

Modification proposal:	Balancing and Settlement Code (BSC) P214: Issues relating to funds administration (P214)		
Decision:	The Authority ¹ directs that this proposal be made ²		
Target audience:	National Grid Electricity Transmission Plc (NGET), Parties to the BSC and other interested parties		
Date of publication:	24 January 2008	Implementation Date:	6 November 2008

Background to the modification proposal

At least once every two years ELEXON is obligated to conduct a review of the implementation and operation of the BSC³, with a view to evaluating whether the code continues to facilitate its relevant objectives in the most effective way. The focus of its last review for the years 2006/07 was the area of Funds Administration: the processes for invoicing and payment of monies between signatory Parties and the central agent who administers payments, the Funds Administration Agent (FAA).

The final report of the review was published in April 2007 and is available on the ELEXON website⁴. The review findings, which suggested a number of areas where the efficiency of the arrangements could be improved, were broadly welcomed by the BSC Panel⁵, who suggested that its recommendations could be taken forward by some combination of Change Proposals, Standing Issues and/or Modification Proposals.

Standing Issue 27, 'BSC Review', was raised by Scottish Power to allow industry to further discuss the findings of the review. Following one meeting of the Settlement Standing Modification Group to consider Issue 27, Scottish Power formally raised Modification Proposal P214 on 3 July 2007.

The modification proposal

P214 takes forward a subset of the conclusions of the BSC Review, further discussed under Issue 27, and seeks to:

- Move from the current fax and post based invoicing system to one founded on email;
- Combine currently separate Advice Notes and Confirmation Notices for Trading Charges, ad-hoc charges and Default Charges into single documents;
- Introduce a £500 threshold below which an Advice Note or Confirmation Notice would not be created, and below which a Party would not need to make immediate payment of charges. These outstanding charges would be 'rolled over' until the earlier of (a) the aggregate outstanding amount of charges exceeding £500 or (b) the end of the tax quarter. At such point invoicing would occur and the charges would become due; and
- Update code drafting to reflect current banking practice in relation to making claims on Letters of Credit.

The Proposer argued that the baseline arrangements in these areas were unduly onerous and that reform would drive efficiencies in both Party and central arrangements, thereby

¹ The terms 'the Authority', 'Ofgem' and 'we' are used interchangeably in this document. Ofgem is the Office of the Gas and Electricity Markets Authority.

² This document is notice of the reasons for this decision as required by section 49A of the Electricity Act 1989.

³ This is required by section C3.8 of the BSC.

⁴ At the following location: http://www.elexon.co.uk/documents/Publications/Publications_-_BSC_Review/BSC_Review_06_07_-_Final_Report.pdf

⁵ For further details, see the minutes of the April 2007 Panel meeting on the ELEXON website.

better facilitating the relevant code objectives relating to competition and central efficiency (c and d respectively).

BSC Panel⁶ recommendation

At its meeting on 13 December 2007 the Panel recommended unanimously that P214 should be made.

The Authority's decision

The Authority has considered the issues raised by the modification proposal and the Final Modification Report (FMR) dated 17 December 2007. The Authority has considered and taken into account the responses to Elexon's⁷ consultation which are attached to the FMR⁸. The Authority has concluded that:

1. implementation of the modification proposal will better facilitate the achievement of the relevant objectives of the BSC⁹; and
2. directing that the modification be made is consistent with the Authority's principal objective and statutory duties¹⁰.

Reasons for the Authority's decision

We note, and agree with, the unanimous view of the Panel, the Modification Group, and those Parties who expressed a view¹¹ that this change should be made. There is significant evidence that the baseline creates inefficiencies, both for market participants and in the central administrative arrangements of the BSC. Reducing these burdens in those two areas should better facilitate relevant code objectives (c) and (d) respectively.

Objective (c) - 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

We agree with the Panel's conclusion that P214 will help to promote competition.

The principal driver for this will be a reduction in the transactional costs of market participation¹², particularly through a significant reduction in the volume of small value transactions where the processing and banking charges incurred by a participant in making payment may exceed the value of the transaction itself.

This should benefit all market participants, but particularly those whose invoices most frequently fall below the £500 daily threshold that P214 would introduce. The analysis provided in the Modification Report does not break down scale of invoices by participation type or scale, so it is not possible to draw definitive conclusions on who falls below this threshold, but on the balance of probabilities we are inclined to agree with the conclusion

⁶ The BSC Panel is established and constituted pursuant to and in accordance with Section B of the BSC.

⁷ The role and powers, functions and responsibilities of ELEXON are set out in Section C of the BSC.

⁸ BSC modification proposals, modification reports and representations can be viewed on the Elexon website at www.elexon.com

⁹ As set out in Standard Condition C3(3) of NGET's Transmission Licence, see: http://epr.ofgem.gov.uk/document_fetch.php?documentid=4151

¹⁰ The Authority's statutory duties are wider than matters which the Panel must take into consideration and are detailed mainly in the Electricity Act 1989.

¹¹ One respondent to the Report Phase consultation provided a neutral response, noting that the proposal did not affect its organisation.

¹² Indeed we note the cost benefit analysis in section 5.1.1 of the Modification Report suggests that the operational savings delivered by P214 may exceed its implementation costs in only a year.

that this will most frequently be smaller participants. P214 has real potential to ease unnecessary burdens on, and barriers to, market entrants.

We also agree with the conclusion that P214 will further reduce participation costs as less effort would be required by Parties to process electronically-received Advice Notes, Confirmation Notices and backing sheets than the current paper based processes.

Objective (d) - promoting efficiency in the implementation and administration of the balancing and settlement arrangements

The benefits in terms of improved efficiency in the central administration of the arrangements by the Funds Administration Agent (FAA) are essentially similar to those pertaining to parties: reduced operational efforts and costs in moving from a paper based to an electronic invoicing system, and a reduction in the volume of small value notices and transactions that need to be processed.

We also agree with the conclusion that, in principle, removing redundant clauses from the code will improve its clarity and reduce the potential for misunderstanding.

Our wider statutory duties

We consider that a direction to implement P214 would be consistent with our statutory duties, in particular in relation to the promotion of effective competition, and the promotion of efficiency and economy on the part of licensees¹³. Our reasons for holding the view that these statutory duties are furthered are the same as those given for the code objectives above.

Decision notice

In accordance with Standard Condition C3 of NGET's Transmission Licence, the Authority, hereby directs that modification proposal BSC214: Issues relating to Funds Administration be made.



Mark Feather

Director, Industry Codes and Licensing

Signed on behalf of the Authority and authorised for that purpose.

¹³ i.e. sections 3A(1) and (5) of the Electricity Act 1989 as amended by the Energy Act 2004.