

What stage is this document in the process?

- 01 Initial Written Assessment
- 02 Definition Procedure
- 03 Assessment Procedure
- 04 Report Phase

Stage 03: Assessment Consultation

P249: Revision of Banking Arrangements under the BSC

P249 seeks to revise the BSC to enable the BSC Clearer to invest monies from the Reserve Account in financial institutions other than the BSC Banker, and on term deposit so as to obtain better returns for Trading Parties.



Modification Group initially recommends **approval of Modification Proposal P249.**



No Impact:
BSC Parties and Party Agents

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Any questions?

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About this document:

The purpose of this Assessment Consultation is to obtain views or further evidence from BSC Parties and other interested parties on matters discussed in this document. The P249 Modification Group will then discuss the consultation responses before making its recommendations to the Panel on 11 March 2010.

There are 4 parts to this document. This is Part 1. It provides the details of the solution, the impacts, costs, benefits and the potential implementation activities associated with this change.

Part 2 (Attachment A) is the current ELEXON Treasury Policy.

Part 3 (Attachment B) is the proposed legal text.

Part 4 (Attachment C) is the Assessment Consultation Questions response form which includes all the questions highlighted in Part 1 of the Assessment Consultation document.

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Why Change?

At present the Code does not provide for the re-investment of funds lodged in the Reserve Account and does not envisage 'term' deposits. This limits ELEXON Clear (the BSC Clearer) from managing these monies in an efficient and economic manner so as to obtain the best returns for the Parties who have lodged cash cover.

Proposed Solution

Modification Proposal P249 seeks to revise the BSC in order to enable the BSC Clearer to re-invest monies deposited in the Reserve Account into accounts ('Investment Accounts') held by institutions other than the BSC Banker. The proposed changes would also enable Reserve Account monies to be invested on 'term' deposits. All investments of Reserve Account monies would be made in accordance with the ELEXON Treasury Policy.

Alternative Solution

The Group has not identified an Alternative Solution for P249.

Impacts & Costs

P249 would require changes to BSC Section N and Annex X-1. It would also require updates to the Funds Administration Agent (FAA) Service Description, the User Requirements Specification (FAA URS) and the FAA Interface Definition and Design (FAA IDD).

The Group considered P249 to have no impact on BSC Parties' systems and processes.

An early draft of the P249 legal text is included as Attachment B to this document. The redlining for the impacted Configurable Items is still in development and will be circulated for industry consultation as part of the Report Phase Consultation.

Implementation

The Group's provisional recommended Implementation Date for P249 is 28 May 2010 if an Authority decision to approve is received on or before 21 May 2010, or 5 working days after such a decision is received thereafter. These dates are proposed on the assumption that no changes will be required to BSC Central Systems.

The Case for Change

The Group believe that an optimum rate of return would be better able to be achieved by the introduction, under P249, of flexibility in relation to the institutions in which a proportion of the Reserve Account monies could be held. It could generally be expected that monies deposited on term deposit (e.g. for up to 3 months) would achieve a higher rate of return than monies kept on overnight deposit.

The Group's initial view is that the implementation of Proposed Modification P249 would better facilitate Applicable BSC Objective (d).

Recommendations

The Group's provisional recommendation to the BSC Panel is to approve Proposed Modification P249 'Revision of Banking Arrangements under the BSC'.

The Group invites you to comment on this view as part of the consultation.

What is held in the Reserve Account?

Around £100 million of Trading Parties' cash cover is held in a single bank account (the Reserve Account) with the BSC Banker, currently Barclays Bank plc. These funds are invested on overnight deposit.



The BSC banking arrangements

The FAA operates 4 bank accounts on behalf of ELEXON Clear, namely a Clearing Account, a Collection Account, a Borrowing Account and a Reserve Account. These accounts are collectively termed BSC Accounts. The Reserve Account is the account into which the FAA credits or debits all Cash Cover, proceeds of Letters of Credit and surplus payments received from Payment Parties (Trading Parties and the Transmission Company) in the process of settling their Advice Notes. Currently the Reserve Account has a balance of around £100 million, and is held with the single BSC Banker, currently Barclays Bank plc.

Interest returns currently accrued on Reserve Account monies are apportioned among Parties in accordance with the Code on a quarterly basis. These banking arrangements have been in place since NETA Go-Live (27 March 2001).

The P249 Modification Group envisages that such returns for Parties could be enhanced if ELEXON was given the ability to direct the depositing of Reserve Account monies in Investment Accounts. The Code currently provides ELEXON Clear with no capability to direct the investment of a proportion of the funds in other accounts with other financial institutions with a view to obtaining a greater return on investment. The Group considers this a limitation that could be addressed by the Proposed Modification.

What could we achieve?

ELEXON has conducted analysis, using market-tested rates, to determine the returns that could be achieved by enabling the investment of Reserve Account funds in other financial institutions.

For example, depositing £100 million in two separate financial institutions (retaining a set proportion in the Reserve Account with Barclays) on term deposit could yield £63,337 in investment return over a 30 day period, based on rates at the time of calculation. This is over £38,000 more than would be achieved by retaining the full sum on overnight deposit in the Reserve Account for the 30 day period, as is current practice in line with the Code.

Standard Overnight Deposit

Bank	Amount (£)	Term (Days)	Rate	Return (£)
Barclays	100,000,000	30	0.30%	24,658

Term Deposit

Bank	Amount (£)	Term (Days)	Rate	Return (£)
Barclays	30,000,000	30	0.30%	7,397
Allied Irish Bank (UK)	35,000,000	30	1.35%	38,836
Cater Allen	35,000,000	30	0.52%	14,959
			Total	63,337

What are the BSC Accounts?

The FAA operates the following core bank accounts (defined in BSC Section N 4.1.1), on behalf of ELEXON Clear, with Barclays Bank plc (the BSC Banker):

- The Clearing Account;
- The Collection Account;
- The **Reserve Account**, impacted by this Modification Proposal; and
- The Borrowing Account.

It is intended that these returns are treated in aggregate, regardless of how monies in the Reserve Account have been invested, and that they will be apportioned among Parties based on their initial Cash Cover lodged, in line with the current Code provisions.



What does the Treasury Policy cover?

The Treasury Policy sets out appropriate parameters for ELEXON's banking arrangements to deliver a reasonable rate of return on cash balances and being able to meet the organisation's financial obligations.

It covers the core objectives of security, liquidity and yield. It is governed by the ELEXON Board of Directors who are responsible for approving any changes.

3 Solution

How will Modification Proposal P249 resolve the issues?

P249 would amend Section N of the Code ('Clearing, Invoicing & Payment') to enable the FAA, acting on written instruction from ELEXON, to facilitate and manage the transfers of Reserve Account monies into **Investment Accounts**. Investment Accounts will be a new defined term and will, accordingly, be added to Section X Annex X-1 ('Definitions and Interpretation').

The revised Section N would enable ELEXON, from time to time, to provide written instructions to the FAA to transfer certain proportions of the monies in the Reserve Account into an Investment Account. This practice would be in accordance with the **Treasury Policy**, as governed and approved by the Board. It is envisaged that the Treasury Policy would be made available to Parties on request. Treasury Policy will be another defined term in the Code which would be added to Section X Annex X-1.

The Group believe that the addition of such a capability to the Code provisions would result in enhanced returns for Trading Parties who have lodged monies in the Reserve Account.

The Group also suggested that P249 could alter the risk to Reserve Account funds arising from the failure of a financial institution. The Group observed that P249 did not seek to amend the BSC provisions relating to the loss of such funds but noted that the spreading of monies across a number of financial institutions would result in a smaller total loss if one of those institutions was to fail.

Enabling Investments

There would continue to be a single Reserve Account, operated by a single BSC Banker. The FAA would operate according to instructions received from ELEXON at all times.

As currently happens, the FAA would initially deposit the sum total of credit cover received from Parties in respect of imbalance charges in the Reserve Account operated by the BSC Banker.

P249 would introduce new arrangements to enable ELEXON to deposit Reserve Account monies into Investment Accounts. These Investment Accounts may be with financial institutions other than the BSC Banker.

Governing Investments

Investments would be made in line with a Treasury Policy under the governance of the Board of Directors of ELEXON. The Group noted that it was appropriate for the ELEXON Board to own and maintain a Treasury Policy.

The Group discussed the need for transparency to enable Parties to understand how their monies in the Reserve Account may be invested. By making the Treasury Policy available to Parties on request, these Parties would be able to make an informed judgement as to the proportions of credit cover which they would lodge either as cash cover or via letters of credit.

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The current Treasury Policy, as approved by the Board, is outlined below and forms Attachment A to this document.

Question: Availability of the Treasury Policy

Would you like the ELEXON Treasury Policy to be made available to BSC Parties on request?

The Group invites you to give your views using the response form in Attachment C.

Operating Practice in line with the Treasury Policy

Reserve Account monies would only be invested in pounds sterling with UK banks or building societies obtaining a satisfactory credit rating – at least an A grade (high quality/upper medium grade/strong) – with Standard & Poors, Fitch and Moodys. ELEXON's Finance department would monitor the ratings.

International Long Term Credit Ratings	Fitch Ratings	Moody's	S&P
Highest quality/ Best quality/ Extremely strong	AAA	Aaa	AAA
Very high quality/ High quality/ Very strong	AA	Aa	AA
High quality/ Upper medium grade/ Strong	A	A	A
Good quality/ Medium grade/ Adequate	BBB	Baa	BBB
Speculative/ Lower medium grade/ Speculative- less vulnerable	BB	Ba	BB
Highly speculative/ Low grade/ More vulnerable	B	B	B

In the table above, ELEXON would consider financial institutions which fulfil the shaded credit ratings to be suitable for depositing Reserve Account monies for the purposes of investment.

No more than 40% of Reserve Account monies would be invested in any one financial institution, with the exception of Barclays, as the BSC Banker, which could, at any one time, hold 100% of the Reserve Account monies.

ELEXON would direct investments into no more than two financial institutions, other than Barclays. These financial institutions would not need to be individually approved by the Panel. ELEXON's Finance team would make any decision on which financial institutions would be suitable for investment purposes in house, but may employ a stockbroker to provide investment advice with a view to obtaining the best returns. ELEXON would direct any instruction to initiate the transfer(s) to the FAA in writing; the transfer would be made by the FAA as instructed.

ELEXON would have the facility to direct the depositing of funds for longer than overnight, subject to a maximum period of three months ('term' deposit).

The Group sought reassurance that sufficient liquidity would be maintained in the Reserve Account to enable access to cash cover monies within current timescales. ELEXON agreed to seek to amend the Treasury Policy to clarify this matter. The following example illustrates how this might be managed under a revised Treasury Policy:

EXAMPLE:

The Treasury Policy would clarify that, at all times, Barclays would retain in the Reserve Account:

- at least 30% of the total funds deposited in the Reserve Account; or
- enough funds to cover the single largest cash deposit by a Party plus a further 5% of the total Cash Cover lodged by Parties, whichever is the largest amount.

For example, consider the scenario whereby a total of £129 million is deposited in the Reserve Account and where the largest single deposit by a Party is £30 million:

- The funds that would be retained in the Reserve Account would be £30 million (single cash deposit) plus £6.45 million (5% of the total £129 million).
- The resultant £36.45 million would only form 28% of the total Reserve Account pool.

In this instance we would retain 30% of the total deposit (£38.7 million) in the Reserve Account.

ELEXON would also ensure that any monies placed on term deposit could be called back on request. Such requests might result in ELEXON incurring penalties; ELEXON would direct investments in such a way to ensure that these penalties would not exceed any returns on the principal amount.

Apportioning Returns on Investments

All interest earned on Reserve Account monies would be reimbursed to Parties who had lodged cash cover in proportion to their share of the overall cash cover lodged in the Reserve Account, as is currently the case.

Under P249 all monies deposited in the Reserve Account would be treated as a single pool. Returns from Investment Accounts with differing rates of interest during a single term deposit period would be calculated and apportioned to Parties, at quarterly intervals, based on the amount of cash cover lodged by a Party at the time that a deposit was made.

Implications for FSA Regulation

Following the return of external legal advice, ELEXON have concluded that the changes will not require the ELEXON Group to be authorised or regulated by the Financial Services Authority (FSA).

4 Alternative Solution

The Group identified no Alternative Solution for P249.

Question: Alternative Solutions

Are there Alternative Solutions that the Modification Group has not identified that they should consider?



P249 Assessment Procedure

At its meeting on 10 December 2009 the Panel agreed that P249 be progressed to a three month Assessment Procedure.

ELEXON will present the Assessment Report to the Panel on 11 March 2010.

5 Impacts & Costs

Implementation Costs

ELEXON Cost		ELEXON Service Provider cost	Total Cost
Man days	Cost		
47.5	£12,400	£3,000	£15,400

Indicative industry costs

None identified for the implementation of P249. Parties should familiarise themselves with the ELEXON Treasury Policy, should they wish to review how any cash cover they have deposited would be invested.

Please note that the costs provided are **indicative costs** and will be updated during the P249 Consultation/Impact Assessment.

Impacts

Impact on BSC Systems and process

BSC System/Process	Potential impact
Funds Transfer System (operated by FAA)	<ul style="list-style-type: none"> No systems impact identified. A minor update to processes is anticipated to accommodate operation and management of Investment Accounts.
Other BSC Central Systems	<ul style="list-style-type: none"> TBC – expected to be none.

Impact on BSC Agent/service provider contractual arrangements

BSC Agent/service provider contract	Potential impact
BSC Services Agreement	<ul style="list-style-type: none"> Impact from implementation of changes to the FAA Service Description
Funds Transfer Agreement	<ul style="list-style-type: none"> Impact from implementation of changes to the FAA Service Description

Impact on BSC Parties and Party Agents

None identified.

Impact on Transmission Company

None identified.

Impact on ELEXON

Area of ELEXON's business	Potential impact
Finance	Some change to operational procedures.

Impact on Code	
Code section	Potential impact
N 'Clearing, Invoicing & Payment'	New 4.1.2 New 4.10 New 8.6.2
X Annex X-1 'Definitions and Interpretation'	New definitions of Investment Account and Treasury Policy

Impact on Code Subsidiary Documents	
CSD	Potential impact
FAA Service Description	Amend sections 6.1 'Establishment of Accounts' and 6.2 'Banking Activities'

Impact on Core Industry Documents and other documents	
Document	Potential impact
Ancillary Services Agreements	None
Connection and Use of System Code	None
Data Transfer Services Agreement	None
Distribution Code	None
Distribution Connection and Use of System Agreement	None
Grid Code	None
Master Registration Agreement	None
Supplemental Agreements	None
System Operator-Transmission Owner Code	None
Transmission Licence	None
Use of Interconnector Agreement	None

Impact on other Configurable Items	
Configurable Item	Potential impact
FAA IDD Part 2	New interface requirement for the instruction between BSCCo and the FAA
FAA URS	Amend section 2.1.9 'Maintain BSCCo Bank Accounts' (requirement FAA-R009) and add new requirement FAA-R076 'Invest Credit Cover'

Other Impacts	
Item impacted	Potential impact
None	None

Question: Impacts

Would the Proposed Modification impact your organisation?

The Group invites you to give your views using the response form in Attachment C.

6 Implementation

The implementation of P249 would change documentation only. There is no impact on BSC Agent systems or Party or Party Agent systems.

As the Group consider the required changes to Code Subsidiary Documents and Configurable Items to be relatively minor and straightforward, it is proposed that redlining to such documentation be produced, and reviewed by the industry, during the Report Phase.

The Panel will consider the Modification Report and make its recommendation to the Authority in April 2010. In light of the timetable for progressing Modification Proposal P249, the Group recommends that P249 be implemented on **28 May 2010** in the event that the Authority makes a decision to approve on or before 21 May 2010 or, if later, **5 working days after the receipt of an Authority decision** to approve.

For changes to the FAA Service Description, we will update the Service Description in the next available Release to follow the Authority's approval of the Modification. The provisions of the Code take precedence over the Service Description, which would simply be amended to mirror the Code.

Question: Implementation Approach

Do you support the implementation approach as described in this Assessment Consultation document?

The Group invites you to give your views using the response form in Attachment C.

7 The Case for Change

Costs and Benefits

The annual operating costs associated with the investment facilities proposed under P249 are expected to be small:

Area	Description	Annual Cost
ELEXON Processes	Monitoring and selection of investments	Expected to be absorbed within existing operational cost base
FAA	Operation and management of Investment Accounts at ELEXON's written instruction	£TBC

The Group noted that the market tested example described in Section 2 of this document suggested an additional £38,000 may be returned to Trading Parties on 30-day investments made using Reserve Account monies when compared with the current situation.

This implies an additional £450,000 return over the course of a 12 month period (assuming the total cash cover lodged by Parties remains approximately £100m).

Proposed Modification against the current baseline

The Group unanimously believe that the Proposed Modification would be better than the current arrangements, and unanimously cited Applicable BSC Objective (d). Further details are given in the table below.

Groups' view of benefits of P249 against the Applicable BSC Objectives	
Description of Objective	Identified Benefit
a) Efficient discharge of the obligations of the Transmission Licence.	None identified
b) Efficient, economic and co-ordinated operation of the GB transmission system.	None identified
c) Promoting effective competition in the generation and supply of electricity and in the sale and purchase of electricity.	None identified
d) Promoting efficiency in the implementation and administration of the balancing and settlement arrangements.	By introducing flexibility in relation to the institutions in which a proportion of the Reserve Account monies could be held, and in relation to the period of time for which these monies could be deposited. It could generally be expected that monies deposited on term deposit (e.g. for up to 3 months) would achieve a higher rate of return than monies kept on overnight deposit. P249 therefore introduces greater efficiency into the settlement of financial obligations between BSC Parties and ELEXON. In this way P249 promotes efficiency in the implementation and administration of the BSC arrangements.

Question: BSC Objectives

Would the Proposed Modification P249 help to facilitate the Applicable BSC Objectives?

The Group invites you to give your views using the response form in Attachment C.

Question: Further Comments

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Do you have any further comments on P249?

The Group invites you to give your views using the response form in Attachment C.

8 Timetable and Responsibilities

P249 timetable

Date	Assessment activity
10/12/2009	Panel raises Modification Proposal P249, following recommendation from ELEXON, and considers the Initial Written Assessment.
13/01/2010	P249 Modification Group holds its first meeting.
22/01/2010	P249 sent for Industry Consultation.
08/02/2010	Industry Consultation responses due with ELEXON.
10/02/2010	P249 Modification Group holds its second meeting.
11/03/2010	Panel receives the P249 Assessment Report.

Estimated P249 progression costs up to an Authority decision

Meeting cost	External legal/ expert cost	BSC Agent impact assessment cost	ELEXON resource
£1,000 ¹	£2,500-£3,500	£3,000	29 man days, equating to £6,960

Terms of Reference

The P249 Modification Group consists of members of the Governance Standing Modification Group (GSMG), supplemented with industry representatives with established financial or funds administration experience.

P249 Modification Terms of Reference		
Ref	Area	Group discussion
1	The effect of the Modification on Applicable BSC Objective (d) and any other relevant BSC Objective(s).	Page 10
2	Whether an Alternative Modification is required.	Page 7
3	The most effective implementation approach for the Modification, including whether the necessary Code Subsidiary Document changes are drafted in the Assessment Procedure or during implementation.	Page 10

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¹ Two meetings.

P249 Modification Group attendance

Member	Organisation	13/01/10	10/02/10
Adam Richardson	ELEXON (Chairman)	Y	
Dickon Prior	ELEXON (Lead Analyst)	Y	
Alan Church	ConocoPhillips (U.K.) Ltd.	Y	
Andrew Colley	Scottish and Southern Energy	Y	
Daniel Nanson	Centrica plc.	Tel.	
Esther Sutton	E.ON UK Ltd.	Y	
Gary Henderson	SAIC Ltd.	Tel.	
Janice Tanner	Thames Power Ltd.	Y	
Attendee	Organisation	13/01/10	10/02/10
Darren Draper	ELEXON (Finance)	Y	
Natalie Pike	ELEXON (Lawyer)	Y	
Steve Francis	ELEXON (Technical Support)	Y	

9 Attachments and Further Information

More information is available in

Attachment **A**: Treasury Policy.

Attachment **B**: Proposed Legal Text (initial draft).

Attachment **C**: Assessment Consultation Response Form.

A complete version of the consultation and impact assessment responses received are available on the [P249 page of the ELEXON website](#).