



MARCH 2003

**INITIAL ASSESSMENT OF
MODIFICATION PROPOSAL P118 -
INCREASED EFFICIENCY IN THE
REPORTING OF CREDIT DEFAULT
STATEMENTS**

Prepared by ELEXON Limited

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I DOCUMENT CONTROL

a Authorities

Version	Date	Author	Reviewer	Change Reference
0.1	03/03/03	Dena Harris	J.Ellis and J.Lucas	Initial Peer Review
0.2	04/03/03	Dena Harris	Chris Rowell	Technical Review
0.3	06/03/03	Dena Harris	Change Delivery	Quality Review
1.0	07/03/03	Dena Harris	The Panel	First Issue

b Distribution

Name	Organisation
Each BSC Party	Various
Each BSC Agent	Various
The Gas and Electricity Markets Authority	Ofgem
Each BSC Panel Member	Various
energywatch	energywatch
Core Industry Document Owners	Various

c References

Reference	Document	Owner	Issue Date	Version
1	CP703 Change Proposal 'Credit Default Process'	ELEXON	24/09/01	1.0

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1 SUMMARY

Modification Proposal P118 'Increased efficiency in the reporting of Credit Default statements' (P118), included in Annex 2, was raised on 19 February 2003 by BSCCo on behalf of the Balancing and Settlement Code Panel in accordance with Section F2.1.1(d) of the Balancing and Settlement Code. P118 was raised following a discussion of Paper 58/013 at the Balancing and Settlement Code Panel meeting of 13 February 2003.

An initial assessment of P118 has identified that a change is required to Section M.3.2.6 of the Balancing and Settlement Code. A copy of the legal text for P118 is provided in Annex 1.

No major issues have been identified by this Initial Assessment.

On the basis of this Initial Written Assessment, the Balancing and Settlement Code Panel is invited to:

- a) **DETERMINE that Modification Proposal P118 should be submitted to the Report Phase in accordance with section F2.7 of the Code;**
- b) **AGREE the Report Phase timetable such that a draft Modification Report should be completed and submitted to the Panel for consideration at their meeting of 10 April 2003;**
- c) **AGREE that the Proposed Modification P118 should be made; and**
- d) **AGREE a provisional Implementation Date for the Proposed Modification P118 of 24 June 2003 if a decision is received prior to 4 June 2003, or 15 Business Days after the Authority's decision if a decision is received on or after 4 June 2003.**

2 INTRODUCTION

This Report has been prepared by ELEXON Ltd. on behalf of the Balancing and Settlement Code Panel ('the Panel') in accordance with the terms of the Balancing and Settlement Code ('the Code'). The Code is the legal document containing the rules of the balancing mechanism and imbalance settlement process and related governance provisions. ELEXON is the company that performs the role and functions of the BSCCo, as defined in the Code.

3 DESCRIPTION OF MODIFICATION PROPOSAL

P118 seeks to amend Section M.3.2.6(b) of the Code to allow Level 1 Credit Default notices to be posted on either the Balancing Mechanism Reporting Service (BMRS) or BSC Website immediately after the expiry of the default cure period, thereby removing the requirement to wait until 0900 hours the following day.

Currently Section M3.2.6(b) of the Code states that the default cure period expires at 2400 hours on the first Business Day after the day in which the Query Period expires. As soon as is reasonably practicable after 0900 hours on the following day, the Energy Contract Volume Aggregation Agent (ECVAA) must notify the Trading Party that it is in Level 1 Credit Default and must post a notice on the BMRS or BSC Website. Part of the posting process is currently performed manually, and therefore, according to members of the original NETA programme, the 0900 hours requirement is for practicality - so there is no requirement for BSCCo or BSC Agent to have staff available outside of normal working hours.

It should be noted that P118 does not change the time at which a Party enters Level 1 Credit Default: this occurs immediately after the end of the default cure period, irrespective of whether or not P118 is implemented. P118 merely facilitates prompt reporting of the Credit Default once it has occurred.

Under Section F2.1.1(d) of the Code, the Panel can raise a Modification Proposal on the recommendation of BSCCo to rectify minor inconsistencies, manifest errors or other minor consequential changes, or if they believe it would better facilitate the objective in Condition C3 (3)(d) of the Transmission Licence, promoting efficiency in the implementation of the balancing and settlement arrangements.

P118 proposes that a change to the Code should be made to allow the posting of Level 1 Credit Default notices as soon as practicable after the expiry of the default cure period. This releases ECVAA from the requirement to wait until 0900 hours the following day after the default cure period expires. Following the CVA June 03 BSC Systems Release and implementation of CP703 'Credit Default Process' (Reference 1), the ECVAA system will be capable of reporting Credit Default notices automatically to the Balancing Mechanism Reporting Agent (BMRA). The notices will then be automatically published on the BMRS. As the functionality will now be included in the ECVAA system, using this functionality will provide a more efficient implementation of the Code and therefore better facilitates the achievement of Applicable BSC Objective (d):

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

4 IMPACT ON BSC SYSTEMS AND PROCESSES

The impact on all BSC systems and processes has been considered and is limited to the following:

BSC System/Process	Potential Impact of Proposed Modification
Credit Checking	Implementation of CP703 introduces a parameter to allow a delay in sending Level 1 Credit Default notices to the BMRA. All that is required for implementation of P118 is a change to this parameter
BMRA	No predicted impact as the BMRS is automated and should not be affected by the 2400/0900 hours change

5 IMPACT ON OTHER SYSTEMS AND PROCESSES USED BY PARTIES

No impact identified

6 IMPACT ON DOCUMENTATION

6.1 Impact on Balancing and Settlement Code

The impact on the Balancing and Settlement Code is limited to the following:

BSC Section	Potential Impact of Proposed Modification
M: Credit Cover and Credit Default	Changes to section M3 to remove the requirement to post Level 1 Credit Default notices after 0900 hours following the default cure period

6.2 Impact on Code Subsidiary Documents

No impact has been identified on the Code Subsidiary Documents however note the following:

Code Subsidiary Document	Potential Impact of Proposed Modification
BSC Service Descriptions	No impact has been identified as the ECVAA Service Description refers directly to Section M of the Code

6.3 Impact on Core Industry Documents

No impact identified.

6.4 Other Documents and Processes

The impact on other documents and processes is limited to the following:

Item	Potential Impact of Proposed Modification
Obligations Register	The document may need to be updated to reflect potential changes

7 IMPACT ON OTHER CONFIGURABLE ITEMS

The impact on other Configurable Items is limited to the following:

Item	Potential Impact of Proposed Modification
Business Process Model	Potential impact on ECVAA and BMRA work flows

User Requirement Specification	Changes to the URS have already been captured in the implementation of CP703
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8 IMPACT ON ELEXON

The impact on ELEXON is limited to the following:

Area of Business	Potential Impact of Proposed Modification
ELEXON Procedures	Service Delivery CVA Operations local working instructions will need to be updated

9 IMPACT ON FINANCIAL ARRANGEMENTS AND BUDGET

No impact identified.

10 IMPACT ON BSC AGENT CONTRACTUAL ARRANGEMENTS

No impact identified.

11 PROCESS AND TIMETABLE FOR PROGRESSING THE PROPOSAL

This Initial Assessment indicates that no further work is required to define or assess the proposed amendments to the Code and other documents and processes. ELEXON therefore recommends, that P118 be submitted directly to the Report Phase, with a provisional recommendation, that P118 should be made. ELEXON recommends an Implementation Date of:

- 24 June 2003 if a decision is received prior to 4 June 2003; or
- 15 Business Days after the Authority's decision if a decision is received on or after 4 June 2003.

The rationale for the initial Implementation Date is to coincide with the CVA Programme BSC System Release in June 2003 because P118 requires CP703 to be implemented and this has been agreed for the June 2003 release. The draft Modification Report will be issued for consultation on 18 March 2003 for 7 Business Days, and will be presented to the Panel at their meeting to be held on 10 April 2003.

12 ISSUES

No major issues were identified during this Initial Assessment. Several minor issues have been raised and they are detailed below, for information, as they do not impact the implementation of P118:

- Removing the requirement to wait until after 0900 hours could be problematic if it removes the reason for which the 0900 hours requirement was originally included in the Code. Following the proposition of P118 the 0900 requirement was questioned during an Imbalance Settlement Group meeting:
 - The period between 2400 hours and 0900 hours may be a further period of grace (in addition to the default cure period) in which a Party would still have time to reduce their indebtedness and hence avoid notification;

- The period between 2400 hours and 0900 hours could be for protection of small Parties who may not have staff outside working hours to receive the notice even though this is required by Communications Requirement Document, Section 3.2; or
- ECVAA and BSCCo did not have staff or process available to be able to perform their requirements at 2400 hours, and therefore 0900 hours was used for practicality.

BSCCo have discussed this with members of the original NETA programme and can confirm that the last reason is correct, as there is currently a manual process involved in posting a notice. Furthermore, the former two reasons are inaccurate - it is not the entry into Level 1 Credit Default that is delayed until 0900 hours but merely the reporting. CP703 will automate this process hence the 0900 hours requirement can be removed via P118.

- It should also be noted that BSCCo authorisation process will not change with implementation of P118 and authorisation is still necessary before a Party can enter Level 1 Credit Default.

ANNEX 1 LEGAL TEXT

See attached document P118 Legal Text Version 1

ANNEX 2 MODIFICATION PROPOSAL

Modification Proposal	MP No: 118 <i>(mandatory by BSCCo)</i>
Title of Modification Proposal: Increased efficiency in the reporting of Credit Default statements	
Submission Date: 19 February 2003	
Description of Proposed Modification: The Proposed Modification seeks to allow the Energy Contract Volume Allocation Agent (ECVAA) to report Level 1 Credit Default notices immediately on a Party entering Level 1 Credit Default. This will add extra rigour to the Credit Default process by allowing the ECVAA system to be developed to automatically post Credit Default notices on the Balancing Mechanism Reporting Service (BMRS).	
Description of Issue or Defect that Modification Proposal Seeks to Address: Section M3.2.6 (b) of the Code states that Level 1 Credit Default notices shall be posted as soon as reasonably practicable after 0900 hours on the day following the expiry of the default cure period. This clause was included as a point of practicality. Following the CVA June 03 Systems Release, the ECVAA system will be capable of reporting Credit Default notices as they occur. It would be more efficient and would allow for a more robust system if the requirement to wait until 0900 hours on the following day was	

Modification Proposal	MP No: 118 <i>(mandatory by BSCCo)</i>
removed from the Code.	
Impact on Code:	
Section M to be amended as follows:	
3.2.6	At the end of the default cure period, if the Credit Cover Percentage (as determined by the ECVAA in relation to each Settlement Period) was greater than 75% in relation to every Settlement Period in the default cure period, then subject to an authorisation notice being in force in relation to that Trading Party pursuant to Section 3.4 (or if later, with effect from such notice being given):
(a)	the Trading Party shall be in " Level 1 Credit Default ";
(b)	the ECVAA shall (as soon as reasonably practicable after 0900 hours on the day following the expiry of the default cure period) notify the Trading Party that it is Level 1 Credit Default and post on the BMRS or the BSC Website a Level 1 Credit Default statement in relation to the Trading Party.
Impact on Core Industry Documents:	
None	
Impact on BSC Systems and Other Relevant Systems and Processes Used by Parties:	
ECVAA System	
BMRS	
BSC Website	
Impact on other Configurable Items:	
None	
Justification for Proposed Modification with Reference to Applicable BSC Objectives:	
In the proposer's view, the Proposed Modification would better facilitate the objective in Condition C3 (3)(d) of the Transmission Licence, i.e. promoting efficiency in the implementation and administration of the balancing and settlement arrangements. Removing the requirement to wait until 0900 hours on the day following a Party going into Level 1 Credit Default before posting a Level 1 Credit Default notice on the BMRS will allow a fully automated and hence more efficient Credit Default notice reporting system to be developed within ECVAA.	
Details of Proposer:	
Name: BSC Panel	
Organisation:	
Telephone Number:	
Email Address:	

Modification Proposal	MP No: 118 <i>(mandatory by BSCCo)</i>
Details of Proposer's Representative: Name: Modification Secretary Organisation: ELEXON Telephone Number: 020 7380 4100 Email Address: chris.rowell@elexon.co.uk	
Details of Representative's Alternate: Name: Organisation: Telephone Number: Email Address:	
Attachments: NO If Yes, Title and No. of Pages of Each Attachment:	