LEGAL TEXT FOR PROPOSED MODIFICATION P306

SECTION M: CREDIT COVER AND CREDIT DEFAULT (Version 22.0)

Amend paragraph 2.1 to read as follows:

2. CREDIT COVER AND ENERGY CREDIT COVER

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 or Approved Insurance Product 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.

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 and/or Approved Insurance Products and/or by way of Letter of Credit, Approved Insurance Product 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.

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 or Approved Insurance Product delivered by it, and

(ii) 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.

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

2.1.4 The forms of the Letter of Credit (~~subject~~ as provided in the definition thereof) are set out in Annex M-1, Annex M-2 and Annex M-3.

2.1.5 The requirements for any Approved Insurance Product (as provided in the definition thereof) are set out in Annex M-4.

Amend paragraph 2.2 to read as follows:

2.2 Letter of Credit and Approved Insurance Product

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

(a) not later than 10 Business Days before the current Letter of Credit or the current Approved Insurance Product is due to expire, the Trading Party shall:

(i) provide to the FAA confirmation from the issuing bank or regulated insurance company that the validity of the current Letter of Credit or the current Approved Insurance Product will be extended by a further period of not less than 3 months, or

(ii) provide to the FAA a new Letter of Credit or a new Approved Insurance Product, valid for a period of not less than 3 months commencing not later than the expiry of the current Letter of Credit and/or the current Approved Insurance Product and for an amount not less than that of the current Letter of Credit and/or current Approved Insurance Product;

(b) if at any time the issuing bank or regulated insurance company ceases to have the required credit rating specified in the definition of Letter of Credit or in the definition of Approved Insurance Product, 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 or Approved Insurance Product, issued by a bank or a regulated insurance company 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 and/or an Approved Insurance Product plus cash so delivered shall not be less than that of the current Letter of Credit or the current Approved Insurance Product;

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(c) where paragraph (b) applies, the current Letter of Credit or current Approved Insurance Product 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 or Approved Insurance Product as referred to in that paragraph.

2.2.2 If in relation to a Letter of Credit or Approved Insurance Product 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 or Approved Insurance Product and credit the Reserve Account with the proceeds.

2.2.3 Where a Trading Party has provided a Letter of Credit or an Approved Insurance Product, 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 to read 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 or Approved Insurance Product provided by the Trading Party, and/or

(ii) a withdrawal of cash deposited by the Trading Party

provided that the amount of the Trading Party's Credit Cover following such reduction and/or withdrawal is not less than the minimum eligible amount and that that Trading Party is not in default of any obligation to make a payment to the BSC Clearer and (subject to paragraph 2.3.1(A) and 2.3A) is not a Defaulting Party (as defined in Section H3).

2.3.1A Where at any time a Trading Party:

(a) is in Default solely by virtue of Section H 3.1.1(g); and

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(b) has given a Withdrawal Notice pursuant to Section A5.1 which remains effective; and

(c) is not prevented from withdrawing from the Code or ceasing to be a party to the Framework Agreement by virtue of Section A5.1.3,

then such Trading Party shall not be precluded from being entitled to:

(1) a reduction in the amount of a Letter of Credit or an Approved Insurance Product provided by it; and/or

(2) a withdrawal of cash deposited by it.

2.3.2 For the purposes of paragraph 2.3.1:

(a) the "**waiting period**" is the period of 10 Settlement Days commencing with the Settlement Day on which the Trading Party's notice under paragraph 2.3.1(a) was received by the ECVAA;

(b) the "**minimum eligible amount**" is the lowest amount for which the Trading Party's Credit Cover Percentage, if it were redetermined for each Settlement Period in the waiting period on the assumption that the Trading Party's Credit Cover were equal to that amount, would be not greater than 75% in relation to any such Settlement Period.

2.3.3 If at any time:

(a) the ECVAA has given to a Trading Party a level 1 default notice which was not cancelled pursuant to paragraph 3.2.4, or notified a Trading Party that it is in Credit Default;

(b) following such notice or notification the Trading Party provided additional Credit Cover; and

(c) after the Trading Party provided additional Credit Cover, the ECVAA established that, or it is determined pursuant to Section W that, the level 1 default notice should not have been given or that the Trading Party was not in Credit Default.

then paragraph 2.3.4 shall apply.

2.3.4 In the circumstances described in paragraph 2.3.3:

(a) the Trading Party may reduce the amount of its Credit Cover, by an amount not exceeding the amount of the additional Credit Cover provided by it as referred to in paragraph 2.3.3(b), in accordance with paragraph 2.3, but on the basis that:

(i) the waiting period is a period of one Settlement Day;

(ii) the figure of 80% is substituted for 75% in paragraph 2.3.2(b);

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(b) except as provided in paragraph 4, the Trading Party shall have no other claim or remedy for having so provided additional Credit Cover.

Amend paragraph 2.3A to read as follows:

2.3A Reduction of Credit Cover for Non-Supplier Trading Party

2.3A.1 Where a Non-Supplier Trading Party which is in Default solely by virtue of Section H 3.1.1(g) wishes to reduce the amount of its Credit Cover it shall make a submission in writing.

2.3A.2 Following a request submitted in accordance with paragraph 2.3A.1, at the next Panel meeting following confirmation by BSCCo that the Non-Supplier Trading Party meets the conditions set out in paragraph 2.3A.5 the Panel shall consider and take a decision as to whether there is any reason why the Non-Supplier Trading Party should not be entitled to:

(a) a reduction in the amount of a Letter of Credit or Approved Insurance Product provided by the Non-Supplier Trading Party; and/or

(b) a withdrawal of cash deposited by the Non-Supplier Trading Party.

2.3A.3 At the time the Panel makes its decision:

(a) the amount of the Non-Supplier Trading Party's Credit Cover following such reduction and/or withdrawal shall be the amount calculated in accordance with paragraph 2.3.A.6; and

(b) the Non-Supplier Trading Party is a Trading Party which is in Default solely by virtue of Section H.3.1.1(g); and

(c) the Non-Supplier Trading Party meets the conditions set out in 2.3A.5.

2.3A.4 If the Panel considers that there is insufficient information available to it to enable it to take the decision referred to in paragraph 2.3A.2 in respect of a request by the Non-Supplier Trading Party for a reduction in Credit Cover then the Panel may defer consideration of the request until the next succeeding Panel meeting provided that, in so doing, the Panel shall prescribe the steps which need to be taken (by BSCCo, the Non Supplier Trading Party or otherwise) to enable the Panel to decide the matter at such subsequent meeting.

2.3A.5 In accordance with paragraph 2.3.A.2 the Non-Supplier Trading Party must meet each of the following conditions:

(a) at the date it gives notice pursuant to paragraph 2.3A.1:

(i) there are no Energy Contract Volume Notifications or Metered Volume Reallocation Notifications in force, in respect of which the Trading Party is a Contract Trading Party, relating to Settlement Periods after that date and containing Energy Contract Volume Data or Metered Volume Reallocation Data with non-zero values; and

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(ii) the Non-Supplier Trading Party has terminated all ECVNA Authorisations and MVRNA Authorisations made under its authority;

and

(b) the Non-Supplier Trading Party shall have paid any and all Trading Charges payable up to or on the Payment Date; and

(c) the Non-Supplier Trading Party shall have paid any and all BSC Charges payable up to the date that it gives notice pursuant to paragraph 2.3A.1 in accordance with Section D Annex D4 and D5; and

(d) the Non-Supplier Trading Party shall have completed de-registration (in accordance with Section K and BSCP15) from ownership of any BM Units for which it was registered by the date it gives notice pursuant to paragraph 2.3A.1; and

(e) the Non-Supplier Trading Party shall have an Energy Indebtedness of zero or less than zero continuously over the period of 30 days immediately preceding to the giving of notice pursuant to 2.3A.1.

2.3A.6 Any reduction in or withdrawal of Credit Cover in relation to 2.3A shall be made in accordance with the following sum:

The amount of Credit Required (CR, in £) required by a Non-Supplier Trading Party shall be calculated as follows:

$$\sum_{x \in (1,2,3,F)} NRxSP * \frac{\sum_{Rx(j)} \max(RxC_j, 0)}{RxSP}$$

where:

RxSP is the count of all Settlement Periods falling any time up to a year before the date on which the Non-Supplier Trading Party in question ceased trading for which the Rx Reconciliation Run has been performed or if this number is less than 1440 (30 days) then 1440.

ΣRx(j) represents summation over all Settlement Periods falling within a year before the date on which the Non-Supplier Trading Party in question ceased trading for which the Rx Reconciliation Run has been performed or if the number of Settlement Periods in this sum is less than 1440, then the summation over the last 1440 Settlement Periods for which the Rx Reconciliation Run has been performed.

RxCj represents the Reconciliation Charges (as defined in N 6.4.3) payable by the Non-Supplier Trading Party (summed across its accounts) due to the Rx Reconciliation Run in the relevant Settlement Period.

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NRxSP represents the count of all Settlement Periods up to and including the date on which the Non-Supplier Trading Party ceased trading for which the Rx Reconciliation Run has not been performed.

For the purposes of Section 2.3A the date that the Non-Supplier Trading Party ceased trading shall be the earliest date on which there are no Energy Contract Volume Notifications or Metered Volume Reallocation Notifications in force in respect of which the Non-Supplier Trading Party is a Contract Trading Party and there is no credited Energy in either the Production or Consumption Account of such Non-Supplier Trading Party.

2.3A.7 For the purposes of paragraph 2.3A a Non-Supplier Trading Party shall be a Trading Party which is not:

(a) a Supplier; or

(b) a Subsidiary Party in a Metered Volume Reallocation Notification where the Lead Party in the Metered Volume Reallocation Notification was a Supplier where the percentage value is greater than zero;

and in all cases this shall have been the case for any Settlement Day for which a Final Reconciliation Settlement Run has not been performed.

2.3A.8 For the avoidance of doubt, paragraph 2.3.3 applies in connection with this paragraph 2.3A.

Insert a new Annex M-4 to read as follows:

ANNEX M-4

1. REQUIREMENTS OF AN APPROVED INSURANCE PRODUCT

1.1 Providers of an Approved Insurance Product

1.1.1 A provider of an Approved Insurance Product may be:

(a) an insurance company or insurance companies regulated in the United Kingdom which shall meet the credit rating as specified in the definition of Approved Insurance Product; or

(b) a bank or banks which shall meet the criteria set out in the definition of Letter of Credit.

1.2 Requirements of an Approved Insurance Product

1.2.1 An Approved Insurance Product shall include a guarantee that payments made under it will be effected within 3 Business Days of a claim being presented in accordance with the specific Approved Insurance Product.

1.2.2 Except as otherwise approved by the Panel, an Approved Insurance Product shall:

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(a) be in favour of the BSC Clearer;

(b) be denominated in Sterling and be available for payment in the United Kingdom;

(c) be unconditional and irrevocable;

(d) include a waiver of any rights of set off against any amount payable thereunder;

(e) allow for partial drawings; and

(f) be governed by English Law and shall be enforceable in the courts of England and Wales

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ANNEX X-1: GENERAL GLOSSARY

"**Approved Insurance Product**":	means an insurance product which complies with the requirements set out in Annex M-4 of Section M and is provided by an insurance company regulated in the United Kingdom which has a long term debt rating of not less than single A by Standard & Poor's Corporation, Moody's Investors Service, Inc., Fitch Ratings Limited or such other bank(s), insurance company or insurance companies as the Panel may approve, such rating to be the equivalent to that required of a bank to be able to provide a Letter of Credit. A single A by Standard & Poor's Corporation or Fitch Ratings Limited shall satisfy these requirements if appended with a '+' or '-'. A single A by Moody's Investors Service, Inc. shall satisfy these requirements if appended with a '1', '2' or '3';
"**Letter of Credit**":	means an unconditional, irrevocable standby letter of credit substantially in the form set out in Annexes M-1, M-2 or M-3 (or such other form as the Panel may approve) in sterling in favour of the BSC Clearer by any United Kingdom clearing bank(s) ~~or banks~~ or any other bank(s) ~~or banks~~ which has (have) a long term debt rating of not less than single A by Standard & Poor's Corporation, Moody's Investors Service, Inc., ~~or by~~ Fitch Ratings Limited or such other bank(s) ~~or banks~~ as the Panel may approve, and which shall be available for payment at a United Kingdom branch of the issuing bank. A single A by Standard & Poor's Corporation or Fitch Ratings Limited shall satisfy these requirements if appended with a '+' or '-'. A single A by Moody's Investors Service, Inc. shall satisfy these requirements if appended with a '1', '2' or '3' ;

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