

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

Prepared by: P214 Modification Group

**For attention of:** BSC Parties and other interested parties  
**Responses due:** 5pm on **Friday 12 October 2007**  
(to: [modification.consultations@elexon.co.uk](mailto:modification.consultations@elexon.co.uk))

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This document has been distributed in accordance with Section F2.1.10 of the Balancing and Settlement Code.<sup>1</sup>

**Proposed Modification P214** seeks to amend the Balancing and Settlement Code ('the Code') 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.

### PURPOSE OF CONSULTATION

This consultation seeks respondents' views regarding P214 and, in particular:

- Whether the Proposed Modification would better facilitate the achievement of the Applicable BSC Objectives<sup>2</sup> when compared to the current Code baseline;
- Whether there are any alternative solutions that the Modification Group has not identified and that should be considered; and
- Whether there are any substantive issues not considered by the Modification Group which should be brought to the Group's attention for inclusion in its assessment of P214.

**You are invited to provide a response to the questions contained in the attached pro-forma.**

Please send responses, entitled 'P214 Assessment Procedure Consultation', by **12pm on Monday 15 October 2007** to the following e-mail address: [modification.consultations@elexon.co.uk](mailto:modification.consultations@elexon.co.uk).

Any queries on the content of the consultation pro-forma should be addressed to Andrew Wright (020 7380 4217), e-mail address [andrew.wright@elexon.co.uk](mailto:andrew.wright@elexon.co.uk).

Please note that a revised Requirements Specification for P214 is also being simultaneously issued for impact assessment by Parties, Party Agents, BSC Agents, BSCCo and the Transmission Company.

<sup>1</sup> The current version of the Code can be found at <http://www.elexon.co.uk/bscrelateddocs/BSC/default.aspx>.

<sup>2</sup> A copy of the Applicable BSC Objectives is provided in Appendix 1.

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## SUMMARY OF IMPACTED PARTIES AND DOCUMENTS

As far as the Modification Group has been able to assess, the following parties/documents would be impacted by P214.

Please note that this table represents a summary of the full impact assessment results in Appendix 3.

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 checked="" 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>	H <input type="checkbox"/>	<b>Core Industry Documents</b>
Data Aggregators <input type="checkbox"/>	I <input type="checkbox"/>	Ancillary Services Agreement <input type="checkbox"/>
Data Collectors <input type="checkbox"/>	J <input type="checkbox"/>	British Grid Systems Agreement <input type="checkbox"/>
Meter Administrators <input type="checkbox"/>	K <input type="checkbox"/>	Data Transfer Services Agreement <input type="checkbox"/>
Meter Operator Agents <input type="checkbox"/>	L <input type="checkbox"/>	Distribution Code <input type="checkbox"/>
ECVNA <input type="checkbox"/>	M <input type="checkbox"/>	Distribution Connection and Use of System Agreement <input type="checkbox"/>
MVRNA <input type="checkbox"/>	N <input checked="" type="checkbox"/>	Grid Code <input type="checkbox"/>
<b>BSC Agents</b>	O <input type="checkbox"/>	Master Registration Agreement <input type="checkbox"/>
SAA <input type="checkbox"/>	P <input type="checkbox"/>	Supplemental Agreements <input type="checkbox"/>
FAA <input checked="" type="checkbox"/>	Q <input type="checkbox"/>	Use of Interconnector Agreement <input type="checkbox"/>
BMRA <input type="checkbox"/>	R <input type="checkbox"/>	<b>BSCCo</b>
ECVAA <input type="checkbox"/>	S <input type="checkbox"/>	Internal Working Procedures <input checked="" type="checkbox"/>
CDCA <input type="checkbox"/>	T <input type="checkbox"/>	<b>BSC Panel/Panel Committees</b>
TAA <input type="checkbox"/>	U <input type="checkbox"/>	Working Practices <input checked="" type="checkbox"/>
CRA <input type="checkbox"/>	V <input type="checkbox"/>	<b>Other</b>
SVAA <input type="checkbox"/>	W <input type="checkbox"/>	Market Index Data Provider <input type="checkbox"/>
Teleswitch Agent <input type="checkbox"/>	X <input checked="" type="checkbox"/>	Market Index Definition Statement <input type="checkbox"/>
BSC Auditor <input type="checkbox"/>		System Operator-Transmission Owner Code <input type="checkbox"/>
Profile Administrator <input type="checkbox"/>		Transmission Licence <input type="checkbox"/>
Certification Agent <input type="checkbox"/>		
<b>Other Agents</b>		
Supplier Meter Registration Agent <input type="checkbox"/>		
Unmetered Supplies Operator <input type="checkbox"/>		
Data Transfer Service Provider <input type="checkbox"/>		

## 1 EXECUTIVE SUMMARY

The key conclusions of the P214 Modification Group ('the Group') to date are outlined below.

The Group:

- **DISCUSSED** the principle and implications of the Modification Proposal, and **NOTED** relevant European Union legislation in the area of e-billing which was applicable to P214;
- **COMMISSIONED** data analysis from BSCCo and the FAA, to support its consideration of the appropriate monetary threshold value to apply under P214 and the implications of the threshold for different sizes of Party;
- **REQUESTED** impact assessments from the FAA, Parties and BSCCo in respect of various different solution options for the Proposed Modification, to help it assess the potential costs, impacts and lead times of these options;
- **AGREED** (following its consideration of the impact assessment responses) a single revised solution for the Proposed Modification, including:
  - The mandatory introduction of automated, unencrypted email delivery of invoices to Parties, and the discontinuation of current automated faxed invoicing;
  - The option for Parties to voluntarily opt in or out of receiving postal invoices in addition to automatically receiving these invoices by email;
  - The combining of all different types of FAA charges onto single invoices, to reduce the volume of low-value transactions;
  - The introduction of a monetary threshold, such that Parties would not be billed for their charges until their net accrued balance (either payable or receivable) was greater than this threshold;
  - An initial value for the monetary threshold of £500, with the ability for the Panel to revise this value from time to time as required without requiring a Modification Proposal;
  - The introduction of an additional fixed time threshold of 3 months (tied to the financial year), such that Parties would be billed for their accrued charges at least once every financial quarter;
  - The ability, in certain limited circumstances (such as withdrawal or insolvency), for Parties to request Advice Notes without having breached the thresholds;
  - The introduction of different processes for the different types of supporting invoice backing information, to reflect Parties' existing use of this information; and
  - Amendments to the Code to reflect other modern banking procedures which are already current practice amongst the industry.
- **AGREED** an initial unanimous view that its revised Proposed Modification solution would better facilitate the achievement of Applicable BSC Objectives (c) and (d) by delivering long-term efficiency gains for the FAA and Parties, which might help reduce barriers to market entry and thereby promote competition;
- **AGREED** an initial view that P214 should be implemented as part of an existing release, and that it could not identify any reason to tie implementation to the financial year;
- **NOTED** that specific Implementation Dates could not be proposed until following the second impact assessment (and will be consulted on in the Report Phase), but that November 2008 or June 2009

could be potential release dates for P214 (with February 2009 being unlikely due to the interaction with ELEXON's Project Isis);

- **AGREED** to conduct a second impact assessment in parallel with this Assessment Procedure consultation, in order to seek updated estimates of the costs, impacts and lead times associated with the Group's single revised solution for the Proposed Modification;
- **NOTED** the lack of responses to the first impact assessment from small Parties, and **AGREED** that responses from such Parties to the consultation and revised impact assessment would be especially welcome, as small Parties with low-value transactions would be the primary beneficiaries of the thresholds introduced by P214;
- **COMMISSIONED** further data analysis from BSCCo and the FAA to quantify the likely long-term central cost savings under P214;
- **CONSIDERED** potential alternative solutions in the area of formalising, removing or capping the current Advance Funds Lodgement facility (in addition to or in replacement of the threshold component of the Proposed Modification solution), but on balance **AGREED** that the future of the Advance Funds Lodgement facility should not be considered as part of P214;
- **AGREED** that it could not identify any other potential Alternative Modification which it believed might better facilitate the achievement of the Applicable BSC Objectives, when compared with the Proposed Modification and in relation to the defect set out in the Modification Proposal; and
- **NOTED** that its chosen solution and initial views were subject to the results of the industry consultation, revised impact assessments and the advice of Her Majesty's Revenue and Customs.

A description of the P214 solution is provided in Section 2. Further information regarding the Group's initial discussions of the areas set out in the P214 Terms of Reference is contained in Section 3.

A summary of the Group's initial views regarding the merits of the Proposed Modification can be found in Section 4. A copy of the Group's full Terms of Reference can be found in Appendix 3, whilst a summary of the responses to the first Assessment Procedure consultation/impact assessment can be found in Appendix X

## 2 DESCRIPTION OF MODIFICATION

This section outlines the solution for the Proposed Modification as developed by the Modification Group.

For a full description of the original Modification Proposal as submitted by ScottishPower ('the Proposer'), please refer to the P214 Initial Written Assessment (IWA) (Reference 1).

### 2.1 Background

#### 2.1.1 Background to P214

P214 was raised following the BSC Review for 2006/7 which focussed on the area of Funds Administration. The BSC Review identified a number of issues with the current process to do with 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.

Following the presentation of the BSC Review to the BSC Panel ('the Panel') Standing Issue 27 'BSC Review - Funds Administration' was raised to further consider the issues and potential solutions. As a result of the Standing Issue 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.

### **2.1.2 Current Process**

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 is the official VAT documentation confirming what was received or paid. There is a requirement set out in the Communications Requirement Document that Advice Notes and Confirmation Notices be posted to each BSC Party ('Parties'). Parties are also optionally able to request that Advice Notes and Confirmation Notices are faxed to them alongside the mandatory posted Advice Notes/Confirmation Notices. Every month the FAA issues an estimated 2000 Advice Notes and Confirmation Notices (excluding Defaults), with the average Advice Note and backing sheets comprising 10 sheets of paper each. With Defaults this has been as high as 8,200 a month.

There are three main types of Advice Notes: Trading Charges Advice Notes, Default Charges Advice Notes and ad-hoc charges Advice Notes.

### **2.1.3 Trading Charges Advice Notes**

Trading Charges Advice Notes are produced on a daily basis when a Party has incurred Trading Charges. This means that a larger Party is likely to receive one Advice Note per day, where a smaller Party may receive a Trading Charges Advice Note on a more infrequent basis.

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, in addition 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:

The net amount (exclusive of VAT) for the Settlement Day, shown to be payable by or to the Trading Party for the following Trading Charges:

- The Daily Party Balancing Mechanism (BM) Unit Cashflow;
- The Daily Party Non-Delivery Charge;
- The Daily Party Energy Imbalance Cashflow;
- The Daily Party Information Imbalance Charges; and
- The Daily Party Residual Settlement Cashflow.

### **2.1.4 Default Charges Advice Notes**

Default Charges Advice Notes contain Default Share Amount charges. These Charges arise when a Party goes into payment Default by not paying amounts due. The outstanding debt is funded by all payment Parties in proportion to their Annual Funding Share. If the Amount in Default (or part of it) is repaid then the money received is returned to payment Parties in proportion to the amounts in which they funded the debt. Default Charges Advice Notes are issued whenever a payment Default occurs. In practice this can mean that if several Parties go into Default around the same time then the volume of Advice Notes will substantially increase as there is currently one Advice Note per daily amount defaulted. A Party in Default quite often has daily amounts unpaid for the entire fourteen months reconciliation period.

### **2.1.5 Ad-hoc charges Advice Notes**

Ad-hoc charges Advice Notes comprise all other charges, such as Extra-Settlement Determinations. An Extra-Settlement Determination is a determination outside Volume Allocation Runs and Settlement Runs which the Panel requests be carried out. By their nature ad-hoc charges Advice Notes are very infrequent.

### **2.1.6 Backing sheets**

Each Advice Note and Confirmation Notice has associated backing sheets. The backing sheet contains a detailed breakdown of each individual payable and receivable charge (and the VAT associated with each charge) which lies behind the net daily amount shown on the Advice Note.

### **2.1.7 Delivery of Advice Notes, Confirmation Notices and backing sheets**

Advice Notes and Confirmation Notices are posted on a mandatory basis. Parties may also request that Advice Notes be faxed to them. In order to fax Advice Notes the FAA has an autofax facility, capable of handling large quantities of faxing each day.

Backing sheets are also posted on a mandatory basis. Parties may also request Trading Charges backings sheets be emailed to them. This is done in American Standard Code for Information Interchange (ASCII) pipe delimited format. Backing sheets for Default Charges and ad-hoc charges are not available by email.

### **2.1.8 BSC Banking facilities**

One of the concepts of the current arrangements is that all payments balance to zero each day. However there are occasions, such as Defaults, where this is practically not the case. In order that the Clearing Account balances to zero each day the FAA and the BSC Banker have put in place a sweeping facility. 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 debit 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.

### **2.1.9 Defect which P214 is seeking to address**

The Proposer believes that Parties are currently subject to processes and obligations which are inherently onerous and costly to operate. The posted documents may well arrive too late to be used by Parties and the fax machines struggle with the volume of correspondence. Parties have 3 days in which to pay the Advice Note, and the posted Advice Note may well arrive too late to make a payment within the required timetable. 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.

Each day a Party may receive multiple Advice Notes for Trading Charges Default Charges and ad-hoc charges, each of which has to be individually processed, and each requires a bank charge to be paid. P214 proposes to combine three types of Advice Notes/Confirmation Notice onto a single daily combined Advice Note/Confirmation Notice. This would reduce the amount of transaction processing and bank charges.

Another issue identified by the Proposer with the current Funds Administration process is the number of small value transactions which are processed by the FAA. Particularly for Default Charges, a Party may be required to pay an Advice Note for an amount less than the cost of processing the transaction. If this amount is not paid promptly then the Party will be in payment Default of the Code. P214 proposes setting

up a threshold below which an Advice Note was not produced so that all Advice Notes are for amounts that warrant the expense of their processing.

Finally, 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 Parties and the FAA and working practices have been developed to reflect them. The Proposer believes that these should be reflected in the Code as well.

## **2.2 Overview**

The Proposed Modification is divided into four main parts:

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

The requirements are summarised in the following sections. For a detailed explanation of the requirements, please refer to the revised P214 Requirements Specification (Reference 2). Version 1.0 of the Requirements Specification was issued for Party, Party Agent BSC Agent and BSCCo impact assessment on 3 September 2007, with responses returned on 14 September 2007. Version 1.0 of the Requirements Specification contained a number of solution options in order to assist the Modification Group in its decisions regarding the solution of P214. A revised Requirements Specification (version 2.0), containing a single solution is being issued alongside the consultation to allow Parties, Party Agents, BSC Agents, BSCCo and the Transmission Company to further assess the proposed solution.

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

### **2.3.1 Parties' communication preference**

The emailing of Advice Notes, Confirmation Notices and backing sheets would be mandatory. Parties would also have the ability to choose whether or not they receive posted copies of Advice Notes, Confirmation Notices and backing sheets. From the Implementation Date all Parties would receive their Advice Notes, Confirmation Notices and backing sheets by email and post. If they so choose Parties would be able to opt out of receiving Advice Notes, Confirmation Notices and backing sheet by post. A form would be included in Balancing and Settlement Code Procedure (BSCP) 301 'Clearing, Invoicing and Payment', and also published on the BSC Website, that would allow Parties to opt out of or opt in to receiving postal Advice Notes, Confirmation Notices and backing sheets. Parties would be able to opt in or out of receiving items by post at any time, and opting out of receiving items by post does not mean a Party would not be able to opt back in to receiving items by post. Parties would also be obliged to provide the FAA with an email address for receiving FAA communications.

Current communication methods of fax and/or post would continue up to the Implementation Date, after which automated fax would be discontinued and replaced by automated email. The implementation period would be used to obtain an email address for each Party.

### **2.3.2 Format of electronic Advice Notes and Confirmation Notices**

Advice Notes and Confirmation Notices would be produced electronically in Portable Document Format (PDF). The electronic PDF Advice Notes and Confirmation Notices would be accessed by using PDF reader

software, of which Adobe Reader, which is freely available, is the most common. PDF is an accepted format for documents within the industry, with the majority of documents published on the BSC Website being in PDF format.

### **2.3.3 Format of electronic backing sheets for Advice Notes and Confirmation Notices**

Backing sheets for Trading Charges would be produced electronically in American Standard Code for Information Interchange (ASCII) pipe delimited format, this is no change to the current format. ASCII pipe delimited format is a delimited text file that stores tabular data using pipes (|) to separate values. ASCII pipe delimited files can be viewed in their original text file format, or viewed in a spreadsheet format by using software such as Microsoft Excel, or uploaded directly into a Party's Funds Administration system.

The backing sheets for Default Charges and ad-hoc charges will be produced electronically in PDF format.

### **2.3.4 Mechanism for electronic delivery of Advice Notes/Confirmation Notices**

Electronic Advice Notes, Confirmation Notices and backing sheets would be delivered via email. Parties would provide a single email address in order to receive all electronically delivered files. Separate emails would be sent for Advice Notes, Confirmation Notices, Trading Charges backing sheets, Default Charges backing sheets and ad-hoc charges backing sheets.

### **2.3.5 Encryption of electronic Advice Notes/Confirmation Notices**

Currently electronic Trading Charges backing sheets are encrypted. Under P214 none of the electronic Advice Notes, Confirmation Notices and backing sheets would be encrypted.

### **2.3.6 Back up systems**

If the failure of an electronic delivery of an Advice Note/Confirmation Notice/backing sheets occurs there would be a back up procedure that Parties could use. The FAA would initially contact the affected Party by telephone and request either: (a) a temporary email address to deliver the file electronically, (b) a fax number in order to fax the document to the Party, or (c) agree to post the document in question to the Party. If the FAA was unable to contact the Party then the Advice Note/Confirmation Notice/backing sheets would be posted to the Party until such time as the FAA is able to contact the Party and confirm the situation or resolve the email non-delivery problem.

If there was a failure of the FAA email system then the FAA would contact BSCCo who would inform Parties of the failure, and of the agreed course of action until the FAA's email system is restored to full operation.

## **2.4 Combining the amounts from Trading Charges, ad-hoc charges and each Default Charge onto one Advice Note and Confirmation Notice**

### **2.4.1 Combined Advice Note and Confirmation Notice**

The FAA would combine all Trading Charges, Default Charges and ad-hoc charges onto a daily Advice Note and Confirmation Notice. The combined Advice Note and combined Confirmation Notice would clearly split out the Trading Charges, Default Charges and ad-hoc charges so that Parties are able to determine the invoice amounts for each separate Charge class. A total of the Charges would also be shown on the combined Advice Note and combined Confirmation Notice.

In redesigning the combined Advice Note and combined Confirmation Notice the FAA would endeavour to reduce the amount of white, unused, space in the documents, so that the size of the file and the size of the document is kept manageable.

### **2.4.2 Backing sheets**

Unlike Advice Notes and Confirmation Notices, backing sheets will not be combined.

Trading Charges backing sheets would be emailed to each Party ID as Trading Charges are incurred, whether or not a Party has breached their threshold. For Parties that have daily Trading Charges this would mean they receive a Trading Charges backing sheet each day. This would allow Parties that currently use automated electronic systems to check their backing sheets to continue to do so in a similar manner. It will also allow Parties to monitor their daily charges.

Default Charges backing sheets would only be sent when the threshold has been breached. The Default Charges backing sheet would be redesigned in order that the daily Default Charges for any particular Default are presented in tabular form, with the charge for each day on each row. This would mean that Parties would only receive a single Default Charges backing sheet for an ongoing Default, rather than several backing sheets which detail the Default Charge for each proceeding day.

Due to the ad-hoc nature and rare occurrence of ad-hoc charges, ad-hoc charges backing sheets would be sent when a Dispute Charge occurs.

## **2.5 Introducing thresholds below which an Advice Note/Confirmation Notice would not be produced**

### **2.5.1 Introduction of Thresholds**

In order to reduce the instances of Parties receiving Advice Notes and Confirmation Notices for small value amounts a threshold would be introduced for small value transactions. This threshold would take the form of a monetary threshold and a time threshold. The thresholds would be applied at Party ID level. All Trading Charges, Default Charges and ad-hoc charges incurred would count towards the monetary threshold, with amounts payable offset against amounts receivable such that it would be the Party's net position which was monitored against the threshold.

### **2.5.2 Monetary Threshold**

The initial view of the Modification Group is the initial monetary threshold should be set to £500, although as stated in section 2.5.5 the Panel may change the monetary threshold from time to time. An Advice Note would be issued when a Party's accumulates an overall (i.e. net) payable or receivable balance of £500. For more details regarding the operation of the threshold see section 3.4.6.1.

### **2.5.3 Time Threshold**

The time threshold would be aligned to the quarterly VAT return dates (i.e. the end of March, June, September and December). If a Party did not breach its monetary threshold then an Advice Note would be issued each quarter in order that amounts do not accrue for more than 3 months.

An Advice Note would be triggered for each quarter end regardless of the threshold or whether or not an Advice Note has previously been triggered within the quarter.

The first of the time thresholds would be less than quarterly if a shorter time elapses between the Implementation Date and the next tax quarter, so all outstanding threshold balances were cleared at the end of the tax year.

### **2.5.4 Threshold Administration**

The FAA would be required to manage the daily excess or shortfall of funds that would arise from thresholds. This may include using current FAA banking facilities, such as the reserve account and the

borrowing account, or may require the FAA establishing new banking facilities. There would be no impact on the Party's bank accounts or their methods of payment.

### **2.5.5 Threshold Governance**

The Group proposes the following indicative wording for the Code regarding the monetary threshold:

Value is £500 or such other value as may be determined by the Panel from time to time.

Any alterations to the threshold would be governed by the Panel. The Panel would have the ability to periodically review the monetary threshold as required. The basis for the Panel's review would be likely to be a repeat of the analysis undertaken by BSCCo for the Modification Group. BSCCo would present the findings of its analysis to the Panel. The Panel would make a recommendation of the proposed threshold level and issue that recommendation for Industry Consultation. The Panel would then be charged with making the final decision on whether to change the monetary threshold. The Panel may wish to delegate responsibility for recommending the proposed monetary threshold to the Imbalance Settlement Group (ISG)

The legal text would set the initial monetary threshold used from the Implementation Date until such time as the Panel decides to change it.

The time threshold would be written into the Code and a modification would be required to change it.

### **2.5.6 Requesting of ad-hoc Advice Notes**

There would be certain situations where a Party could request an Advice Note even though its balance had not breached the monetary or time thresholds. These situations are: withdrawal, administration, insolvency and a Party changing Value Added Tax (VAT) status. There may be other situation where BSCCo instruct that an ad-hoc Advice Note should be issued. A Party requesting an ad-hoc Advice Note would be required to contact BSCCo who would assess their application. In the case of withdrawal and change of VAT status BSCCo would automatically request an Advice Note from the FAA at the appropriate time as part of the withdrawal process/change of VAT status process. If the application was approved BSCCo would contact the FAA and request an ad-hoc Advice Note be produced. Once the Advice Note had been issues the monetary threshold would be reset to zero, although the time threshold would remain unchanged.

## **2.6 Amending the Code to bring it in line with current banking practice**

The Code would be amended in order to bring it in line with current banking practice. The required amendments are set out in section 3.4.2 of the Consultation document, and Attachment D, which provides indicative legal text for the required changes. The proposed changes would not impact Parties and would be drafting current practice in to the Code.

### **3 AREAS RAISED BY THE TERMS OF REFERENCE**

This section outlines the initial conclusions of the Modification Group regarding the areas set out in the P214 Terms of Reference.

#### **3.1 Requirement for Her Majesty's Revenue and Customs approval**

The introduction of thresholds would lead to a daily shortfall or excess of funds. This would lead to a change in the current concept of payments balancing to zero each Payment Day. This change would require Her Majesty's Revenue and Customs (HMRC) approval, which is being sought during Assessment Procedure now the Modification Group has an agreed solution. 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. HMRC approval is being sought via BSCCo's external financial advisors. Gaining HMRC approval may precipitate the need to extend the Assessment Procedure.

The Group noted the need for HMRC approval and requested BSCCo work with its external financial advisors to gain approval of the P214 solution within the agreed Assessment Procedure timetable.

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

##### **3.2.1 Method for electronic delivery**

The Modification Group considered the possible methods for electronic delivery of Advice Notes/Confirmation Notices. It was agreed by the Group that the electronic sending of Advice Notes and Confirmation Notices would be a more efficient process than the current post and fax processes. The Group noted that the BSC Review 2006/7 and the Standing Issue 27 Group had considered two main approaches – emailing Advice Notes/Confirmation Notices, and creating an online e-billing site which would be accessed through the internet. The Group's view was that email was the preferred option as it was simple, widely used and should prove a cheaper option to implement than an e-billing internet site. The Proposer confirmed that the Modification Proposal specified the use of email and it wasn't their intention to progress the online solution as part of P214. BSCCo noted that both options had been impact assessed by the Standing Issue 27 Group and the e-billing option had proved to be considerably more expensive to implement for limited additional benefits.

##### **3.2.2 Parties communication preferences**

The Group considered whether the electronic sending of Advice Notes, Confirmation Notices and backing sheets should be mandatory. The Group noted that there were a range of options for introducing electronic sending. At one extreme email could be set up as the only communication method for issuing Advice Notes Confirmation Notices and backing sheets. At the other extreme email could be added alongside the current methods of post and fax, without removing either post or fax. The Group viewed that the option whereby email was introduced alongside the current communication methods as potentially the most expensive, especially if Parties were given a choice of how they received their documentation. This option would mean the FAA would be required to maintain its support of an automated fax system, and administer a list of Parties' preferences.

The Group agreed that they believed email to be a more efficient communication system than fax and post. The Group noted that fax was an increasingly inefficient communication system when compared to email. The FAA also commented that the current autofax facility was in need of replacement. The Group also noted that post was slow as a communication option when compared to email, indeed some Parties did not receive their posted Advice Notes in time to pay their due Charges.

The Group agreed that post and fax should be replaced by email as far as possible. It was the view of the Group that email should be the mandatory communication method, with all other communication methods

phased out. BSCCo advised the Group that legally they were not able to stop all post based communications without giving companies the opportunity to opt out of receiving post. European Directive 2001/115/EC (Reference 3) states in Article 2 2(c) that:

'Invoices...may be sent either on paper or, subject to an acceptance by the customer, by electronic means.'

This means there is a requirement to obtain the customer's consent to electronic invoicing in the U.K. This cannot be done implicitly (i.e. by getting the software/systems installed and signing the relevant contractual documents). The directive is imposed such that acceptance by the parties must be explicit.

With this in mind the Group considered the most efficient way of introducing electronic delivery without compromising the BSC Clearer's legal obligations. The Group wanted to provide Parties with an incentive to opt out of post and hence agreed that email should be mandatory. In order to comply with Reference 3 the Group agreed that the system should be both post and email from the Implementation Date. Parties would be able to opt out of post from the Implementation Date onwards (and opt back in again in the future if required). Forms would be published on the BSC Website and in BSCP301 for Parties to complete in order to opt in/out of post.

Current communication methods would continue until up to the Implementation Date, after which automated fax would be discontinued and replaced by automated email. The implementation period would be used to obtain an email address for each Party.

The Group next discussed whether Advice Notes, Confirmation Notices and backing sheets should be delivered in separate emails. There was a suggestion that different departments within an organisation may want to receive the different documents. However, the Group eventually concluded that each Party should provide the FAA with a single email address, and any subsequent internal processes would be the responsibility of the Party and not the FAA. The Group noted that Parties would be able to set up shared mailbox or put in place forwarding rules so that the right departments were sent the right documents.

### **3.2.3 Encryption**

#### **3.2.3.1 Modification Group's initial discussion**

The Group considered whether encryption was required when sending Advice Notes, Confirmation Notices and backing sheets electronically. A number of Group members noted that the Trading Charges backing sheets could currently be requested in electronic format, and that these were encrypted with a form of software called Gnu Privacy Guard (GPG). It was suggested by some members of the Group that if encryption was used for Trading Charges backing sheets then it should also be used for Advice Notes, Confirmation Notices and other types of backing sheet. Another member of the Group remarked that their organisation sent potentially confidential documents, such as contracts, via email without any form of encryption and questioned whether encryption was required.

The Group resolved to ask a question in the industry Impact Assessment as to whether Parties would be impacted by encryption as currently happens (i.e. only Trading Charges backing sheets), or by full encryption of all Advice Notes, Confirmation Notices and backing sheets.

#### **3.2.3.2 Industry Impact Assessment views**

The Industry Impact Assessment suggested there was a preference for the option where backing sheets remain encrypted, but Advice Notes are not encrypted. However, one respondent indicated that they would prefer no encryption as they believed that the cost of system development and the issues of encrypted files being blocked by the organisation's firewall outweighed any benefits of encryption. One respondent noted, when subsequently contacted by phone, that they did not believe the Advice Notes, Confirmation Notices and backing sheets to be commercially sensitive enough to require encryption.

### **3.2.3.3 Modification Group's further discussion**

The Group debated the requirement for encryption. It was suggested that encryption could be a barrier to entry for smaller Parties. One Group member noted that their organisation's impact assessment had highlighted that the encryption software would need to be supported by their Information Technology (IT) department, and this would lead to an increased implementation cost. It was noted that many smaller Parties may not be able to easily support the encryption software. The Group noted that other flows of information were unencrypted, and that post and fax did not offer any encryption facility. BSCCo noted that the current forms of communication each contained security risks. With post there was always the possibility of the wrong paperwork being put in the wrong envelope or being posted to the wrong address. With fax it was possible to send the fax to the wrong fax machine.

The Group were also concerned that encryption would be a barrier to entry, as Parties would be required to purchase decryption software, and support that software. The FAA noted that decryption software costs around €100. It was also suggested that encryption had been implemented during the days of the Pooling and Settlement Agreement, when email was a less established form of communication.

The group concluded that unencrypted email posed no greater risk than the current forms of communication. The Group agreed that encryption should not be part of the solution of P214 for any emails. This would include the removal of encryption for the electronic Trading Charges backing sheets.

### **3.2.4 Format of Advice Notes, Confirmation Notices and backing sheets**

The Group considered which format should be used for electronic Advice Notes, Confirmation Notices and backing sheets. The two potential formats were PDF or an ASCII delimited file format. This ASCII delimited file format was originally believed to be Comma Separated Values (CSV), but was subsequently confirmed as ASCII pipe delimited format. The electronic Trading Charges backing sheets are currently issued in ASCII pipe delimited format, which is very compact and can be loaded directly into a company's system for analysis. The disadvantage is that ASCII pipe delimited format is not easily readable unless it is loaded into a program like Microsoft Excel or a bespoke system.

The other option would be PDF, which had the advantage of being easily readable, with no extra work needed to manipulate the document. PDF reader programs, such as Adobe Reader, are freely available. PDF also cannot be changed, unlike an ASCII pipe delimited format document or a Word document so the original document is preserved. It was noted by a Group member that some PDF documents can now be changed using a Writer program. The FAA advised that PDF Advice Notes and Confirmation Notices were the least development option. BSCCo proposed that ASCII pipe delimited format could be used for the backing sheets, as is done currently, and PDF format used for the Advice Notes and Confirmation Notices. This would require some development to be done by the FAA as the backing sheets for Default Charges and ad-hoc charges were currently not available in ASCII pipe delimited. The Group agreed with this proposal. Following the industry impact assessment responses the Group re-evaluated whether Default Charges and ad-hoc charges backing sheets should be issued in ASCII pipe delimited format. For details of the Group discussion see section 3.3.4. Following discussion the Group agreed that ad-hoc and Default Charge Backing sheets should be issued in PDF format.

### **3.2.5 Back up processes**

It was noted by the Group that a suitable back up system would be required in the event of failure of a Party's email. The Group agreed that the back up procedure should be as follows: the FAA would initially contact the affected Party by telephone and request either: (a) a temporary email address to deliver the file electronically, (b) a fax number in order to fax the document to the Party, or (c) agree to post the document in question to the Party. If the FAA was unable to contact the Party then the Advice Note/Confirmation Notice/backing sheet would be posted to the Party until such time as the FAA is able to contact the Party and confirm the situation or resolve the email non-delivery problem.

The Group noted that there should also be a procedure in case the FAA's email system failed. The Group agreed that if there was a failure of the FAA email system then the FAA would contact BSCCo who would inform Parties of the failure, and of the agreed course of action until the FAA's email system is restored to full operation.

### **3.2.6 Consideration on whether Advice Notes and Confirmation Notices should be emailed with their respective backing sheets**

#### **3.2.6.1 Modification Group's initial discussion**

The Group considered whether Advice Notes/Confirmation Notices should be emailed together with their respective backing sheets, or separately. A Group member highlighted that their organisation currently handles electronic Trading Charges backing sheets using a software package called SONET. In order to check their Trading Charges for each day the Trading Charges backing sheet is loaded into SONET directly from the email. In their view it would be better to keep Advice Notes and Confirmation Notices separate from their backing sheets. The Group noted that this was a question to ask the Industry as part of the Impact Assessment.

In order to gain further details of the impact assessed the following electronic delivery options:

- Advice Notes and Confirmation Notices would be emailed together with their associated backing sheets; and
- Advice Notes and Confirmation Notices would be email separately from their associated backing sheets.

#### **3.2.6.2 Industry Impact Assessment views**

The Industry Impact Assessment suggested that the majority of respondents would prefer, and would be least impacted by the option where Advice Notes/Confirmation Notices were emailed separately from backing sheets, as it would require less system development, and fit better into the current electronic backing sheet systems, such as SONET. Parties noted that their systems were set up to receive Trading Charges backing sheets from emails with a single attachment. Attaching Advice Notes or Confirmation Notices into the email would mean Parties would need to develop their systems to select the correct attachment from an email.

#### **3.2.6.3 BSC Agent Impact Assessment**

The FAA Impact Assessment noted that the solution for electronic sending of Advice Notes, Confirmation Notices and backing sheets was similar whichever solution was chosen.

#### **3.2.6.4 Modification Group's further discussion**

The Group noted that costs for all option combinations for P214 were of the same magnitude, and in the region of £230k.

The Group considered the Industry Impact Assessment responses. The Group acknowledged that Industry preferred emails to be delivered separately for separate types of document. The Group agreed that each combined Advice Note, combined Confirmation Notice, Trading Charges backing sheet, ad-hoc charges backing sheet and Default Charges backing sheet would each be sent in individual emails.

### **3.2.7 Group's further views on e-billing as potential alternative**

The Group considered whether setting up an e-billing website, similar to an internet banking website, would be an alternative solution to the issue of electronic delivery of Advice Notes, Confirmation Notices and backing sheets. BSCCo noted that an Impact Assessment for an e-billing solution had been undertaken as part of Standing Issue 27. The implementation costs of such a solution were initially estimated to be in the region of £400,000. The Group noted that such as solution would be an extensive change to the current

process and be more costly to implement for Parties and the FAA. Such a solution would require all Parties to use the system in order to be effective. The Group noted that if the online solution was progressed then a significant amount of work would be required to develop the requirements. This would likely require a significant extension to the Assessment Procedure, as the areas assessed would be different from the email solution. The Group dismissed e-billing as an alternative as it would be a more costly solution, requiring more development than the Proposed Modification for little extra benefit.

### **3.2.8 Modification Group's Conclusions**

The Group:

- **AGREED** Advice Notes, Confirmation Notice and backing sheets would be delivered via email;
- **AGREED** Advice Notes, Confirmation Notices and backing sheets would each be delivered in a separate email;
- **AGREED** receiving Advice Notes, Confirmation Notices and backing sheets by email would be mandatory and that post would be optional;
- **AGREED** that emailed Advice Notes, Confirmation Notices and backing sheets would not be encrypted;
- **AGREED** each Party would be required to provide the FAA with a single email address as an electronic point of contact; and
- **AGREED** an e-billing site should not form part of an Alternative Modification.

## **3.3 Combining the amounts from Trading Charges, ad-hoc charges and each Default Charge onto one daily Advice Note and Confirmation Notice**

### **3.3.1 Modification Group's Initial Discussion**

The Group noted that there were two main areas for discussion regarding the combining of Advice Notes and Confirmation Notices. Firstly, there was the issue of combining the different Charges onto combined Advice Notes and combined Confirmation Notices themselves. Secondly, there was the problem of what to do with the backing sheets which are issued concurrently with the Advice Notes and Confirmation Notices. On the subject of Advice Notes and Confirmation Notices the Group agreed that Trading Charges and Default Charges should be combined into a single Advice Note and single Confirmation Notice. One Group member noted that, as well as Trading Charges Advice Notes/Confirmation Notices and Default Charges Advice Notes/Confirmation Notices, there were Advice Notes/Confirmation Notices issued for the purposes of Extra Settlement Determinations and other ad-hoc charges. These were collectively called ad-hoc charges. The Group agreed these should also be included in the scope of the modification, and should be combined with Trading Charges and Default Charges onto a combined Advice Note and combined Confirmation Notice.

The group discussed what a combined Advice Note and combined Confirmation Notice might look like. It was agreed that the Advice Note/Confirmation Notice should clearly separate out the various different Charges, so it was easy for a Party to deduce the amount of Trading Charges, Default Charges and ad-hoc charges on each Advice Note. There should also be a total at the bottom of each combined Advice Note and combined Confirmation Notice, so Parties would know the net amount they owed or were due.

The Group considered how the impact of thresholds might affect a combined Advice Note. BSCCo noted that their financial advisors had suggested that Her Majesty's Revenue and Customs (HMRC) would require separate thresholds for payable amounts and receivable amounts for the purposes of tracking VAT. In order to accommodate this requirement the Group suggested that a daily combined payable Advice Note, and a

daily combined receivable Advice Note be produced. Thus each Party would receive a maximum of two Advice Notes each day.

Following on from discussion on the combined Advice Notes the Group considered how the associated backing sheets may be dealt with under P214. Currently the three types of Charges have three different types of backing sheet. Each is different in design, and only one, Trading Charges, is currently issued electronically. The Group considered whether a combined Advice Notes should have a combined backing sheet. The Group requested BSCCo and the FAA present possible solutions. The solutions presented were as follows:

- Option BS1 – Combine all Trading Charges, ad-hoc charges and Default Charges onto one single backing sheet. As with Advice Notes and Confirmation Notices, there would be separate backing sheets for payable and receivable amounts.
- Option BS2 – Separate backing sheets for Trading Charges, ad-hoc charges and Default Charges. This option would combine create six backing sheets containing:
  - All payable Trading Charges onto a single backing sheet file
  - All receivable Trading Charges onto a single backing sheet file
  - All payable ad-hoc charges onto a single backing sheet file
  - All receivable ad-hoc charges onto a single backing sheet file
  - All payable Default Charges onto a single backing sheet file
  - All receivable Default Charges onto a single backing sheet file
- Option BS3 – Individual backing sheets for each individual Trading Charge, Dispute Charge and Default Charge. This would be continuing the current situation.

One Group member noted that their organisation requested the Trading Charges backing sheets electronically so that they could be uploaded automatically using a program called SONET. In their view the best option would be to not combine backing sheets, and indeed keep separate each daily backing sheet. The Group noted that under this option there was a potential issue when combined with thresholds. If an organisation did not breach its threshold for a the time based maximum (3 months) then when they were finally sent an Advice Note it would contain many backing sheet attachments, possibly hundreds. This may be difficult for organisations to deal with and may lead to an email which is blocked by firewall software. On the other hand, if organisations had developed software to automatically load Trading Charges backing sheets then it was likely they would want any changes to backing sheets to be minimal. The Group noted that it was important to understand the system impacts and costs to Parties of each option. BSCCo agreed that the impact assessment would ask Parties if they currently use the electronic backing sheets, and how backing sheets were used.

The issue of email size was next discussed. Whichever combined backing sheet option was chosen there was the potential for a large amount of data to be contained in the emails. If the size of the emails was too large then it may trigger firewall software to block or reject an email. This fed into previous discussions regarding the format of the Advice Notes, Confirmation Notices and backing sheets. It was agreed that, in order to keep file sizes small, all backing Sheets should be in ASCII pipe delimited format. The FAA noted that this would require a redesign of the Default and Disputes backing sheets, although it was also noted that if backing sheets were combined then there would need to be a redesign anyway. The Group requested the FAA consider how they would redesign backing sheets whichever option was chosen. BSCCo also agreed to seek clarification from the FAA of the likely file sizes of the electronic Advice Notes, Combination Notices and backing sheets under each option.

### 3.3.2 Industry Impact Assessment views

The industry Impact Assessment suggested there was concern among a number of respondents that the proposals to combine backing sheets would have a significant and expensive impact on Party systems. Parties noted that their systems (such as SONET) were set up to receive only Trading Charges backing sheets. Combining backing sheets would therefore entail significant development. Among Parties which used SONET the preference was to keep the new process as close to the current process as possible. There was also concern about the proposal for payable and receivable backing sheets, as this deviated from the current process, whereby a single Advice Note containing both payable and receivable Charges sent with a single backing sheet, also containing payable and receivable Charges. Among Parties that did not use SONET the view was that BS1 was the preferred option. Overall, the preferred option was BS3, with Trading Charges backing sheets kept separate from Default Charge backing sheets and ad-hoc charges backing sheets.

One Party suggested that backing sheets should be sent as charges were accrued, whether or not those charges breached the threshold. This would fit in better with the current set up for SONET. Another Party when contacted by phone agreed this may be an avenue to investigate. It was suggested by a Party subsequently contacted by phone that they would not be electronically loading Dispute and Default backing sheets into a system like SONET, and hence would not need them in ASCII pipe delimited format.

### 3.3.3 BSC Agent Impact Assessment

The FAA noted that currently, an Advice Note or Confirmation Notice for Trading Charges, Default Charges and ad-hoc charges are generally 2 pages long for a single Payment Date. PDF backing sheets for Trading Charges can be around 10 to 20 pages long, depending on the number of Settlement Dates, Settlement Run Types and Interest Rate changes applicable to the Payment Date.

Under the three backing sheet options, the combined PDF Advice Note and combined PDF Confirmation Notices remain the same, whilst the ASCII backing sheets vary in content and size. Assuming that 3 months could pass between threshold breaches, 60 Payment Dates may be included in one combined Advice Note or Confirmation Notice. Assuming an agreed design could reduce the white space usage by 50%, this could reach 60 pages (2 pages X 60 Payment Dates X 50%). Additionally, combined Advice Notes or Confirmation Notices may contain Defaults and Disputes. Assuming 5 Defaults on each of the 60 Payment Dates, this could add another 60 pages. Disputes are very infrequent, and 10 pages may cover the requirement.

For BS1, Trading Charges are combined with Default and ad-hoc charges. Assuming 20 pages for both Trading Charges and ad-hoc charges, and a single page for Defaults (with 5 Defaults per Payment Date), over 60 days, this could reach 3000 pages. However, an agreed design could reduce unused white space by 50%. For BS2, backing sheets are split by charge type. 20 pages over 60 days may reach 600 pages with 50% white space reduction. For BS3, backing sheets are split by Payment Date, as currently.

The FAA also provided indicative file sizes for the various options:

Solution	Advice Note (PDF)	Conf. Notice (PDF)	backing sheet (PDF)	backing sheet (ASCII)
Current	26KB	26KB	50KB	2KB
BS1	3.25MB	3.25MB	3.6MB	147KB
BS2	3.25MB	3.25MB	1.5MB x 3	61KB x 3
BS3	3.25MB	3.25MB	50KB x <n>	2KB x <n>

The table above represents the file sizes for a single file.

### 3.3.4 Modification Group's Further Discussion

The Group noted the clear concern with each of the three impact assessment options. The concern revolved around the proposal that separate backing sheets be set up for payable and receivable amounts. This is different to the current situation where an Advice Note/Confirmation Notice, and its associated backing sheet will contain both payable and receivable amounts. The Group noted that the intention of P214 was to improve the efficiency of the current processes, and that the spirit of the modification was not to affect wholesale on the way that industry processed the documents they receive. The Group agreed that a single combined Advice Note (with its associated Confirmation Notice) should be sent when charges accrue and a threshold has been breached. This would contain both payable and receivable Trading Charges, ad-hoc charges and Default Charges.

The Group also discussed the impact assessment proposal to issue Trading Charges backing sheets when Trading Charges accrue, whether or not a threshold had been breached. In this case the Trading Charges backing sheets would be sent for information only and there would be nothing for a Party to pay until their threshold is breached. It was noted by Group members whose organisation used programs such as SONET that this solution would be to reduce the level of system changes that would be required by industry. It would also allow Parties to maintain their daily validation procedures, whereby systems such as SONET validate a Parties charges against the estimates of their position.

The Group agreed that there was little appetite in industry to combine backing sheets, and agreed that they should remain separate. The Group also agreed that backing sheets would contain both payable and receivable amounts, and these would not be split into payable backing sheets and receivable backing sheets. The Group agreed that Trading Charges backing sheets should be sent when Trading Charges accrue, as this would reduce the impact on those organisations that automatically upload the backing sheets, and allow Parties to keep track of their Trading Charges while still benefiting from not receiving an Advice Note unless a threshold had been breached. The Group believed that smaller Parties might benefit from receiving a Trading Charges backing sheet when Trading Charges accrue, as it would allow them to keep track of the payments which they would be required to make once their threshold had been breached. At this point the Group noted their disappointment at the low level of responses to the industry Impact Assessment from smaller Parties. The Group invited smaller Parties to respond to the Consultation and the revised Impact Assessment, as it was believed a large part of P214 would provide most benefit to smaller Parties.

The Group next considered ad-hoc charges backing sheets and Default Charges backing sheets and the frequency that they should be sent. It was proposed by BSCCo that as ad-hoc charges were, by their very nature were infrequent, ad-hoc and unusual, they should be sent whenever a Dispute Charge arises, without waiting for a threshold to be breached. The Group agreed with this view. With Default Charges the Group was of the view that they would only be required once a threshold had been breached as Parties were not able to validate the Default Charges. It was noted by the FAA that currently a backing sheet would be sent for each day a Default is occurring. This may mean that a large number of attachments in a Default Charges backing sheet email. The Group agreed that to reduce the number of attachments the FAA should redesign the Default Charges backing sheet so that the daily Default Charges for any particular Default are presented in tabular form, with the charge for each day on each row.

The Group discussed whether there was a requirement to send Dispute and Default Backing sheets in ASCII pipe delimited format. BSCCo had contacted Impact Assessment respondents and some had noted that they would not be loading Dispute and Default Charge Backing sheets into an automated system. The reason is that systems such as SONET validate Trading Charges backing sheets, checking the charges against their estimated position. In the case of Default and ad-hoc charges it was not possible to validate them against an estimated position. Hence Parties were not keen to receive them in ASCII pipe delimited format. That being the case, the Group agreed that Dispute and Default Charge Backing sheets should be in PDF format.

The Group requested that all forms of electronic documentation have a clear and understandable file naming convention. The Group also noted, as some backing sheets would be issued on a different day from the

Advice Note, there be clear way of identify which backing sheet related to which Advice Note and Confirmation Notice. This should be done using a unique reference number for each Advice Note, Confirmation Notice and backing sheets.

### 3.3.5 Modification Group's Conclusions

The Group:

- **AGREED** the Trading Charges, ad-hoc charges and Default Charges for one day should be combined onto a daily Advice Note/Confirmation Notice;
- **AGREED** the combined Advice Note/Confirmation Notice would clearly differentiate between the three types of Charges, and have a net total;
- **AGREED** Backing sheets would remain separate and would not be combined;
- **AGREED** Trading Charges backing sheets would be issued when Trading Charges have accrued, whether or not a threshold had been breached;
- **AGREED** ad-hoc charges backing sheets would be sent when the Charge occurred (i.e. they would be sent whether or not the threshold had been breached);
- **AGREED** Default Charges backing sheets would only be sent when the threshold had been breached;
- **AGREED** the Default backing sheet would be redesigned to reduce its size and show each day of the Default (which had to be paid) in a tabular form, hence there would be a single Default backing sheet issued for each Default, rather than several backing sheets;
- **AGREED** the combined Advice Note, Confirmation Notice, Default Charges backing sheet and ad-hoc charges backing sheet to be issued in PDF format; and
- **AGREED** the Trading Charges backing sheet would be issued in ASCII pipe delimited format.

## 3.4 Introducing thresholds below which an Advice Note/Confirmation Notice would not be produced

### 3.4.1 Modification Group's Initial Discussion

The Group discussed the reason for introducing a threshold below which an Advice Note/Confirmation Notice would not be produced. Currently a Party can be sent an Advice Note for any size of amount. If that Party does not pay the amount within the set timetable they will be in Default of the Code. In the case of a small value transaction the cost of processing the transaction and the banking charges may exceed the amount itself.

The Group noted that P214 had proposed two forms of threshold – a monetary threshold (i.e. below a certain cumulative amount an Advice Note would not be produced) and a time threshold (i.e. if a Party's position was maintained below the monetary threshold then an Advice Note would eventually be produced after a set time).

The Group noted that there was already a procedure known as Advance Funds Lodgement, whereby a Party could lodge funds with the FAA so that small amounts could be withdrawn for small value transaction. This procedure was a service the FAA provided to Parties as a working practice, with the agreement of BSCCo, and was not a Code requirement. The FAA described the Advance Funds Lodgement facility, which is not documented in the Code or the Code Subsidiary Documents (CSDs). The FAA noted that some Parties had lodged sums which were too large to be only used for small value transactions, and the spirit of Advance Funds Lodgement was that it is a pragmatic solution to the issue of small value transactions. However, aside from the facility being used in a way which was not envisaged when it was set up, it did not prevent

organisations (be they Parties or the FAA) having to pay the banking charges for small value transactions. A Group member asked whether it was within the scope of the Proposed Modification to either formalise Advance Funds Lodgement in the Code or, alternatively, to remove this facility altogether. The Proposer clarified that it had not been their intention to explicitly codify or remove Advance Funds Lodgement as part of the Proposed Modification; although it was noted that the introduction of thresholds to deal with the issue of low value transactions might mean that there would no longer be an industry requirement for the Advance Funds Lodgement facility. The Group agreed that consideration of the future of Advance Funds Lodgement was outside the scope of the Proposed Modification, and this area was therefore discussed by the Group as part of its consideration of any potential Alternative Modification (see Section 3.3.8).

The Group next discussed the level of the monetary threshold. BSCCo noted that the Panel had requested that the Group consider how the threshold would impact all types of Parties, whether they be large or small. The Group discussed possible ways of implementing the monetary threshold. One way was to have a single monetary threshold level for all Parties. Another proposal was that the threshold be linked to a Party's Annual Funding Share. In this way larger Parties would have larger thresholds. The Group requested that data analysis be carried out in order to assist them in a decision on the monetary threshold. The data analysis can be found as Attachment C.

BSCCo noted that they had received advice from their financial advisors that HMRC might require separate thresholds for payable and receivable amounts. This was to prevent any netting of amounts and ensure that there were no issues with the VAT that was owed for each Advice Note. The Group initially agreed that there should be separate thresholds for payable and receivable amounts.

The Group discussed the need for a time threshold. The BSC Review had suggested a time threshold of 3 months and BSC Review consultation responses had agreed with this view. The Group discussed whether this should be a rolling three month period or a fixed threshold in line with the quarters of the tax year. It was agreed by the group that a fixed 3 month threshold, aligned to the tax year quarters was the best solution. The Group noted that aligning the monetary threshold to the tax year would be helpful for accounting purposes. In this way an organisation would always clear their threshold at the end of each tax quarter.

The FAA explained to the Group how the current sweeping facility works. 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 debit 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. A similar system would be needed to fund the excess or shortfall that would arise from the introduction of thresholds. The Group asked BSCCo and the FAA to consider how this would be best done.

### **3.4.2 Threshold Data Analysis**

On behalf of the Group, BSCCo and the FAA undertook analysis to establish the proportion of Advice Notes which are issued in respect of low value transactions, and that the full analysis results can be found in Attachment C. Following the third Group meeting the analysis was repeated for the previous 12 months to establish whether the results were representative of more recent trends. This analysis is included in the Attachment.

The analysis demonstrated that for payable and receivable Trading Charges around 21% are below £100 per Advice Note, and of those below £100 around 75% are below £25. For Default Charges over 96% of payable and 99% of receivable are below £100, and of those around 95% are below £25. For ad-hoc charges over 50% of payable and receivable Charges are below £100, and of those 84.2% are below £25.

### 3.4.3 Modification Group's discussion post data analysis

The Modification Group noted that, for Trading Charges, there was a clear difference between small value transactions and larger Trading Charges. Around 21% of Trading Charges (payable or receivable) were below £100 and around 40% were greater than £5000. The Group also noted that most Trading Charges below £100 were below £25. This suggested that a low threshold could be set in order to take account of small value transactions. The Group also reiterated its view that the problem they were trying to address was small value transaction. This led the Group to discount the idea of having a threshold aligned to a Party's Annual Funding Share. This would lead to some larger Parties having much higher thresholds than smaller Parties. The Group believed that such a large threshold could lead to excessive market risk. By this the Group were considering the risk of large unpaid amounts building up, the costs of funding these through the sweeping/overdraft facility, and the potential risk of a Party defaulting on these payments.

The Group noted that the analysis showed little difference in the proportion of small value transactions for payables when compared to receivables, and therefore concluded that it would not be necessary to have different monetary thresholds for payables and receivables.

The Group also noted that the threshold would work both ways, for payable and receivable amounts. This may lead to Parties not being paid large amounts they are owed. On the basis of the data analysis the Group proposed that the threshold should be no smaller than £100 and no bigger than £1000. The Group requested this be included in the Requirements Specification so participants could assess the impact of such a threshold level.

The Group noted that all thresholds, Advice Notes, Confirmation Notices and backing sheets would apply at the Party ID level – i.e. as well as being no netting between amounts payable and receivable, there would be no netting or combining between the different Party IDs held by an organisation.

Group considered the way the threshold should be governed. BSCCo proposed that the threshold could be set out in the Code using a similar wording and model to Continuous Acceptance Duration Limit (CADL) for monetary threshold. Wording would be along the lines of:

Value is [£xxx] or such other value as may be determined by the Panel from time to time, providing that the value determined by the Panel is not less than £100 and no greater than £1000.

Any alterations to the threshold would be governed by the Panel. The Panel would have the ability to periodically review the monetary threshold as required. The basis for the Panel's review would be likely to be a repeat of the analysis undertaken by BSCCo for the Modification Group. BSCCo would present the findings of its analysis to the Panel. The Panel would make a recommendation of the proposed threshold level and issue that recommendation for Industry Consultation. The Panel would then be charged with making the final decision on whether to change the monetary threshold. The Panel may wish to delegate responsibility for recommending the proposed monetary threshold to the Imbalance Settlement Group (ISG)

The Group agreed the initial value of [£xxx] to be inserted in the Code would be agreed by the Group following the impact assessment.

It was noted that this approach gave certainty to participants/Ofgem as to what the threshold should be in the first year of implementation, and what the range of future thresholds could be – whilst allowing the Panel to review and reset the threshold without a Modification Proposal. It was noted that the Panel would probably want to review the threshold after a year, but thereafter its reviews could be more infrequent.

Group agreed that for the time threshold it should be hardwired into the Code at 3 months tied to financial year quarters.

The Group also considered whether there would be a need for ad-hoc Advice Notes which were sent without thresholds being breached. The Group agreed that there may be instances where a Advice Note would need to be issued without a threshold being breached. The Group suggested that these instances would include

administration, insolvency and withdrawal. A Party who was in Default as a result of any of the circumstances set out in Section H3.1.1(g) of the Code (which includes insolvency and administration) would be entitled to request an ad-hoc Advice Note for the benefit of their creditors.

The Code currently allows Parties to withdraw once they have passed the RF run for their last day of trading (which takes 14 months), and providing they have settled all Trading Charges and BSCCo Charges which have been accrued up to their withdrawal date (whether or not those charges are due for payment). The Group agreed that it would not want P214 to unnecessarily lengthen the withdrawal timetable by making Parties wait for their charges to breach the thresholds before they could settle these and withdraw. It therefore agreed that, as part of the withdrawal process, Parties should therefore be entitled to request an ad-hoc Advice Note. The Group suggested that any request for an ad-hoc Advice Note should be sent to BSCCo, who would assess the validity of the claim (i.e. check the Party in question is withdrawing from the Code, or is in Default of the Code due to one of the reasons set out in section H3.1.1(g)). BSCCo would then request an ad-hoc Advice Note from the FAA. BSCCo noted that as part of a Party's normal withdrawal process BSCCo could automatically request an Advice Note when the time came for the Party to withdraw.

A Group member proposed an alternative way of implementing thresholds. The Group member noted that they were concerned with the way that thresholds and combined Backing sheets would interact with the automated systems which Parties had set up for handling electronic Trading Charges backing sheets. The Group member also commented that larger Parties were unlikely to use the thresholds as their Trading Charges would always be in excess of the threshold limit. The proposal was for separate thresholds for payable Trading Charges, receivable Trading Charges, payable ad-hoc charges, receivable ad-hoc charges, payable Default Charges and receivable Default Charges. The Group agreed this should be assessed as an option for the Impact Assessment. It was noted by the Group that this option may constitute a potential Alternative Modification. The Group questioned BSCCo as to whether this option would constitute the basis of an Alternative Modification. BSCCo advised that the option would constitute the basis of an Alternative Modification.

The group agreed the following options Impact Assessment:

- Option T1 - In conjunction with the combined Advice Note/Confirmation Notice, all payable Charges (Trading, Dispute and Default) would be summed together when viewing the payable threshold and all receivable Charges (Trading, Dispute and Default) would be summed together when viewing the receivable threshold.
- Option T2 – Individual thresholds would exist for payable Trading Charges, receivable Trading Charges, payable ad-hoc charges, receivable ad-hoc charges, payable Default Charges and receivable Default Charges.

The Group also requested that BSCCo seek the Party costs for processing an individual transaction so they might consider where the threshold should be set. The Group noted that the threshold needed to be higher than the cost of making a payment to be worthwhile, and was mindful that transaction costs may be higher for smaller Parties who may be less able to negotiate favourable terms with banks.

#### **3.4.4 Industry Impact Assessment**

The Industry Impact Assessment showed that the majority of respondents preferred option T1, and believed it would have least impact on their systems. Only one respondent preferred option T2. A number of respondents expressed concern with the proposal to have separate payable and receivable thresholds. In the view of those respondents having separate thresholds would complicate their system developments. Another respondent noted that separate thresholds opened up the possibility where a Party would be required to pay a payable R1, where the payable threshold had been breached, before a receivable SF, where the receivable threshold had not been breached.

One respondent suggested that further consideration should be given to Advance Lodgement of Funds as an Alternative to thresholds.

One respondent noted that they believed it was not necessary to set upper and lower limits for the threshold amount as this may need a modification to change if in the future the upper/lower limit needs to be raised/lowered.

Respondents also provided their estimated costs for processing a single transaction. These cost include the cost of banking charges, along with internal processing costs. There was a spread of costs between £6 and £75. One respondent did not provide costs, but noted that a threshold of £100 would be suitable, given their transaction costs. One Party provided confidential cost information which was not given to the Group but will be provided to the Authority to take into account in its decision making process.

### **3.4.5 BSC Agent Impact Assessment**

The FAA noted that the solution for either option T1 or T2 was similar, however additional effort would be required to implement option T2, due to the additional complexity of maintaining and monitoring six thresholds, rather than two.

### **3.4.6 Further Modification Group's Discussion**

The Group noted their disappointment at the low level of responses to the industry Impact Assessment from smaller Parties. The Group's belief is that thresholds should have a beneficial impact on smaller Parties, and invited smaller Parties to respond to the Consultation and the revised Impact Assessment.

The Group noted the concern from industry that having a payable and receivable threshold would complicate system developments. The Group noted that the support for option T2 was low and so concentrated on refining option T1. The Group reconsidered the potential way forward for thresholds. Three options were considered. Worked examples for each of these options are found below:

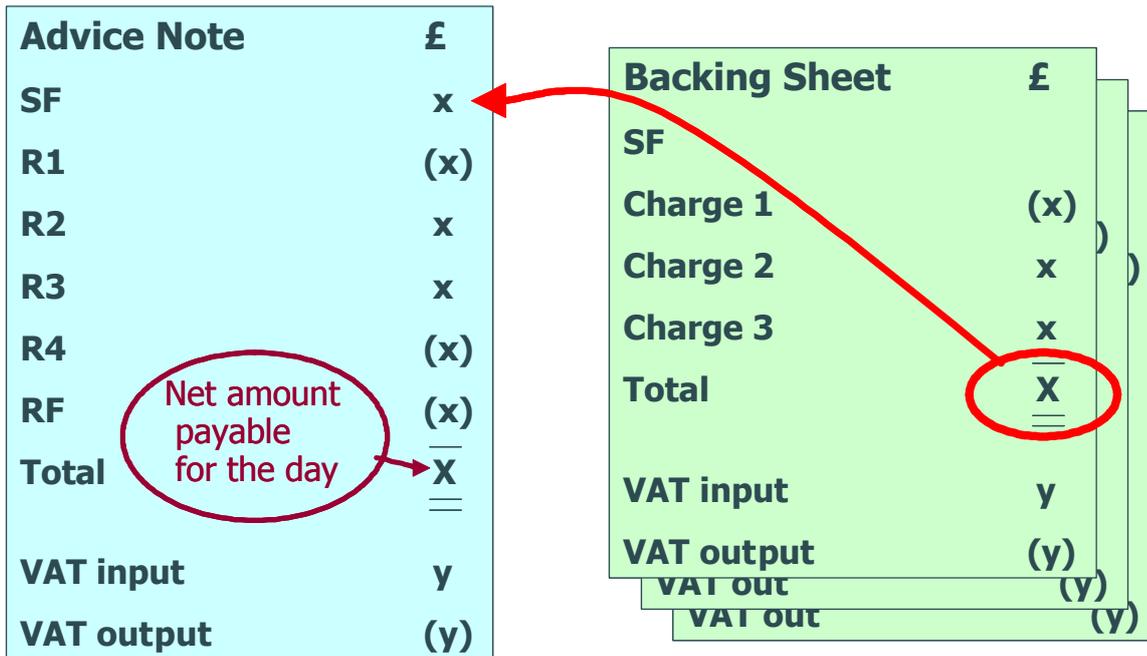
#### **3.4.6.1 Option 1 – Netted threshold**

The Advice Note for each day sets out the amount payable or receivable for each of the runs (Settlement Final (SF), 1st Reconciliation (R1), 2nd Reconciliation (R2), etc.) for that day. These amounts are aggregated to give the total amount payable / receivable in relation to that day. This is the net amount payable or receivable.

For each of the runs (SF, R1, R2, etc.) there is supporting information setting out the various Trading Charges making up this amount (e.g. Daily Party Energy Imbalance Cashflow, Daily Party Residual Settlement Cashflow, etc.). These are shown as separate sheets in Diagram 1, but in practice are all in one document.

It should be noted that the input and output VAT is determined at the backing sheet level. All of the positive and negative amounts are aggregated separately at this level, then the sum of input and output VAT is shown on the face of the Advice Note. This means that the VAT can not be calculated from the face of the Advice Note.

**Diagram 1 – Advice Notes and backing sheets**



VAT calculated from backing sheet  
 Total input and output shown on face of Advice Note

Diagram 2 demonstrates how the threshold would operate. It assumes a set of daily net amount payable figures (e.g. £250 on day 1, £125 on day 2 etc.), which are taken from the Advice Note received that day (see Diagram 1). It also assumes a threshold of plus or minus £500, as has been proposed by the Group.

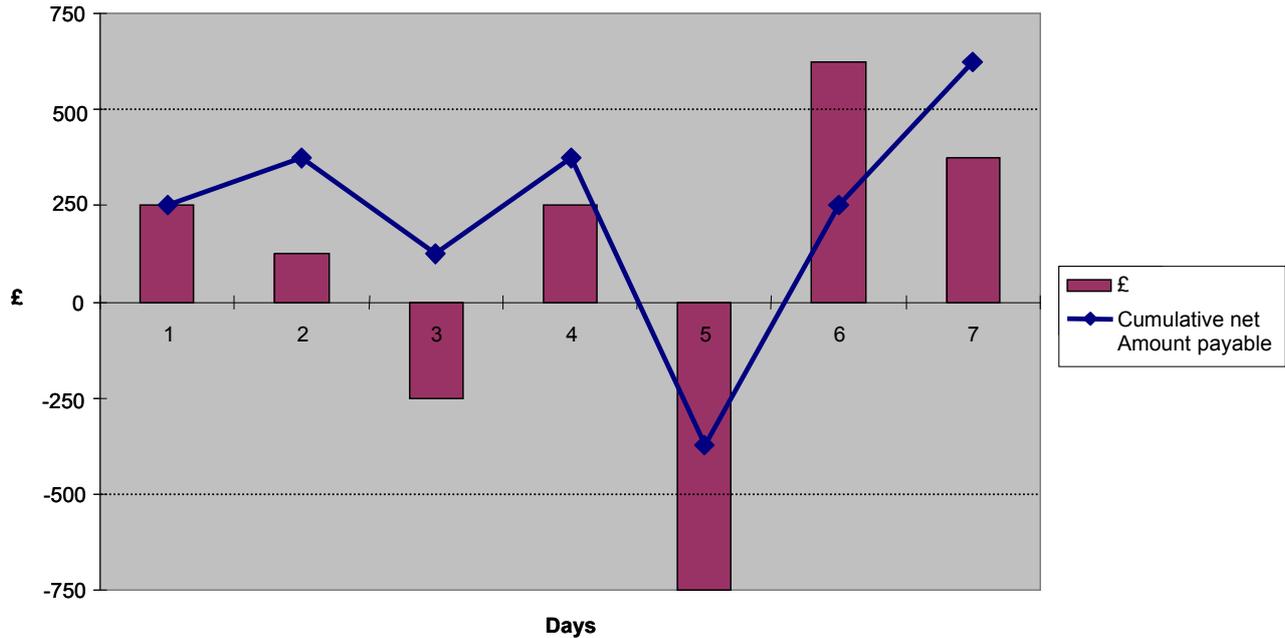
The cumulative balance is simply calculated by adding up the cumulative net amount payable figures for the previous day since the last threshold breach occurred. A negative net amount payable figure (i.e. the net amount receivable for day 3) simply reduces the cumulative amount payable.

In this example, the net amount payable for day 1 is £250. On day 2 the net amount payable is £125, making a cumulative net amount payable of £375. On day 3 the Party receive a net amount payable of -£250 (i.e. a receivable of £250). This reduces the cumulative net amount payable to £125. Day 4 increases the cumulative net amount payable to £375, with a net amount payable of £250. In this example the threshold is not breached until day 7, where a cumulative amount payable of £625 exceeds the threshold and would trigger an Advice Note for days 1 to 7. Once the threshold is passed an Advice Note would be produced and the threshold would reset to zero. The example would work exactly the same way if the cumulative total was a receivable of more than the threshold.

As stated in section 2.2.2.1, Trading Charges backing sheets would be issued to the Party for each of the days (days 1 – 7) that a Trading Charge had been incurred. These Trading Charges would not be payable by, or receivable to, the Party until the threshold was breached.

It should be noted that the VAT would simply be an accumulation of the input and output VAT for each days trading. The VAT would be calculated once the threshold is breached and the Advice Note is issued.

**Diagram 2 – Option 1 – netted threshold operation**



**3.4.6.2 Option 2 – Payable and receivable thresholds based on the Advice Note totals**

Option 2 uses the same assumptions as Option 1 but with a different trigger methodology. This option is a response to concerns that HMRC may not be comfortable netting off positive and negative net amount payable figures in order to trigger the threshold. With this option, the cumulative positive and negative figures are tracked separately. The slide tracks the positive cumulative amount and shows how the negative figure on day 3 does not impact the cumulative positive amount. In this example, day 4’s trading takes the cumulative positive amount over the threshold and triggers an Advice Note for days 1 to 4. Day 5’s figure of £150 receivable would also cross the threshold and trigger an Advice Note.

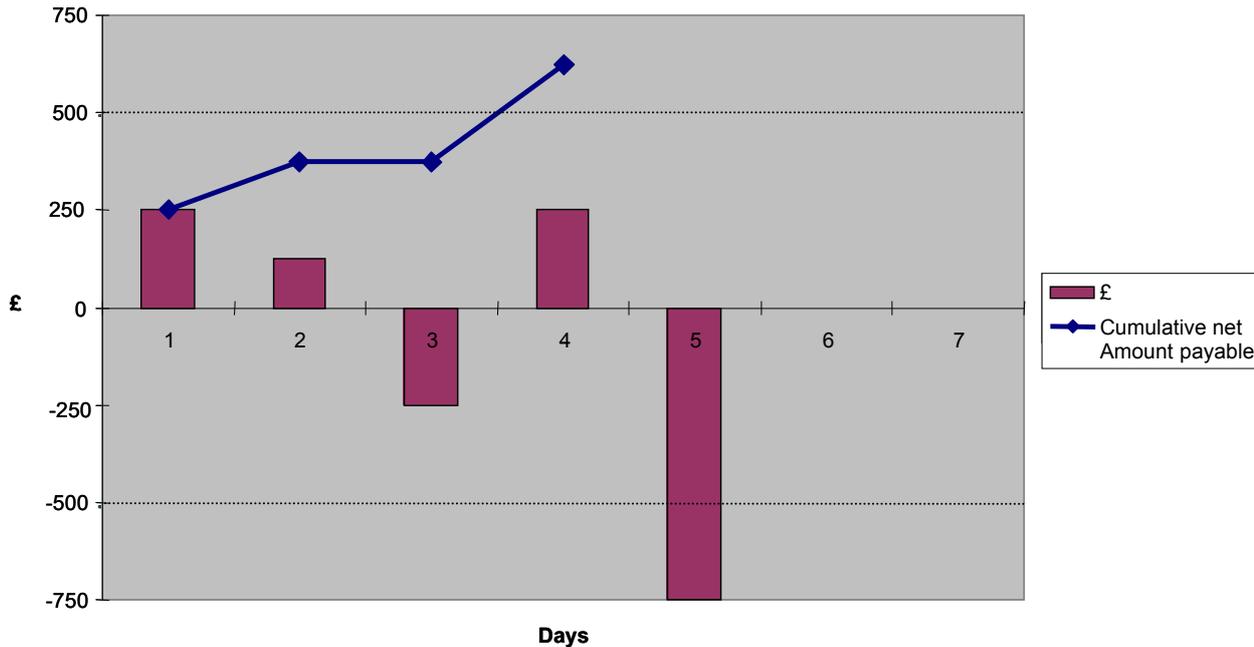
Again, the example would work exactly the same way if the numbers were reversed.

This option was not preferred by BSCCo. It would be more complicated to understand, it would trigger an Advice Note more often, and would lead to exactly the same VAT input and output amounts.

The Group considered two variations on option 2. One was where the payable amounts were only included in a cumulative Advice Note when the positive threshold had been breached, and receivable amounts when the negative threshold was breached. In the example, this would lead to an Advice Note for days 1, 2 and 4. This is even more complicated and could be potentially confusing for Parties.

The other variation was for each day’s net amount payable to be split into two values, payable and receivable, that comprise the net amounts on which the input and output VAT are calculated. These amounts would then be tracked against the positive and negative threshold. It is important to note that the input and output VAT is exactly the same over a VAT quarter for each of these options / variations, and we would seek to convince HMRC of this if challenged.

**Diagram 3 – Option 2 – Payable and receivable thresholds based on the Advice Note totals**



**3.4.7 Group’s view on threshold options and threshold limit**

The Group unanimous view was the Option 1 – netted threshold was the best solution. The Group noted that because of the way the threshold was netted it would be breached less than the other two options. The FAA would only need to keep track of a single amount for each organisation. The Group noted the netted threshold was also the simplest solution, and would probably fit best with organisations’ current processes and systems. The Group believed the netted solution would allay impact assessment respondent concerns.

The Group next considered setting an initial threshold limit. The Group noted that the data analysis had suggested the threshold could be set between £100 and £1000. The Group also noted that the data analysis was split between different Charges, and the threshold would combine the Charges. With this in mind a Group member proposed a threshold of £500, noting that the data analysis indicated this could reduce the number of Advice Notes issued by approximately 30%. The Group agreed that for the consultation the threshold should be proposed as £500. The Group requested BSCCo quantify what central cost savings would arise from setting a threshold at £500. The Group also agreed that threshold limits (i.e. between £100 and £1000) need not be set in the Code as the threshold would have sufficient governance in the agreed Panel based procedures.

BSCCo noted that a further potential ad-hoc condition had been identified during the BSCCo impact assessment. If a party were to change VAT status mid way through a threshold accumulation there could be some confusion. VAT can only be calculated once a transaction has occurred, i.e. once the threshold had been breached. Hence the entire Advice Note would be based on the Party’s latest VAT rate, which would not be reflective of the VAT rate which it had at the time some of the charges were accrued. BSCCo proposed that a Party changing VAT status would be a trigger for producing an ad-hoc Advice Note. When a Party notified BSCCo that it was changing VAT status, BSCCo would automatically trigger threshold and request an Advice Note. The Group agreed with this proposal.

**3.4.8 Group’s further views on Advance Funds Lodgement as potential alternative**

The Group reconsidered whether Advance Funds Lodgement should be included in the modification. One Group member noted that Advance Funds Lodgement would not be a better solution than thresholds. With Advance Funds Lodgement there would not be the corresponding reduction in Advice Notes, as Advice Notes would still be issued for small values. A Group member wondered whether a cap on the maximum amount a

Party was allowed to lodge would be a potential solution. The Group member then went on to note that they did not see Advance Funds Lodgement as an alternative to thresholds, but it could potentially be considered alongside thresholds as an alternative to a solution that only included thresholds.

BSCCo noted that Advance Fund Lodgement was a pragmatic solution to the problem of small value transactions. The solution was not documented in the Code, and hence would not necessarily require a modification to change. A Group member noted that in their view the introduction of thresholds should remove the need for Advance Fund Lodgement. Another Group member noted concern that the issue of Advance Funds Lodgement was not included in the original Modification Proposal and that the issue may be a barrier to the implementation of the improvements set out in P214.

A Group member considered whether including Advance Funds Lodgement alongside thresholds could be considered an alternative.

The Group discussed three potential options:

- (1) remove the facility of Advance Funds Lodgement in addition to having thresholds as part of an Alternative Modification (as it could be argued that thresholds remove the need for advance lodgement of funds),
- (2) formalise the Advance Funds Lodgement Facility in addition to having thresholds, but cap the amount that could be lodged; and
- (3) use Advance Funds Lodgement as an alternative to having thresholds.

The Group had some sympathy with the idea of (1) and (2). The Group was not convinced that Parties would need to continue using the Advance Funds Lodgement facility if thresholds were introduced. It was also noted that as Advance Funds Lodgement is not a Code requirement a modification would not be required to implement options (1) and (2). The Group also noted concern that included Advance Funds Lodgement in the scope of P214 would lose sight of what the modification was trying to achieve. There was no real support in the Group for (3) because it wouldn't reduce the amount of invoices, just transaction costs. It was also uncertain whether (1), (2) or (3) would fall within the scope of an Alternative Modification (i.e. whether they would be addressing the defect set out in the Modification Proposal). The Group agreed Advance Funds Lodgement was outside the scope of P214, and that Advance Funds Lodgement did not provide the transaction reducing benefit of thresholds. It was noted that as Advance Funds Lodgement was outside the Code it could be removed without a modification once thresholds had been implemented.

### 3.4.9 Modification Group's Conclusions

The Group:

- **AGREED** there should be a netted threshold as set out in Option 1;
- **AGREED** the threshold should take the form of a monetary threshold and a time threshold;
- **AGREED** the monetary threshold should be £500;
- **AGREED** the time threshold should be 3 months, and this should be aligned to the tax year;
- **AGREED** there would be certain situations where an Advice Note could be produced without breaching a threshold. These situations are: withdrawal, administration, insolvency and a Party changing VAT status. In the case of withdrawal and change of VAT status BSCCo would automatically request an Advice Note for the Party in question at the appropriate time;
- **AGREED** the threshold should be governed by the Panel, with the following process: BSCCo would present the findings of the review to the Panel. The Panel would make a recommendation of the proposed threshold level and issue that recommendation for industry consultation. The Panel would then be charged with making the final decision on whether to change the monetary threshold. The

Panel may wish to delegate responsibility for recommending the proposed monetary threshold to the ISG;

- **AGREED** the FAA would need to manage the daily excess or shortfall of funds. This may include using current FAA banking facilities or may require new banking facilities to be established; and
- **AGREED** that the future of Advanced Funds Lodgement should not be considered as part of P214.

### 3.5 Amending the Code to bring it in line with modern banking practices

#### 3.5.1 Modification Group's Initial Discussion

BSCCo noted that the BSC Review 2006/7 had identified a number of areas where the current practice of the FAA differed from the requirements in the Code and CSDs. The changes proposed in P214, and documented in the IWA, would not impact Parties and were only drafting current practice in to the Code. With this in mind BSCCo proposed to draft the changes into the Section N of the Code and present them to the Group. The Group agreed to this proposed way forward and the indicative legal text can be found in Attachment D.

The one exception where the Group discussed the solution was the Letter of Credit issue. Currently 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 bank'. The aim of this was so that Letters of Credit 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 Letters of Credit at their branches, insisting that all payments are made through their centralised Letters of Credit headquarters. The chances of an immediate 'in person' redemption of a Letter of Credit is further reduced by international rules that allow banks up to seven days to process or reject a Letter of Credit claim.

The FAA noted that the current description did not accurately reflect the actual Letter of Credit process. The assumption that a Letter of Credit would be paid out on the day was not correct. The FAA always presented the Letters of Credit to the BSC Banker (Barclays' Canary Wharf branch), but then the Letter of Credit would be couriered to the Letters of Credit Headquarters of which ever bank had issued it. These were based around the world.

The Group noted that there were international banking rules which gave banks seven days to process a claim. There was discussion about whether a time period should be hardwired into the Code or CSDs. The FAA noted that not all banks abided by the banking rules which set out a seven day period and it may be better to not hardwire a particular time period into the Code. The Group agreed BSCCo should draft proposed changes into Section N and Section X Annex X-1 of the Code and present those changes at the next meeting.

The Group discussed where a Letter of Credit should be presented. The Code currently suggested that they should be presented at a London Branch. The Group requested BSCCo consider which geographic area was most appropriate.

#### 3.5.2 Proposed changes to take account of current banking practice

The table below sets out the proposed changes as reported in the IWA. Not all changes are to be drafted into the Code, and some are better seated in the FAA Service Description or BSCP301. The changes to Section N are set out in Attachment D. These changes are illustrative and do not represent full legal text, which will be provided in the assessment Report and consulted on during the Report Phase. Redlined CSDs will not be produced as part of the Assessment Procedure. Instead a matrix will be provided in the Assessment Report showing which solution requirements will be delivered in which CSDs.

	Issue/Modification Proposal	Code Amendment	Description of Amendment
1	The Code states that there is a 3pm cut off for bank payments each day,	Clauses 8.1, 8.3.1 & 8.4.1.	All clauses referencing a 3pm cut-off time have been amended to

	Issue/Modification Proposal	Code Amendment	Description of Amendment
	<p>allowing the FAA to monitor which payments have been received. However, Parties can make payments by electronic transfer well beyond 3pm each day and the FAA is not in a position to identify 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.</p>		<p>state 5pm. In practice, this has a knock-on effect on certain FAA obligations – see comment below.</p>
	<p>In addition to point 1 (above) where payments are made later in the day, the FAA is not always in a position to identify Parties who have not paid until the following morning.</p>	<p>Clauses 8.2.2, 8.3.2 &amp; 9.6.6.</p>	<p>As payments are made later in the day, the FAA’s obligation to confirm receipt transfer funds between accounts is extended until the following morning (by 11am).</p>
<p>2</p>	<p>Sweeping system is in place whereby amounts are automatically swept between various BSC accounts at the end of each day.</p>	<p>No changes to the Code as these are specific procedures which would be drafted into the FAA Service Description.</p>	<p>The FAA is required to agree a process of daily sweeps with the BSC Banker whereby the Collection Account is swept into the Clearing Account at the end of each working day. If there remains a debit balance on the Clearing Account, an appropriate amount is swept from the Borrowing Account into the Clearing Account to close the balance at nil.</p>
<p>3</p>	<p>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.</p>	<p>See new clause 4.7.2 and note – recognises the different ways in which payments may be made, including Direct Debit.</p>	<p>Changes would need to be made to BSCP301 to reflect this. Also the details would need to be drafted into the FAA Service Description. The FAA must set itself up as the Direct Debit ‘Originator’ (for the purposes of the Banking Code), undertake the necessary processes to set up such payments mechanism including, without limitation, obtaining an exemption from the mandatory 14 day notice period so that payments may be affected within 2 days. In addition, the Service Description deals with when a Direct Debit payment is recalled so that the FAA can investigate the reason for non-payment (e.g. administrative error) before the relevant party is considered to be in default.</p>
<p>4</p>	<p>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 bank’. The aim of this was so that Letters of Credit (LCs) could be called on in person by the FAA who is also</p>		<p>The definition should read:  ‘means an unconditional, irrevocable standby letter of credit substantially in the form set out in Annex M-1 (or such other form as the Panel may approve) in sterling</p>

	Issue/Modification Proposal	Code Amendment	Description of Amendment
	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.		in favour of the BSC Clearer by any United Kingdom clearing bank or banks or any other bank or banks which has (have) a long term debt rating of not less than single A by Standard & Poor's Corporation or by Moody's Investors Service, Inc. or such other bank or banks as the Panel may approve, and which shall be available for payment at any England branch of the issuing bank;'
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 Parties prior to all amounts being received. The BSC Review concluded that Section N of the Code needs to be amended to reflect this.	Minor change to definition of 'Reserve Account' under 4.1.1 (c). However, details would be drafted into the FAA Service Description and Funds Transfer Agreement.	Under the Service Description, the FAA is obliged to ensure that payments to BSC Creditors are made by way of overdraft from the daylight exposure facility prior to receipt of funds.
6	Clause 7.1.3 (a) and BSCP 301 require the FAA to notify banks of amounts to be collected	Deleted.	All section in the Code which refer to Collection Banks and separate collection accounts have been amended/deleted as appropriate.
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	The FAA are now required to have a facility in place which enables them to monitor payments made in and out of BSC Accounts on a real time basis.	This would be dealt with in the Service Description and Funds Transfer Agreement.
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	Did not change definition of 'Drawings', however, dealt with problem by relaxing obligations to determine these under clause 9.4.3 (b) to 'where appropriate'. This gives the FAA discretion as to when to perform the obligation.	
9	Section N4.1.1 (b) covers Collection Accounts. The Code has been written on the assumption that	Changes made throughout document.	

	Issue/Modification Proposal	Code Amendment	Description of Amendment
	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	See new Clause 4.7.1	Details would be drafted into BSCP301.

Some other amendments are included in the redline text of the document, which came to light during preparation for Project Isis. These mainly clarify processes and are housekeeping in nature. They include:

- Clarification around Section N3.1.1 (a) Payment Calendar;
- Clarification as to whether certain payments are exclusive of VAT; and
- Capitalised use of word 'Drawing' throughout document as it's a defined term. Also capitalised reference to each of the BSC Accounts as these are also defined.

### 3.5.3 Modification Group views on the proposed changes

The Group conducted a page turning exercise with BSCCo. In the main the Group was satisfied with the changes with only minor comments. One centred around the Letter of Credit being presented to an England branch. The Group's view was that as the Code was Great Britain wide it was make more sense for a Letter of Credit to be presented to a Great Britain branch of the issuing bank. BSCCo agreed to investigate.

### 3.5.4 Industry Impact Assessment

No comments were received on the indicative legal text.

### 3.5.5 Further Modification Group's Discussion

BSCCo notified the Group that after further consideration they had amended the proposed Letter of Credit definition to include any Great Britain branch of the issuing bank.

### 3.5.6 Modification Group's Conclusions

The Group:

- **AGREED** with the proposed indicative legal text drafting as proposed by BSCCo; and
- **NOTED** the drafting was bringing the Code in to line with current banking practice.

## 3.6 Implementation Approach and interaction with Project Isis

The Modification Group briefly considered the implementation approach for P214. The Chairman posed the question of whether P214's Implementation Date should be aligned with the start of the tax year – 1 April. It was noted by the Group that a 1 April implementation date would not align well with Project Isis. The implementation strategy, as agreed by the Panel (Panel 130/13), for changes during the Project Isis period is as follows:

Release Date	Contents of BSC Release
November 2008	CVA, FAA and SVA Changes
February 2009	SVA changes and only essential changes to CVA/FAA

June 2009	CVA, FAA and only essential changes to the SVA systems
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An implementation date of 1 April 2009 would mean significant FAA system development during the Service Provider transition period. An implementation date of 1 April 2008 is not feasible due to the required development timescales. The lead times provided by Parties in the first impact assessment suggested a 6 month implementation period was required, whilst the combined FAA/BSCCo lead time to deliver the central changes was 8 months.

The Group agreed that it could not identify any reason why the Implementation Date should be tied to the beginning of a financial year. The Group noted that P214 would not change the way charges are calculated, only the way in which they are invoiced. The Group also noted that the time threshold set by the Group would mean that Parties would receive Advice Notes at least once every financial quarter, and considered that it was therefore unnecessary to deliver P214 outside of the usual release strategy. However, the Group did note that, depending on the chosen release, the first time threshold applied following the Implementation Date might need to be less than 3 months, in order to align it with the financial quarters. Therefore, the time threshold would be tri-monthly.

The Group agreed that it was not possible to agree specific proposed Implementation Dates until it had considered the results of the second impact assessment, and noted that the proposed dates would be the subject of consultation during the Report Phase. However, on the basis of the lead times provided in first impact assessment responses, it considered that November 2008 or June 2009 could be potential release dates for P214. Whilst the Group considered that ideally it was not desirable to delay the delivery of benefits under P214 until June 2009, it noted the Panel's decision that only essential FAA changes should be implemented in the February 2009 release due to the interaction with the parallel running for Isis. The Group noted that a November 2008 release date would potentially allow the Authority 2-3 months to make its decision on P214 (based on the final Modification Report being submitted in mid-December 2007).

It was also noted that as part of the implementation period Parties would be required to submit an email address for FAA communication.

A Group member suggested that some testing of the new processes should be carried out on Parties' systems. BSCCo advised that it has existing release procedures for participant testing, and agreed to utilise these for P214.

### **3.7 Cost benefit analysis**

#### **3.7.1 Central cost savings**

The Group requested that FAA consider the potential cost savings from the implementation of P214. The FAA assessed the modification and considers there would be an annual saving to the FAA of approximately: £63.5k.

These savings include: a removal of the need for the current autofax fax cards, fax software licenses, fax support and fax lines; a 30% reduction in the number of Advice Notes processed, based on the results of the data analysis and the application of a £500 threshold; and a 50% reduction in the effort to process the paper based aspects of producing and sending Advice Notes (this assumes 100% of Parties would opt out of being issued paper Advice Notes, Confirmation Notices and backing sheets).

There would be no cost savings for the removal of encryption, as the encryption software is open source and free. The autofax servers would also be retained as they function as PDF print servers.

#### **3.7.2 Parties' cost savings**

Using the single transaction costs which Parties provided to BSCCo during the first impact assessment BSCCo has estimated the potential savings to Parties from the introduction of thresholds.

There is a base of around 2,000 Advice Notes issued each month. The data analysis (Attachment C) suggests that approximately 30% of Advice Notes are below the proposed monetary threshold of £500. Of these, most are below the £25 mark. Assuming the threshold would reduce the number of Advice Notes issued, which are below £500 in value, by 2/3rds would mean a reduction of 400 Advice Notes per month.

From the first impact assessment Parties indicated that their costs for processing a single transaction were approximately £50.

400 Advice Notes, each costing approximately £50 to process would be a monthly saving of £20,000, and a yearly saving across all Parties of £240,000.

## 4 ASSESSMENT OF MODIFICATION AGAINST APPLICABLE BSC OBJECTIVES

This section outlines the initial views of the Modification Group regarding the merits of P214 against the Applicable BSC Objectives.

The initial **UNANIMOUS** view of the Modification Group was that the Proposed Modification would better facilitate the achievement of the Applicable BSC Objectives compared with the existing Code baseline. All members of the Group believed that the Proposed Modification would better facilitate Applicable BSC Objective (d), whilst a majority of members believed that it would also better facilitate the achievement of Applicable BSC Objective (c).

### Applicable BSC Objective (c)

All but one member of the Group believed P214 better facilitated Applicable Objective (c).

#### Reasons:

- P214 would reduce the cost of Parties processing their Advice Notes, Confirmation Notices and Backing sheets 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.
- P214 would reduce the volume of Advice Notes and Confirmation Notices issued to Parties. This would reduce the processing cost and the banking charges costs, as less Advice Notes would be processed and less payments would be required
- The introduction of thresholds would reduce the time Parties spend processing Advice Notes, particularly for small value transactions where the processing and banking charges costs may outweigh the value of the Advice Note.

One Group member was unconvinced that the efficiency benefits of P214 would have an effect on competition, and was therefore neutral on Object (c).

Those members of the Group who believed that Objective (c) would be better facilitated agreed that the above benefits would promote competition by reducing Party costs and thereby potentially reducing barriers to market entry.

### Applicable BSC Objective (d)

All six Group members believed P214 better facilitated Applicable BSC Objective (d), although one member believed it was only relevant in the areas of electronic delivery of Advice Notes and Confirmation Notices, and updating the Code to reflect current banking practices.

#### Reasons:

- P214 would reduce the FAA's costs as less paper based Advice Notes, Confirmation Notices and backing sheets would be issued. This would reduce operational effort, postage charges and time and materials. The electronic issuing of Advice Notes, Confirmation Notices and Backing sheets would also improve the efficiency of the BSC processes.
- The introduction of thresholds would reduce the quantity of Advice Notes and Confirmation Notices which the FAA would be required to issue. This would improve the efficiency of the processes.
- Amending the Code to bring it in line with modern banking practices would improve the clarity of the Code, removing redundant clauses and reducing any potential for misunderstanding by Parties and the FAA.

The Group agreed that the Proposed Modification would have a neutral impact on Applicable BSC Objectives (a) and (b).

Because the solution for the Proposed Modification consists of 4 elements, the Group gave separate consideration to whether each individual element of the solution would better facilitate the achievement of the Applicable BSC Objectives. The table below shows the views of the Group.

	Facilitate Applicable BSC Objectives							
	A		B		C		D	
	Yes	No	Yes	No	Yes	No	Yes	No
Electronic delivery	N/A		N/A		Majority		Unanimous	
Combined Advice Notes	N/A		N/A		Majority		Majority	
Thresholds	N/A		N/A		Majority		Majority	
Current banking practices	N/A		N/A		N/A		Unanimous	
Overall	N/A		N/A		Majority		Unanimous	

## 5 TERMS USED IN THIS DOCUMENT

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

Acronym/Term	Definition
Ad-hoc Charges	Ad-hoc Charges are all charges other than Trading Charges and Defaults Charges such as Extra-Settlement Determinations.
Backing sheets	Each Advice Note and Confirmation Notice has an associated backing sheet. The backing sheet contains a detailed breakdown of each individual payable and receivable charge (and the VAT associated with each charge) which lies behind the net daily amount given on the Advice Note.
CSV	Comma Separated Value
GPG	Gnu Privacy Guard
HMRC	Her Majesty's Revenue and Customs
PDF	Portable Document Format

## 6 DOCUMENT CONTROL

### 6.1 Authorities

Version	Date	Author	Reviewer	Reason for Review
0.1	25/09/07	Andrew Wright	Kathryn Coffin	For technical review
0.2	26/09/07	Andrew Wright	Modification Group	For Modification Group review
1.0	dd/mm/yy	P214 Modification Group		For industry consultation
1.0	dd/mm/yy	P214 Modification Group		For impact assessment [if applicable]

### 6.2 References

Ref.	Document Title	Owner	Issue Date	Version
1	<a href="#">Initial Written Assessment for P214</a>	BSCCo	09/08/07	1.0
2	Requirements Specification for P214	BSCCo	02/10/07	2.0
3	<a href="#">Requirements Specification for P214</a>	BSCCo	03/09/07	1.0
4	<a href="#">BSC Review 2006/7 Funds Administration process</a>	BSCCo	12/04/07	1.0
5	<a href="#">Issue 27 Report</a>	BSCCo	06/07/07	1.0
6	<a href="#">European Union Council Directive 2001/115/EC</a>	EU Council	17/01/02	1.0

## APPENDIX 1: APPLICABLE BSC OBJECTIVES

For reference the Applicable BSC Objectives, as contained in the Transmission Licence, are:

- (a) The efficient discharge by the licensee [i.e. the Transmission Company] of the obligations imposed upon it by this licence [i.e. the Transmission Licence];
- (b) The efficient, economic and co-ordinated operation of the GB transmission system;
- (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;
- (d) Promoting efficiency in the implementation and administration of the balancing and settlement arrangements.

## APPENDIX 2: PROCESS FOLLOWED

Copies of all documents referred to in the table below can be found on the BSC Website at: <http://www.elexon.co.uk/changeimplementation/ModificationProcess/ModificationDocumentation/modProposalView.aspx?propID=234>

Date	Event
03/07/07	Modification Proposal raised by ScottishPower
09/08/07	IWA presented to the Panel
13/08/07	First Assessment Procedure Modification Group meeting held
20/08/07	Second Assessment Procedure Modification Group meeting held
03/09/07	Requirements Specification issued for BSC Agent impact assessment
03/09/07	Request for Party/Party Agent impact assessments request issued
03/09/07	Request for BSCCo impact assessment issued
14/09/07	BSC Agent impact assessment response returned
14/09/07	Party/Party Agent impact assessment responses returned
14/09/07	BSCCo impact assessment returned
19/09/07	Third Assessment Procedure Modification Group meeting held

## ESTIMATED COSTS OF PROGRESSING MODIFICATION PROPOSAL<sup>3</sup>

<b>Meeting Cost</b>	£2,000
<b>Legal/ Expert Cost</b>	£10,000 <sup>4</sup>
<b>Impact Assessment Cost</b>	£15,000
<b>ELEXON Resource</b>	71 man days £ 16,750

The above Impact Assessment cost has increased from £10,000 to £15,000 as a second impact assessment is required.

<sup>3</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>4</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.

**MODIFICATION GROUP MEMBERSHIP**

<b>Member</b>	<b>Organisation</b>	<b>13/08</b>	<b>20/08</b>	<b>19/09</b>
Kathryn Coffin	ELEXON (Chair)	✓	✓	✓
Andrew Wright	ELEXON (Lead Analyst)	✓	✓	✓
Gary Henderson	(Proposer's Representative)	✓	✓ <b>(tele)</b>	✓
Laurie Harman	Centrica	✓	✓	✓
Alexandra Campbell	E.ON UK	✓	✓	✓
Christopher Wood	Gaz de France	✓	✓	✓
Janice Tanner	Thames Power	✓	✓	✓
Jerry Morris	EDF Energy	✓	✓	<b>X</b>
Louisa Stuart-Smith	npower	✓	<b>X</b>	✓
<b>Alternate</b>	<b>Organisation</b>			
Sima Ajam	ELEXON (Lawyer)	✓	✓	✓
Roger Harris	ELEXON	✓	✓	✓
Steve Francis	ELEXON	✓	<b>X</b>	<b>X</b>
Beth Brown	ELEXON	<b>Part</b>	<b>X</b>	<b>X</b>
Richard Hall	Ofgem	✓	✓	✓
Stephen Perez	FAA	✓	✓	<b>X</b>
Mark Pinks	LogicaCMG	✓	✓	✓ <b>(tele)</b>
Matthew Gammon	npower	<b>X</b>	✓	<b>X</b>
Keren Garrett	npower	<b>X</b>	✓	<b>X</b>
Martin Wiles	FAA	<b>X</b>	<b>X</b>	✓
Mike Bishop	ELEXON	<b>X</b>	<b>X</b>	✓

**Modification Proposal P214 will be considered by a new Modification Group, comprised of members with relevant financial or funds administration experience, in accordance with the following Terms of Reference.**

## **P214– Issues relating to Funds Administration**

### **1.1 ASSESSMENT PROCEDURE**

- 1.1 The Modification Group will carry out an Assessment Procedure in respect of Modification Proposal P214 pursuant to section F2.6 of the Balancing and Settlement Code.
- 1.2 The Modification Group will produce an Assessment Report for consideration at the BSC Panel Meeting on 9 November 2007.
- 1.3 The Modification Group shall consider and/or include in the Assessment Report as appropriate:
  - The introduction of electronic delivery of Advice Notes/Confirmation Notices – including the mechanism for electronic delivery, the requirement for encryption/decryption of files, the electronic format of the Advice Notes/Confirmation Notices, and consideration for making the mechanism of electronic delivery robust and auditable;
  - 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 including consideration of:
    - the level of the monetary threshold and the time threshold;
    - the impact of the thresholds on different Party types;
    - whether data modelling is required in order to assist in the setting of the monetary and time thresholds;
    - how the shortfall or excess of funds that would arise from the proposed regime would be funded; and
    - a gaining of Her Majesty's Revenue and Customs (HMRC) approval for the proposed process before an Assessment Report is produced; and
  - Amending the Code to bring it in line with modern banking practices as described in the P214 Initial Written Assessment (IWA).
  - The Implementation Approach and any ISIS impacts.
  - Legal Text and changes required to (Code Subsidiary Documents) and whether any detail is required on the CSDs during the Assessment Phase;

### APPENDIX 3: RESULTS OF FIRST IMPACT ASSESSMENT

#### a) Impact on BSC Systems and Processes

System / Process	Impact of Proposed Modification
FAA Systems	Changes would be required to the FAA system to allow the following: <ul style="list-style-type: none"> <li>• The issuing of electronic Advice Notes, Confirmation Notices and Backing sheets;</li> <li>• The combining of Trading Charges, Reconciliation Charges and Default Charges onto one daily Advice Note for all payable and all receivable charges; and</li> <li>• Introducing thresholds below which an Advice Note would not be produced.</li> </ul>

#### b) Impact on BSC Agent Contractual Arrangements

BSC Agent Contract	Impact of Proposed Modification
LogicaCMG (FAA)	The FAA Contract may need revision in a number of areas. These include: <ul style="list-style-type: none"> <li>• Service Levels;</li> <li>• Service Provider Obligations;</li> <li>• Extra Definitions, where applicable;</li> <li>• Any changes to FAA operating processes; and</li> <li>• Charges for performing these processes.</li> </ul>

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

The changes as proposed would impact all Parties that currently receive Advice Notes from the FAA. Parties would no longer receive Advice Notes and Confirmation Notices by fax, and instead receive Advice Note and Confirmation Notices by email. Parties would no longer receive Advice Notes for small value transactions. This would occur for amounts payable and receivable.

Parties would receive Advice Notes, Confirmation Notices and backing sheets by email and post. Parties would be able to opt out of receiving Advice Notes, Confirmation Notices and Backing sheets by post, but receiving emailed Advice Notes, Confirmation Notices and Backing sheets would be mandatory.

Party Agents would not be impacted.

Full copies of the Party and Party Agent impact assessment responses can be found in Appendix 4.

#### 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 Parties.

**e) Impact on BSCCo**

<b>Area of Business</b>	<b>Impact of Proposed Modification</b>
Implementation	ELEXON would be required to implement changes to the Code, CSDs and BSC Systems to support this Modification Proposal.
Payment Default LWI	Changes would be required to the LWI so that it includes the new FAA activities.
Obligations Register	Changes would need to be made the Obligations Register to include the new obligations.
BSCCo Website	Changes would be required to the FAA Helpdesk page on the BSCCo Website.
Funds Transfer Agreement	Changes would be required to the Funds Transfer Agreement so that the updated banking practices were reflected.
Agreement with HMRC document	Changes would be need to the document setting out the Agreement between HMRC and BSCCo regarding tax and the BSC.

**f) Impact on Code**

<b>Code Section</b>	<b>Impact of Proposed/Alternative Modification</b>
Section N	Changes may be required to Section N in order to facilitate the introduction of electronic delivery of Advice Notes and Confirmation Notices. Changes would be required to allow a combined Advice Notes, Confirmation Notices and backing sheet and a threshold, below which Advice Notes would not be issued. Changes are also required the update the Code to reflect current banking practices.
Section X Annex X-1	The definition of Letter of Credit would need to be amended in order to reflect current banking practices.

**g) Impact on Code Subsidiary Documents**

<b>Document</b>	<b>Impact of Proposed/Alternative Modification</b>
BSCP301	BSCP301 will need to be updated to reflect the updated processes
Communications Requirement Document	The Communication Requirement Document will need to be updated to allow the electronic delivery of Advice Notes and Confirmation Notices.
CVA Data Catalogue	The CVA Data Catalogue will need to be updated to allow the electronic delivery of Advice Notes and Confirmation Notices.
FAA Service Description	Changes would be required to the FAA Service Description to allow the following: <ul style="list-style-type: none"> <li>The issuing of electronic Advice Notes, Confirmation Notices</li> </ul>

Document	Impact of Proposed/Alternative Modification
	and Backing sheets; <ul style="list-style-type: none"> <li>• The combining of Trading Charges, Reconciliation Charges and Default Charges onto one daily Advice Note for all payable and all receivable charges;</li> <li>• Introducing thresholds below which an Advice Note would not be produced; and</li> <li>• Updating the FAA Service Description to reflect current banking practice.</li> </ul>
EPFAL IDD Part 1 (for FAA)	The EPFAL IDD Part 1 (for FAA) will need to be updated to allow the electronic delivery of Advice Notes and Confirmation Notices.

**h) Impact on Core Industry Documents/System Operator-Transmission Owner Code**

No impact.

**i) Impact on Other Configurable Items**

Document	Impact of Proposed/Alternative Modification
FAA User Requirement Specification (URS)	Changes would be required to the FAA URS to allow the following: <ul style="list-style-type: none"> <li>• The issuing of electronic Advice Notes, Confirmation Notices and Backing sheets;</li> <li>• The combining of Trading Charges, Reconciliation Charges and Default Charges onto one daily Advice Note for all payable and all receivable charges;</li> <li>• Introducing thresholds below which an Advice Note would not be produced; and</li> <li>• Updating the FAA URS to reflect current banking practice.</li> </ul>

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

No impact.

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

This change would require Her Majesty’s Revenue and Customs (HMRC) approval. HMRC approval is being sought during the Assessment Procedure via ELEXON’s external financial advisors.

## APPENDIX 4: RESULTS OF INDUSTRY IMPACT ASSESSMENT

The results of the first industry impact assessment are provided as Attachment A.

## APPENDIX 5: RESULT OF BSC AGENT IMPACT ASSESSMENT

Price Breakdown		
Item description	Remarks	Price (ex VAT)
<b>Total Price (ex VAT)</b>	ET1, EN1 with: BS1, T1	£226,000
	BS2, T1	£227,000
	BS2, T2	£229,000
	BS3, T1	£228,000
	ET1, EN2 with: BS1, T1	£227,500
	ET2, EN1 with: BS1, T1	£227,000
	BS2, T2	£231,000
ET2, EN2 with: BS2, T2	£231,500	
<b>Price Tolerance</b>		10%
<b>Project Duration</b>	<b>(each options)</b>	28 weeks
<b>Operational Price (e.g. per annum) (ex VAT)</b>		£2725
<b>Annual Maintenance Price (ex VAT)</b>		£0

A high level description of the various option combinations is provided in Attachment B.

## APPENDIX 6: RESULTS OF BSCCO IMPACT ASSESSMENT

BSCCo have assessed the implementation of P214 as having the following impact:

Activity	Man days	£
Total	123	27,060

## APPENDIX 7: DATA ANALYSIS

The data analysis is provided as Attachment C.

## APPENDIX 8: INDICATIVE SECTION N CHANGES TO REFLECT CURRENT BANKING PRACTICE

The indicative legal text to reflect current banking practice is provided as Attachment D.