

Responses from P146 Assessment Consultation

Consultation issued 18 December 2003

Representations were received from the following parties:

No	Company	File Number	No. BSC Parties Represented	No. Non-Parties Represented
1.	Powergen UK Plc	P146_ASS_001	14	0
2.	Aquila Networks Plc	P146_ASS_002	1	0
3.	British Gas Trading	P146_ASS_003	1	0
4.	<i>Amsterdam Power Exchange UK Ltd, OM London Exchange Ltd</i>	P146_ASS_004	2	0
5.	Scottish and Southern Energy	P146_ASS_005	5	0
6.	Scottish Power UK plc	P146_ASS_006	6	0
7.	EDF Trading Ltd	P146_ASS_007	2	0
8.	EDF Energy Networks (EPN) Plc	P146_ASS_008	9	0

P146_ASS_001 – Powergen UK Plc

Respondent:	<i>Powergen UK plc</i>
No. of BSC Parties Represented	14
BSC Parties Represented	<i>Please list all BSC Parties responding on behalf of (including the respondent company if relevant).</i> Powergen UK plc, Powergen Retail Limited, Cottam Development Centre Limited, TXU Europe Drakelow Limited, TXU Europe Ironbridge Limited, TXU Europe High Marnham Limited, Midlands Gas Limited, Western Gas Limited, TXU Europe (AHG) Limited, TXU Europe (AH Online) Limited, Citigen (London) Limited, Severn Trent Energy Limited (known as TXU Europe (AHST) Limited), TXU Europe (AHGD) Limited and Ownlabel Energy
No. of Non BSC Parties Represented	0
Non BSC Parties represented	0
Role of Respondent	Supplier, Generator, Trader and Exemptable Generator

Q	Question	Response	Rationale
1.	Do you believe that the Proposed Modification P146 better facilitates the achievement of the Applicable BSC Objectives? Please give rationale and state objective(s).	NO	Early notification of Credit Default information would provide Clearing Houses with a commercial advantage and would therefore have an adverse effect on Objective (c). An early notification of Default would allow Clearing Houses to trade out of a position before the rest of the market is aware that a potential problem exists. All parties are exposed to the risk associated with the credit worthiness of counterparties. However, to release early information to a particular party and thereby reduce that party's level of risk (compared to others in the same market) must surely be considered as discriminating and therefore detrimental to competition. The proposer argues that Clearing Houses require an early notification to enable them to assist the relevant Party by offering advice, thereby seeking to reduce the potential for credit default. However it must be remembered

Q	Question	Response	Rationale
			<p>that Clearing Houses are themselves commercial organisations and their priority is their own commercial position. As such, it is more likely that an early notification would only serve to reduce the effectiveness of the existing Credit Default Cure Period.</p> <p>Powergen also believe that the introduction of a single notified volume charge for Clearing Houses will not better meet applicable Objective (c). It is misleading to claim that Clearing Houses are discriminated against because they are required to pay for two notifications. The notification fee was designed to recover the cost of processing an ECVN and as the Clearing House makes two notifications it is reasonable to suggest that they pay for two notifications. Regardless, Clearing Houses generally pass the charges through to their members. However, it is far from clear that there would be a corresponding cost reduction for their members should Notified Volume Charges be halved for Clearing Houses.</p> <p>A reduction in the fees charged to the Clearing Houses would need to be recovered through the Main Funding Shares and this would result in cross-subsidy (Please see answer to Q2).</p>

Q	Question	Response	Rationale
2.	<p>Do you believe that an Alternative Modification consisting only of the new participation category and charging aspects of P146 (i.e. with the potential Credit Default warning provisions removed) would better facilitate the achievement of the Applicable BSC Objectives?</p> <p>Please give rationale and state objective(s).</p>	NO	<p>Powergen believe that the proposed alterations to the charging methodology would not better facilitate achievement of the applicable objective. If such a modification were to be approved, there would be a shortfall which would need to be recovered from the Main Funding Shares. This would mean that all other Parties would be subsidising half of all Clearing House notifications, regardless of whether they utilised the services of Clearing Houses. It should also be noted that Clearing Houses do not pay Main Funding Shares and would not fund any of these additional costs. There is no justification for introducing such a cross subsidy.</p>
3.	<p>Which, if any, of the five qualification criteria options outlined in Section 2.1.2 do you believe should be applied to the new participation category of Clearing Houses?</p> <p>Are there any additional or alternative criteria that you believe should be considered?</p> <p>Please give rationale.</p>	N/A	<p>We do not consider P146 to better facilitate the applicable objectives and so can not support any particular option. However, we would stress that should the modification be successful, a narrow/stringent criteria would be preferable.</p>
4.	<p>Do you agree with the view of the Proposer that P146 would result in increased use of Clearing Houses under the Code?</p> <p>Please give rationale.</p>	NO	<p>Although reduced charges may encourage Parties to use Clearing Houses, there is no guarantee that the cost savings for the Clearing Houses will be passed on to their members.</p> <p>It is also unlikely that the current charges act as a barrier for potential Clearing Houses, as the Volume Notification costs are passed through to members. If Clearing Houses provide a useful function Participants will use them.</p>
5.	<p>Do you support the implementation approach described in the consultation document?</p> <p>Please give rationale.</p>	N/A	<p>Should the modification be implemented; we agree with the modification group that the semi-manual solution is the appropriate mechanism as it represents the most cost effective solution.</p>

Q	Question	Response	Rationale
6.	Do you believe there are any alternative solutions that the Modification Group has not identified and that should be considered? Please give rationale.	NO	We do not believe there to be a defect in the code.
7.	Does P146 raise any issues that you believe have not been identified so far and that should be progressed as part of the Assessment Procedure? Please give rationale.	NO	We do not believe there to be a defect in the code.
8.	Are there any further comments on P146 that you wish to make?	NO	

P146_ASS_002– Aquila Networks Plc

Good Morning,

Aquila Networks PLC would like to return a response of 'No Comment' to P146 Assessment Consultation.

Regards,

Deborah Hayward
Distribution Support Office &
Deregulation Control Group
Aquila Networks plc

P146_ASS_002– British Gas Trading

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

Q	Question	Response	Rationale
1.	<p>Do you believe that the Proposed Modification P146 better facilitates the achievement of the Applicable BSC Objectives? Please give rationale and state objective(s).</p>	No	<p>BGT do not believe that the Proposed Modification better facilitates the achievement of the Applicable BSC Objectives. BGT do not support Clearing Houses having access to Credit Default information before other BSC Parties. Providing Clearing Houses with early notification will be to the detriment of both Applicable BSC Objective (c) and (d).</p> <p>Providing Clearing Houses with advance warning of potential Level 1 Credit Default will provide Clearing Houses with information that is not available to other BSC Parties. This will have a negative impact on competition as it will allow Clearing Houses to better manage their credit risks as they will be privy to information that is not publicly available. Whilst Clearing Houses may not seek to profit from price changes they will be looking to offset their exposure and this could be achieved at the expense of other BSC Parties who may have a financial exposure to the Party going into Level 1 Credit Default.</p> <p>Also the information that the proposal is seeking to provide is at the end of</p>

Q	Question	Response	Rationale
			<p>the Query Period and not the Cure Period and could have a distortionary impact on competition. A Party is not in Level 1 Credit Default until the end of the Cure Period and any 'forced' trades that take place may feed into the calculation of the reverse price or may impact on the spot market price. The credit process is a two step process and providing information before that two step process is completed is unjustified.</p> <p>In respect of objective (d) the notification of this information will require a new process to be created. This will incur a cost that will be borne by BSC Parties. This cost irrespective of its size is not justifiable especially when this process could be achieved via a bi-lateral process between Clearing House and its' members.</p> <p>BGT are unsure if the level of potential benefits is sufficiently large as to better facilitate competition in the generation and supply of electricity. The cost savings that have been identified appear to be relatively minor and BGT would be surprised if such a minor benefit resulted in increased use of clearing. In addition to this the cost structure of Clearing Houses is outside of the scope of the BSC and any reduction in charges does not have to be passed on to Clearing House members.</p>
2.	<p>Do you believe that an Alternative Modification consisting only of the new participation category and charging aspects of P146 (i.e. with the potential Credit Default warning provisions removed) would better facilitate the achievement of the Applicable BSC Objectives? Please give rationale and state objective(s).</p>		<p>BGT believe there may be some merit in considering an alternative that only incorporates the new participation category and the charging elements. BGT support the principle of reducing the number of contract notification charges from 4 to 3. The current charging structure seems to be anomalous and there appears to be some justification in reducing the number of charges. However BGT is still unsure if the alternative would better facilitate competition in the generation and supply of electricity.</p>

Q	Question	Response	Rationale
3.	<p>Which, if any, of the five qualification criteria options outlined in Section 2.1.2 do you believe should be applied to the new participation category of Clearing Houses?</p> <p>Are there any additional or alternative criteria that you believe should be considered?</p> <p>Please give rationale.</p>	Option 2	<p>BGT's favoured option is qualification criteria of a Recognised Body or Authorised Firm supplemented with criteria in the BSC. Option 2 provides an appropriate balance of obligations in the BSC and external checks via the FSA. Whilst recognising this option will require some monitoring by BSCCo it is sufficiently flexible without being too constrained.</p> <p>BGT believe option 1 and 4 are too restrictive, if this modification is deemed to facilitate competition then the definition needs to be wider than just the proposer in the new category.</p> <p>Option 5 appears not to be stringent enough and may enable Traders to apply for Clearing House status. This is clearly outside of the intention of the original modification proposal and may result in Parties who seek to make profit from price movements falling within the category.</p>
4.	<p>Do you agree with the view of the Proposer that P146 would result in increased use of Clearing Houses under the Code?</p> <p>Please give rationale.</p>	No	<p>On the basis of the negligible savings identified in the Assessment Consultation document BGT do not believe that a reduction in the contract notification structure for Clearing Houses would necessarily result in increased usage of clearing services.</p> <p>The contract notification charges are only a subset of the costs involved in using clearing services. The cost of lodging margin after having to lodge credit with BSCCo and NGC might be seen as more of a barrier to the use of clearing services.</p>
5.	<p>Do you support the implementation approach described in the consultation document?</p> <p>Please give rationale.</p>	No	<p>BGT do not support the implementation approach outlined in the consultation as it includes the provision of early notification of 80 per cent breaches in energy indebtedness.</p>

Q	Question	Response	Rationale
6.	Do you believe there are any alternative solutions that the Modification Group has not identified and that should be considered? Please give rationale.	No	
7.	Does P146 raise any issues that you believe have not been identified so far and that should be progressed as part of the Assessment Procedure? Please give rationale.	No	
8.	Are there any further comments on P146 that you wish to make?	Yes	Does the sale of the UKPX business have any impact on the modification that may need to be considered?

P146_ASS_004 – Amsterdam Power Exchange UK Ltd, OM London Exchange Ltd

Respondent:	<i>Ben Mitchell</i>
No. of BSC Parties Represented	2
BSC Parties Represented	<i>Amsterdam Power Exchange UK Ltd, OM London Exchange Ltd</i>
No. of Non BSC Parties Represented	0
Non BSC Parties represented	
Role of Respondent	Trading Party

Q	Question	Response	Rationale
1.	<p>Do you believe that the Proposed Modification P146 better facilitates the achievement of the Applicable BSC Objectives?</p> <p>Please give rationale and state objective(s).</p>	Yes	<p>The BSC fails to recognise the role that clearing participants serve in the UK electricity market, and consequently the Code fails to appropriately provide for and regulate the operation of clearing operations. P146 addresses and remedies these defects in the BSC, and will promote the role of clearing in the industry, which will increase the competitiveness and efficiency of the trading of electricity in the UK. However, it is important that the definition of “clearing participant” under P146 includes all bodies supplying clearing services to the UK power market (see Q3 below).</p> <p>The submission of two nominations for each cleared trade is essential for the preservation of anonymity of the clearing service users. However, this means that a trade between two parties that is subsequently cleared results in twice the notification fees being levied by Elexon.</p> <p>The BSC, in the Market Index Definition Statement, recognises that when a trade is cleared, it does not become two trades and this should be reflected in the ECVAA charges. ECVAA charges are based on the number of MWh</p>

Q	Question	Response	Rationale
			<p>notified, and not on the number of ECVN files submitted, (e.g. a party submitting ten files each for 1 MWh, pays the same as a party submitting one file containing 10 MWh. In addition P98 will result in those parties that undertake dual notification paying no more than they would have, had only a single file been submitted). So that fact that two files are submitted is not relevant, the traded volume should be recognised as the volume of the trade that is cleared, and not doubled for the purposes of charging.</p> <p>Clearing services are prevalent in most mature traded markets. They provide a number of distinct benefits to the market, e.g. by allowing netting of trades across counterparties to minimise collateral; enabling more parties to trade with each other and thus lowering the barriers of entry to the market; and, improving the efficiency of the market arrangements by reducing the number of bilateral agreements.</p> <p>It is essential that the BSC does not discriminate against clearing parties, and where practicable facilitates their role. The proposed modification achieves this by removing the anomaly in the ECVAA charges and allows for better management of credit within the industry. The proposed modification will therefore better facilitate BSC Objective (C).</p>

Q	Question	Response	Rationale
2.	<p>Do you believe that an Alternative Modification consisting only of the new participation category and charging aspects of P146 (i.e. with the potential Credit Default warning provisions removed) would better facilitate the achievement of the Applicable BSC Objectives? Please give rationale and state objective(s).</p>	Yes	<p>it should be noted that the notification charging provisions of P146 would operate independently to the credit default provisions of the proposed modification, and therefore the alternative modification is a practical proposition. Although some benefit is lost under the alternative modification, the rationale for removing the double charging under the original modification is the same under the proposed alternative modification and hence will still better facilitate the BSC objective (c).</p>
3.	<p>Which, if any, of the five qualification criteria options outlined in Section 2.1.2 do you believe should be applied to the new participation category of Clearing Houses? Are there any additional or alternative criteria that you believe should be considered? Please give rationale.</p>	2	<p>It is the role of providing clearing services that improves the efficiency of the market, not that a party is necessarily an RIE or RCH. It would be discriminatory to exclude companies such as APX that provide the same clearing services. It is important that the Code defines the role being undertaken, rather than simply relying on an external organisation, (the FSA), to effectively grant privileges under the BSC. The code criteria provides the assurance that the clearing service provider does not trade energy for profit and is purely providing the role of clearing body under the BSC, which is the intent of the proposed modification.</p> <p>However, regulation by the FSA will provide additional comfort to BSC Parties that those organisations providing clearing services do operate to certain recognised rules and standards.</p>

Q	Question	Response	Rationale
4.	<p>Do you agree with the view of the Proposer that P146 would result in increased use of Clearing Houses under the Code?</p> <p>Please give rationale.</p>	Yes	<p>The current notification charging structure effectively means bodies providing clearing services to the UK power industry are being charged a double fee for the notification of positions they clear. This plainly has an impact on the cost base of clearing service providers, undermining the sustainability of such bodies and impeding the development and use of clearing.</p> <p>Furthermore, the credit default provisions of the proposed modification will encourage clearing participants to offer their services more widely, thereby increasing the potential use of such services. In addition, these provisions will enable clearing service providers to use a market-based solution for the alleviation of credit default situations, increasing the attractiveness, and therefore the use, of such services.</p>
5.	<p>Do you support the implementation approach described in the consultation document?</p> <p>Please give rationale.</p>	Yes	<p>The occurrence of credit defaults that will be relevant to the provisions of P146 is likely to be low. Furthermore, the MWh volume of notifications submitted to the ECVAAs by clearing bodies will tend not to vary considerably month on month. Accordingly a semi-manual solution will not present a high level of risk.</p> <p>The required solution to implement P146 should not be a stand-alone release, but should be packaged with another release.</p>
6.	<p>Do you believe there are any alternative solutions that the Modification Group has not identified and that should be considered?</p> <p>Please give rationale.</p>	No	

Q	Question	Response	Rationale
7.	Does P146 raise any issues that you believe have not been identified so far and that should be progressed as part of the Assessment Procedure? Please give rationale.	No	
8.	Are there any further comments on P146 that you wish to make?	Yes	<p>Credit constraints have a substantial negative impact on the operation of the UK electricity market. Trading participants are often unable to transact at the best price shown to the market, or may not be able to transact at all, due to congested or non-existent credit lines. This hinders the efficient conduct of trading, impedes the price discovery function of the market and has the potential to increase the likelihood of credit defaults (as distressed parties may not be able to trade with anybody, should the market fear that they are an unacceptable credit risk).</p> <p>The increased use of clearing would minimise the impact of such credit constraints, and would accordingly be of value to the UK electricity trading community as a whole, irrespective of whether the individual participant makes use of such clearing services or not. Clearing enables trading to be based on fundamentals, and provides a level playing field for all market participants. P146 will promote the role of clearing within the industry, and therefore is of value to all parties involved in the UK power market.</p>

P146_ASS_005 – Scottish and Southern Energy

Dear Sirs,

This response is sent on behalf of Scottish and Southern Energy, Southern Electric, Keadby Generation Ltd., Medway Power Ltd., and SSE Energy Supply Ltd.

In relation to the eight questions contained within your note of 18th December 2003, and the associated Assessment Consultation for P146, we have the following comments to make:-

Q1 Do you believe that the Proposed Modification P146 better facilitates the achievement of the Applicable BSC Objectives? Please give rationale and state objective(s).

No. We do not believe that the Proposed Modification P146 better facilitates the achievement of the Applicable BSC Objectives.

We note the comments made in section 2.1.4 of the Assessment Consultation document that:-

"Some members therefore noted that, aside from proof of recognised or regulated status under the FSA, regulation of the Code criteria for Clearing Houses might be reliant upon self-certification by the party concerned. This would take the form of a signed undertaking by each registering Clearing House to comply with the criteria, and to notify BSCCo if at any time it became unable to do so. These members argued that Options 2 and 3 would create the risk of a large number of existing organisations meeting the requirement to be an authorised firm, with BSCCo being largely reliant on their self-certification if such parties applied to be Clearing Houses. These members considered that this was highly inadvisable given the benefits P146 would grant to the new category. Other members of the SSMG argued that, for all three options, BSCCo should be required to put in place processes to monitor Clearing Houses' compliance with the criteria. However, the Group did not reach agreement regarding how a Clearing House's ownership would be monitored, the process to be followed if a gross position was held by a Clearing Party, or how the holding of a gross position could be established as accidental or intentional with regard to the criteria."

We believe that "given the benefits P146 would grant to the new [Clearing House] category", the reliance on self certification, the lack of clarity on dealing with gross positions held by a Clearing Party and the inability to determine if a gross position was established accidentally or intentionally means that this Modification Proposal would be detrimental to competition and would therefore have a negative impact with regard to facilitating Applicable BSC Objective (c).

In respect of the comments made in sections 2.2.1 and 2.2.3 of the Assessment Consultation document regarding one Party (the Clearing House) receiving information about another Party which is not made available to other Parties, this gives the Clearing House a clear commercial advantage which we believe runs counter to the intention of the Code. We believe that (if notified of a problem at a Party) far from helping the 'at-risk' Party, that a Clearing House would be under commercial pressure (from their internal Compliance/Risk functions) and possibly regulatory obligations (from the FSMA) to:-

- a) stop offering future trades with that Party; and
- b) seek to unwind existing trades with that Party.

The effect of this would inevitably be to 'drive' the 'at-risk' Party into a worse position than had that Party been left to resolve its position on its own (following notification from BSSCo). We believe that the commercial advantage afforded to a Clearing House by virtue of their being able to mitigate the risks over the credit-worthiness of counterparties would be detrimental to competition and would therefore have a negative impact with regard to facilitating Applicable BSC Objective (c).

In respect of the proposition to halve the Notified Volume Charges applied to Clearing Houses, we do not support this as it would be detrimental to competition and would therefore have a negative impact with regard to facilitating Applicable BSC Objective (c). In coming to this opinion we noted that:-

"as any cost-saving for Clearing Houses would be recovered via Parties' Main Funding Shares, P146 would effectively create a cross-subsidy for Clearing Houses...[and that] those Parties wishing to gain the benefit of using a Clearing House [should] cover the cost resulting from the additional notified volume, [and that this] is more appropriate than P146's proposal to recover the additional volume cost from all Parties...[and that] since they are not physical traders, Clearing Houses [already receive an advantage as they] do not pay Main Funding Shares."

Please note our response to any of the following questions should not be construed to lend support whatsoever to this Modification.

Q2 Do you believe that an Alternative Modification consisting only of the new participation category and charging aspects of P146 (i.e. with the potential Credit Default warning provisions removed) would better facilitate the achievement of the Applicable BSC Objectives? Please give rationale and state objective(s).

No.

Q3 Which, if any, of the five qualification criteria options outlined in Section 2.1.2 do you believe should be applied to the new participation category of Clearing Houses? Are there any additional or alternative criteria that you believe should be considered? Please give rationale.

We note the comments made in section 2.1 of the Assessment Consultation document regarding a new category of 'Clearing House'. Whilst we do not believe that this Modification Proposal will better facilitate the achievement of the Applicable BSC Objectives, of the five options outlined in section 2.1.4 we believe that Option 1 is the most suitable to apply.

We note the comments reported that some members of the Group did not support Options 1 or 2 since they set a precedent by including external legislation and regulation as a Code qualification criteria. We do not agree with these comments. The body that, in effect, sets the Code qualification criteria, as noted, is Ofgem by virtue of the granting of a licence. The power for Ofgem to do this comes directly from Parliament, as it does for the FSA. Therefore we believe

that as there is a competent body (the FSA) already established (on the same basis as Ofgem) to grant a 'licence' to Clearing Houses, that the electricity sector should use this body rather than set up a mirror body to 'certify' Clearing Houses (for BSC purposes).

Q4 Do you agree with the view of the Proposer that P146 would result in increased use of Clearing Houses under the Code? Please give rationale.

Q5 Do you support the implementation approach described in the consultation document? Please give rationale.

No. For the reasons outlined above.

Q6 Do you believe there are any alternative solutions that the Modification Group has not identified and that should be considered? Please give rationale.

None at this time.

Q7 Does P146 raise any issues that you believe have not been identified so far and that should be progressed as part of the Assessment Procedure? Please give rationale.

Our comments are outlined in our answer to the questions above.

Q8 Are there any further comments on P146 that you wish to make?

Nothing further at this time.

Regards

Garth Graham
Scottish and Southern Energy plc

P146_ASS_006 – Scottish Power UK plc

Respondent:	Man Kwong Liu (SAIC Ltd)
No. of BSC Parties Represented	6
BSC Parties Represented	Please list all BSC Parties responding on behalf of (including the respondent company if relevant). Scottish Power UK plc; ScottishPower Energy Management Ltd.; ScottishPower Generation Ltd; ScottishPower Energy Retail Ltd.;
No. of Non BSC Parties Represented	
Non BSC Parties represented	Please list all non BSC Parties responding on behalf of (including the respondent company if relevant).
Role of Respondent	(Supplier/Generator/ Trader / Consolidator / Exemptable Generator / BSC Agent / Party Agent / other – please state ¹) Supplier / Generator / Trader / Consolidator / Exemptable Generator / Party Agent

Q	Question	Response ¹	Rationale
1.	Do you believe that the Proposed Modification P146 better facilitates the achievement of the Applicable BSC Objectives? Please give rationale and state objective(s).	No	We do not believe P146 better facilitates the achievement of the Applicable BSC Objectives. The potential credit default provision would detriment the facilitation of the competition objective (c) as it would adversely impact a party's reputation, without the opportunity for them to resolve the situation as allow by the Code. The need for a Cure Period and the reputation of a party is of particular importance as indicated in the numbers of Mod proposals on credit default. We do not believe such provision in P146 would achieve any benefit. The early notification of potential credit default to one market participant is discriminatory and would potentially give that Party the opportunity to take corrective action ahead of (and to the detriment of) other Parties. In addition, confidentiality of such information is also an issue.

¹ Delete as appropriate – please do not use strikethrough, this is to make it easier to analyse the responses

Q	Question	Response ¹	Rationale
2.	<p>Do you believe that an Alternative Modification consisting only of the new participation category and charging aspects of P146 (i.e. with the potential Credit Default warning provisions removed) would better facilitate the achievement of the Applicable BSC Objectives? Please give rationale and state objective(s).</p>	Yes	<p>We believe that without the potential Credit Default warning provisions, it would remove the concern of parties as indicated in Qu.1 above. However, we cannot see how reducing the notification charges help the liquidity of the market unless there is corresponding reduction in clearing costs to members. We believe that parties/members are already paying this charge and this service is the Clearing House's business. Nonetheless, due to the relative small charges involved, if there is a potential that the cost of such service could reduce, then the Alternative could better facilitate the competition objective (c).</p>
3.	<p>Which, if any, of the five qualification criteria options outlined in Section 2.1.2 do you believe should be applied to the new participation category of Clearing Houses? Are there any additional or alternative criteria that you believe should be considered? Please give rationale.</p>	Option 1	<p>Due to the privilege position of such category, we believe in the tightest criteria. We therefore agree that Option 1 would be the most appropriate and efficient, as it provides an existing means of reassurance and comfort in term of fitness for purpose, capital adequacy, market neutrality and commercial confidentiality to the parties. Other options either create far less efficient process and/or potentially open up to a large number of companies without the reassurance of Option1.</p>
4.	<p>Do you agree with the view of the Proposer that P146 would result in increased use of Clearing Houses under the Code? Please give rationale.</p>	No	<p>See our comments on Qu. 1 and 2 above.</p>
5.	<p>Do you support the implementation approach described in the consultation document? Please give rationale.</p>	Yes	<p>We agree the least cost and most effective option should be adopted.</p>

Q	Question	Response ¹	Rationale
6.	Do you believe there are any alternative solutions that the Modification Group has not identified and that should be considered? Please give rationale.	No	
7.	Does P146 raise any issues that you believe have not been identified so far and that should be progressed as part of the Assessment Procedure? Please give rationale.	No	
8.	Are there any further comments on P146 that you wish to make?	No	

P146_ASS_007 – EDF Trading Ltd

Respondent:	<i>Steve Drummond</i>
No. of BSC Parties Represented	<i>Two</i>
BSC Parties Represented	<i>EDF Trading Ltd and EDF (Generation)</i>
No. of Non BSC Parties Represented	<i>None</i>
Non BSC Parties represented	<i>N/A</i>
Role of Respondent	<i>Trader and Generator respectively</i>

Q	Question	Response	Rationale
1.	Do you believe that the Proposed Modification P146 better facilitates the achievement of the Applicable BSC Objectives? Please give rationale and state objective(s).	No	As proposed with the inclusion of the Clearing House being in receipt of party default information prior to other market parties, then we believe it is difficult for the modification to better achieve the BSC Objectives.
2.	Do you believe that an Alternative Modification consisting only of the new participation category and charging aspects of P146 (i.e. with the potential Credit Default warning provisions removed) would better facilitate the achievement of the Applicable BSC Objectives? Please give rationale and state objective(s).	Yes	An Alternative Modification as described however would provide a greater likelihood of market participants using the Clearing House services and this approach would therefore be supportable. It would also part way correct the anomaly on charging CH trades as opposed to bilateral or PE trades and hence is less discriminatory.
3.	Which, if any, of the five qualification criteria options outlined in Section 2.1.2 do you believe should be applied to the new participation category of Clearing Houses? Are there any additional or alternative criteria that you believe should be considered?		Option 1 is too selective and excludes parties who offer clearing services and Options 4 & 5 are not linked to the BSC. Therefore Options 2 or 3 should be explored. Our preference being for Option 2 if it goes forward.

Q	Question	Response	Rationale
	Please give rationale.		
4.	Do you agree with the view of the Proposer that P146 would result in increased use of Clearing Houses under the Code? Please give rationale.	Yes	If there is a reduction in the charges to CH users then there is likely to be greater take-up of those services, especially as there appears to be a growing desire among traders to use cleared products to reduce their counter-party risk.
5.	Do you support the implementation approach described in the consultation document? Please give rationale.	Yes	
6.	Do you believe there are any alternative solutions that the Modification Group has not identified and that should be considered? Please give rationale.	No	
7.	Does P146 raise any issues that you believe have not been identified so far and that should be progressed as part of the Assessment Procedure? Please give rationale.	No	Other than as mentioned below.
8.	Are there any further comments on P146 that you wish to make?	Yes	What impact will the takeover of UKPX by APX have on the proposal? There is also concern that, whilst it reduces CH costs and maybe reduces charges to CH users, it won't actually reduce system costs overall. Moreover the likely change costs might outweigh the benefits in the short term and so there is likely to be a net increase cost to parties. Perhaps a longer term assessment is required fro the mod to be accepted.

P146_ASS_008 – EDF Energy Networks (EPN) plc

Respondent:	Paul Chesterman
No. of BSC Parties Represented	9
BSC Parties Represented	EDF Energy Networks (EPN) plc; EDF Energy Networks (LPN) plc EDF Energy Networks (SPN) plc; EDF Energy (Sutton Bridge Power) EDF Energy (Cottam Power) Ltd; EDF Energy (West Burton Power) Ltd; EDF Energy plc; London Energy plc; Seaboard Energy Limited
No. of Non BSC Parties Represented	
Non BSC Parties represented	
Role of Respondent	Supplier / Generator / Party Agent / Distribution Business

Q	Question	Response ¹	Rationale
1.	Do you believe that the Proposed Modification P146 better facilitates the achievement of the Applicable BSC Objectives? Please give rationale and state objective(s).	No	As we support the increased use of Central Clearing as a means of mitigating almost all credit risk. However, as proposed with the inclusion of the Clearing House being in receipt of party default information prior to other market parties, then we believe it is difficult for the modification to better achieve the BSC Objectives.
2.	Do you believe that an Alternative Modification consisting only of the new participation category and charging aspects of P146 (i.e. with the potential Credit Default warning provisions removed) would better facilitate the achievement of the Applicable BSC Objectives? Please give rationale and state objective(s).	Yes	We feel that de-scoping the proposal in this manner would make it more supportable
3.	Which, if any, of the five qualification criteria options outlined in Section 2.1.2 do you believe should be		We feel that Option 1 is restrictive and that Options 4 & 5 might not be desirable, since the broad requirements of the FSA are not linked to the

Q	Question	Response ¹	Rationale
	<p>applied to the new participation category of Clearing Houses? Are there any additional or alternative criteria that you believe should be considered? Please give rationale.</p>		BSC. Therefore Options 2 or 3 should be explored.
4.	<p>Do you agree with the view of the Proposer that P146 would result in increased use of Clearing Houses under the Code? Please give rationale.</p>	Yes	This would seem to follow. However we do not feel that the 'double Notification Fees issue' is significant in a Trading Party's decision to use a Clearing House.
5.	<p>Do you support the implementation approach described in the consultation document? Please give rationale.</p>	Yes	We would be confident that we have been well advised by Elexon.
6.	<p>Do you believe there are any alternative solutions that the Modification Group has not identified and that should be considered? Please give rationale.</p>	No	None that we are aware of, or that we would want to pursue at present
7.	<p>Does P146 raise any issues that you believe have not been identified so far and that should be progressed as part of the Assessment Procedure? Please give rationale.</p>	No	
8.	<p>Are there any further comments on P146 that you wish to make?</p>	Yes	<p>What impact will the takeover of UKPX by APX have on the proposal. Moreover the likely change costs might outweigh the benefits in the short term and so there is likely to be a net increase cost to parties.</p>