,629.71	-£2,247.30	-£2,849.97	-£5,080.51	-£5,239.25	-£4,901.84
Average Magnitude	£83,159.45	£2,716.57	£2,706.83	£3,163.37	£4,895.47	£7,807.19

Table 2: Averages

Percentages:

	SF	R1	R2	R3	RF
% of Run Type Positive-Volume	96%	68%	48%	39%	9%
% of Run Type Negative-Volume	4%	32%	52%	61%	91%
% of Total Positive- Volume	81%	3%	5%	8%	3%
% of Total Negative- Volume	6%	3%	10%	24%	57%
% of Total Magnitude-Volume	56%	3%	6%	13%	22%

Table 3: Positive/ Negative Splits

ANNEX 3 CONSULTATION RESPONSES

Responses from P132 Definition Consultation

Consultation issued 11 August 2003

Representations were received from the following parties:

No	Company	File Number	No. BSC Parties Represented	No. Non-Parties Represented
1.	NGT	P132_DEF_001	1	0
2.	Aquila Networks	P132_DEF_002	1	0
3.	Scottish Power	P132_DEF_003	6	0
4.	British Gas Trading	P132_DEF_004	1	0
5.	Powergen	P132_DEF_005	14	0

P132_DEF_001 – NGT

Respondent:	<i>National Grid Transco</i>
No. of BSC Parties Represented	<i>One</i>
BSC Parties Represented	<i>Please list all BSC Parties responding on behalf of (including the respondent company if relevant). National Grid</i>
No. of Non BSC Parties Represented	<i>None</i>
Non BSC Parties represented	<i>Please list all non BSC Parties responding on behalf of (including the respondent company if relevant). N/A</i>
Role of Respondent	<i>(Supplier/Generator/ Trader / Consolidator / Exemptable Generator / BSC Agent / Party Agent / other – please state) BSC Party</i>

Q	Question	Response	Rationale
1.	Do you support the principle of P132? I.e. 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? Please give rationale	No	Whilst the principle aim of this proposal is to ensure a withdrawing Party will pay for all its liabilities prior to its withdrawal from the BSC; it is clear from the analysis in the consultation that retaining additional Credit Cover may prove to be a barrier to entry and would not better facilitate the applicable BSC Objectives.
2.	Do you believe that P132 requires further assessment? The SSMG intend to recommend that P132 is sent straight to report and reject. Please give rationale	No	Given the analysis in the consultation it is now clear that it is not possible to estimate the liabilities P132 is seeking to cover. We therefore support the recommendation of SSMG.
3.	Do you support the definition/approach described in this document? Please give rationale	Yes	We support the work carried out by the SSMG in the definition of P132 as being consistent with the original proposal.
4.	Do you support the form of the new Credit Cover arrangement as defined by the SSMG? I.e that withdrawing Parties should post an amount of Credit Cover calculated by BSCCo on a case by case basis. Please give rationale	No	Given our answer to Q1 and Q2 we do not support P132, however, the form of the proposed new Credit Cover arrangement as defined by the SSMG is consistent with P132.

Q	Question	Response	Rationale
5.	Do you agree with the view of the SSMG that it is not possible to specify a meaningful level of Credit Cover to protect against the Reconciliation risk of a withdrawing Party without requiring withdrawing Parties to hold an inappropriately large amount of Credit Cover? Please give rationale	Yes	We support the view of the SSMG that the most appropriate estimation may be zero as required by the current arrangements.
6.	Regarding the potential liabilities of a withdrawing Party related to Trading Disputes. Do you agree with the view of the SSMG that it is only possible to produce a meaningful estimation of the potential liabilities arising from those Trading Disputes which had been considered and accepted by the TDC?	Yes	
7.	Are there any issues not identified in this report that you believe should be considered during the Assessment Procedure, should the Panel submit P132 to the Assessment Procedure? Please give issues and rationale	No	
8.	Are there any Alternatives that you believe should be assessed? Please give rationale	No	
9.	Are there any further comments on P132 that you wish to make?	No	

P132_DEF_002 – Aquila Networks

Please find that Aquila Networks Plc response to P132 Definition Consultation is 'No Comment'.

regards
Rachael Gardener

Deregulation Control Group &
Distribution Support Office
AQUILA NETWORKS

P132_DEF_003 – Scottish Power

Respondent:	David Finnigan (SAIC Ltd)
No. of BSC Parties Represented	6
BSC Parties Represented	<i>Please list all BSC Parties responding on behalf of (including the respondent company if relevant).</i> Scottish Power UK plc; ScottishPower Energy Trading Ltd.; ScottishPower Generation Ltd; ScottishPower Energy Retail Ltd.; SP Transmission Ltd; SP Manweb plc.
No. of Non BSC Parties Represented	0
Non BSC Parties represented	<i>Please list all non BSC Parties responding on behalf of (including the respondent company if relevant).</i>
Role of Respondent	<i>(Supplier/Generator/ Trader / Consolidator / Exemptable Generator / BSC Agent / Party Agent / other – please state)</i> Supplier / Generator / Trader / Consolidator / Exemptable Generator / Party Agent

Q	Question	Response	Rationale
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Q	Question	Response	Rationale
1.	<p>Do you support the principle of P132? I.e. 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?</p> <p>Please give rationale</p>	Yes	<p>The materiality estimates for PNE claims are such that “successful” claimants stand to lose significant amounts of their PNE recoveries due to the withdrawal of parties from the BSC. These claimants have invested significant amounts of time and effort in pursuit their claims and should not be denied recovery of sums identified as due to them under the process. Although net reconciliation sums are zero across the market, it is more likely that unanticipated reconciliation charges payable will precipitate default by a party than recoverable charges.</p>
2.	<p>Do you believe that P132 requires further assessment? The SSMG intend to recommend that P132 is sent straight to report and reject.</p> <p>Please give rationale</p>	Yes	<p>The time remaining until publication of PNE decisions and the time to implement P132 are such that it will not provide any protection to successful PNE claimants. The departure of significant BSC Parties (TXU, Independent and others) will already have damaged claimants’ potential recoveries.</p> <p>However, ongoing protection for Parties against the risk of default in reconciliation charges should be provided.</p>
3.	<p>Do you support the definition/approach described in this document?</p> <p>Please give rationale</p>	Yes	
4.	<p>Do you support the form of the new Credit Cover arrangement as defined by the SSMG? I.e that withdrawing Parties should post an amount of Credit Cover calculated by BSCCo on a case by case basis.</p> <p>Please give rationale</p>	Yes	
5.	<p>Do you agree with the view of the SSMG that it is not possible to specify a meaningful level of Credit Cover to protect against the Reconciliation risk of a withdrawing Party without requiring withdrawing Parties to hold an inappropriately large amount of Credit Cover?</p> <p>Please give rationale</p>	No	<p>An absolute average variation between SF and RF runs could be used to estimate potential settlement risk and applied to an appropriate time period (say 3 months) of Party SF imbalance charges.</p>

Q	Question	Response	Rationale
6.	Regarding the potential liabilities of a withdrawing Party related to Trading Disputes. Do you agree with the view of the SSMG that it is only possible to produce a meaningful estimation of the potential liabilities arising from those Trading Disputes which had been considered and accepted by the TDC?	Yes	Any other methodology would involve pre-judging the success of Disputes and may be prejudicial to the Dispute process.
7.	Are there any issues not identified in this report that you believe should be considered during the Assessment Procedure, should the Panel submit P132 to the Assessment Procedure? Please give issues and rationale	No	
8.	Are there any Alternatives that you believe should be assessed? Please give rationale	No	
9.	Are there any further comments on P132 that you wish to make?	No	A case of "shutting the stable door after the horse has bolted" as far as PNE recoveries are concerned.

P132_DEF_004 – British Gas Trading

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

Q	Question	Response	Rationale
1.	Do you support the principle of P132? I.e. 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? Please give rationale	Yes	BGT note that any party can request the ECVA to calculate their Minimum Eligible Amount in respect of the amount of credit cover lodged. This option does provide a withdrawing party with the ability to withdraw all or a large percentage of their credit cover. The ability of parties to request a reduction on their credit cover does provide a risk for the remaining BSC Parties.
2.	Do you believe that P132 requires further assessment? The SSMG intend to recommend that P132 is sent straight to report and reject. Please give rationale	No	Whilst BGT are supportive of the principle and in recognising the risk, BGT also realise the difficulties of calculating a residual level of credit cover that must be left by the withdrawing Party. It does not appear sensible to select an arbitrary figure that does not indicate an expected level of future charges. Also BGT believe that the amount of credit cover lodged by BSC Parties should represent a reasonable level of protection rather than providing complete protection. The existing process provides a reasonable level of protection. Furthermore BGT note the success of the credit arrangements to date in protecting BSC Parties financial interests when a number of BSC Parties have gone into administration.

Q	Question	Response	Rationale
			In view of these three points BGT agree with the recommendation of the SSMG to cease further assessment of this proposal.
3.	Do you support the definition/approach described in this document? Please give rationale	Yes	
4.	Do you support the form of the new Credit Cover arrangement as defined by the SSMG? I.e that withdrawing Parties should post an amount of Credit Cover calculated by BSCCo on a case by case basis. Please give rationale	Yes	If this modification was to be progressed to the assessment phase this is an issue that would need to be considered by the modification group. If such an obligation is placed on withdrawing Parties BGT believe it is essential that any calculation should treat all Parties equitably and fairly.
5.	Do you agree with the view of the SSMG that it is not possible to specify a meaningful level of Credit Cover to protect against the Reconciliation risk of a withdrawing Party without requiring withdrawing Parties to hold an inappropriately large amount of Credit Cover? Please give rationale	Yes	BGT agree with the view of the SSMG that it is impossible to specify a meaningful level of credit cover. It is impossible to forecast Parties future liabilities that may accrue from timetabled reconciliation runs. Also the nature of the Settlement process means that a Party could be owed money from the future reconciliation runs.
6.	Regarding the potential liabilities of a withdrawing Party related to Trading Disputes. Do you agree with the view of the SSMG that it is only possible to produce a meaningful estimation of the potential liabilities arising from those Trading Disputes which had been considered and accepted by the TDC?	No	As part of the disputes process the raising party has to provide an estimate of the materiality. Using that materiality against individual BSC Parties metered take an estimate of BSC Parties liabilities could be calculated.
7.	Are there any issues not identified in this report that you believe should be considered during the Assessment Procedure, should the Panel submit P132 to the Assessment Procedure? Please give issues and rationale	No	
8.	Are there any Alternatives that you believe should be assessed? Please give rationale	No	

Q	Question	Response	Rationale
9.	Are there any further comments on P132 that you wish to make?	No	

P132_DEF_005 – Powergen

Respondent:	Powergen UK plc
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, Consolidator & Exemptable Generator)

Q	Question	Response	Rationale
1.	Do you support the principle of P132? I.e. 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? Please give rationale	No	It is not possible to assess accurately whether a withdrawing Party is likely to owe money in these circumstances, let alone ascertain the magnitude of cover which should be left. If the withdrawing Party is required to hold credit cover then it is fully covering the risk associated with this inability to forecast accurately the extent of any liabilities. This would present a barrier to exiting the market. Alternatively, the remaining Parties could underwrite the risk (ie as now). This spreads the risk across the Parties who are only exposed if the withdrawing Party ends up owing money <u>and</u> does not honour its debt. It must be borne in mind that these Parties are withdrawing in a controlled manner so we should not automatically assume that they will default.
2.	Do you believe that P132 requires further assessment? The SSMG intend to recommend that P132 is sent straight to report and reject. Please give rationale	No	This had already been raised as a formal issue at the SSMG earlier this year. At its meeting of 29 January the SSMG decided that the raising of a modification proposal was not warranted. This fact, plus the further deliberations of the SSMG in considering this modification proposal, leads us to agree that the modification should proceed to report with the recommendation to reject.

Q	Question	Response	Rationale
3.	Do you support the definition/approach described in this document? Please give rationale	No	The definition is consistent with the proposed modification. However, we do not support the proposed modification and therefore cannot support the defined solution.
4.	Do you support the form of the new Credit Cover arrangement as defined by the SSMG? I.e that withdrawing Parties should post an amount of Credit Cover calculated by BSCCo on a case by case basis. Please give rationale	No	See answers to other questions.
5.	Do you agree with the view of the SSMG that it is not possible to specify a meaningful level of Credit Cover to protect against the Reconciliation risk of a withdrawing Party without requiring withdrawing Parties to hold an inappropriately large amount of Credit Cover? Please give rationale	Yes	Reconciliation can result in a Party being owed money or owing money. It is not possible to determine which of these will be the case for a particular withdrawing supplier, yet alone the magnitude of the amounts concerned.
6.	Regarding the potential liabilities of a withdrawing Party related to Trading Disputes. Do you agree with the view of the SSMG that it is only possible to produce a meaningful estimation of the potential liabilities arising from those Trading Disputes which had been considered and accepted by the TDC?	Yes	
7.	Are there any issues not identified in this report that you believe should be considered during the Assessment Procedure, should the Panel submit P132 to the Assessment Procedure? Please give issues and rationale	No	
8.	Are there any Alternatives that you believe should be assessed? Please give rationale	No	
9.	Are there any further comments on P132 that you wish to make?	No	

