

<b>Modification Proposal – BSCP40/03</b>	MP No: P308 <i>(mandatory by BSCCo)</i>
<p><b>Title of Modification Proposal</b> <i>(mandatory by originator):</i></p> <p>Alternative security product for securing credit under the BSC</p>	
<p><b>Submission Date</b> <i>(mandatory by originator):</i></p> <p>4 June 2014</p>	
<p><b>Description of Proposed Modification</b> <i>(mandatory by originator)</i></p> <p>This Modification proposes to introduce an alternative security product as an alternative method for securing credit under the Balancing and Settlement Code (BSC). This would be provided centrally, and would allow Parties to use this product in place of the existing requirements to individually provide cash and/or a Letter of Credit as Credit Cover.</p> <p>The Workgroup will need to consider the most suitable product to introduce into the BSC, which may require it to undertake some analysis to determine the suitability and cost-effectiveness of such products.</p>	
<p><b>Description of Issue or Defect that Modification Proposal Seeks to Address</b> <i>(mandatory by originator)</i></p> <p>The current BSC arrangements require Parties to pay Trading Charges for a given Settlement Day around 29 calendar days later. Each individual Party is required to provide cash and/or a Letter of Credit in order to cover their outstanding Trading Charges over this period to ensure that, should they default, the money is available to pay off their debts.</p> <p>We consider that the level of credit held across the energy industry is in some cases exceptionally high, above and beyond the actual risk that market participants are likely to incur. This is in part due to Parties needing to individually lodge funds to cover their own positions. This is further compounded by the provisions of the BSC which can require each Party to lodge more than is actually required in order to ensure they do not breach the thresholds for entering Credit Default. The credit that is lodged under the BSC appears to cover a large part of the “tail risk” where the largest losses occur but, in terms of probability, are very unlikely.</p> <p>We consider that such an arrangement is inefficient, as it results in significant sums of excess money being lodged as Credit Cover. This can be a burden for Parties in the current financial climate, especially smaller ones. We believe it would be more efficient to provide a single central security product that could cover all Parties, rather than requiring Parties to provide Credit Cover on an individual basis. Having this central fund would remove a lot of the excess credit that can result from the BSC arrangements. The trade association Energy UK has carried out some initial analysis with its members, the insurance broker Marsh and ELEXON to develop alternative security products as an alternative form of cover under the BSC, and we believe that this work should now be taken forward and such a product introduced under the BSC.</p>	

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<p><b>Impact on Code</b> <i>(optional by originator)</i></p> <p>If approved amendments would be required to Section M ‘Credit Cover and Credit Default’, with new definitions being added to Section X Annex X-1.</p>	
<p><b>Impact on Core Industry Documents or System Operator-Transmission Owner Code</b> <i>(optional by originator)</i></p> <p>None anticipated.</p>	
<p><b>Impact on BSC Systems and Other Relevant Systems and Processes Used by Parties</b> <i>(optional by originator)</i></p> <p>BSC systems may need to be adjusted to work with the additional security options. This would be confirmed during assessment.</p>	
<p><b>Impact on other Configurable Items</b> <i>(optional by originator)</i></p> <p>To be determined.</p>	
<p><b>Justification for Proposed Modification with Reference to Applicable BSC Objectives</b> <i>(mandatory by originator)</i></p> <p>Better facilitation of Applicable BSC Objective (c):</p> <p><i>Promoting effective competition in the generation and supply of electricity, and (so far as consistent therewith) promoting such competition in the sale and purchase of electricity.</i></p> <p>This Modification Proposal seeks to introduce an alternative security product within the BSC requirements relating to the provision of security available to BSC Parties. This would improve competition and reduce costs incurred by Trading Parties under the BSC by reducing the levels of excess credit that Parties are required to lodge and replacing it with a single central fund.</p>	
<p><b>Is there a likely material environmental impact?</b> <i>(optional by originator)</i></p> <p>No</p>	
<p><b>Urgency Recommended: Yes / No</b> <i>(delete as appropriate) (optional by originator)</i></p> <p>No</p>	

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<b>Justification for Urgency Recommendation</b> <i>(mandatory by originator if recommending progression as an Urgent Modification Proposal)</i>	
N/A	
<b>Self-Governance Recommended: Yes / No</b> <i>(delete as appropriate) (optional by originator)</i>	
No	
<b>Justification for Self-Governance Recommendation</b> <i>(mandatory by originator if recommending progression as Self-Governance Modification Proposal)</i>	
N/A	
<b>Fast Track Self-Governance Recommended: Yes / No</b> <i>(delete as appropriate) (optional by originator)</i>	
No	
<b>Justification for Fast Track Self-Governance Recommendation</b> <i>(mandatory by originator if recommending progression as Fast Track Self-Governance Modification Proposal)</i>	
N/A	
<b>Should this Modification Proposal be considered exempt from any ongoing Significant Code Reviews?</b> <i>(optional by originator in order to assist the Panel decide whether a Modification Proposal should undergo a SCR Suitability Assessment)</i>	
The proposer is not aware of any ongoing significant code review related to this modification proposal.	
<b>Details of Proposer:</b>	
<i>Name.....Michelle Dixon.....</i>	
<i>Organisation.....Eggborough Power.....</i>	
<i>Telephone Number.....01977 785 502.....</i>	
<i>Email Address.....michelle.dixon@eggboroughpower.co.uk.....</i>	

<b>Modification Proposal – BSCP40/03</b>	MP No: P308 <i>(mandatory by BSCCo)</i>
<b>Details of Proposer's Representative:</b>	
<i>Name.....Kyle Martin.....</i>	
<i>Organisation.....Energy UK.....</i>	
<i>Telephone Number.....02077471834.....</i>	
<i>Email address.....Kyle.Martin@energy-uk.org.uk.....</i>	
<b>Details of Representative's Alternate:</b>	
<i>Name.....N/A.....</i>	
<i>Organisation.....</i>	
<i>Telephone Number.....</i>	
<i>Email address.....</i>	
<b>Attachments: Yes / No</b> <i>(delete as appropriate) (mandatory by originator)</i>	
<b>If Yes, Title and No. of Pages of Each Attachment:</b>	