

Phase

Initial Written Assessment

Definition Procedure

Assessment Procedure

Report Phase

Implementation

P337 'Extension to the payment timescales for Quarter Date Advice Notes below the Advice Note Threshold Limit'

P337 seeks to extend the payment timescales for Quarter Date Advice Notes below the Advice Note Threshold Limit of £500 from three Business Days to 15 Business Days.

This will allow ELEXON to defer action, giving Parties an additional 13 Business Days to pay the Advice Note and avoid unnecessary actions, such as the Party defaulting.



The BSC Panel initially recommends **approval** of P337

This Modification is expected to impact:

- ELEXON
- BSC Parties

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About This Document

This is the P337 Draft Modification Report, which ELEXON will present to the Panel at its meeting on 14 April 2016. It includes the responses received to the Report Phase Consultation on the Panel's initial recommendations. . The Panel will consider all responses, and will agree a final determination under Self-Governance on whether the change should be made.

There are three parts to this document:

- This is the main document. It provides details of the solution, impacts, costs, benefits, drawbacks and proposed implementation approach.
- Attachment A contains the draft redlined changes to the BSC for P337.
- Attachment B contains the full responses received to the Panel's Report Phase Consultation.



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Why Change?

The current BSC arrangements regarding Quarter Date Advice Notes below the Advice Note Threshold Limit (ANTL) mean that a BSC Party can receive an unexpected invoice for a small amount (between £0.01 and £500). The Party is then expected to pay the amount due within three business days. If the Advice Note goes unpaid the Party risks an Event of Default under BSC Section H.

Solution

P337 seeks to extend the payment timescales for Quarter Date Advice Notes below the ANTL (£500) from three Business Days to 15 Business Days. This will allow ELEXON to defer action for 15 Business Days, which gives non-paying Parties an additional 13 Business Days to work with ELEXON and ensure the Advice Note is paid and the Party does not enter into Payment Default.

Impacts & Costs

The cost to implement this Modification is estimated at £240 (one man day) for ELEXON to implement the required document changes. Any updates required to internal and FAA processes will be covered under business as usual processes.

There are no anticipated impacts to BSC Parties or Party Agents due to the implementation of this Modification. However, BSC Parties will benefit from this Modification, as it will extend the payment timescales for Quarter Date Advice Notes below the ANTL. This will give non-paying Parties an additional 13 Business Days to work with ELEXON to ensure the Advice Note is paid, reducing the risk of the Party unnecessarily entering into Section H Default.

Implementation

The Panel recommends an Implementation Date for P337 of **3 November 2016**, as part of the November 2016 BSC Systems Release.

Recommendation

The Panel initially unanimously recommends that P337 would better facilitate Applicable BSC Objective (d) and so should be **approved**. It also unanimously agreed that P337 should be progressed as a Self-Governance Modification.



What are Advice Notes?

Advice Notes are invoices for payment of Trading Charges and Reconciliation Charges. Each day, if the Advice Note value for a Party is above the Advice Note Threshold Limit (ANTL), currently set at £500, it is released, i.e. issued to the Party for payment. Otherwise the Advice Note value will accumulate until it breaches the threshold or reaches the applicable Quarter Date (the date at the end of each Quarter: 31 March, 30 June, 30 September and 31 December). An Advice Note will be released at the Quarter Date if it has any value at all, even if it is very small.

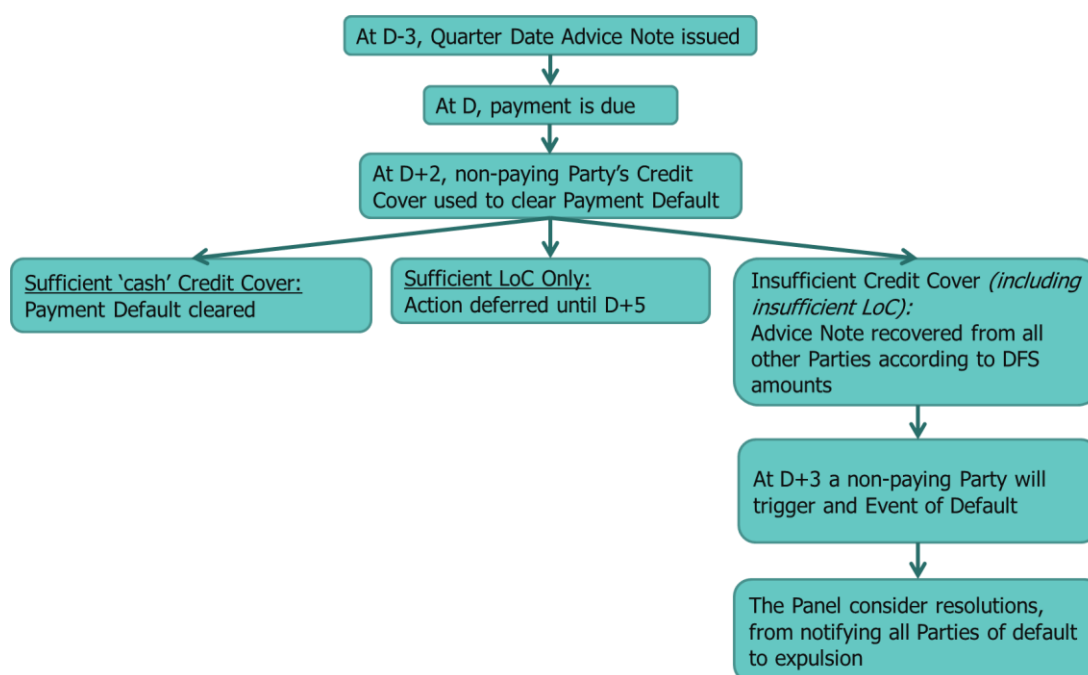
Once an Advice Note is released, it has a payment due date of three Business Days later. The process for the quarterly Advice Note trigger was introduced by [P214 'Issues Relating to Funds Administration'](#) in November 2008.

BSC [Section N 'Clearing, Invoicing and Payment'](#) details the obligations for clearing, invoicing and payment of Trading Charges and Reconciliation Charges. This section also includes information on the production of Advice Notes and actions to be taken for unpaid Advice Notes.

What is Payment Default?

Payment Default occurs where a BSC Party does not pay its Advice Note within three Business Days. The debt of the defaulting Party is shared among the other Parties as Default Funding Shares (DFS¹).

The BSC specifies a day by day process for entering Payment Default in BSC Section N9. This refers to the payment due date as the Affected Date (D), then counts Working Days after the Affected Date D as 'D+1' (+1 Business Day, i.e. the first Business Day after the Affected Date) and D+2 (+2 Business Days). The current Payment Default process for unpaid Advice Notes is shown in the diagram below:



What are Trading Charges?

Every day, Trading Charges are calculated for each BSC Party. Trading Charges are made up of:

- Account Energy Imbalance Cashflow
- Information Imbalance Charges
- Period BM Unit Cashflow
- BM Unit Period Non-Delivery Charges
- Residual Cashflow Reallocation Cashflow (RCRC)

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¹ The BSC also refers to DFS as FSD_{pm} (in accordance with D1.3.1(b)).

Previous default activity (and issues with the Advice Note processes) presented to the Panel

ELEXON presented a paper to the Panel ([Panel 244/14](#)) at its September 2015 meeting, detailing default activity for Quarter 1 of the 2015 BSC Year. The Quarter Date occurred on 30 June 2015 with a Payment Date of 3 July 2015. There were 22 Quarter Date Advice Notes which were Payment Defaults at D+1. The Advice Notes totalled £958, for which:

- Five paid at D+1 (4 July 2015);
- Four paid at D+2 (5 July 2015);
- Seven had cash Credit Cover which was used at D+2 (5 July 2015); and
- Six did not pay and had no Credit Cover and had a total remaining debt of £326.

Six Parties were allowed to go beyond the D+2 deadline, at which point DFS should have been applied. ELEXON took the decision to delay action as the Parties were in contact with, and had agreed payment with, the Funds Administration Agent (FAA). At D+3 further payments reduced the outstanding debt to £107. This outstanding amount was made up of two Advice Notes, of which one was for only £0.07. The larger Advice Note was then paid at D+7, with the £0.07 amount paid at D+15.

Due to the sums of money involved the issue was considered low risk to BSC Parties. Furthermore, correspondence with the non-paying Parties was positive, with Parties making an effort to pay as soon as possible. ELEXON advised the Panel that, if DFS was applied, the process to charge and reverse the DFS spans 10 Working Days and provides no benefit to BSC Parties.

ELEXON added that the Parties involved would have been named as defaulting Parties on corresponding Advice Notes. This prompts queries from industry regarding the reason for default. The reputational consequences of publishing a Party ID for a DFS are extreme compared to the values owed in the case of Advice Notes below the £500 ANTL.

ELEXON believes that notifying the Panel at D+3 to determine Section H Default Resolutions in these situations is not an efficient use of BSC or Panel resources, particularly where non-paying Parties are active in arranging payment. The Panel agreed with ELEXON's view that a Modification should be raised to address this.

What is the issue?

In circumstances relating to Quarter Date Advice Notes below the ANTL, a BSC Party may not have received an Advice Note for three months or longer. The Advice Note will request a payment between £0.01 and £500. It is often the case that a small irregular invoice is not processed by the BSC Party within three Business Days, and under the BSC this results in Payment Default.

This can then result in a DFS being processed, allocated to other Parties and then reversed as the Advice Note is received shortly after. This is an inefficient use of BSC resources and may cause confusion to Parties having Default Funding Share amounts on their Advice Notes with the defaulting Party identified.

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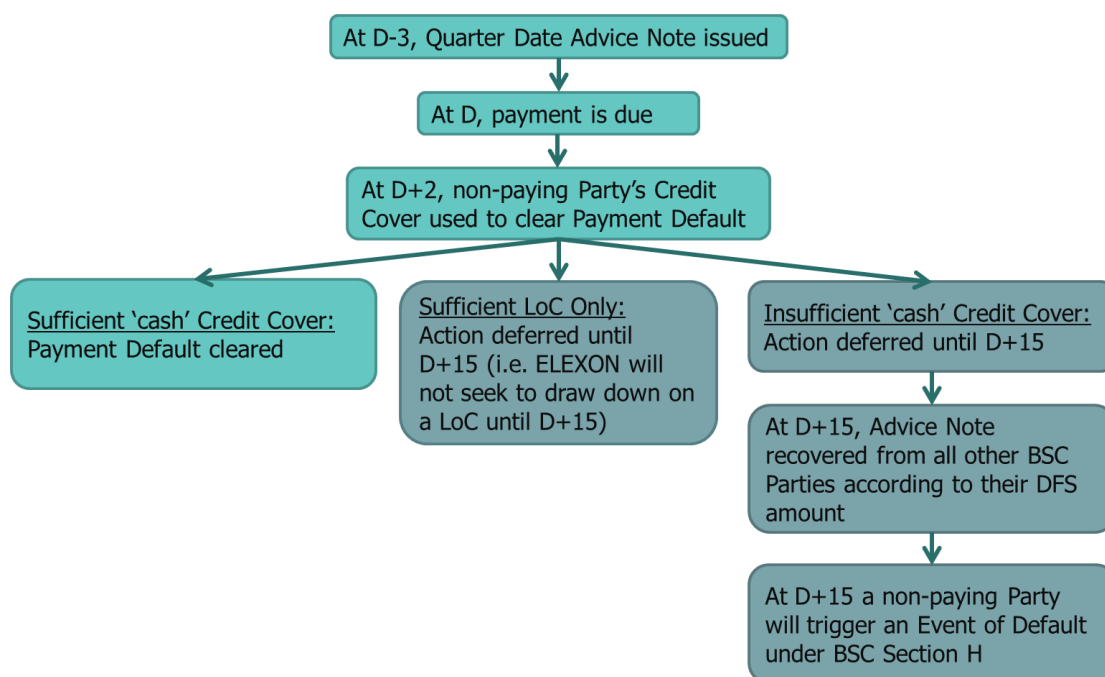
Proposed solution

The BSC Panel raised [P337 'Extension to the payment timescales for Quarter Date Advice Notes below the Advice Note Threshold Limit'](#) on 10 March 2016.

The current BSC arrangements regarding Advice Notes mean that a BSC Party can receive an unexpected invoice for a small amount which they are expected to pay within short timescales. If the Advice Note goes unpaid the Party risks an Event of Default under BSC Section H.

P337 seeks to extend the payment timescales for Quarter Date Advice Notes below the ANTL (£500) from three Business Days to 15 Business Days. This will allow ELEXON to defer action for 15 Business Days, which gives non-paying Parties an additional 13 Business Days to work with ELEXON and ensure the Advice Note is paid and the Party does not enter into Section H Default. It will also lower the risk of Panel involvement, which is only required when a non-paying Party enters into Section H Default.

We believe that it is reasonable to allow 15 Business Days to make payment in this specific circumstance because Quarter Date Advice Notes are infrequent and the ANTL means that the value of such Advice Notes is limited to less than £500. The diagram below details the proposed new process for these Advice Notes:



For the avoidance of doubt, this Modification will not affect the arrangements where an Advice Note value is above the ANTL of £500.

Self-Governance

The Panel believe that this Modification meets the Self-Governance Criteria as it will have no material impact on:

- existing or future consumers;

- competition;
- the operation of the Transmission System;
- wider market/network management issues or Code procedures; and
- does not discriminate between different classes of Parties.

Draft Legal Text

The draft legal text changes to deliver the P337 proposed solution can be found in Attachment A.



What are the Self-Governance Criteria?

A Modification that, if implemented:

- (a) is unlikely to have a material effect on:
 - (i) existing or future electricity consumers; and
 - (ii) competition in the generation, distribution, or supply of electricity or any commercial activities connected with the generation, distribution, or supply of electricity; and
 - (iii) the operation of the national electricity transmission system; and
 - (iv) matters relating to sustainable development, safety or security of supply, or the management of market or network emergencies; and
 - (v) the Code's governance procedures or modification procedures; and
- (b) is unlikely to discriminate between different classes of Parties.

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Estimated central implementation costs for P337

The cost to implement this Modification is estimated at £240 (one man day) for ELEXON to implement the required document changes. Any updates required to internal and FAA processes will be covered under business as usual processes.

Industry impacts and costs

The one respondent to the P337 Report Phase Consultation indicated only minor implementation impacts, as there will be updates required to internal documents. However, the respondent advise there would be no extra cost for these changes as they will be absorbed as part of business as usual.

There are no other impacts to BSC Parties or Party Agents due to the implementation of this Modification. However, BSC Parties will benefit from this Modification, as it will extend the payment timescales for Quarter Date Advice Notes below the ANTL. This will give non-paying Parties an additional 13 Business Days to work with ELEXON to ensure the Advice Note is paid (reducing the risk of the Party unnecessarily entering into Section H Default).

P337 impacts

Impact on BSC Parties and Party Agents

Party/Party Agent	Potential Impact
BSC Parties	There are only minor impacts anticipated due to the implementation of this Modification, as there may be changes required to internal documents. There are no other impacts on BSC Parties anticipated.

Impact on Transmission Company

There is no impact on the Transmission Company.

Impact on BSCCo

ELEXON (as BSCCo) will need to implement the required document changes under this Modification. Updates may also be required to internal documentation and FAA processes to account for the extended payment timescales.

Impact on BSC Systems and processes

There are no impacts to BSC Systems. However, there may be some changes required to internal and FAA processes in order to account for the extended payment timescales.

Impact on Code

Code Section	Potential Impact
Section N	Changes are required to BSC Section N in order to implement this Modification – see Attachment A.

Impact on other Configurable Items

Configurable Item	Potential Impact
FAA Service Description	Changes are required to implement this Modification.

Recommended Implementation Date

The Panel recommends an Implementation Date for P337 of **3 November 2016** as part of the November 2016 BSC Systems Release.

This is the next available release that this Modification can be implemented in. The one respondent to the P337 Report Phase Consultation agreed with the Panel's proposed Implementation Date and did not provide any additional rationale to support this view.

Panel's initial views on P337

The Panel considered ELEXON's Request to Raise this Modification on 10 March 2016.

A Panel Member wished to confirm that ELEXON is already deferring action for Quarter Date Advice Notes below the ANTL due to the short timescales. We confirmed that this is the case. The intention behind deferring actions is to lessen the risk of a Party entering into Section H default for values less than £500. Details of the steps we take and recent default activity were presented to the Panel in September 2015 ([Panel 244/14](#)).

A Panel Member advised that they have had experience with Advice Notes below the ANTL. They confirmed that they can be very infrequent and quite difficult to deal with in just three Business Days. The Member fully supports this Modification and believes it is a sensible approach to make the process more efficient for BSC Parties, ELEXON and the Panel.

The Panel agreed to raise this Modification.

Panel's initial recommendations

Applicable BSC Objectives

The Panel initially unanimously believed that this Modification will better facilitate **Applicable BSC Objective (d)** as allowing an additional 13 Business Days' discretion for the payment of Quarter Date Advice Notes below the ANTL will make the processes more efficient for BSC Parties, ELEXON and the Panel.

The Panel therefore initially unanimously recommends that P337 should be approved.

Self-Governance

The Panel initially unanimously agreed that P337 should be progressed as a Self-Governance Modification, as it has no material impact on the specified categories and does not discriminate between different classes of Parties.

Implementation approach

The Panel initially unanimously agreed with the recommended Implementation Date for P337 of **3 November 2016** as part of the November 2016 BSC Release, as noted in Section 5.

Legal text changes

The Panel initially unanimously agree that the draft legal text changes to BSC Section N deliver the P337 solution. Full details of the proposed changes can be found in Attachment A.



What are the Applicable BSC Objectives?

(a) The efficient discharge by the Transmission Company of the obligations imposed upon it by the Transmission Licence

(b) The efficient, economic and co-ordinated operation of the National Electricity 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 of the balancing and settlement arrangements

(e) Compliance with the Electricity Regulation and any relevant legally binding decision of the European Commission and/or the Agency [for the Co-operation of Energy Regulators]

(f) Implementing and administering the arrangements for the operation of contracts for difference and arrangements that facilitate the operation of a capacity market pursuant to EMR legislation

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7 Report Phase Consultation Responses

This section summarises the responses to the Panel's Report Phase Consultation on its initial recommendations. You can find the full responses in Attachment B.

ELEXON received one response to the P337 Report Phase Consultation.

Summary of P337 Report Phase Consultation Responses		
Question	Yes	No
Do you agree with the Panel's initial unanimous recommendation that P337 should be approved?	1	0
Do you agree with the Panel that the redlined changes to the BSC deliver the intent of P337?	1	0
Do you agree with the Panel's recommended Implementation Date?	1	0
Do you agree with the Panel's initial view that P337 should be treated as a Self-Governance Modification?	1	0
Will P337 impact your organisation?	1	0
Will your organisation incur any costs in implementing P337?	0	1
Do you have any further comments on P337?	0	1

Approval of P337

The one respondent to the P337 Report Phase Consultation agreed that the Modification should be approved. They agree that by reducing the amount of defaults due to small levels of indebtedness will result in a reduction in the administrative burden associated with running the BSC.

Self-Governance

The one consultation respondent agreed with the Panel's initial recommendation that P337 should be treated as a Self-Governance Modification Proposal. The respondent did not provide any additional rationale to that of the Panel.

Implementation Approach

The one consultation respondent agreed with the Panel's proposed Implementation Date and did not provide any additional rationale to support this view.

Legal text changes

The one consultation respondent agreed that the draft legal text changes deliver the intention of P337. They did not provide further rationale.

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8 Recommendations

We invite the Panel to:

- **AGREE** that P337:
 - **DOES** better facilitate Applicable BSC Objective (d);
- **DETERMINE** (in the absence of any Authority direction) that P337 is a Self-Governance Modification Proposal;
- **APPROVE** P337;
- **APPROVE** an Implementation Date of:
 - 3 November 2016 as part of the November 2016 BSC Release;
- **APPROVE** the draft legal text; and
- **APPROVE** the P337 Modification Report.

Appendix 1: Glossary & References

Acronyms

Acronyms used in this document are listed in the table below.

Acronym	
Acronym	Definition
ANTL	Advice Note Threshold Limit
BSCP	Balancing and Settlement Code Procedure (<i>Code Subsidiary Document</i>)
D	Affected Date
DFS	Default Funding Share
FAA	Finance Administration Agent (<i>BSC Agent</i>)
SCR	Significant Code Review

External links

A summary of all hyperlinks used in this document are listed in the table below.

All external documents and URL links listed are correct as of the date of this document.

External Links		
Page(s)	Description	URL
3	P214 page of the ELEXON website	https://www.elexon.co.uk/mod-proposal/p214-issue-relating-to-funds-administration/
3	BSC Code Sections page of the ELEXON website	https://www.elexon.co.uk/bsc-related-documents/balancing-settlement-code/bsc-sections/
6	P337 page of the ELEXON website	https://www.elexon.co.uk/mod-proposal/p337/
4, 11	BSC Panel 244 page of the ELEXON website	https://www.elexon.co.uk/meeting/bsc-panel-242/