

**BUSINESS REQUIREMENTS SPECIFICATION**  
**for Modification Proposal P158**  
**Introducing the Ability to Lodge a Consolidated Letter**  
**of Credit**

**Prepared by: Settlement Standing Modification Group**

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**PURPOSE OF THIS DOCUMENT**

The primary purpose of this document is to specify the Modification Group's requirements for the requisite change to P158 functionality in sufficient detail to allow an Impact Assessment to be undertaken by all potentially affected Parties.

For the purposes of this assessment, the reader should assume that the changes will be implemented as a standalone development project managed by BSCCo.

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## SUMMARY OF IMPACTED PARTIES AND DOCUMENTS

The following parties/documents have been identified as being potentially impacted by Modification Proposal P158.

Parties	Sections of the BSC	Code Subsidiary Documents
Suppliers <input checked="" type="checkbox"/>	A <input 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 checked="" 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"/>
<b>Party Agents</b>		
Data Aggregators <input type="checkbox"/>	G <input type="checkbox"/>	Reporting Catalogue <input type="checkbox"/>
Data Collectors <input type="checkbox"/>	H <input checked="" type="checkbox"/>	MIDS <input type="checkbox"/>
Meter Operator Agents <input type="checkbox"/>	J <input type="checkbox"/>	<b>Core Industry Documents</b>
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"/>
<b>BSC Agents</b>		
SAA <input type="checkbox"/>	M <input checked="" type="checkbox"/>	Ancillary Services Agreements <input type="checkbox"/>
FAA <input checked="" type="checkbox"/>	N <input checked="" 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 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"/>	<b>BSCCo</b>
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"/>	<b>Other Documents</b>
MIDP <input type="checkbox"/>		Transmission Licence <input type="checkbox"/>
TFLA <input type="checkbox"/>		
<b>Other Agents</b>		
SMRA <input type="checkbox"/>		
Data Transmission Provider <input type="checkbox"/>		

X = Identified in Report for last Procedure  
N = Newly identified in this Report

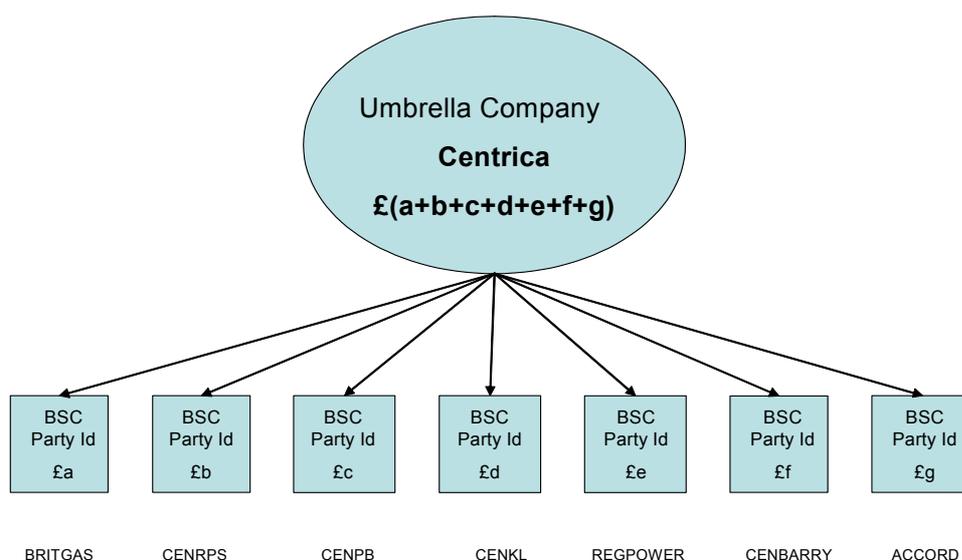
## 1 INTRODUCTION

### 1.1 Proposed Modification

Modification Proposal P158 'Introducing the Ability to Lodge a Consolidated Letter of Credit' ("P158"), was raised by British Gas Trading ("BGT") on 27 January 2004. P158 seeks to modify the Balancing and Settlement Code ("the Code") to allow a group of BSC Parties to lodge a single consolidated Letter of Credit (LoC). The consolidated LoC would be sub-divided and specific amounts of Credit Cover allocated against each BSC Party/BSC Party Id<sup>1</sup>, as opposed to posting an individual LoC for each BSC Party. The Proposer asserts that P158 would not alter the method of calculating a Party's Energy Indebtedness (pursuant to Section M 1.2 of the Code), which would still be calculated at a BSC Party level rather than against a group of BSC Parties.

The Proposer intends that P158 be introduced on a voluntary basis. Figure 1 below, diagrammatically explains how the consolidated LoC would be sub-divided against a number of BSC Parties.

**Figure 1: Example Sub-division of a consolidated Letter of Credit**



Currently the Code specifies, pursuant to Section M 2.1.1, that a LoC can only be lodged against an individual Trading Party. The Code only provides provisions for a Trading Party to apply for a single Letter of Credit (Annex M-1), thus preventing a group of Trading Parties from lodging a consolidated LoC.

The Code considers each Trading Party's application of Credit Cover on a separate basis and the Proposer believes this to be a defect within the current drafting of the Code. The Proposer therefore, believes that it would be appropriate for an additional consolidated Letter of Credit application form to be included in Section M 'Credit Cover and Credit Default' of the Code - potentially referenced as 'Annex M-2' which would allow a group of BSC Parties to lodge a consolidated LoC.

<sup>1</sup> Reference to BSC Party Id in the Modification refers to the unique Id given to each BSC Party (see Section A 4.3.3 of the Code) and should not be confused with the Supplier Id allocated to Supply Businesses and defined in Section S 1.3.

The Proposer asserts that P158 would assist BSCCo ('ELEXON') and the Funds Administration Agent ("FAA") in managing the Credit Cover process. It is the view of the Proposer that P158 would reduce the number of Credit Cover applications submitted by BSC Parties and therefore reduce the administrative burden placed on the FAA. The Proposer also believes that P158 would reduce the administrative workload of the FAA, as P158 would reduce the monitoring obligations of the FAA as set out in the Code (detailed in Section M 2.2.3) - whereby the FAA notifies BSC Parties in advance of their impending LoC expiry date.

The Proposer also believes that P158 would benefit BSC Parties by making the process of sourcing a LoC more efficient and would also reduce the administrative process of managing a Party's Credit Cover requirements.

The Proposer believes that P158 would better facilitate achievement of Applicable BSC Objective (c) – "Promoting effective competition in the generation and supply of electricity and promoting competition in the sale and purchase of electricity", as BSC Parties will be able to source Credit Cover more efficiently. It is also the view of the Proposer that P158 would reduce the administrative effort associated with refreshing several LoCs a year.

Furthermore, the Proposer believes that P158 would better facilitate the achievement of Applicable BSC Objective (d) – "Promoting efficiency in the implementation and administration of the balancing and settlement arrangements", by reducing administrative burdens on BSC Parties, BSCCo and the FAA.

## **1.2 Alternative Modification**

No Alternative Modification has been developed for P158.

## **1.3 Background and Scope**

Modification Proposal P158 was raised by British Gas Trading on 27 January 2004 (reference 1). ELEXON presented an Initial Written Assessment (IWA) (reference 2) to the Balancing & Settlement Code Panel ('the Panel') at its meeting on 12 February 2004. The Panel agreed with the recommendation in the IWA that P158 be submitted to a two month Assessment Procedure to be carried out by the Settlement Standing Modification Group (SSMG). The Assessment Report is scheduled to be presented at the Panel meeting on 8 April 2004.

The SSMG met for the first time on 16 February 2004 to discuss the issues identified in the Initial Written Assessment for P158. The SSMG met for a second time on 25 February 2004 to further define the requirements of P158 and it was agreed that industry consultation and impact assessment should be conducted to support the groups' assessment of the Proposed Modification.

## **1.4 Requirements Specification Overview**

This version of the Requirements Specification is based on the conclusions of the SSMG as of 25 February 2004.

### **1.4.1 Criteria for Lodging a consolidated LoC**

The SSMG have considered the criteria for lodging consolidated LoCs under P158 and initially agreed that only affiliated companies should be eligible. It was the view of the SSMG that the definition of affiliation currently used to define a 'trading party group' for the purpose of BSC voting (pursuant to Annex B-2 'Election of Industry Panel Members', section 3.1.5) should be utilised under P158. This section outlines the issues considered by the SSMG and the arguments from which the SSMG drew its initial conclusion.

**Non Affiliation**

The SSMG have considered whether limiting the consolidated LoC to groups of Parties meeting the existing Code definition of Affiliate (Annex X-1) would discriminate against smaller Parties. Therefore, the SSMG considered the possibility of allowing an arbitrary group of BSC Parties to post a consolidated letter of Credit. It is the view of the SSMG that, although banks may agree to provide a LoC for affiliated companies, it was unlikely this would be the case for an arbitrary group. As such the SSMG initially dismissed the possibility of allowing an arbitrary group of BSC Parties to post a consolidated letter of Credit.

Following further discussion, the SSMG noted that there would be two qualifying requirements for lodging a consolidated LoC under P158 as follows:

- Qualification criteria introduced via Code requirements (i.e. the groups of companies the Code is willing to accept a consolidated LoC for ); and
- Qualification criteria under bank requirements (i.e. the groups of companies for which a bank is willing to provide a consolidated LoC for).

The SSMG noted that any criteria an individual bank sets when agreeing to provide a consolidated LoC for an Umbrella Party (to cover a number of affiliated or un-affiliated BSC Parties), would be out of the scope of the Code. Furthermore, the SSMG noted the FAA view that, if a valid consolidated LoC was provided by a bank, the FAA would be in a position to call upon any element of that amount, at any time, independent of any criteria for posting LoC under the Code (as each ring-fenced amount of credit would be treated as a single LoC) i.e. the ability of the FAA to call a consolidated LoC would not be dependent on affiliation status or otherwise of the Parties covered. Hence, the SSMG noted that a workable solution to P158 not requiring Parties covered by the Consolidated LoC to be affiliated existed. Although the group considered this further the SSMG agreed that for the purpose of Impact Assessment and consultation it should be assumed only affiliated companies would be eligible to post a consolidated LoC under P158.

**Affiliation Process**

The SSMG also considered the implications of limiting the criteria for lodging consolidated LoCs to affiliate groups and noted that this would require a new process for checking a Party's affiliation status. However, the SSMG will need to determine who would be responsible for managing this process i.e. the FAA or BSCCo. The arguments for and against are outlined below:

**BSCCo Management of Consolidated LoC:**

Under P158, the consolidated LoC process would commence with a Party lodging a consolidated LoC application with the FAA, in line with the existing process currently defined under the Code and within the FAA Service Description for single LoCs. On receipt of an application for a consolidated LoC, the FAA would be required to notify BSCCo. BSCCo would then run a check on the affiliation status of that group of Parties through Companies House and inform the FAA of the results from that check, i.e. the group is genuinely affiliated or not. The FAA would then take the necessary steps to either accept the consolidated LoC application or reject it.

The results from the BSCCo and FAA Impact Assessment suggest that if BSCCo were to undertake the affiliation checking process, the impact on BSCCo would not be significant. Firstly, BSCCo would be required to define the affiliation process, which would impact a number of documents. In particular BSCP301 'Clearing Invoicing and Payment', FAA Service Description, URS and IDD would need to be amended to include reference to the consolidated LoC and the affiliation process. It was also suggested that if the FAA were required to notify BSCCo of a consolidated LoC application and BSCCo were then required to run the affiliation check, this would create an unnecessary time-lag within the consolidated

LoC application process. BSCCo would also incur costs associated with accessing data from Companies House.

#### FAA Management of Consolidated LoC:

The results of the FAA impact assessment indicated that there would be no benefit in fragmenting the process of lodging a consolidated LoC and that this would be detrimental to the interest of BSC Party's. The FAA proposed that it would be able to carry out the affiliation process and this would prevent any delays occurring in processing applications. Under this approach, the main impacts on documentation would be to BSCP301, which would need to accommodate the FAA carrying out the affiliation check. However, changes to other documents such as the FAA Service Description, URS and IDD would be minimised.

#### **Risk associated with affiliation process**

The SSMG will review and consider the FAA and BSCCo Impact Assessments as well as any consultation responses in determining whether there are risks associated with the affiliation process. The group will also need to consider the costs and issues discussed above when determining whether the FAA or BSCCo would undertake the management of the affiliation checking process. These areas of consideration will enable the group to evaluate whether the costs of having such a process would be justified against the level of reduced administration created by P158.

#### **1.4.2 Apportionment**

The SSMG have considered how Credit would be apportioned between those Parties covered by a consolidated LoC. The SSMG agreed that the consolidated LoC would be lodged by a single BSC Party (Umbrella Company) and that this amount would be sub-divided and allocated against a number of its BSC Parties. The group specified that each allocated portion of Credit Cover would be 'ring fenced' and treated the same way as a single LoC is under the current Code baseline.

Hence, under P158, if a Party wished to either increase or decrease its Credit Cover, then it would have to follow the processes currently defined under the Code for single LoCs. For example, a BSC Party wishing to decrease its ring fenced portion of a consolidated LoC, pursuant to Section M 2.3 'Reduction of Credit Cover', would need to apply through the 'minimum eligible amount' process as defined in section M 2.3.2(b). However, if a BSC Party wished to increase its ring fenced portion of a consolidated LoC it would still need to follow the rules currently defined in section M 2.1 'Provision of Credit Cover' and 2.2 'Letter of Credit' of the Code. Therefore, any changes to the Credit Cover of an individual Party covered by a consolidated LoC would require a new Consolidated LoC to be posted. As such, an individual Party covered by a consolidated LoC may only be able to adjust its' Credit Cover amount with the involvement of the Umbrella Party (to which the bank has provided Credit).

#### **1.4.3 Calling Consolidated LoC**

The SSMG have considered how the default arrangements would apply to Parties covered by a consolidated LoC.

#### Default under the Code:

Currently, if a Party Defaults under the Code, pursuant to Section H.3.2.1, its Credit Cover will be frozen. The SSMG agreed that Parties covered by a consolidated LoC would be allocated individual, 'ring-fenced' amounts of Credit Cover which would be treated as individual LoCs. Therefore, if a Party Defaults under the Code only that individual Party would have its Credit Cover frozen and the remaining Parties within the group would not be impacted.

#### Payment Default:

If a Party fails to pay its Trading Charges, BSCCo may call upon any lodged Credit Cover. In the event that a Party (covered by a consolidated LoC) goes in to Payment Default only the Credit Cover associated with that Party could be called by the FAA, as its portion of credit would be treated as a single LoC. Therefore, the rest of the group covered by the consolidated LoC would not be affected by an individual Party failing to pay its Trading Charges.

#### Status of BSC Parties:

With regards to a Party being in default, the Panel is obliged to take decisions in relation to that Party. The SSMG agreed that this should not alter with the introduction of a consolidated LoC and that all affected Parties would be judged on an individual basis in relation to their portion of the consolidated LoC.

#### Renewal of LoCs:

If a Party (Umbrella Company) fails to meet the renewal timescales of a consolidated LoC covering a number of its BSC Parties, the FAA would be able to call upon the entire LoC. As such, the responsibility for renewing consolidated LoCs and the associated risk would sit entirely with the Umbrella Company.

### **1.4.4 Format of Consolidated Letter of Credit**

At its initial meeting, the group requested to see the draft legal text for Annex M2 'Consolidated Letter of Credit form' and sought reassurance that this form would be robust and legally binding (draft legal text is attached as Appendix 1 of this document). The SSMG agreed that the any consolidated LoC put forward under P158 should provide the market with an equivalent level of assurance to that provide by the existing single letter of Credit. Therefore, the SSMG have taken the following steps in the preparation of the consolidated LoC:

- The FAA were invited to comment on the workability of the proposed drafting as part of the BSC Agent impact assessment of P158. No adverse comments on the workability of the consolidated LoC were made;
- The advice of an external LoC expert has been obtained and the comments provided incorporated into the drafting;
- External legal advice on the format of the consolidated LoC has been taken and confirmed that the drafting is legally robust; and
- An investigation into the use of consolidated LoCs in other markets is being undertaken.

As the Credit arrangements under the Code are in place to provide protection to Parties, the SSMG agreed that views as to whether the consolidated LoC proposed under P158 would provide the market with the same level of assurance as the existing single letter of Credit should be sought via industry consultation.

### **1.4.5 Inclusion of cash cover**

The SSMG considered the extension of P158 to include cash cover and agreed that there would be no benefit in expanding the consolidated credit process to incorporate cash cover. The FAA confirmed that cash already gets 'ring-fenced' and put into a Reserve Account. Therefore, P158 would only be applicable for Letters of Credit.

## **2 PROPOSED MODIFICATION**

The following section outlines the potential impacts of Proposed Modification P158.

### **2.1 Changes to the Code**

The SSMG considered the potential impact on the Code under P158, the following impacts were identified (note draft legal text – ‘consolidated Letter of Credit form’ is attached as Appendix 1 of this document):

- **Section H – General**

In particular section H 3 ‘Default’ would be amended to accommodate a group of BSC Parties covered by a consolidated LoC.

- **Section M – Credit Cover and Credit Default**

This section will be updated to incorporate an additional Annex – Annex M2 ‘Consolidated Letter of Credit form’. The group have taken external legal advice on the drafting of this form.

Section M 2 ‘Credit Cover and Energy Credit Cover’ would be updated in order to accommodate a group of Parties being covered by a consolidated LoC.

- **Section N – Clearing, Invoicing and Payment**

Section N 9 ‘Payment Default’ would be updated to incorporate a group of Parties covered by a consolidated LoC. Reference would be made to ensure that any Party that goes into Payment Default and is covered by a consolidated LoC would be solely responsible for its credit cover being called and that this would not have an adverse impact on any other Party’s credit within the group.

### **2.2 Amendments to Code Subsidiary Documents**

#### **2.2.1 BSCP301 – Clearing, Invoicing and Payment**

The process for re-structuring Credit Cover allocations across a group of BSC Parties, covered by a consolidated LoC will need to be defined within this BSCP, in particular section 3.6 ‘Manage Credit Cover’.

#### **2.2.2 FAA Service Description and User Requirements Specification**

The FAA User Requirements Specification and Service Description would be amended to ensure that the process relating to changes to a Parties Credit Cover can accommodate a consolidated letter of Credit. In particular, the affiliation status checking process (defined in section 1.4.1 and 2.4.3 of this document) would need to be reflected. Amendments to these documents would include the additional requirement for the FAA to inform BSCCo of a consolidated LoC application and request confirmation of affiliation status prior to accepting a consolidated LoC.

#### **2.2.3 EPFAL IDD**

The EPFAL Interface Definition and Design would require amendment to include new manual flows between BSCCo and FAA confirming affiliate status.

#### **2.2.4 NETA Data File Catalogue**

The NETA data file catalogue would be amended in line which changes to the EPFAL IDD.

## **2.3 Requirements for BSC Systems and Processes**

The following areas have been identified, by the SSMG, for consideration by BSC Agents when responding to impact assessment of P158.

### **2.3.1 Impacts on BSC Agents**

The management of the Credit Cover process undertaken by the FAA will be impacted. The SSMG envisage that there would be a reduction in the monitoring process which the FAA is responsible for. Although the FAA would need to be made aware of the apportionment of Credit Cover for each BSC Party covered by a consolidated LoC, it would only need to administer one LoC on behalf of the affiliated group rather than several. It would also only have to monitor and notify one Party with regards to LoC expiry dates. The SSMG foresees this as a benefit to the FAA by reducing the administration involved in the management of the Credit Cover process.

*A new process would be introduced for the FAA to contact BSCCo on receipt of a consolidated LoC application for confirmation of affiliated status (see section 1.4.1 and 2.4.3 of this document).*

## **2.4 Impacts on BSCCo Systems and Processes**

The following areas have been identified, by the SSMG, for consideration by BSCCo when responding to impact assessment of P158.

### **2.4.1 Service Delivery: Support the consolidated Letter of Credit**

BSCCo, CVA Operations team, would need to support consolidated LoCs.

### **2.4.2 Change Delivery: Requirement to support implementation**

BSCCo, CVA Programme, would be required to support the implementation of System, Process and Documentation changes necessary to give effect to P158.

### **2.4.3 Stakeholder Services: Requirement to monitor Affiliation**

BSCCo, Stakeholder Services, would be required to monitor affiliation of BSC Parties. Currently the affiliation status of Parties is only updated immediately prior to Panel elections. However, in order to support P158 the affiliation status would require ongoing monitoring at the request of FAA (on receipt of a Consolidated LoC application) in order to determine which Parties eligible for a consolidated LoC.

For the purpose of P158 and affiliation group monitoring, a new process would be undertaken by BSCCo (as previously discussed in section 1.4.1 of this document). Upon a Party lodging a consolidated LoC, the FAA will undertake its existing role of receiving such applications as defined under the Code. The FAA would then contact BSCCo to seek confirmation on the group's affiliation status. BSCCo would then be required to inform the FAA whether the group fulfils the qualification criteria for lodging a consolidated LoC (i.e. all Parties are Affiliates as currently defined under the Code for voting purposes).

## 2.5 Requirement for Party Systems and Processes

The following areas have been identified, by the SSMG, for consideration by Parties when responding to the impact assessment on BSC Party Systems and Processes.

### 2.5.1 Ability for Parties to lodge consolidated LoCs

Parties would be able to lodge a consolidated LoC and sub-divide and allocate specific amounts of credit against a number of its BSC Parties. The benefits of which are as follows:

- The SSMG suggests that the implementation of P158 will reduce the administration burden on BSC Parties by reducing the number of LoCs it would need to lodge.
- All Parties covered by a consolidated LoC will effectively have the same renewal date. Therefore the Party (umbrella-company) responsible for lodging the LoC originally would only have to renew one LoC as opposed to renewing several LoC on different dates.

## 2.6 Impact on Core Industry Documents

No impacts on Core Industry Documents have been identified as a result of P158.

## 2.7 Requirements for the BSC Panel

No impacts on the BSC Panel have been identified as a result of P158.

## 3 GLOSSARY

The following acronyms have been used throughout this document:

Term	
BSC	Balancing and Settlement Code
LoC	Letter of Credit
FAA	Funds Administration Agent
SSMG	Settlement Standing Modification Group
IWA	Initial Written Assessment
EPFAL	Logica - Energy Pool Funds Administration Ltd

## 4 DOCUMENT CONTROL

### a Authorities

Version	Date	Author	Reviewer	Reason for review
0.1	24/02/04	Change Delivery	Change Delivery	Initial Draft
0.2	24/02/04	Change Delivery	SSMG	Revised Draft
1.0	09/03/04	Change Delivery	Industry	Updated following Review

### b References

Ref	Document	Owner	Issue date	Version
1	Modification Proposal P158		27/01/04	1.0

2	P158 Initial Written Assessment (IWA P158)	ELEXON	06/02/04	1.0
3	Modification Proposal P139 Consultation Document	SSMG		1.0

## APPENDIX 1

### SUMMARY PAGE for SECTION M: CREDIT COVER AND CREDIT DEFAULT (*Version 10.0 including all Approved Modifications awaiting implementation*)

Modification Proposal	Ofgem Decision Date	Implementation Date	Sub Section Affected
P98	18/08/03	08/11/04	1.3.1(b), 1.3.2(a), 3.3.5(e), 4.2.3
P127	22/12/03	15/03/04	2.3.1(c), 2.3.1A
P123	08/09/03	27/02/04	1.2.1(f), 1.7, 3.4.3(a)(b)
P122	10/09/03	19/09/03	1.2.1(f), 1.5A, 1.7, 3.4.3(a)(b)

## SECTION M: CREDIT COVER AND CREDIT DEFAULT

### 2. CREDIT COVER AND ENERGY CREDIT COVER

*Amend paragraph 2.1.1 as follows:*

#### 2.1 Provision of Credit Cover

2.1.1 A Trading Party may on any Business Day provide Credit Cover by delivering to the FAA on behalf of the BSC Clearer:

- (a) a Letter of Credit valid for an initial period of not less than 3 months;, and/or
- (b) cash which will be credited by the FAA on behalf of the BSC Clearer to the Reserve Account.;
- (c) (in the case of a Trading Party that forms part of the same **company group** as another Trading Party) a Consolidated Letter of Credit.

*Add new paragraph 2.1.1A as follows:*

2.1.1A For the purposes of this Section M a Trading Party will form the same "**company group**" as another Trading Party where it is an Affiliate of that Trading Party.

*Amend paragraph 2.1.2 as follows:*

2.1.2 A Trading Party may from time to time (by giving notice to the FAA) alter the amounts provided (as Credit Cover) between different Letters of Credit, Consolidated Letters of Credit and/or by way of Letter of Credit, Consolidated Letter of Credit and cash, provided that (but without prejudice to paragraph 2.3.1) the amount of the Credit Cover provided by the Trading Party is not thereby reduced.

*Amend paragraph 2.1.3 as follows:*

2.1.3 The amount of a Trading Party's Credit Cover at any time shall be:

- (a) the sum of:

- (i) the maximum undrawn amount for the time being of any Letter of Credit delivered by it; or
- (ii) (where the Trading Party has delivered a Consolidated Letter of Credit) the maximum undrawn amount for the time being of that Consolidated Letter of Credit applicable to that Trading Party; and
- (iii) the principal amount of any cash paid by it (for value not later than that time) and credited to the Reserve Account by the FAA on behalf of the BSC Clearer;

less

- (b) the sum of any amounts payable by the Trading Party in respect of Trading Charges which:
  - (i) have become due for payment and have not been paid by the Trading Party on the relevant Payment Date in accordance with Section N, and
  - (ii) remain unpaid at such time.

Provided that if the amount so determined is negative, the amount of the Credit Cover shall be zero.

2.1.4 The form of Letter of Credit (subject as provided in the definition thereof) is set out in Annex M-1.

*Add new paragraph 2.1.5 as follows:*

2.1.5 The form of Consolidated Letter of Credit (subject as provided in the definition thereof) is set out in Annex M-2.

## **2.2 Letter of Credit**

2.2.1A For the purposes of this paragraph 2.2, a reference to a Letter of Credit shall include a Consolidated Letter of Credit.

2.2.1 Without prejudice to paragraphs 2.1.2 and 2.3, where a Trading Party has delivered a Letter of Credit (the "**current**" Letter of Credit) by way of providing Credit Cover:

- (a) not later than 10 Business Days before the current Letter of Credit is due to expire, the Trading Party shall:
  - (i) provide to the FAA confirmation from the issuing bank that the validity of the current Letter of Credit will be extended by a further period of not less than 3 months, or
  - (ii) provide to the FAA a new Letter of Credit, valid for a period of not less than 3 months commencing not later than the expiry of the current Letter of Credit and for an amount not less than that of the current Letter of Credit;
- (b) if at any time the issuing bank ceases to have the required credit rating specified in the definition of Letter of Credit, the Trading Party shall forthwith and in any event within 3 Business Days after notice from the FAA, either:
  - (i) provide to the FAA a new Letter of Credit, issued by a bank which has such required credit rating, valid for a period of not less than 3 months; and/or

- (ii) deliver cash to the FAA on behalf of the BSC Clearer in accordance with paragraph 2.1.1

and the amount of any new Letter of Credit plus cash so delivered shall not less than that of the current Letter of Credit;

- (c) where paragraph (b) applies, the current Letter of Credit shall continue to be counted in determining the Trading Party's Credit Cover during the period (of up to 3 Business Days) until the Trading Party provides a new Letter of Credit as referred to in that paragraph.

2.2.2 If in relation to a Letter of Credit a Trading Party fails to comply (by the time therein required) with paragraph 2.2.1(a) or (b), the FAA on behalf of the BSC Clearer shall immediately, without notice to the Trading Party, demand payment of the entire amount of the Letter of Credit and credit the Reserve Account with the proceeds.

2.2.3 Where a Trading Party has provided a Letter of Credit, the FAA shall notify the Trading Party of the date on which it is due to expire, not less than 20 Business Days before that date (but any failure of the FAA to do so shall not prejudice the application of paragraphs 2.2.1 and 2.2.2).

*Amend paragraph 2.3.1 as follows:*

### **2.3 Reduction of Credit Cover**

2.3.1 If a Trading Party wishes at any time to reduce the amount of its Credit Cover:

- (a) the Trading Party shall give notice to that effect to the ECVAA;
- (b) the ECVAA shall determine and notify to the FAA and the Trading Party, on the first Business Day after the expiry of the waiting period, the minimum eligible amount;
- (c) the Trading Party may, not later than the second Business Day following the ECVAA's notification under paragraph (b), by notice to the FAA request, and the FAA on behalf of the BSC Clearer shall consent to:
  - (i) a reduction in the amount of a Letter of Credit provided by the Trading Party;; and/or
  - (ii) (in the case of a Trading Party that has delivered a Consolidated Letter of Credit) a reduction in the amount applicable to that Trading Party only; and/or
  - (iii) a withdrawal of cash deposited by the Trading Party

### **SUMMARY PAGE for SECTION N: CLEARING, INVOICING & PAYMENT** (*Version 5.0 including all Approved Modifications awaiting implementation*)

<b>Modification Proposal</b>	<b>Ofgem Decision Date</b>	<b>Implementation Date</b>	<b>Sub Section Affected</b>
P127	22/12/03	15/03/04	2.5.2, 2.5.4

Add new Annex M-2 as follows:

## ANNEX M-2

### Consolidated Form of Letter of Credit

To: Elexon Clear Limited (the "**BSC Clearer**")

At the request of [*name of Trading Parties*] (the "applicants") we have opened in favour of the BSC Clearer our irrevocable Consolidated Letter of Credit Number ( ) for the following amounts:

[*Insert details of Trading Party*] £[ ] (amount in words)

[*Insert details of Trading Party*] £[ ] (amount in words)

[*Insert details of Trading Party*] £[ ] (amount in words)

[*Insert details of Trading Party*] £[ ] (amount in words)

Total Amount £[ ] (amount in words)

The amount of the Consolidated Letter of Credit applicable to each applicant is available against sight drafts issued by the BSC Clearer accompanied by a signed statement issued by the BSC Clearer that the relevant applicant has failed to pay to BSC Clearer the amount you are claiming under the terms of the Balancing and Settlement Code (as modified from time to time, the "**Code**").

The total amount of the Consolidated Letter of Credit is available against sight drafts issued by the BSC Clearer accompanied by a signed statement issued by the BSC Clearer that the total amount of the Consolidated Letter of Credit has become payable pursuant to the Code by reason of the Consolidated Letter of Credit not being extended or replaced in accordance with the requirements of the Code or that we have ceased to have the credit rating required under the Code.

Payments under this Consolidated Letter of Credit shall be effected immediately to [*insert relevant account details*].

Partial drawings are allowed hereunder.

Claims under this Consolidated Letter of Credit shall be made at the counters of [*insert details of the branch of the issuing/advising/confirming bank*].

This Consolidated Letter of Credit expires on [ ].

We waive any right to set off against any amount payable hereunder any claims we may have against you.

Any sight draft and statement to be issued by the BSC Clearer for the purposes of this Consolidated Letter of Credit may be signed by [*insert name of FAA*] (the "**FAA**") on behalf of the BSC Clearer.

Any demand hereunder must comply with all the above requirements and signatures (on behalf of the BSC Clearer or the FAA) thereon must be confirmed by your Bankers.

This Consolidated Letter of Credit is subject to Uniform Customs and Practice for Documentary Credits (1993 Revision) published by the International Chamber of Commerce.

We undertake that drafts and documents drawn under and in strict conformity with the terms of this credit will be honoured upon presentation.

This Consolidated Letter of Credit shall be governed by and construed in accordance with English law. For and on behalf of [ ] Bank [Plc].

**9. PAYMENT DEFAULT**

*Add new paragraph 9.1.1A as follows:*

- 9.1.1A For the purposes of this paragraph 9 references to a Letter of Credit shall include a Consolidated Letter of Credit except that any amount available to the FAA in respect of a Non-paying BSC Debtor shall:
- (a) be the amount applicable to the relevant Trading Party under the Consolidated Letter of Credit; and
  - (b) not include any amounts applicable to any other Trading Party under the Consolidated Letter of Credit.

*Add the following new definitions to Annex X-1*

**ANNEX X-1: GENERAL GLOSSARY****"Consolidated Letter of Credit":**

means:

an unconditional, irrevocable standby letter of credit substantially in the form set out in Annex M-2 (or such other form as the Panel may approve) in sterling in favour of the BSC Clearer by any United Kingdom clearing bank or banks or any other bank or banks which has (have) a long term debt rating of not less than single A by Standard and Poor's Corporation or by Moody's Investor's Service, Inc. or such other bank or banks as the Panel may approve, and which shall be available for payment at a London Branch of the issuing bank;