

## INITIAL WRITTEN ASSESSMENT for Modification Proposal P214 'Issues relating to Funds Administration'

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<b>Date of Issue:</b>	3 August 2007	<b>Document Reference:</b>	P214IR
<b>Reason for Issue:</b>	For Panel Decision	<b>Version Number:</b>	1.0

This document has been distributed in accordance with Section F2.1.10 of the Balancing and Settlement Code.<sup>2</sup>

P214 seeks to amend the current BSC Funds Administration processes to provide a more efficient and cost effective way of operating for the BSC Agent and BSC Parties. P214 seeks to achieve this by introducing electronic delivery of Advice Notes/Confirmation Notices, combining the amounts from Trading Charges and each Default Charge onto one daily Advice Note, introducing thresholds below which an Advice Note would not be produced and ensuring that current banking practices are reflected in the Code.

### BSCCO'S RECOMMENDATIONS

On the basis of the initial assessment, BSCCo invites the Panel to:

- **DETERMINE that Modification Proposal P214 should be submitted to the Assessment Procedure;**
- **AGREE the Assessment Procedure timetable such that an Assessment Report should be completed and submitted to the Panel for consideration at its meeting of 09 November 2007;**
- **DETERMINE that the P214 Modification Group be formed of members from Parties with relevant financial or funds administration experience; and**
- **AGREE the Modification Group Terms of Reference.**

<sup>1</sup> ELEXON Ltd fulfils the role of the Balancing and Settlement Code Company ('BSCCo'), pursuant to Annex X-1 of the Balancing and Settlement Code (the 'Code').

<sup>2</sup> The current version of the Code can be found at <http://www.elexon.co.uk/bscrelateddocs/BSC/default.aspx>.

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## SUMMARY OF IMPACTED PARTIES AND DOCUMENTS

As far as BSCCo has been able to assess, the following parties/documents are potentially impacted by Modification Proposal P214.

Please note that this table represents a summary of the full initial impact assessment results contained in Appendix 2.

Parties	Sections of the BSC	Code Subsidiary Documents
Distribution System Operators <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"/>
Interconnectors <input checked="" type="checkbox"/>	C <input type="checkbox"/>	BSC Service Descriptions <input checked="" type="checkbox"/>
Licence Exemptable Generators <input checked="" type="checkbox"/>	D <input type="checkbox"/>	Party Service Lines <input type="checkbox"/>
Non-Physical Traders <input checked="" type="checkbox"/>	E <input type="checkbox"/>	Data Catalogues <input type="checkbox"/>
Suppliers <input checked="" type="checkbox"/>	F <input type="checkbox"/>	Communication Requirements Documents <input checked="" type="checkbox"/>
Transmission Company <input checked="" type="checkbox"/>	G <input type="checkbox"/>	Reporting Catalogue <input type="checkbox"/>
<b>Party Agents</b>		
Data Aggregators <input type="checkbox"/>	H <input type="checkbox"/>	<b>Core Industry Documents</b>
Data Collectors <input type="checkbox"/>	I <input type="checkbox"/>	Ancillary Services Agreement <input type="checkbox"/>
Meter Administrators <input type="checkbox"/>	J <input type="checkbox"/>	British Grid Systems Agreement <input type="checkbox"/>
Meter Operator Agents <input type="checkbox"/>	K <input type="checkbox"/>	Data Transfer Services Agreement <input type="checkbox"/>
ECVNA <input type="checkbox"/>	L <input type="checkbox"/>	Distribution Code <input type="checkbox"/>
MVRNA <input type="checkbox"/>	M <input type="checkbox"/>	Distribution Connection and Use of System Agreement <input type="checkbox"/>
<b>BSC Agents</b>		
SAA <input type="checkbox"/>	N <input checked="" type="checkbox"/>	Grid Code <input type="checkbox"/>
FAA <input checked="" type="checkbox"/>	O <input type="checkbox"/>	Master Registration Agreement <input type="checkbox"/>
BMRA <input type="checkbox"/>	P <input type="checkbox"/>	Supplemental Agreements <input type="checkbox"/>
ECVAA <input type="checkbox"/>	Q <input type="checkbox"/>	Use of Interconnector Agreement <input type="checkbox"/>
CDCA <input type="checkbox"/>	R <input type="checkbox"/>	<b>BSCCo</b>
TAA <input type="checkbox"/>	S <input type="checkbox"/>	Internal Working Procedures <input checked="" type="checkbox"/>
CRA <input type="checkbox"/>	T <input type="checkbox"/>	<b>BSC Panel/Panel Committees</b>
SVAA <input type="checkbox"/>	U <input type="checkbox"/>	Working Practices <input type="checkbox"/>
Teleswitch Agent <input type="checkbox"/>	V <input type="checkbox"/>	<b>Other</b>
BSC Auditor <input type="checkbox"/>	W <input type="checkbox"/>	Market Index Data Provider <input type="checkbox"/>
Profile Administrator <input type="checkbox"/>	X <input checked="" type="checkbox"/>	Market Index Definition Statement <input type="checkbox"/>
Certification Agent <input type="checkbox"/>		System Operator-Transmission Owner Code <input type="checkbox"/>
<b>Other Agents</b>		
Supplier Meter Registration Agent <input type="checkbox"/>		Transmission Licence <input type="checkbox"/>
Unmetered Supplies Operator <input type="checkbox"/>		
Data Transfer Service Provider <input type="checkbox"/>		

# 1 DESCRIPTION OF PROPOSED MODIFICATION

## 1.1 Background

P214 was raised following consideration of Standing Issue 27<sup>3</sup> 'Balancing and Settlement Code (BSC) Review - Funds Administration'. The BSC Review for 2006/7<sup>4</sup> focused on the area of funds administration, and identified potential for change in the following areas:

- Small Value Transactions;
- Processing of Transactions;
- Current banking practice not reflected;
- VAT Reporting;
- BSC Party Standing Data;
- Recovery of Credit Cover; and
- Lodging Funds.

The issues and potential solutions described in Section 3 of the BSC Review were submitted to the Issue 27 Group for further discussion. As a result of these Group discussions, it was concluded that a modification should be raised to resolve the concerns from Issue 27 relating to processing of transactions, small value transactions and current banking practice not being reflected.

The Issue 27 Group concluded that VAT Reporting and BSC Party Standing Data should be progressed via a separate Change Proposal (CP) as the changes were solely to BSCP301 'Clearing, Invoicing and Payment' and BSCP38 'Authorisations'. The Group discussed the recovery of Credit Cover and the Lodging of Funds and noted the issues. However the Proposer decided not to include the issues in the scope of the Modification Proposal.

## 1.2 Modification Proposal

P214 was raised on 3 July 2007 by ScottishPower ('the Proposer'). P214 reflects the findings of the Issue 27 Group and seeks to amend the BSC to update procedures that give rise to the inefficient processing of transactions and the large number of small transactions. It also seeks to amend the Code to reflect current banking practices.

The Proposer has highlighted four main areas for consideration:

- Introducing electronic delivery of Advice Notes/Confirmation Notices;
- Combining the amounts from Trading Charges and each Default Charge onto one daily Advice Note;
- Introducing thresholds below which an Advice Note would not be produced; and
- Amending the Code to bring it in line with modern banking practices.

The Proposer feels that BSC Parties are currently subject to processes and obligations which are inherently onerous and costly to operate. Streamlining these processes will result in efficiency and cost savings giving rise to a subsequent increase in competition.

For each transaction the Funds Administration Agent (FAA) produces an Advice Note and a subsequent Confirmation Notice. The Advice Note details the amounts payable by or to a Payment Party on the relevant Payment Date, and the Confirmation Notice details the amount of VAT received in or paid out in respect of

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<sup>3</sup> [Issue 27 Report](#)

<sup>4</sup> [BSC Review 2006/7 'Funds Administration'](#)

the Trading Charges. There is a requirement set out in the Communications Requirement Document that Advice Notes and Confirmation Notices be faxed or posted to each BSC Party. Every month the FAA issues an estimated 8,200 Advice and Confirmation Notices, with the average payment run comprising of 10 sheets of paper each. The posted versions may well arrive too late to be used by BSC Parties and the fax machines struggle with the volume of correspondence. P214 proposes that Advice Notes and Confirmation Notices be emailed to BSC Parties. The Proposer believes this would reduce the manual processing which the FAA currently undertakes and also reduce the volume of paper required, assist Parties in chasing up missing files, reduce the volume of paperwork, and allow Parties to print out only the Advice Notes and supporting documentation that is required.

Another issue with the current Funds Administration process is the number of small value transactions which are processed by the FAA. On each Payment Date the amounts due to and from each BSC Party relating to the Settlement Day approximately 29 days earlier, and the amounts relating to the various Reconciliation Charges for the Settlement Days for up to 14 months in the past, are amalgamated and the net amount is paid to/collected from BSC Parties. For some BSC Parties this amount of money may be small. However, the same processes must be completed regardless of the size of the transaction. P214 proposes to introduce a threshold below which an Advice Note would not be produced. The Proposer notes this would take the form of a monetary threshold (i.e. below a certain amount an Advice Note would not be produced, and a time threshold (i.e. if a BSC Party's position was maintained below the monetary threshold then an Advice Note would eventually be produced after a set time, for example, 3 months). These thresholds would reduce the number of small value Advice Notes which were issued.

P214 proposes an additional solution to reduce the number of transactions. The Trading Charges and each Default Charge could be combined onto one Daily Advice Note. This would further reduce the number of invoices.

It is noted that BSC Section N 'Clearing, Invoicing and Payment' and BSCP301 were largely created from their equivalent predecessors under the Pooling and Settlement Agreement. As a consequence of this, they reflect banking practices that are no longer relevant. The progression of banking practices has benefited BSC Parties and the FAA and working practices have been developed to reflect them. These should be reflected in the Code as well.

The Proposer also believes that the streamlining of paperwork for small value transactions will reduce the potential for errors and unnecessary expenditure to occur, leading to improved efficiency in the implementation and administration of the balancing and settlement arrangements.

## **2 AREAS FOR CONSIDERATION IN PROGRESSING MODIFICATION PROPOSAL**

An initial assessment of P214 has identified the following areas which BSCCo recommends should be considered further by the Modification Group during the progression of the Modification Proposal:

### **2.1 Introducing electronic delivery of Advice Notes/Confirmation Notices**

The Modification Group will need to consider the mechanism of electronic delivery for Advice Notes/Confirmation Notices. The Issue 27 Group considered two approaches: creating electronic versions of the Advice/Confirmation Notices which would be emailed to Parties; or creating a bespoke e-billing system which would allow Parties to access the FAA reports electronically.

The emailing of Advice Notes/Confirmation Notices is likely to require encryption of files (emailed backing sheets are currently encrypted). The Group will need to look at the costs for the encryption and decryption software and the security implications of sending such information online. The Group will also need to consider the electronic format of the Advice Notes/Confirmation Notices. Currently backing sheets are emailed to Parties who request them as well as the posted copy. The format of the backing sheets attached to the email is Comma Separated Values (CSV). If emailed Advice Notes and Confirmation Notices are

introduced, the Modification Group will need to consider whether the emailed versions should be CSV or another printable format (as per BSCP301).

## **2.2 Combining the amounts from Trading Charges and each Default Charge onto a daily Advice Note**

The introduction of a combined Advice Note would reduce the number of invoices that the FAA would need to produce. The combined Advice Note, as it would include Default Charges, is also less likely to be of low value. The combined Advice Note will require a systems change in order to be implemented. Hence a Impact Assessment will be required from the FAA.

## **2.3 Introducing thresholds below which an Advice Note would not be produced**

The Modification Group will need to consider the thresholds below which an Advice Note would not be produced. These would take the form of setting a monetary threshold and a time threshold. Until either of these thresholds is breached an Advice Note would not be issued. The Modification Group will need to consider the level of the monetary threshold and the time threshold. The level of the monetary threshold will determine the maximum amount lost for a default, and therefore determine the level of risk. It is likely that Her Majesty's Revenue and Customs (HMRC) would require the thresholds to apply separately for debit and credit balances, with no netting of amounts.

It should be noted that the BSC Review 2006/7 consulted the industry on what the level of monetary and time thresholds should be. The consultation responses provided a range of proposed monetary thresholds (from £100 to £5,000). It was noted by the BSC Review 2006/7 that data modelling could be undertaken using previous Settlement Cash Flows for various threshold levels in order to ascertain the monetary threshold level. The Modification Group may consider conducting this data modelling in order to assist their decision on monetary threshold levels.

The introduction of thresholds would lead to a daily shortfall or excess of funds. This would lead to a change in the current fundamental concept of payments balancing to zero each Payment Day. This change would require HMRC approval, which will be sought during the Assessment Procedure once the proposed solution has been agreed. HMRC approval of the solution will need to be gained before the P214 Assessment Report can be finalised, and will therefore have an impact on the Assessment Phase timetable. BSCCo proposes to use its external financial advisors to assist in gaining approval of the P214 solution from HMRC. Gaining HMRC approval may precipitate the need to extend the Assessment Procedure.

The Modification Group will need to consider how the shortfall or excess of funds would be funded whilst the time and monetary thresholds accrue. The solution proposed by the BSC Review was that the net position could either be borrowed from the BSC Banker using the Borrowing Account facility, or placed in the Reserve Account. Given the small amounts involved, the BSC Review proposed that interest need not be calculated on amounts owing or owed.

The investigations of the Issue 27 Group have indicated that system changes would be required to implement a threshold below which an Advice Note would not be produced. The Group should consider the need for the system to be configurable so that the thresholds can be altered at a future date.

## **2.4 Amending the BSC to bring it in line with current banking practices**

Amending the Code to reflect current banking practice will require the Group to consider what changes are appropriate. Currently, some of the funds administration working practices are not supported by the Code, leaving enforcement of any procedures open to potential challenge. The specific changes that have been identified in the BSC Review (section 3.3) as being appropriate are as follows:

1. The Code states that there is a 3pm cut off for bank payments each day, allowing the FAA to monitor which payments have been received. However, BSC Parties can make payments by electronic transfer well beyond 3pm each day and the FAA is not in a position to identify BSC Parties who have not paid until the following morning. The BSC Review concluded that this has a bearing on the timing of the Default process as set out in the Code, and thus needs to be reflected in the Code.
2. The FAA and the BSC Banker have put in place a system whereby amounts are automatically swept between the various BSC bank accounts at the end of each day. This system ensures that amounts received from Parties are moved from the Collection to the Clearing Account, and if for any reason there is a credit on the Clearing Account at the end of the day (for example because of a Default), an equivalent amount is swept from the Borrowing Account to the Clearing Account. This ensures that at the end of the day only the Borrowing Account overdraft facility is used for any funds shortfall. This system of end of banking day sweeps enables the transfer of funds from the Collection to the Clearing Account each day regardless of when amounts are received during the day. This process is not reflected in the detailed provisions of Section N.
3. Section N of the Code does not currently have provision for a situation where a payment has originally been made by Direct Debit but is subsequently withdrawn. At first, it may appear that the payment has been made, but a bank can easily reject a Direct Debit as it only has to inform the recipient's bank by post. This possibility and its remedy needs to be detailed in the Code.
4. Section X Annex X-1 of the Code specifies a Letter of Credit 'shall be available for payment at a London branch of the issuing branch'. The aim of this was so that Letters of Credit (LCs) could be called on in person by the FAA who is also based in Central London. However, there is at least one major bank who no longer honour LCs at their branches, insisting that all payments are made through their centralised LC headquarters. The chances of an immediate "in person" redemption of a LC is further reduced by international rules that allow banks up to seven days to process or reject a LC claim.
5. Section N sets out the bank accounts and facilities required for settlement of payments. In practice there is also a "daylight exposure" facility with the BSC Banker to reflect the possibility of intra-day overdrafts when payments have been made to BSC Parties prior to all amounts being received. The BSC Review concluded that Section N of the Code needs to be amended to reflect this.
6. Section N7.1.3 (a) and BSCP301 state that the FAA shall notify banks of amounts to be collected, but this does not cater for the electronic age businesses operate in.
7. Section N8.4.1 covers the situation when banks inform the FAA of excess amounts received, however, the FAA can now look at account entries independently of the bank. This renders the Bank Advice reports redundant and the Code (and BSCP301 section 5.12) needs to be changed to reflect this.
8. Section N9.1.1 (b) covers Banking Charges. In the instance when these charges are very small, the Code requirements are difficult to implement and follow and should be relaxed.
9. Section N4.1.1 (b) covers Collection Accounts. The Code has been written on the assumption that there will be one or more Collection Accounts, although in practice there is only one Collection Account with Barclays.

10. BSCP301 refers to the FAA setting up and testing banking communication links for new or amended banking details. Modern electronic payment methods are reliable and in practice testing is no longer required.

The group may identify further changes that will align with current banking practice.

## **2.5 Additional areas for the Modification Group to consider**

The BSC Review 2006/7 issued a Consultation and the Modification Group will need to consider the responses from the BSC Review 2006/7 Consultation when addressing the solutions proposed by P214.

The Modification Group will need to consider the interactions of Project Isis with any changes that arise from this modification in its consideration of Implementation Dates.

The Modification Group will also need to consider whether it is necessary to draft changes to the impacted Code Subsidiary Documents (for example BSCP301) during the Assessment Procedure so that Parties are better able to understand the changes when carrying out an impact assessment.

## **3 RATIONALE FOR BSCCO'S RECOMMENDATIONS TO THE PANEL**

BSCCo believes that consideration of P214 by a Modification Group is required in order to further consider, and consult upon, the areas raised by this IWA. As the areas for consideration are sufficiently defined, BSCCo recommends that P214 proceed directly to the Assessment Procedure.

Given the wide range of detailed issues and solutions that will be required BSCCo recommends that P214 be submitted to a 3-month Assessment Procedure.

It is estimated that progression of P214 will require:

- 4 Modification Group meetings;
- 1 industry consultation;
- 1 BSC Agent impact assessment;
- 1 Party/Party Agent impact assessment;
- 1 BSCCo impact assessment; and
- The gaining of external agreement by HMRC.

The proposed timetable and estimated costs for the progression of P214 are shown in Appendix 3.

BSCCo recommends that the P214 Modification Group be formed of members from Parties with relevant financial or funds administration experience. It should also be noted that HMRC will need to be consulted on the introduction of thresholds and the electronic delivery of Advice Notes/Confirmation Notices. The Modification Group timetable relies on HMRC providing a response within the proposed Assessment Procedure timetable. Should this not be possible an extension will be sought.

BSCCo recommends that the areas for consideration raised by this IWA should form the basis of the Modification Group Terms of Reference, along with any additional areas proposed by the Panel.

## 4 TERMS USED IN THIS DOCUMENT

Other acronyms and defined terms take the meanings defined in Section X of the Code.

Acronym/Term	Definition
CC	Credit Cover
CSV	Comma Separated Values
FTS	Funds Transfer System
HMRC	Her Majesty's Revenue and Customs
LC	Letter of Credit

## 5 DOCUMENT CONTROL

### 5.1 Authorities

Version	Date	Author	Reviewer	Reason for Review
0.1	17/07/07	Geoffrey Sekyere-Afriye	David Jones	For peer review
0.2	18/07/07	Geoffrey Sekyere-Afriye	David Jones	For peer review
0.3	20/07/07	Geoffrey Sekyere-Afriye	Roger Harris, Mike Bishop.	For technical review
0.4	27/07/07	Geoffrey Sekyere-Afriye	Gary Henderson	For technical/quality review
0.5	31/07/07	Andrew Wright	David Jones	For technical review
0.6	02/08/07	Andrew Wright	Steve Francis	For technical review
0.7	03/08/07	Andrew Wright	Chris Rowell	For quality review
1.0	03/08/07	Change Delivery		For Panel decision

### 5.2 References

Ref.	Document Title	Owner	Issue Date	Version
1	<a href="#">BSC Review 2006/7 Funds Administration process</a>	ELEXON	12/04/07	1.0
2	<a href="#">Issue 27 Report</a>	ELEXON	06/07/07	1.0

**APPENDIX 1: MODIFICATION PROPOSAL**

<b>Modification Proposal – BSCP40/03</b>	MP No: 214 <i>(mandatory by BSCCo)</i>
<b>Title of Modification Proposal</b> <i>(mandatory by originator):</i>	
<b>Issues Relating to Funds Administration</b>	
<b>Submission Date</b> <i>(mandatory by originator):</i>	
<b>2nd July 2007</b>	
<b>Description of Proposed Modification</b> <i>(mandatory by originator)</i>	
<p>This Modification Proposal seeks to amend the current provisions for the Funds Administration process by:</p> <ol style="list-style-type: none"> <li>1. Introducing electronic delivery of Advice/ Confirmation Notes;</li> <li>2. Combining the amounts from Trading Charges and each Default Charge onto one daily Advice Note;</li> <li>3. Introducing thresholds below which an Advice Note would not be produced; and</li> <li>4. Amending the Balancing and Settlement Code (BSC) to bring it in line with modern banking practices.</li> </ol> <p>These are some of the approaches that were proposed by the BSC Review 2006/7 'Funds Administration process', and discussed further by the Issue 27 (BSC Review) Group.</p> <ol style="list-style-type: none"> <li>1. The move to emailing Advice/Confirmation Notes is intended to save time for the FAA (as manual processing currently takes around 2 hours per Party, per Settlement Run) and for Parties through a more efficient process; increase reliability of delivery; reduce time spent on Party validation; reduce the volume of paper used; make it easier to chase up missing files; remove reliance on the postal system and allow the BSC Party to print off the Advice Notes and supporting documentation only as required.</li> <li>2. Combining the amounts from Trading Charges and each Default Charge onto one daily Advice Note is intended to reduce the number of invoices, and by including any Default Charges, would lessen the likelihood of the combined transaction being of low value. This combined Advice Note would continue to be at a Party level.</li> <li>3. Inserting both a monetary and time threshold, below which an Advice Note would not be produced, is intended to deliver a significant reduction in the volume of small value transactions processed. This would also reduce the possibility of a Balancing and Settlement Code (BSC) Party defaulting on payment of a minimal amount (due to oversight of one of many small transaction invoices) and cutting back on the need for reallocation runs for the Default Charge Amounts that often result in low value payments.</li> <li>4. Amending the Code to reflect current banking practice and to grant the opportunity to allow more flexibility on location of banks and timings of data submissions. Some of the current banking practices are not supported by the Code and BSCP301 'Clearing, Invoicing and Payment', leaving enforcement of any procedures open to challenge.</li> </ol>	

## Modification Proposal – BSCP40/03

MP No: 214  
(mandatory by BSCCo)

### Description of Issue or Defect that Modification Proposal Seeks to Address *(mandatory by originator)*

The BSC Review identified numerous issues with the current funds arrangements. Two prominent areas were Processing of Transactions and Small Value Transactions.

#### Processing of Transactions

Irrespective of the amount of any given transaction there is a large volume of work associated with each payment as set out in the Code and BSCP301 'Clearing, Invoicing and Payment'.

Each transaction involves the production of an Advice Note with supporting documentation. There is a requirement in the Communications Requirement Document to fax and post this documentation and the subsequent Confirmation Note (the VAT document) to each BSC Party.

The current processes entail central expenditure on many reams of paper, time taken to print invoices and related documentation and man-hours of envelope stuffing, despite the fact that most of the relevant documentation has already been faxed to BSC Parties.

The average payment run uses 10 sheets of paper per BSC Party (total 1,000), posted first class, and with an equivalent copy received by fax by BSC Parties. There are an estimated 8,200 Advice and Confirmation notes sent out each month.

The posted versions may well arrive too late to be used by BSC Parties in funds administration, especially where sent abroad, and serve only as a back up to be filed and/or as VAT documentation.

Fax machines may struggle with the volume of correspondence, and due to the fact that BSC Parties hold no electronic versions, the Funds Administration Agent (FAA) helpdesk currently receives around 40 queries from BSC Parties a month requesting additional copies and historic information.

Parties, who only hold paper copies, face a manually intensive and inefficient process to enter this data into their computer systems.

#### Small Value Transactions

On each Payment Date the amounts due to and from each BSC Party for the trading relating to the Settlement Day approximately 29 days earlier, and the amounts relating to the various Reconciliation Charges for the Settlement Days for up to 14 months in the past, are amalgamated and the net amount is paid to / collected from BSC Parties.

Depending on the size of the BSC Party and its trading position this can be a small amount of money to be settled each day.

If a BSC Party does not pay an amount due, irrespective of how small it may be, the full BSC Default process as set out in Section N of the BSC is initiated, allocating the amount between the remaining BSC Parties if there is insufficient Credit Cover (CC). A separate transaction is used to allocate the Default Charge Amount to other BSC Parties. This can result in a large volume of transactions, each of low financial value (e.g. at times only several pence).

In these cases, this process is disproportionately expensive to the amount of monies it is trying to recover.

The current level of small value transactions is inefficient for both the FAA and for BSC Parties due to the volume of paperwork and process associated with each transaction. Many of these payments are processed manually.

#### Current Banking Practices not reflected in the Code

<p><b>Modification Proposal – BSCP40/03</b></p>	<p>MP No: 214 <i>(mandatory by BSCCo)</i></p>
<p>BSC Section N 'Clearing, Invoicing and Payment' and BSCP301 'Clearing, Invoicing and Payment' were largely created from their equivalent predecessors in the Electricity Pool. As a consequence of this, they reflect banking practices that are no longer relevant. The progression of banking practices has benefited BSC Parties and the FAA and working practices have been developed to reflect them. The Modification Group should seek to establish whether these need to be reflected in the Code as well.</p> <p>This Modification Proposal seeks to amend the BSC to address the defects that give rise to the inefficient processing of transactions and the large number of small transactions. It also seeks to amend the Code to reflect current banking practices.</p>	
<p><b>Impact on Code</b> <i>(optional by originator)</i></p> <p>Section M 'Credit Cover and Credit Default', Section N 'Clearing, Invoicing and Payment' and Section X 'Definitions and Interpretation'</p>	
<p><b>Impact on Core Industry Documents or System Operator-Transmission Owner Code</b> <i>(optional by originator)</i></p> <p>None.</p>	
<p><b>Impact on BSC Systems and Other Relevant Systems and Processes Used by Parties</b> <i>(optional by originator)</i></p> <p>The Funds Transfer System and related systems and processes (such as Local Working Instructions) will be impacted.</p>	
<p><b>Impact on other Configurable Items</b> <i>(optional by originator)</i></p> <p>Changes would be required to BSCP301 and the Communications Requirement Document in order to allow Advice Notes, Confirmation Notes and supporting information to be emailed.</p>	
<p><b>Justification for Proposed Modification with Reference to Applicable BSC Objectives</b> <i>(mandatory by originator)</i></p> <p>Applicable BSC Objective (C) - The promotion of 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 BSC Parties are currently subject to processes and obligations which are inherently onerous and costly to operate. Streamlining these processes will result in efficiency and cost saving giving rise to subsequent increase in effective competition.</p> <p>Applicable BSC Objective (d) – Promoting efficiency in the implementation and administration of the balancing and settlement arrangements The streamlining of paperwork and volume of transactions for small value transactions will reduce the potential for errors and unnecessary expenditure to occur, leading to improved efficiency in the implementation and administration of the balancing and settlement arrangements.</p>	

<b>Modification Proposal – BSCP40/03</b>	MP No: 214 <i>(mandatory by BSCCo)</i>
<b>Urgency Recommended: No</b> <i>(delete as appropriate) (optional by originator)</i>	
<b>Justification for Urgency Recommendation</b> <i>(mandatory by originator if recommending progression as an Urgent Modification Proposal)</i>	
<b>Details of Proposer:</b>	
<i>Name... Andy Morran .....</i>	
<i>Organisation... ScottishPower .....</i>	
<i>Telephone Number.....0141 568 4918.....</i>	
<i>Email Address... andy.morran@scottishpower.plc.uk .....</i>	
<b>Details of Proposer's Representative:</b>	
<i>Name... Gary Henderson .....</i>	
<i>Organisation..... SAIC Ltd .....</i>	
<i>Telephone Number..... 01355845208 .....</i>	
<i>Email address..... gary.henderson@saic.com .....</i>	
<b>Details of Representative's Alternate:</b>	
<i>Name... Man Kwong Liu .....</i>	
<i>Organisation... SAIC Ltd .....</i>	
<i>Telephone Number..... 01355845207 .....</i>	
<i>Email address... man.kwong.liu@saic.com .....</i>	
<b>Attachments: No</b>	

## APPENDIX 2: INITIAL ASSESSMENT OF IMPACTS OF MODIFICATION PROPOSAL

An initial assessment has been undertaken by BSCCo in respect of all BSC systems, documentation and processes. The following have been identified as being potentially impacted by P214.

### a) Impact on BSC Systems and Processes

BSC System / Process	Potential Impact of Proposed Modification
FAA System	Changes may be required to FAA software to allow for the changes proposed in the P214 solution. The extent of the changes required will be dependent on the solution chosen.

### b) Impact on BSC Agent Contractual Arrangements

An initial assessment of the Modification Proposal suggests the FAA Contract may need revision in a number of areas. These include:

- Service Levels;
- Service Provider Obligations;
- Extra Definitions, where applicable;
- Any changes to FAA operating processes; and
- Charges for performing these processes.

### c) Impact on BSC Parties and Party Agents

The changes proposed by this Modification will affect the processing of transactions, small value transactions and the banking practices that BSC Parties have to adhere to. BSC Parties and Party Agents may also need to amend their internal working practices/ LWIs.

### d) Impact on Transmission Company

As a Payment Party the Transmission Company would be impacted by this Modification Proposal in the same way as other BSC Parties.

### e) Impact on BSCCo

Area of Business	Potential Impact of Proposed Modification
Implementation	ELEXON will be required to implement changes to the Code, CSDs and BSC Systems to support this Modification Proposal.
Payment Default LWI	Changes will be required to the LWI so that it includes the new FAA activities.
Obligations Register	Changes will need to be made the Obligations Register to include the new obligations.

### f) Impact on Code

Code Section	Potential Impact of Proposed Modification
N2	Default Process

Code Section	Potential Impact of Proposed Modification
N4.1.1 (b)	Collection Accounts
N7.1.3 (a)	FAA notification of amounts to be collected
N8.4.1	Bank notification to FAA of excess amounts received
N9.1.1 (b)	Banking Charges
N.9.6.4	Default Advice Notes
X Annex X-1	Letter of Credit

**g) Impact on Code Subsidiary Documents**

Document	Potential Impact of Proposed Modification
BSCP301	Changes would be required to the BSCP to remove the requirement for Advice/Confirmation Notes to be sent by post.
Communications Requirement Document	Changes would need to be made to remove the requirement for subsequent Confirmation Notes to be sent by post.

**h) Impact on Core Industry Documents and Other Documents**

No impact.

**i) Impact on Other Configurable Items**

Document	Potential Impact of Proposed Modification
FAA SD	Changes would be required to the FAA systems and software (and supporting documentation) so that the Advice/Confirmation Notes would be encrypted.

**j) Impact on BSCCo Memorandum and Articles of Association**

No impact.

**k) Impact on Governance and Regulatory Framework**

No impact.

**APPENDIX 3: COSTS AND TIMETABLE FOR PROGRESSION****ESTIMATED COSTS OF PROGRESSING MODIFICATION PROPOSAL<sup>5</sup>**

<b>Meeting Cost</b>	£ 2,000
<b>Legal/Expert Cost</b>	£ 10,000 <sup>6</sup>
<b>Impact Assessment Cost</b>	£ 10,000
<b>ELEXON Resource</b>	71 man days <sup>7</sup> £ 16,750

<sup>5</sup> Clarification of the meanings of the cost terms in this appendix can be found on the BSC Website at the following link:

[http://www.elexon.co.uk/documents/Change\\_and\\_Implementation/Modifications\\_Process\\_-\\_Related\\_Documents/Clarification\\_of\\_Costs\\_in\\_Modification\\_Procedure\\_Reports.pdf](http://www.elexon.co.uk/documents/Change_and_Implementation/Modifications_Process_-_Related_Documents/Clarification_of_Costs_in_Modification_Procedure_Reports.pdf)

<sup>6</sup> The Legal/Expert Cost is split into £5,000 for Legal costs and £5,000 for BSCCo's external financial advisors to assist in gaining approval of the P214 solution from HMRC. It should be noted that this external financial advisor cost may be subject to change depending on HMRC's views regarding the proposed solution.

<sup>7</sup> Please note that the Man Days quoted for this Modification do not include the potential variable Man Days or the Modification as part of a Stand alone Release.

