

December 2001

**INITIAL ASSESSMENT OF  
MODIFICATION PROPOSAL P53 -  
Changes to DC, GC and CALF and the  
Effect on Energy Indebtedness**

**Prepared by ELEXON Limited**

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<b>Author</b>	ELEXON

## I DOCUMENT CONTROL

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Version	Date	Reviewer	Signature	Responsibility
0.1	29/11/01	Chris Rowell		Trading Strategy
0.1	29/11/01	Sarah Parsons		Trading Operations
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0.1	29/11/01	Modifications		Modifications
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### 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

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**d Related Documentation**

<b>Reference</b>	<b>Document</b>
Reference 1	Modification Proposal P53 'Changes to DC, GC and CALF and the Effect on Energy Indebtedness
Reference 2	Modification Report 'Modification Proposal P2 – Revision of the Methodology for Assessing Credit Indebtedness' (MR002) 3 September 2001
Reference 3	Change Proposal CP 541 'Changes to BMCAEC / BMCAIC Affecting Energy Indebtedness Calculations Retrospectively'
Reference 4	Panel Paper 17/021 'Changes to Generation Capacity and Demand Capacity and the Effect on Credit Checking' 3 May 2001
Reference 5	ISG Paper ISG/05/040 'Change Proposals for Approval and Inclusion in Release 2 Project' 24 July 2001
Reference 6	Panel Paper 27/012 'BSC Systems Release 2 Project Progress'

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## 1 SUMMARY

Modification Proposal P53: Changes to DC, GC, CALF and the Effect on Energy indebtedness was raised by the Panel on 16 November 2001 on the recommendation of BSCCo.

The Modification Proposal, seeks to remove the requirement (BSC, Section M 1.2.4) for revisions to BM Unit Credit Assessment Export (BMCAEC) and Import Capabilities (BMCAIC) to be applied in Energy Indebtedness calculations as if they were effective from the first of the 29 days used in the calculation. The functionality of the ECVA system does not enable application of revised values as specified in the Code. This modification would align the Code with the BSC Systems.

The Modification Proposal notes that:

- the alternative approach of changing the BSC systems to align to the Code is estimated to cost in the region of £200,000, hence why the approach of amending the Code is suggested; and
- the materiality of any misalignment will be diminished but not removed by the implementation of Modification P2 'Revision of the Methodology for Assessing Credit Indebtedness', hence why the need remains despite the planned introduction of P2.

An initial assessment of Modification Proposal P53 has identified that the only asset that is impacted is the Code Section M 1.2.4, with the removal of the obligation on the ECVA to apply changes with effect from the first of the 29 days.

Furthermore, removal of this clause will ensure that where a party has a revised BMCAEC and /or BMCAIC, the reported indebtedness will correctly align with the Code, thereby avoiding any 'material doubt' that may exist should the party enter credit default.

**It is therefore recommended that the Modification Proposal is progressed as follows:**

- **Modification Proposal P53 should be submitted to the Assessment Phase in accordance with Section F 2.6 of the Balancing and Settlement Code;**
- **That such Assessment should be undertaken by the Credit Modification Group; and**
- **The Assessment Report for Modification Proposal P53 should be submitted to the Panel for consideration at their meeting of 14 February 2002.**

## 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 ('BSC'). The BSC 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 BSC.

An electronic copy of this document can be found on the BSC website, at [www.elexon.co.uk](http://www.elexon.co.uk)

### 3 PURPOSE AND SCOPE OF THE REPORT

Section F of the BSC sets out the procedures for progressing proposals to amend the BSC (known as 'Modification Proposals'. These include procedures for proposing, consulting on, developing, evaluating and reporting to the Authority on potential modifications.

The BSC Panel is charged with supervising and implementing the modification procedures. ELEXON provides the secretariat and other advice, support and resource required by the Panel for this purpose. In addition, if a modification to the Code is approved or directed by the Authority, ELEXON is responsible for overseeing the implementation of that amendment (including any consequential changes to systems, procedures and documentation).

When a new proposal to modify the BSC is made, it is the responsibility of the Panel to determine how it should be progressed. Options include submitting the proposal to a Definition Procedure<sup>1</sup>, submitting it to an Assessment Procedure<sup>2</sup>, amalgamating the proposal with another proposal<sup>3</sup>, or proceeding directly to the Report Phase<sup>4</sup>. With a view to assisting the Panel in taking this decision, ELEXON prepares this initial written assessment of the implications of the Modification Proposal as soon as reasonably practicable after the proposal is made<sup>5</sup>. ELEXON endeavours to complete this initial assessment such that it can be reviewed by the Panel at the Panel meeting at which the relevant Modification Proposal is first to be considered.

This initial assessment provides a preliminary view on the following:

- the potential impact of the proposed modification on BSC systems and processes;
- the potential impact of the proposed modification on other systems and processes used by Parties;
- the potential impact of the proposed modification on the BSC, Code Subsidiary Documents and Core Industry Documents;
- the potential impact of the proposed modification on ELEXON;
- the potential impact of the proposed modification on BSC financial arrangements and budget;
- the potential impact of the proposed modification on BSC Agent contractual arrangements;
- The process and timetable that should be adopted for the progression of the Modification Proposal, in light of its complexity, importance and urgency; and
- Issues that will need to be considered and addressed in progressing the Modification Proposal (including the potential need for impact assessments, consultation and analyses).

It should be noted that, as this document only represents a preliminary assessment of the Modification Proposal, the information contained herein will, in most cases, be superseded by the subsequent analysis and reports produced by the Modification Group to which the Panel assigns the proposal for consideration.

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<sup>1</sup> see BSC F2.5

<sup>2</sup> see BSC F2.6

<sup>3</sup> see BSC F2.3

<sup>4</sup> see BSC F2.7

<sup>5</sup> see BSC F2.1.8

## 4 DESCRIPTION OF THE MODIFICATION PROPOSAL

Modification Proposal P53 was submitted on 16 November 2001 and was raised under the provisions of the Balancing and Settlement Code (the Code), Section F 2.1.1 (d) (i) which allows a Modification to be raised by the Panel, "on the recommendation of BSCCo to in accordance with Section C 3.8.8." if they believe such Modification better facilitates achievement of the Applicable Objectives, as defined in the Transmission Licence Condition C3, paragraph (3)<sup>6</sup>. In the case of Modification P53, the Panel agreed with the assertion that the Modification better facilitated achievement of 3(d) "Promoting efficiency in the implementation and administration of the balancing and settlement arrangements."

The Modification Proposal, seeks to remove the requirement (BSC, Section M 1.2.4) for revisions to BM Unit Credit Assessment Export (BMCAEC) and Import Capabilities (BMCAIC) to be applied in Energy Indebtedness calculations as if they were effective from the first of the 29 days used in the calculation.

- 1.2.4 *Upon any change in the value of BM Unit Credit Assessment Export Capability or BM Unit Credit Assessment Import Capability for a BM Unit, values of Energy Indebtedness (for relevant Trading Parties) shall be determined (in relation to Settlement Periods in and from the day on which, in accordance with paragraph 1.6, the change becomes effective) ~~as though such change were effective with effect from the first of the 29 days referred to in paragraph 1.2.1.~~*"

The functionality of the ECVA system does not enable application of revised values as specified in the Code. This modification would align the Code with the BSC Systems.

The Modification Proposal notes that:

- The alternative approach of changing the BSC systems to align to the Code is estimated to cost in the region of £200,000, hence why the approach of amending the Code is suggested; and
- The materiality of any misalignment will be diminished but not removed by the implementation of Modification P2 'Revision of the Methodology for Assessing Credit Indebtedness', hence why the need remains despite the planned introduction of P2<sup>7</sup>.

As a consequence the Modification Proposal suggests that the modification to the Code is a more cost effective and efficient option, therefore meeting the provisions of the Applicable BSC Objective C3 (3)(d) 'promoting efficiency in the implementation and administration of the balancing and settlement arrangements'.

A copy of the Modification Proposal, as submitted by its proposer, can be found at Annex 1 to this report.

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<sup>6</sup> The reference here pertains to the new issue of the Transmission Licence effective from 01 October 2001 and replaces (and is therefore equivalent to) Transmission Licence Condition 7A (3).

<sup>7</sup> The Modification Proposal states that implementation of P2 will be in March 2002. Implementation is in fact agreed for September 2002.

## 5 HISTORY OF THE MODIFICATION PROPOSAL

### 5.1 Background

BM Unit Credit Assessment Export Capability (BMCAEC) and BM Unit Credit Assessment Import Capability (BMCAIC) are recalculated on any change to Demand Capacity and Generation Capacity respectively, and also as a consequence of any revision to Credit Assessment Load Factor (CALF) for a BM Unit. BMCAEC and BMCAIC are the key values utilised in the calculation of Energy Indebtedness for a Party, and therefore where the DC / GC / CALF values are not sufficiently accurate the resulting Energy Indebtedness values can be materially incorrect.

On 3 May 2001 a Panel Paper (17/021) entitled 'Changes to Generation Capacity and Demand Capacity and the Effect on Credit Checking', was presented to the Panel for decision. The paper (Reference 4) detailed the provisions of the Code regarding retrospective application of BM Unit Credit Assessment Export Capability (BMCAEC) and BM Unit Credit Assessment Import Capability (BMCAIC) values in Energy Indebtedness calculations.

The paper noted that:

- Section M 1.2.4 states that any amendment to BMCAEC / BMCAIC should be applied within Energy Indebtedness calculations, as if the change had been effective from the first of the 29 days that are utilised to provide a cumulative Energy Indebtedness value for a Party;
- Section K 3.4.6 (b) states that any revision to Demand Capacity or Generation Capacity should not result in the recalculation of Energy Indebtedness values for Settlement Periods prior to the Effective From Date of such revision;
- These two provisions are not conflicting as a consequence of the differing processes they represent, namely that Section K reflects seasonal revisions to Demand Capacity and / or Generation Capacity and thus it is not appropriate for these to be applied in accordance with Section M 1.2.4, whereas Section M reflects ad hoc (potentially mid season adjustments, or revisions on appeal) which should be applied accordingly; and
- The BSC Systems operating in accordance with Section K 3.4.6 (b) only, i.e. are not capable of any retrospective application of revised values of BMCAEC / BMCAIC. The Paper proposed that ECVAA be amended to support the application of BMCAEC / BMCAIC into Indebtedness calculations for ad hoc (non seasonal) amendments.

The Panel agreed with the conclusions and recommendations in the Paper and agreed that the relevant amendment to ECVAA be progressed. To this end, Change Proposal (CP) 541 '*Changes to BMCAEC / BMCAIC affecting Energy Indebtedness Calculations Retrospectively*' was raised by ELEXON, proposing that ELEXON would determine when a BMCAEC / BMCAIC revision necessitates application in the Indebtedness calculations in accordance with Section M 1.2.4, and where this was the case, ELEXON would request that ECVAA apply the revision in accordance with the Code Section M 1.2.4.

The Change Proposal (CP541) was provided to the BSC Central Service Agent for a High Level Impact Assessment (dated 5 June 2001), such impact assessment provided an indicative cost of £176,045 for development and implementation of the amendment to ECVAA system functionality.

Consequently CP 541 was included in the batch of change proposals to be agreed for inclusion in the ELEXON BSC Systems Release 2 Project by the Imbalance Settlement Group (ISG). ELEXON presented a paper to this effect to the ISG – ISG/05/040 'Change Proposals for Approval and Inclusion in Release

2 Project' on 24 July 2001, for the ISG to determine which Change Proposals would comprise Release 2, and make a recommendation to this effect to the Panel Meeting of the 30 July 2001.

Panel paper 27/012 records that *"ISG recommend rejection of this change [CP541] because of the impact of P2 which reduces effective period from 29 to 7 days. (Note this would require a modification to be raised to make the Code consistent with BSC Systems)."* The Panel (Final Minutes from Meeting 27, paragraph 8) *"REJECTED the Change Proposals which ISG recommended for rejection"*, and by implication such rejection includes CP541. Therefore ELEXON was requested by the ISG (Meeting 07) to raise the appropriate Modification Proposal.

## **5.2 Interaction with Modification P2**

Modification P2 'Revision of the Methodology for Assessing Credit Indebtedness' seeks to amend current methodology for calculating Energy Indebtedness with a more accurate and therefore representative methodology. The Modification is currently planned for implementation in March 2002.

Modification P2 proposes that the calculation of indebtedness for credit checking purposes should be enhanced to use actual prices and metered volumes. The intent of this is to protect Parties from the expense of having to post inappropriate levels of credit cover, and also mitigate the risk of a defaulting Party having unsecured settlement liabilities.

Currently the Energy Indebtedness of a Party is calculated using an approximated assessment of the Parties' settlement exposure to Initial Settlement (i.e. when they actually settle). This calculation is based on the known cumulative contract levels within ECVAAs against the Party's potential export / import (a feature of the BM Unit Credit Assessment Export / Import Capability, hence the interaction with CP541). This calculation is acknowledged as inaccurate and approximate and as a consequence, Modification P2 is seeking to replace this methodology with one based on a Party's actual Settlement liability, as calculated by the Settlement Administration Agent (SAA).

Under P2, the ECVAAs (the Agent responsible for calculating Energy Indebtedness values) will utilise actual output from SAA in the Indebtedness calculations, thus replacing the approximation with a significantly more accurate reflection of the Party's actual position. However, as a result of the Settlement timetable, this more accurate information is not available for the full period over which ECVAAs calculate the indebtedness for a Party (29 days). Therefore the existing methodology will be retained for the first 7 day period for which settlement data is not available.

The implementation of Modification P2 effectively means that inaccuracies in Indebtedness (and therefore Credit Cover levels) resulting from inaccurate BMCAIC / BMCAEC (resulting from inaccuracies in DC / GC / CALF) values, are reduced by a factor of four. This forms the basis of the ISG assertion that the implementation of Modification P2 effectively negates the requirement for retrospective application of revised BMCAEC / BMCAIC in Indebtedness calculations as a result of the reduced influence of inaccuracies in the variables utilised.

## **5.3 Credit Cover Concerns**

ELEXON is of heightened concerns over the credit calculations following the recent events of Default. This Modification caters for the application of revisions to three of the factors within the Energy Indebtedness calculation. The reasons for such revisions are prescribed in the Code and arise from:

- Notification of specified changes to the predicted seasonal maximums of GC and DC
- Re-determination of CALF values
- Identification of data errors in GC, DC or CALF.

The former should be predictive and so backward application for the 29 days is not applicable. Dependent on the nature of the change to CALF or any identified errors, these may result in an increase or decrease to the Energy Indebtedness of a Party, which in turn may result in that Party seeking a change to its Credit Cover. The Modification will formalise the delay in a revision to the values becoming fully reflected in the calculation.

The effect to which the three values influence the Energy Indebtedness of Party and hence influence their Credit Cover will however be significantly diminished following the planned introduction of P2 in September 2002 , from the full 29 days to 7 days. In this respect the delay in a revision to the values becoming fully reflected in the calculation will similarly be reduced from 29 days to 7 days.

Against this background the Modification will importantly correctly align the systems and the Code, thereby avoiding any 'material doubt' that may exist should the party enter credit default. ELEXON therefore continue to recommend that the Modification be sought.

## 6 IMPACT ON BSC SYSTEMS AND PROCESSES

BSC System / Process	Potential Impact of Proposed Modification
<b>Registration</b>	No Impact Identified at this time
<b>Contract Notification</b>	No Impact Identified at this time
<b>Credit Checking</b>	If the amendment to the Code defined in the Modification Proposal is undertaken, then there is no impact on Credit Checking, as the amendment will be limited to the wording in the Code to bring it in line with ECVAA operational procedure. However, if the Assessment Procedure determines that an Alternative Modification is required to address the issues raised by the Modification, then there may be an impact in this area.
<b>Balancing Mechanism Activities</b>	No Impact Identified at this time
<b>Collection and Aggregation of Metered Data</b>	No Impact Identified at this time
<b>Supplier Volume Allocation</b>	No Impact Identified at this time
<b>Settlement</b>	No Impact Identified at this time
<b>Clearing, Invoicing and Payment</b>	No Impact Identified at this time
<b>Reporting</b>	No Impact Identified at this time
<b>Contingencies</b>	No Impact Identified at this time
<b>Dispute Resolution</b>	No Impact Identified at this time

## 7 IMPACT ON OTHER SYSTEMS AND PROCESSES USED BY PARTIES

System / Process	Potential Impact of Proposed Modification
BSC Parties	No Impact Identified at this time
Transmission Company	No Impact Identified at this time

## 8 IMPACT ON DOCUMENTATION

### 8.1 Impact on Balancing and Settlement Code

BSC Section	Potential Impact of Proposed Modification
A: Parties and Participation	No Impact Identified at this time
B: The Panel	No Impact Identified at this time
C: BSCCo and its Subsidiaries	No Impact Identified at this time
D: BSC Cost Recovery and Participation Charges	No Impact Identified at this time
E: BSC Agents	No Impact Identified at this time
F: Modification Procedures	No Impact Identified at this time
G: Contingencies	No Impact Identified at this time
H: General	No Impact Identified at this time
I: Not Used	No Impact Identified at this time
J: Party Agents	No Impact Identified at this time
K: Classification and Registration of Metering Systems and BM Units	No Impact Identified at this time
L: Metering	No Impact Identified at this time
M: Credit Cover and Credit Default	Impact is limited to a textual amendment to remove the obligation on the ECVAA to apply BMCAEC and BMCAIC in Energy Indebtedness calculations in accordance with M 1.2.4.
N: Clearing, Invoicing and Payment	No Impact Identified at this time
O: Communications	No Impact Identified at this time

<b>BSC Section</b>	<b>Potential Impact of Proposed Modification</b>
P: Energy Contract Volumes and Metered Volume Reallocations	No Impact Identified at this time
Q: Balancing Mechanism Activities	No Impact Identified at this time
R: Collection and Aggregation of Metered Data from CVA Metering Systems	No Impact Identified at this time
S: Supplier Volume Allocation	No Impact Identified at this time
S: ANNEX S-1 Performance Levels and Supplier Charges	No Impact Identified at this time
S: ANNEX S-2 Supplier Volume Allocation Rules	No Impact Identified at this time
T: Settlement and Trading Charges	No Impact Identified at this time
U: Provisions Relating to Settlement	No Impact Identified at this time
V: Reporting	No Impact Identified at this time
W: Trading Queries and Trading Disputes	No Impact Identified at this time
X: Definitions and Interpretation	No Impact Identified at this time
X: ANNEX X-1 General Glossary	No Impact Identified at this time
X: ANNEX X-2 Technical Glossary	No Impact Identified at this time

## 8.2 Impact on Code Subsidiary Documents

Code Subsidiary Document	Potential Impact of Proposed Modification
BSC Procedures	No Impact Identified at this time
Codes of Practice	No Impact Identified at this time
BSC Service Descriptions	No Impact Identified at this time
Party Service Lines	No Impact Identified at this time
Data Catalogues	No Impact Identified at this time
Communication Requirements Documents	No Impact Identified at this time
Reporting Catalogue	No Impact Identified at this time

### 8.3 Impact on Core Industry Documents

Core Industry Document	Potential Impact of Proposed Modification
Grid Code	No Impact Identified at this time
Connection Use of System Code (CUSC)	No Impact Identified at this time
Supplemental Agreements	No Impact Identified at this time
Ancillary Services Agreements	No Impact Identified at this time
Master Registration Agreement	No Impact Identified at this time
Data Transfer Services Agreement	No Impact Identified at this time
British Grid Systems Agreement	No Impact Identified at this time
Use of Interconnector Agreement	No Impact Identified at this time
Pooling and Settlement Agreement	No Impact Identified at this time
Settlement Agreement for Scotland	No Impact Identified at this time
Distribution Codes	No Impact Identified at this time
Distribution Use of System Agreements	No Impact Identified at this time
Distribution Connection Agreements	No Impact Identified at this time

## 9 IMPACT ON OTHER CONFIGURABLE ITEMS

Item	Potential Impact of Proposed Modification
Energy Contract Volume Notification Agent User Requirements Specification (ECVAA URS)	No Impact Identified at this time

## 10 IMPACT ON ELEXON

Area of Business	Potential Impact of Proposed Modification
ELEXON Systems	No Impact Identified at this time
ELEXON Procedures	<p>Section M1.5.6 of the Code states that Parties may appeal their CALF value within two months following the determination of such value by BSCCo. Under certain circumstances, this may mean that the appeal is not heard until after the start of the relevant BSC Season. Should the appeal be upheld, it would be expected that the revised CALF value should apply from the first day of the relevant season. However if the changes detailed in CP541 are not implemented, it will not be possible for the CALF value to be applied from the original effective date when calculating the party's Energy Indebtedness. Therefore a Party could potentially go into breach the 80% / 90% level of Energy Indebtedness and therefore trigger the Level 1 / Level 2 Credit Default procedure, based on an incorrect CALF value.</p> <p>Therefore, where the Modification proposal is implemented, ELEXON's procedures may have to be amended to include a solution to this issue – namely that if a Party breaches the 80 or 90% level of indebtedness and the Party has appealed their CALF value, provided the appeal has been upheld and an incorrect CALF value has been included for a period of the credit calculations, then ELEXON will withhold their credit default authorisation. This would be done on the basis that there is <i>material doubt as to whether, at the time, the systems and processes used by the ECVAA are giving correct determinations of Credit Cover Percentage for that Trading Party</i> (the Code, Section M3.4.3 (a)).</p>
ELEXON Contracts (Excluding BSC Agent Contracts)	No Impact Identified at this time
Other (e.g. costs, staffing, etc.)	No Impact Identified at this time

## **11 IMPACT ON FINANCIAL ARRANGEMENTS AND BUDGET**

No Impact Identified at this time

## 12 IMPACT ON BSC AGENT CONTRACTUAL ARRANGEMENTS

BSC Agent Contract	Potential Impact of Proposed Modification
Logica (BMRA, CRA, CDCA, SAA, ECVAA, TAA(CVA))	No Impact Identified at this time
EPFAL (FAA)	No Impact Identified at this time
ESIS (TAA(SVA))	No Impact Identified at this time
Cap Gemini (SVAA)	No Impact Identified at this time
PwC (BSC Auditor, Certification Agent)	No Impact Identified at this time
EASL (Teleswitch Agent, Profile Administrator)	No Impact Identified at this time

### **13 PROCESS AND TIMETABLE FOR PROGRESSING THE PROPOSAL**

ELEXON recommends to the Panel that:

- Modification Proposal P53 'Changes to DC, GC and CALF and the Effect on Energy Indebtedness' be submitted to the Assessment procedure;
- The Assessment to be undertaken by the Credit Modification Group;
- The Assessment Report should be presented to the Panel for consideration at their meeting of 14 February 2002 (the two month period allowing for a consultation exercise that avoids the Christmas and New Year period);
- That given the contained nature of the Modification Proposal initially only one meeting of the Credit Modification Group will be sought for the week commencing 7 January 2002, with the intent that consultation responses will be addressed by correspondence unless any significant view are raised in which case a meeting will be convened in the week commencing 28 January 2002

## 14 ISSUES

As a consequence of the scheduled implementation of Modification P2 'Revision of the Methodology for Assessing Credit Indebtedness', it is not believed<sup>8</sup> that there is a requirement to amend ECVAAs system functionality. However, it seems appropriate to assess the Modification to the Code and ensure that an amendment to the Code is the most appropriate way forward and to either obtain confirmation from Parties, via assessment, that this Modification does not raise any further issues, or to raise any issues so that they can be addressed by the Assessment procedure for this Modification.

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<sup>8</sup> A view supported by the ISG and the Panel in previous deliberations on the inclusion of the change proposal detailing the relevant amendment to the ECVAAs functionality into the ELEXON BSC Systems Release 2 Project.

## ANNEX 1 – MODIFICATION PROPOSAL

<b>Modification Proposal – F76/01</b>	<b>MP No: 53</b> <i>(mandatory by BSCCo)</i>
<b>Title of Modification Proposal</b> <i>(mandatory by originator):</i> <b>Changes to DC, GC and CALF and the Effect on Energy Indebtedness</b>	
<b>Submission Date</b> <i>(mandatory by originator):</i> <b>16<sup>th</sup> November 2001</b>	
<b>Description of Proposed Modification</b> <i>(mandatory by originator)</i>  <p>The Code states, at Section M 1.2.4, that "<i>Upon any change to in the value of BM Unit Credit Assessment Export Capability and BM Unit Credit Assessment Import Capability for a BM Unit, values of Energy Indebtedness (for relevant Trading Parties) shall be determined (in relation to Settlement Periods in and from the day on which, in accordance with paragraph 1.6, the change becomes effective) as though the change were effective with effect from the first of the 29 days referred to in paragraph 1.2.1.</i>"</p> <p>However, the functionality of the Energy Contract Volume Aggregation Agent (ECVAA) does not enable such application of revised values of BM Unit Credit Assessment Export Capability and BM Unit Credit Assessment Import Capability for a BM Unit in Energy Indebtedness calculations.</p> <p>It is proposed that the Code is modified to align it with the BSC System functionality, to remove the requirement for the change to BM Unit Credit Assessment Export and Import Capability to be applied in Energy Indebtedness calculations as if it were effective from the first of the 29 days.</p>	
<b>Description of Issue or Defect that Modification Proposal Seeks to Address</b> <i>(mandatory by originator)</i>  <p>The existing functionality of the Energy Contract Volume Aggregation Agent (ECVAA) does not enable application of revised values of BM Unit Credit Assessment Export Capability and BM Unit Credit Assessment Import Capability for a BM Unit in Energy Indebtedness calculations in the manner required by the Code, Section M 1.2.4. To implement this requirement in the ECVAA system would require a software change, and an initial estimate indicates that the costs will be in the region of £200,000.</p> <p>The requirement for such amendment to ECVAA is mitigated by the proposed implementation of Modification P2 'Revision of the Methodology for Assessing Credit Indebtedness'. The amendments required to support the Modification effectively mean that inaccuracies in Energy Indebtedness (and therefore Credit Cover levels) resulting from inaccurate BMCAIC / BMCAEC (resulting from inaccuracies in DC / GC / CALF) values, are reduced by a factor of four, from 29 days to 7. Therefore the implementation of Modification P2 effectively negates the requirement for application of revised BMCAEC / BMCAIC in Indebtedness calculations as a result of the reduced influence of inaccuracies in the variables utilised. The Modification is currently planned for implementation in March 2002.</p> <p>A modification to the Code is therefore considered to be a more cost effective option than a change to the ECVAA software.</p>	

<b>Modification Proposal – F76/01</b>	<b>MP No: 53</b> <i>(mandatory by BSCCo)</i>
<b>Impact on Code</b> <i>(optional by Originator)</i>	
Code Section M 1.2.4 "Energy Indebtedness" will be impacted if the modification is approved.	
For example, the Code, Section M 1.2.4 could be amended as follows:	
<i>"Upon any change to in the value of BM Unit Credit Assessment Export Capability and BM Unit Credit Assessment Import Capability for a BM Unit, values of Energy Indebtedness (for relevant Trading Parties) shall be determined <del>(in relation to Settlement Periods in and from the day on which, in accordance with paragraph 1.6, the change becomes effective) as though the change were effective with effect from the first of the 29 days referred to in paragraph 1.2.1.</del>"</i>	
However, the exact amendment should be determined by legal review.	
<b>Impact on Core Industry Documents</b> <i>(optional by Originator)</i>	
No other Code Subsidiary Document or Core Industry Document will be impacted.	
<b>Impact on BSC Systems and Other Relevant Systems and Processes Used by Parties</b> <i>(optional by originator)</i>	
No Impact	
<b>Impact on other Configurable Items</b> <i>(optional by originator)</i>	
No Impact	
<b>Justification for Proposed Modification with Reference to Applicable BSC Objectives</b> <i>(mandatory by originator)</i>	
Due to the development and implementation costs of changing BSC System software, in conjunction with the mitigating effect of implementing Modification P2, it is proposed that this amendment should be made, under the provisions of the Code, Section F 2.1.1. (d)(i) on the grounds that such Modification would / could improve efficiency in the administration of the Code (as provided for in the Code, Section C 3.8.8),	
<b>Details of Proposer:</b>	
<b>Name</b> ..... <i>Mandi Francis (on behalf of ELEXON and the Panel)</i> .....	
<b>Organisation</b> ..... <i>BSC Panel</i> .....	
<b>Telephone Number</b> ..... <i>0207 380 4377</i> .....	
<b>Email Address</b> ..... <i>mandi.francis@elexon.co.uk</i> .....	

**Modification Proposal – F76/01**

**MP No: 53**  
*(mandatory by BSCCo)*

**Details of Proposer's Representative:**

**Name** ..... *ELEXON Trading Development (Mandi Francis)*.....

**Organisation**..... *ELEXON*.....

**Telephone Number**..... *0207 380 4377*.....

**Email address**..... *mandi.francis@elxon.co.uk*.....

**Details of Representative's Alternate:**

**Name**.....

**Organisation**.....

**Telephone Number**.....

**Email address**.....

**Attachments: Yes / No** *(delete as appropriate) (mandatory by originator)*

**YES**

**BSC Panel Paper 33/019** 'Proposal for a Code Modification: Changes to GC, DC and CALF, and the Effect on Energy Indebtedness'- **3 pages**

## Modification Proposal Attachment: Panel Paper 33/019

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**Meeting name** BSC Panel

**Date of meeting** 15 November 2001

**Paper Title** PROPOSAL FOR A CODE MODIFICATION: CHANGES TO GC, DC AND CALF, AND THE EFFECT ON ENERGY INDEBTEDNESS

**Purpose of Paper** For Decision

**Synopsis** The Panel, on recommendation from the ISG, agreed the rejection of Change Proposal CP 541 '*Changes to BMCAEC / BMCAIC affecting Energy Indebtedness Calculations Retrospectively*' on the basis that implementation of Modification P2 '*Revision of the Methodology for Assessing Credit Indebtedness*' mitigated the requirement for the amendment to ECVAAs proposed by CP 541. It was noted that such rejection would necessitate a Modification Proposal to amend the Code to remove the requirement, under Section M 1.2.4, for the revision of BMCAEC / BMCAIC<sup>9</sup> in the Indebtedness calculations. The Panel is invited to raise a Modification Proposal to align the Code to the BSC Systems.

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### 1. INTRODUCTION

- 1.1 CP 541 '*Changes to BMCAEC / BMCAIC affecting Energy Indebtedness Calculations Retrospectively*' was proposed for incorporation into the ELEXON BSC Systems Release 2 Project. The intent of the Change Proposal was to amend the Energy Contract Volume Aggregation Agent (ECVAAs) functionality to enable application of revised BMCAEC and BMCAIC values in Energy Indebtedness calculations undertaken by the ECVAAs, in accordance with the Code Section M 1.2.4, where the revision to values result from ad hoc (non seasonal) amendments and revisions after appeal.
- 1.2 On review of the proposed incorporation of this Change Proposal into Release 2, the ISG made a recommendation, which was supported by the Panel, that this Change Proposal be rejected on the grounds that the implementation of Modification P2 '*Revision of the Methodology for Assessing Credit Indebtedness*' mitigated / removed the requirement for implementation of this change. A consequence of the rejection of the Change Proposal was a requirement to raise a Modification Proposal to remove the obligation for such application of revised BMCAEC / BMCAIC values in Indebtedness calculations, from Section M 1.2.4 of the Code.

### 2. BACKGROUND

- 2.1 On 3 May 2001 a Panel Paper (17/021) entitled '*Changes to Generation Capacity and Demand Capacity and the Effect on Credit Checking*', was presented to the Panel for decision. The paper detailed the provisions of the Code regarding application of revised BM Unit Credit Assessment Export Capability (BMCAEC) and BM Unit Credit Assessment Import Capability (BMCAIC) values in Energy Indebtedness calculations.

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<sup>9</sup> BMCAEC – BM Unit Credit Assessment Export Capability and BMCAIC – BM Unit Credit Assessment Import Capability.

- 2.2 The paper noted that Section M 1.2.4 states that any revision to BMCAEC / BMCAIC should be applied within Energy Indebtedness calculations, as if the change had been effective from the first of the 29 days that are utilised to provide a cumulative Energy Indebtedness value for a Party.
- 2.3 The Paper also noted that BSC Systems operate in accordance with Section K 3.4.6 (b) only. Therefore the Paper proposed that the ECVAA system be amended to support the requirements of Section M 1.2.4 with regards to the application of BMCAEC / BMCAIC into Energy Indebtedness calculations for ad hoc (non seasonal) amendments.
- 2.4 The Panel agreed with the Paper and recommended that the relevant amendment to ECVAA be progressed. To this end, Change Proposal (CP) 541 *'Changes to BMCAEC / BMCAIC affecting Energy Indebtedness Calculations Retrospectively'* was raised by ELEXON proposing that ELEXON would determine when a BMCAEC / BMCAIC revision necessitates application in the Energy Indebtedness calculations and where ELEXON determine that such application was appropriate, that ECVAA would be requested to apply the revision in accordance with the Code Section M 1.2.4.
- 2.5 The Change Proposal was subsequently proposed for incorporation into the ELEXON BSC Systems Release 2 Project and was included in the batch of change proposals to be agreed for inclusion in the Release 2 Project by the Imbalance Settlement Group (ISG) (ISG/05/040). The ISG made a recommendation to the Panel Meeting of the 30 July 2001, via Panel Paper 27/012 "BSC Systems Release 2 Project Progress", of the Change Proposals agreed for inclusion in Release 2.
- 2.6 Paper 27/012 states that *"ISG recommend rejection of this change [CP541] because of the impact of P2 which reduces effective period from 29 to 7 days. (Note this would require a modification to be raised to make the Code consistent with BSC Systems)."* The Panel (Final Minutes from Meeting 27, paragraph 8) *"REJECTED the Change Proposals which ISG recommended for rejection"*, and therefore such rejection includes CP541.
- 2.7 The implementation of Modification P2 effectively means that inaccuracies in Indebtedness (and therefore Credit Cover levels) resulting from inaccurate BMCAIC / BMCAEC (resulting from inaccuracies in DC / GC / CALF) values, are reduced by a factor of four. This forms the basis of the ISG assertion that the implementation of Modification P2 effectively negates the requirement for retrospective application of revised BMCAEC / BMCAIC in Indebtedness calculations as a result of the reduced influence of inaccuracies in the variables utilised. The Modification is currently planned for implementation in March 2002.

### **3. Issues arising from rejection of CP 541**

- 3.1 Section M1.5.6 of the Code states that Parties may appeal their CALF value within two months following the determination of such value by BSCCo. Under certain circumstances, this may mean that the appeal is not heard until after the start of the relevant BSC Season. Should the appeal be upheld, it would be expected that the revised CALF value should apply from the first day of the relevant season. However if the changes detailed in CP541 are not implemented, it will not be possible for the CALF value to be applied from the original effective date when calculating the party's Energy Indebtedness. Therefore a Party could potentially go into Level 1 or Level 2 Credit Default based on an incorrect CALF value.

- 3.2 These effects are mitigated somewhat by the 'fourfold' reduction in the utilisation of BMCAEC/BMCAIC to determine the Energy Indebtedness values, but will still remain an issue for any Credit Default occurring in the 7 days where the existing credit methodology is utilised.
- 3.3 The solution recommended by ELEXON is that if a Party breaches the 80 or 90% level of indebtedness and the Party has appealed their CALF value, provided the appeal has been upheld and an incorrect CALF value has been included for a period of the credit calculations, then ELEXON could withhold their authorisation. This would be done on the basis that there is *'material doubt as to whether, at the time, the systems and processes used by the ECVAA are giving correct determinations of Credit Cover Percentage for that Trading Party'* (the Code, Section M3.4.3 (a)).
- 3.4 The Panel are therefore invited to agree that if this situation were to arise, it can be treated as material doubt and ELEXON can withhold their authorisation.

#### **4. RAISING THE MODIFICATION**

- 4.1 Where the Panel determines that a Modification should be raised to remove the requirement for application of revised BMCAEC / BMCAIC values in Indebtedness calculations in accordance with Section M 1.2.4 from the Code), ELEXON will raise the Modification on behalf of the Panel, under the Code, Section F 2.1.1. (d)(i) on the grounds that such Modification would / could improve efficiency in the administration of the Code (as provided for in the Code, Section C 3.8.8), and will submit the Initial Written Assessment for consideration at the Panel meeting of 13 December 2001.

#### **5. RECOMMENDATIONS**

- 5.1 **The Panel is invited to raise a Modification to the Code, as provided for by the Code, Section F 2.1.1 (d)(i), to remove the requirement defined in the Code, Section M 1.2.4, to apply revised values of BM Unit Credit Assessment Import Capability and BM Unit Credit Assessment Export Capability in Energy Indebtedness calculations; and**
- 5.2 **Where such Modification is raised, the Panel are invited to agree that where an incorrect CALF value is applied in Energy Indebtedness calculations, that this can be treated as material doubt, by ELEXON, under the provisions of Section M3.4.3 (a) of the Code, and ELEXON can withhold Credit Default authorisation.**

*Chris Rowell*

Trading Department

List of enclosures