

## **REQUIREMENTS SPECIFICATION for Modification Proposal P214 'Issues relating to Funds Administration'**

**Prepared by: P214 Modification Group**

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**Reason for Issue:** For Impact Assessment

**Version Number:** 2.0

**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.

### **BACKGROUND AND PURPOSE OF IMPACT ASSESSMENT**

The BSC Panel considered P214 at its meeting on 9 August 2007 and submitted the proposal to a 3-month Assessment Procedure to be conducted by the P214 Modification Group (formed from members with expertise in Funds Administration).

The P214 Modification Group ('the Group') met twice on 13 August 2007 and 20 August 2007 and agreed the requirements for a number of options which could form part of the Proposed Modification or an Alternative Modification. The requirements for these options were issued for impact assessment by BSC Agents, BSC Parties and BSCCo<sup>1</sup> on 3 September 2007 as part of Requirements Specification for Modification Proposal P214 v1.0.

The Group met a third time on 19 September 2007 to consider the responses from the first impact assessment and formulate a revised, single solution with no options. This document sets out the revised requirements agreed by the Group, and supports impact assessment by BSC Agents, BSC Parties, the Transmission Company and BSCCo.

Any queries regarding the impact assessment requirements 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 an Assessment Consultation Document for P214 is also being simultaneously issued for consultation by Parties, Party Agents, and the Transmission Company.

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<sup>1</sup> The Balancing and Settlement Code Company (ELEXON).

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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 initial impact assessment contained in Section 4.

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 SUMMARY OF PROPOSED MODIFICATION SOLUTION

P214 was raised on 3 July 2007 by ScottishPower ('the Proposer'). P214 seeks to amend the Balancing and Settlement Code ('the Code') to update Funds Administration procedures that give rise to inefficient processing of transactions and a large number of small value transactions. It also seeks to amend the Code to reflect current banking practices.

The Proposer has highlighted four main areas for consideration:

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

P214 was raised following the BSC Review for 2006/7<sup>2</sup> which focussed on the area of Funds Administration. Following the presentation of the BSC Review to the BSC Panel ('the Panel') Standing Issue 27 'Balancing and Settlement Code (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.

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 are faxed to them alongside the mandatory posted Advice Notes and 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.

Another issue with the current Funds Administration process is the number of small value transactions which are processed by the FAA. On each Payment Date the amounts due to and from each BSC Party relating to the Settlement Day approximately 29 days earlier, and the amounts relating to the various ad-hoc charges for the Settlement Days for up to 14 months in the past, are amalgamated and the net amount is paid to/collected from Parties. For some Parties this amount of money may be small. However, the same processes must be completed regardless of the size of the transaction. P214 proposes to introduce a threshold below which an Advice Note would not be produced. This would take the form of a monetary threshold and a time threshold. These thresholds would reduce the number of small value Advice Notes that are issued.

P214 proposes an additional solution to reduce the number of transactions. The Trading Charges, ad-hoc charges and each Default Charge could be combined onto one Advice Note with an accompanying combined Confirmation Notice. This would further reduce the number of invoices.

Finally P214 proposes to update the Code to reflect the current banking practices of the FAA and Parties. BSC Section N 'Clearing, Invoicing and Payment' and Balancing and Settlement Code Procedure (BSCP) 301 were largely created from their equivalent predecessors under the Pooling and Settlement Agreement. As a

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<sup>2</sup> [BSC Review 2006/7 'Funds Administration'](#)

consequence of this, they reflect banking practices that are no longer relevant. The FAA has developed working practices to benefit Parties and these should be reflected in the Code.

## **2 FIRST IMPACT ASSESSMENT**

The Requirements Specification for P214 v1.0 was issued on 3 September 2007 for impact assessment by Parties, Party Agents, BSC Agents and BSCCo. The Requirements Specification for P214 v1.0 contained a number of options, some of which could constitute an Alternative Modification, which the Group wanted to be impact assessed.

Following the return of the responses the Group met on 19 September 2007 to review the responses and formulate the revised solution, containing no options. Requirements Specification for P214 v2.0 contains the Group's revised solution and has been issued for impact assessment by Parties, Party Agents, BSC Agents, BSCCo and the Transmission Company.

## **3 DETAIL OF PROPOSED MODIFICATION SOLUTION REQUIREMENTS**

### **3.1 Introducing electronic delivery of Advice Notes and Confirmation Notices**

#### **3.1.1 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 sheets by post. A form would be included in BSCP301, and also published on the BSCCo Website, which 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.

#### **3.1.2 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.

#### **3.1.3 Format of electronic Trading Charges 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.

### **3.1.4 Format of electronic Default Charges and ad-hoc charges backing sheets for Advice Notes and Confirmation Notices**

The backing sheets for Default Charges and ad-hoc charges will be produced electronically in PDF format. The FAA would be required to create backing sheets for ad-hoc charges and Default Charges that can be sent electronically. The FAA would endeavour to reduce the size of the backing sheets by reducing the amount of white space.

### **3.1.5 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 to this single nominated email address for Advice Notes, Confirmation Notices, Trading Charges backing sheets, Default Charges backing sheets and ad-hoc charges backing sheets.

The electronic files would be easily identifiable by file name (i.e. it is clear which files are Advice Notes and which are backing sheets or Confirmation Notices from their file names). Advice Notes would clearly identify the backing sheets to which they relate. The emails' subject would also clearly identify the files contained within. As part of the Impact Assessment the FAA are requested to consider the requirement for clear file names and email names.

### **3.1.6 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. This would require the FAA and those Parties that currently use the decryption/encryption software to uninstall/discontinue use of the software.

### **3.1.7 Back up systems**

If there is an email delivery failure of an Advice Note, Confirmation Notice or backing sheets 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 or 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.

## **3.2 Combining the amounts from Trading Charges, ad-hoc charges and Default Charges onto a daily Advice Note**

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

The FAA would combine all Trading Charges, Default Charges and ad-hoc charges for each day onto one Advice Note and one 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 the 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.

### **3.2.2 Backing sheets**

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

As part of the Impact Assessment Parties are requested to assess the costs to their systems and processes of the following backing sheets processes.

The FAA is requested to provide an Impact Assessment in respect of the implementation costs for the following backing sheets processes. The FAA is also requested to provide indicative backing sheets file sizes for each type of backing sheets.

#### **3.2.2.1 Trading Charges backing sheets**

Trading Charges backing sheets would be emailed to each Party (at a Party ID level) 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 charges.

#### **3.2.2.2 Default Charges backing sheets**

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.

#### **3.2.2.3 Ad-hoc charges backing sheets**

Due to the very rare occurrence of ad-hoc charges, ad-hoc charges backing sheets would be sent when such a charge occurs.

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

#### **3.3.1 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.

#### **3.3.2 How would Advice Notes interact with the threshold**

The Advice Note for each day sets out the amount payable or receivable for each of the runs (Settlement Final (SF), 1<sup>st</sup> Reconciliation (R1), 2<sup>nd</sup> 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**

Advice Note		£
SF		x
R1		(x)
R2		x
R3		x
R4		(x)
RF		(x)
Total		<u>X</u>
VAT input		y
VAT output		(y)

Backing Sheet		£
SF		
Charge 1		(x)
Charge 2		x
Charge 3		x
Total		<u>X</u>
VAT input		y
VAT output		(y)
VAT out		(y)

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

### 3.3.3 Threshold operation

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.

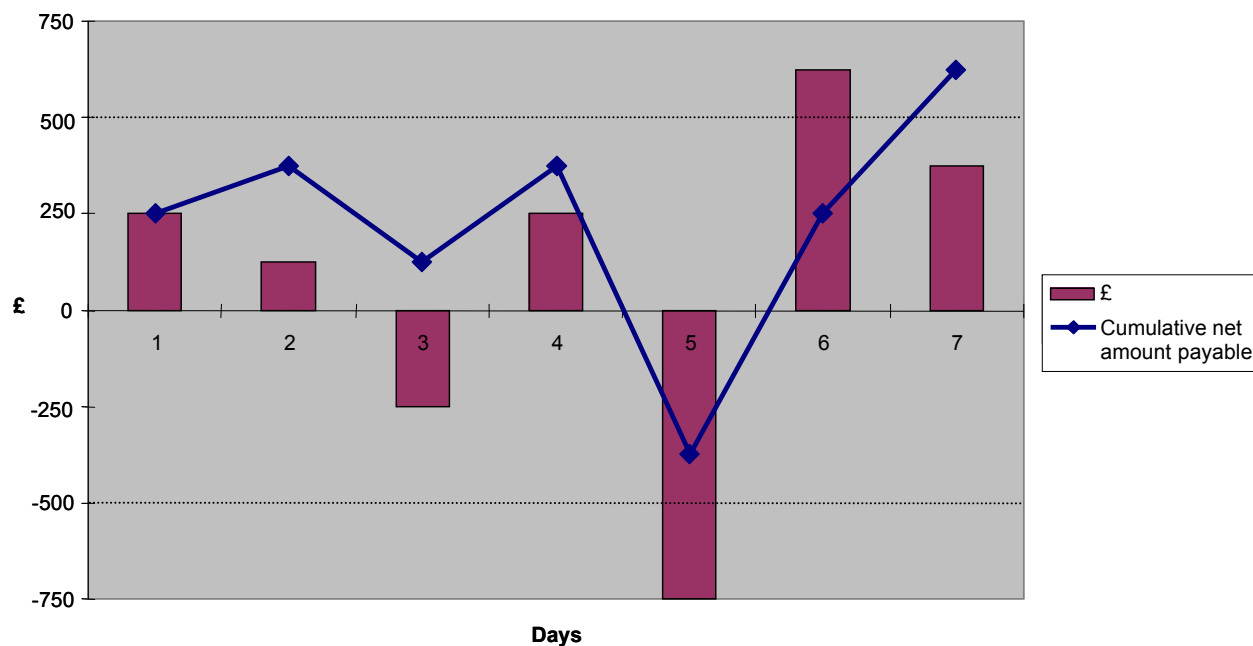
In this example, the net amount payable for day 1 is £250. On day 2 the net amount payable is £125, making a cumulative net amount payable of £375. On day 3 the Party receive a net amount payable of -£250 (i.e. a receivable of £250). This reduces the cumulative net amount payable to £125. Day 4 increases 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.

As part of the Impact Assessment Parties are requested to assess the costs to their systems and processes of the above solution.



**Diagram 2 – Threshold operation**

### 3.3.4 Monetary Threshold

The Modification Group undertook data analysis in order assist in proposing an initial monetary threshold. The data analysis is attached to the Assessment Consultation for P214 as Attachment C (Reference 5). From the data analysis the Modification Group took the view that the monetary threshold should be £500, although as stated in section 2.3.7 the Panel may change the monetary threshold from time to time. An Advice Note would be issued when a Party accumulates an overall (i.e. net) payable or receivable balance of £500.

### 3.3.5 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.

### 3.3.6 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.

As part of their impact assessment the FAA should set out how they propose to administer the excess and shortfall of funds that would arise from thresholds.

### 3.3.7 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.

### 3.3.8 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 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.

A Party requesting an ad-hoc Advice Note would be required to contact BSCCo who would assess their application. If the application was approved BSCCo would contact the FAA and request an ad-hoc Advice Note be produced upon receipt of a Withdrawal Notice or a notification of a change in VAT status from a Party. In the case of withdrawal and change of VAT status, BSCCo would automatically request an Advice Note for the Party in question. Once the Advice Note had been issued the monetary threshold would be reset to zero, although the time threshold would remain unchanged.

The FAA is requested to provide an Impact Assessment in respect of the implementation costs of ad-hoc Advice Notes.

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

### 3.4.1 Current banking practice Code amendments outlined in the IWA

The BSC requires amending in order to bring it in line with the current banking practice that has been developed between the FAA, BSCCo and Parties. The following proposed changes would have no impact on Parties as they are updating the Code to reflect current practice. In order to assist Parties in Impact Assessing the changes indicative drafting of the changes has been provided as Attachment B. It should be noted Attachment B does not constitute the legal text for P214 and only includes amendments to reflect current banking practice.

The changes are as follows:

	Issue/Modification Proposal	Code Amendment	Description of Amendment
1	The Code states that there is a 3pm cut off for bank payments each day, allowing the FAA to monitor which payments have been received. However, Parties can make payments by electronic transfer well beyond 3pm each day and the FAA is not in a position to identify	Clauses 8.1, 8.3.1 & 8.4.1.	All clauses referencing a 3pm cut-off time have been amended to state 5pm. In practice, this has a knock-on effect on certain FAA obligations – see comment below.

	Issue/Modification Proposal	Code Amendment	Description of Amendment
	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.		
	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.	Clauses 8.2.2, 8.3.2 & 9.6.6.	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).
2	Sweeping system is in place whereby amounts are automatically swept between various BSC accounts at the end of each day.	No changes to the Code as these are specific procedures which would be drafted into the FAA Service Description.	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.
3	Section N of the Code does not currently have provision for a situation where a payment has originally been made by Direct Debit but is subsequently withdrawn. At first, it may appear that the payment has been made, but a bank can easily reject a Direct Debit as it only has to inform the recipient's bank by post.	See new clause 4.7.2 and note – recognises the different ways in which payments may be made, including Direct Debit.	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.
4	Section X Annex X-1 of the Code specifies a Letter of Credit 'shall be available for payment at a London branch of the issuing bank'. The aim of this was so that Letters of Credit (LCs) could be called on in person by the FAA who is also based in Central London. However, there is at least one major bank who no longer honour LCs at their branches, insisting that all payments are made through their centralised LC headquarters. The		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 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

	Issue/Modification Proposal	Code Amendment	Description of Amendment
	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.		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 Great Britain 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 there will be one or more Collection Accounts, although in practice there is only one Collection Account with Barclays	Changes made throughout document.	
10	BSCP301 refers to the FAA setting up and testing banking	See new Clause 4.7.1	Details would be drafted into BSCP301.

	Issue/Modification Proposal	Code Amendment	Description of Amendment
	communication links for new or amended banking details. Modern electronic payment methods are reliable and in practice testing is no longer required		

### 3.4.2 Other Changes

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 Implementation Options

To implement P214 changes would be required to the FAA Systems in order to: allow electronic Advice Notes/Confirmation Notices/Backing Sheets to be issued, allow the combining of several Charges onto one Advice Note and Backing Sheet and allow the introduction of thresholds below which an Advice Note would not be issued.

P214 would be implemented as part of a scheduled Release. The current targeted Implementation Dates are the November 2008 BSC Systems Release or the June 2009 BSC Systems Release.

## 4 ESTIMATED IMPACT OF MODIFICATION ON SYSTEMS, PROCESSES AND DOCUMENTATION

### a) Impact on BSC Systems and Processes

System / Process	Impact of Proposed Modification
FAA Systems	<p>Changes would be required to the FAA system to allow the following:</p> <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, ad-hoc 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)	<p>The FAA Contract may need revision in a number of areas. These include:</p> <ul style="list-style-type: none"> <li>• Service Levels;</li> </ul>

BSC Agent Contract	Impact of Proposed Modification
	<ul style="list-style-type: none"> <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, but receiving emailed Advice Notes, Confirmation Notices and Backing Sheets would be mandatory.

Party Agents would not be impacted.

### 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**

Area of Business	Impact of Proposed Modification
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**

Code Section	Impact of Proposed Modification
Section N	Changes would be needed 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 current banking practices.

**g) Impact on Code Subsidiary Documents**

Document	Impact of Proposed Modification
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.

Document	Impact of Proposed Modification
FAA Service Description	<p>Changes would be required to the FAA Service Description to allow the following:</p> <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, ad-hoc 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 Modification
FAA User Requirement Specification (URS)	<p>Changes would be required to the FAA URS to allow the following:</p> <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, ad-hoc 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.

## **5 DEVELOPMENT PROCESS**

For the purposes of the impact assessment, respondents should assume that P214 would be implemented as a stand-alone development project managed by BSCCo.

Changes to the FAA system and testing requirements would be managed by ELEXON in conjunction with the appropriate software provider.



Changes to Party systems and testing requirements would be managed by the respective Party.

As part of the implementation period testing of the sending of electronic Advice Notes/Confirmation Notices/Backing Sheets would be carried out on a sample of participants.

## 6 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.
GPG	Gnu Privacy Guard
HMRC	Her Majesty's Revenue and Customs
PDF	Portable Document Format

## 7 DOCUMENT CONTROL

### 7.1 Authorities

Version	Date	Author	Reviewer	Reason for Review
0.1	24/08/07	Andrew Wright	Kathryn Coffin	For technical review
0.2	28/08/07	Andrew Wright	Modification Group	For Modification Group review
1.0	03/09/07	P214 Modification Group		For impact assessment
1.1	01/10/07	Andrew Wright	Kathryn Coffin, Alex Grieve, Mike Bishop	For technical review
1.1	01/10/07	Andrew Wright	Gary Henderson	For Modification Group review
2.0	02/10/07	P214 Modification Group		For impact assessment

### 7.2 References

Ref.	Document Title	Owner	Issue Date	Version
1	<a href="#">Initial Written Assessment for P214</a>	BSCCo	09/08/07	1.0
2	<a href="#">Requirements Specification for P214</a>	BSCCo	03/09/07	1.0
3	<a href="#">BSC Review 2006/7 Funds Administration process</a>	BSCCo	12/04/07	1.0
4	<a href="#">Issue 27 Report</a>	BSCCo	06/07/07	1.0
5	Assessment Consultation for P214	BSCCo	02/10/07	1.0