

Draft MODIFICATION REPORT for Modification Proposal P214 'Issues relating to Funds Administration'

Prepared by: ELEXON¹ on behalf of the BSC Panel

Date of Issue:	14 November 2007	Document Reference:	P214RR
Reason for Issue:	For Consultation	Version Number:	0.2

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

Proposed Modification P214 seeks to amend the Balancing and Settlement Code ('the Code') to update funds administration procedures that give rise to the inefficient processing of transactions and the large number of small value transactions. It also seeks to amend the Code to reflect current banking practices.

No Alternative Modification has been developed.

BSC PANEL'S RECOMMENDATIONS

Having considered and taken into due account the contents of the P214 draft Modification Report, the BSC Panel recommends:

- **that Proposed Modification P214 should be made;**
- **an Implementation Date for Proposed Modification P214 of 6 November 2008 if an Authority decision is received on or before 8 February 2008, or 25 June 2009 if the Authority decision is received after 8 February 2008 but on or before 4 September 2008; and**
- **the proposed text for modifying the Code, as set out in the Modification Report.**

¹ ELEXON Ltd fulfils the role of the Balancing and Settlement Code Company ('BSCCo').

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

CONTENTS TABLE

Summary of Impacted Parties and Documents	3
1 Description of Modification	4
1.1 Introducing electronic delivery of Advice Notes/Confirmation Notices	4
1.2 Combining the amounts from Trading Charges, ad-hoc charges and each Default Charge onto one Advice Note and Confirmation Notice	5
1.3 Introducing thresholds below which an Advice Note/Confirmation Notice would not be produced 6	6
1.4 Amending the Code to bring it in line with current banking practice	7
2 Areas Raised by the Terms of Reference	7
3 Implementation Approach and Costs.....	8
3.1 Implementation as part of the November 2008 BSC Systems Release	10
3.2 Implementation as part of the February 2009 BSC Systems Release	10
3.3 Implementation as part of the June 2009 BSC Systems Release	10
3.4 Results of Modification Impact Assessment	10
4 Rationale for Modification Group's Recommendations to the Panel	12
4.1 Assessment of Proposed Modification Against Applicable BSC Objectives	12
4.2 Implementation Date.....	12
4.3 Legal Text.....	13
5 Rationale for Panel's Recommendations to the Authority.....	13
5.1 Panel's Consideration of Assessment Report.....	13
5.2 Results of Report Phase Consultation	15
5.3 Panel's Consideration of Draft Modification Report	15
5.4 Panel's Final Recommendation to the Authority	15
6 Terms Used in this Document	15
7 Document Control	15
7.1 Authorities	15
7.2 References.....	15
Appendix 1: Legal Text	16
Appendix 2: Process Followed	16
Appendix 3: Assessment Report	17
Appendix 4: Report Phase Consultation Responses	17

Intellectual Property Rights, Copyright and Disclaimer

The copyright and other intellectual property rights in this document are vested in ELEXON or appear with the consent of the copyright owner. These materials are made available for you for the purposes of your participation in the electricity industry. If you have an interest in the electricity industry, you may view, download, copy, distribute, modify, transmit, publish, sell or create derivative works (in whatever format) from this document or in other cases use for personal academic or other non-commercial purposes. All copyright and other proprietary notices contained in the document must be retained on any copy you make.

All other rights of the copyright owner not expressly dealt with above are reserved.

No representation, warranty or guarantee is made that the information in this document is accurate or complete. While care is taken in the collection and provision of this information, ELEXON Limited shall not be liable for any errors, omissions, misstatements or mistakes in any information or damages resulting from the use of this information or action taken in reliance on it.

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 contained in Appendix 3 of the P214 Assessment Report. A copy of the P214 Assessment Report is included as Appendix 3 of this Modification Report.

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"/>
Party Agents	H <input type="checkbox"/>	Core Industry Documents
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 checked="" 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"/>
BSC Agents	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"/>	BSCCo
ECVAA <input type="checkbox"/>	S <input type="checkbox"/>	Internal Working Procedures <input checked="" type="checkbox"/>
CDCA <input type="checkbox"/>	T <input type="checkbox"/>	BSC Panel/Panel Committees
TAA <input type="checkbox"/>	U <input type="checkbox"/>	Working Practices <input checked="" type="checkbox"/>
CRA <input type="checkbox"/>	V <input type="checkbox"/>	Other
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"/>		
Other Agents		
Supplier Meter Registration Agent <input type="checkbox"/>		
Unmetered Supplies Operator <input type="checkbox"/>		
Data Transfer Service Provider <input type="checkbox"/>		

1 DESCRIPTION OF MODIFICATION

This section outlines the solution for the Proposed Modification, as developed by the P214 Modification Group ('the Group') during the Assessment Procedure.

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 and one 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 Version 2.0 of the revised P214 Requirements Specification (Reference 2).

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

1.1 Introducing electronic delivery of Advice Notes/Confirmation Notices

1.1.1 Parties' communication preference

Under P214 the emailing of Advice Notes, Confirmation Notices and backing sheets would be mandatory. BSC Parties ('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 at any time after the Implementation Date. The posted Confirmation Notices would clearly be marked 'copy' for Value Added Tax (VAT) purposes. An additional section would be added to the Funds Accession Form (BSCP301/04(a) in BSCP301, 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 be obliged to provide the FAA with an email address for receiving FAA communications.

The current communication methods of fax and/or post would continue up until 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.

1.1.2 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.

1.1.3 Format of electronic backing sheets for Advice Notes and Confirmation Notices

Backing sheets for Trading Charges would be produced electronically in ASCII pipe delimited format, this is no change to the current format. This format is a delimited text file that stores tabular data using pipes (|) to separate values. Such 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.

1.1.4 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 email messages would be sent for Advice Notes, Confirmation Notices, Trading Charges backing sheets, Default Charges backing sheets and ad-hoc charges backing sheets.

1.1.5 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.

1.1.6 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 either:

- (a) request a temporary email address to deliver the file electronically;
- (b) request a fax number in order to fax the document to the Party; or
- (c) agree with the Party to post the document in question.

If the FAA is 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 is 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.

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

1.2.1 Combined Advice Note and Confirmation Notice

The FAA would combine all Trading Charges, Default Charges and ad-hoc charges onto a single Advice Note and a single corresponding 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.

1.2.2 Backing sheets

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

Trading Charges backing sheets would be emailed to each individual Party (i.e. at a Party ID level) as and when Trading Charges are incurred, whether or not a Party had 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 would 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 detailing the Default Charge for each preceding 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.

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

1.3.1 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. This threshold would take the form of a monetary threshold and a time threshold, and would be applied at a 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.

1.3.2 Monetary Threshold

The initial monetary threshold would be set to £500, although as stated in Section 1.3.5 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. For more details regarding the operation of the threshold see Section 3.4.6.1 of the Assessment Report contained in Appendix 3.

1.3.3 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 did not accrue for more than 3 months.

Furthermore, an Advice Note would be triggered for each quarter end regardless of the threshold or whether or not an Advice Note had 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 would be cleared at the end of the tax year.

1.3.4 Threshold Administration

The FAA would be required to manage the daily excess or shortfall of funds that would arise from thresholds. This would be accomplished by using current FAA banking facilities, such as the Reserve Account and the Borrowing Account. There would be no impact on Parties' bank accounts or their methods of payment.

1.3.5 Threshold Governance

The Group agreed the following wording for the Code regarding the monetary threshold:

means £500 or such other amount as the Panel may determine from time to time.

Any alterations to the threshold would be governed by the Panel, which 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 this Modification Proposal (see Appendix 4 of the P214 Assessment Report for details of this analysis). After reviewing the findings of such analysis the Panel would issue a recommendation of a proposed threshold for industry consultation, after which a final decision on the monetary threshold would be made. The Panel may wish to delegate responsibility for recommending the proposed monetary threshold to the Imbalance Settlement Group (ISG).

The Code would detail the initial monetary threshold level 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.

1.3.6 Requesting of ad-hoc Advice Notes

There would be certain situations where a Party could request an Advice Note even though it had not breached the monetary or time thresholds; these situations include withdrawal, administration, insolvency and a Party changing VAT status. There may also be other situations where it may be appropriate for BSCCo to instruct that an ad-hoc Advice Note should be issued. A Party requesting an ad-hoc Advice Note would be required to contact BSCCo. 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. Once the Advice Note had been issued the monetary threshold would be reset to zero, although the time threshold would remain unchanged.

1.4 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 practices. The required amendments are set out in Appendix 1, which provides legal text for the required changes. The proposed changes would not impact Parties and would be drafting current practice into the Code.

2 AREAS RAISED BY THE TERMS OF REFERENCE

The following areas were considered by the Modification Group during the Assessment Procedure for P214:

- The need to obtain Her Majesty's Revenue and Customs approval of the P214 solution;
- The following aspects of introducing electronic delivery of Advice Notes/Confirmation Notices:
 - The method for electronic delivery;
 - The solution for handling Parties' communication preferences;
 - The appropriateness of encryption;
 - The format of Advice Notes, Confirmation Notices and backing sheets;
 - The back-up processes to use in case of email failure;
 - Whether Advice Notes and Confirmation Notices should be emailed with their respective backing sheets; and
 - The appropriateness of an e-billing system as a potential Alternative Modification,
- The solution for combining the amounts from Trading Charges, ad-hoc charges and each Default Charge onto one daily Advice Note and Confirmation Notice;
- The following aspects of introducing thresholds below which an Advice Note/Confirmation Notice would not be produced:
 - The appropriate level of monetary threshold (including data analysis of the effect of the proposed threshold);

- The time threshold to apply;
- The appropriate threshold administration and governance processes;
- The criteria under which ad-hoc Advice Notes could be requested; and
- The appropriateness of formalising, removing or capping the existing Advance Funds Lodgement facility as a potential Alternative Modification,
- The required amendments to the Code to bring it in line with modern banking practices;
- Analysis of the overall cost-benefit of P214, including:
 - Estimation of central cost savings; and
 - Estimation of Parties' cost savings.

These issues are discussed in the Assessment Report contained in Appendix 3, and are not covered further here.

3 IMPLEMENTATION APPROACH AND COSTS

The table below summarises the implementation requirements for each potential Release being targeted for P214. P214 would be implemented during the period of Project Isis and different Releases would require different implementation activities from the FAA. It should be noted the implementation costs have not altered since the Assessment Report.

PROPOSED MODIFICATION IMPLEMENTATION COSTS³

		November 2008 Release	June 2009 Release	Tolerance
Service Provider⁴ Cost				
	Change Specific Cost	£183,500	£183,500	+/- 0%
	Testing/Deployment Cost	£50,000	£50,000	+100% / - 50%
	Porting	£25,000	£0	+100% / - 50%
	Total Service Provider Cost	£258,500	£233,500	+/-30%
Implementation Cost				
	External Audit	N/A	N/A	N/A
	Design Clarifications	£12,925	£11,675	+/- 10%
	Additional Resource Costs	N/A	N/A	N/A
	Additional Testing and Audit Support Costs	N/A	N/A	N/A
Total Demand Led Implementation Cost		£271,425	£245,175	+/- 30%

ELEXON Implementation Resource Cost		153 man days £33,660	153 man days £33,660	+/- 10%
Total Implementation Cost		£305,085	£278,835	+/- 30%

PROPOSED MODIFICATION ONGOING SUPPORT AND MAINTENANCE COSTS

	Stand Alone Cost	Incremental Cost	Tolerance
Service Provider Operation Cost	N/A	N/A	N/A
Service Provider Maintenance Cost	N/A	N/A	N/A
ELEXON Operational Cost	N/A	N/A	N/A

³ An explanation of the cost terms used in this section 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

⁴ BSC Agent and non-BSC Agent Service Provider and software costs.

3.1 Implementation as part of the November 2008 BSC Systems Release

If P214 was implemented as part of the November 2008 Release, the following activities would be required by the BSC Agent:

- Along with the costs for development and deployment on the existing system, which are £183,500 and £25,000, there would be an additional cost (estimated at £25,000) to port to the changes to HP-UX and Oracle 10g.
- There would also be an additional cost (estimated at £25,000) for the chosen Service Provider to test and deploy the ported software. It should be noted that this cost is an estimate with a wide tolerance and a more accurate estimate will not be available until the chosen Service Provider is appointed.
- Implementation as part of the November 2008 Release would mean that P214 is being developed during the Isis transition period and would be tested and deployed on the existing system and the new system. This leads to an estimated total implementation cost of £258,500.

3.2 Implementation as part of the February 2009 BSC Systems Release

As discussed by the Panel on 9 August 2007 (Panel 130/13) the February 2009 Release would only be used for urgent FAA changes, so P214 is not targeted at this Release.

3.3 Implementation as part of the June 2009 BSC Systems Release

Implementation as part of the June 2009 Release would mean that P214 would be developed entirely on the new system. The new BSC Agent for FAA Business Process Outsourcing, Hosting and Communications (BPO Host) would have been appointed and would have been running the FAA system since April 2009. A key part of Project Isis is splitting the BPO Host (the provision and operation of the computer and telecommunications infrastructure necessary to run the BSC Systems) and the Application Management and Development (AM/Dev) (the activity of developing and maintaining the software applications that support the Settlement services). At this stage the BPO Host and AM/Dev roles would be split. The AM/Dev Service Provider would develop and test the system, then hand over the new system to the BPO Host, who would test and deploy the new system.

In this scenario the development cost would be £183,500 (incurred by the FAA AM/Dev Service Provider). All further costs would be incurred by the BPO Host. Until a FAA BPO Host is appointed all estimated costs have a large tolerance. The costs for the FAA BPO Host Service Provider to test and deploy are estimated at £50,000, giving an estimated total implementation cost of £233,500.

3.4 Results of Modification Impact Assessment

a) BSC Agent Impact

The BSC Agent has noted a implementation period of 6 months would be required. The different release-dependent implementation requirements are noted above. A more detailed list of impacts can be found in Appendix 4 of the P214 Assessment Report.

b) BSC Party and Party Agent Impact

Parties noted varying degrees of impact. One Party noted that P214 would lead to significant system development for them requiring an implementation period of 6 months. In discussion with BSCCo the Party noted this period was from the approval of P214 by the Authority and not from the point at which the redlined Code Subsidiary Documents (CSDs) became available. This was the longest implementation period.

Another Party noted they would be required to change their business processes, backup procedures and email storage facilities. Other Parties noted the changes would be minimal.

The implementation period required ranged from 10 days to 6 months, with the majority of Parties requiring 3 months from the point that the final redlined CSDs are available. Implementation costs ranged from minimal to a maximum implementation cost of £30,000.

Party Agents noted they were not impacted by P214.

For details of the impact on Parties and Party Agents see Appendix 4 of the P214 Assessment Report.

c) Transmission Company Impact

The Transmission Company noted in their Analysis (contained in Appendix 4 of the Assessment Report) that they were not impacted by P214. A Group member suggested that there could be a potential impact on the Balancing Services Use of System (BSUoS) Charge. The Group member suggested the potential scenario where the Daily System Operator's BM Cashflow fell below the monetary threshold, and so no Advice Note was produced to the Transmission Company on that day. The Group member wondered whether there might be an impact on the calculation of the BSUoS charges. BSCCo contacted the Transmission Company who confirmed there was no significant impact and any impact on the calculation of the BSUoS charge would be minimal.

d) BSCCo Impact

BSCCo would require a further three months on top of the FAA's implementation period (6 months) to implement P214. BSCCo would be required to make changes to the impacted CSDs, carry out testing on the amended software, train the relevant staff in the changes to the FAA operations, update Local Working Instructions to reflect the new processes and provide assurance to the implementation project. In total this would require 153 man days of effort, or £33,660. For a detailed list of impacts please see Appendix 4 of the Assessment Report.

e) BSC Auditor Impact

The BSC Auditor provided an impact assessment for P214. Overall the BSC Auditor commented that the changes would be a positive step. The BSC Auditor noted a number of these changes should address some of the audit issues that are currently in place - for example 1914 'Missing Advice Notes' and 1741 'Review of FAA requirements within Code and BSCPs'. These changes would impact the way in which the BSC Auditor conducts some of their detailed testing, but should not impact their actual audit approach (and thus the BSC Auditor would not need to change any of their current approach documentation or the contractual agreement). The BSC Auditor noted that, were the changes to be implemented, audit trails would need to be maintained to ensure that they are able to test and select samples. Provided these are in place this should not prevent the BSC Auditor from carrying out their audit work in these areas.

4 RATIONALE FOR MODIFICATION GROUP'S RECOMMENDATIONS TO THE PANEL

This section summarises the recommendations of the Modification Group, as detailed in the Assessment Report in Appendix 3.

4.1 Assessment of Proposed Modification Against Applicable BSC Objectives

The **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 (c) and (d).

Applicable BSC 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.

The Group believed that the above benefits would promote competition by reducing Party costs and thereby potentially reducing barriers to market entry.

Applicable BSC Objective (d)

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

4.2 Implementation Date

The Modification Group agreed the following recommended Implementation Dates for P214:

- An Implementation Date of 6 November 2008, if an Authority decision is received on or before 8 February 2008; or

- An Implementation Date of 25 June 2009, if the Authority decision is received after 8 February 2008 but on or before 4 September 2008.

The Group's rationale for the proposed Implementation Dates is based on the lead times provided by BSCCo, the FAA and Parties through the impact assessments, along with interactions with Project Isis.

4.3 Legal Text

The legal text was reviewed by the Group by correspondence. No adverse comments were received and the Group confirmed that the legal text delivers its agreed solution.

A copy of the legal text can be found in Appendix 1.

4.3.1 Position of requirements in the Code and CSDs

During the progression of P214 it became clear that not all the solution requirements would need to appear in the Code. In order to assist the Group, the Panel and the Authority to understand where requirements would need to be positioned, BSCCo drafted a document detailing whether a requirement needs to be reflected in the Code, or whether a requirement will have an impact on BSCP301, the FAA Service Description, or the Communication Requirements Document. This document can be found in Appendix 1.

It should be noted that the proposed location of the CSD requirements is indicative and the precise location would be determined during implementation.

5 RATIONALE FOR PANEL'S RECOMMENDATIONS TO THE AUTHORITY

5.1 Panel's Consideration of Assessment Report

The Panel considered the P214 Assessment Report at its meeting on 9 November 2007. This section summarises the Panel's discussions in formulating its provisional recommendation for inclusion in the draft Modification Report. Details of the Report Phase consultation responses, the Panel's discussion of the responses and its final recommendation to the Authority can be found in Sections 0, 5.3 and 5.4 respectively.

5.1.1 Cost-benefit analysis

A Panel member commented that one Assessment Consultation respondent had suggested that the Group, when coming to its final decision, should consider whether P214 would have an overall cost-benefit to the industry. The Panel asked what the Group's views were on the cost-benefit of P214. BSCCo cited the cost-benefit analysis conducted by the FAA and BSCCo as detailed in the P214 Assessment Report and summarised below:

- The FAA considers there would be an annual saving to the FAA of approximately £63,500 under P214. These savings would arise from a 30% reduction in the number of Advice Notes processed (with the introduction of combined Advice Notes and Confirmation Notices, along with the introduction of a £500 monetary threshold); and a 50% reduction in the effort to process the paper based aspects of producing and sending Advice Notes.
- BSCCo has estimated that the yearly cost savings to Parties would be approximately £240,000. Impact assessment responses suggested the average cost for processing a single transaction was £50. Currently around 2,000 Advice Notes are issued each month. The data analysis undertaken by BSCCo and the FAA on behalf of the Modification Group suggests that approximately 30% of Advice Notes are below the proposed monetary threshold of £500. Of these, most are below the £25 mark. Assuming that the threshold would reduce by two-thirds the number of Advice Notes issued which are below £500 in value, this would mean a reduction of 400 Advice Notes per month.

- 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.
- This leads to a total cost saving of approximately £300,000 across the industry, suggesting that the implementation costs would be recovered around a year after the implementation P214.

5.1.2 Applicable BSC Objectives

The unanimous provisional view of the Panel was that the Proposed Modification would better facilitate the achievement of Applicable BSC Objectives (c) and (d) when compared to the current Code baseline.

The Panel agreed with the Group's reasons why P214 would better facilitate Applicable BSC Objectives (c) and (d), as set out in Section 4.1 of this report.

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

A Panel member commented on the diligence of the Group's assessment of P214.

5.1.3 Provisional recommendation to the Authority

The Panel therefore agreed a unanimous provisional recommendation to the Authority that the Proposed Modification should be made.

5.1.3 Implementation Date

The Panel noted that implementation in November 2008, as opposed to June 2009, would have an additional cost of £25,000 for porting. The Panel questioned whether it was better to wait for the second release date. BSCCo noted the cost-benefit analysis which had been conducted by the FAA and BSCCo (see above) which analysis suggested annual savings of approximately £300,000. In the view of the Group, these cost savings justified the earlier Implementation Date. BSCCo also noted that the final decision on the Implementation Date was the Authority's, since it would depend on the timing of the Authority decision.

The Panel unanimously agreed with the Modification Group's recommendation regarding the Implementation Date.

5.1.4 Legal Text

The Panel reviewed the draft legal text. The Panel reviewed the draft legal text. Following the Panel's discussion and some comments received by a Panel member prior to the meeting, some minor changes were made to the proposed legal drafting as set out below before the text was issued as part of the Report Phase consultation:

- A Panel member commented that the term 'Drawing' is defined under Section N9.1.1 of the legal text, and it is defined as a noun. In Section N8.5.1(c)(ii) of the legal text Drawing is used as a verb. In response BSCCo has amended the sentence to read:
 '...whether, and if so the amount ("possible shortfall amount") by which, the amount in paragraph (i) exceeds the amount then remaining available ~~for to make a d~~Drawing ~~on the Credit Facility~~;
- It was also observed that a Drawing is already defined as a Drawing on the Credit Facility in Section N9.1.1, so BSCCo has removed instances of 'on the Credit Facility' from the legal text as they are not required.

None of these changes have a material impact on the intention of the legal text.

5.2 Results of Report Phase Consultation

This section to be completed following the Report Phase consultation.

5.3 Panel's Consideration of Draft Modification Report

This section to be completed following the Panel meeting at which the draft Modification Report and Report Phase consultation responses are considered.

5.4 Panel's Final Recommendation to the Authority

This section to be completed following the Panel meeting at which the draft Modification Report and Report Phase consultation responses are considered.

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.
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	11/11/07	Andrew Wright	Kathryn Coffin	For technical review
0.2	14/11/07	Andrew Wright	BSC Parties and other interested parties	For consultation
0.3	dd/mm/yy			For technical review
0.4	dd/mm/yy			For quality review
0.5	dd/mm/yy	Change Delivery	BSC Panel	For Panel decision
1.0	dd/mm/yy	BSC Panel		For Authority decision

7.2 References

Ref.	Document Title	Owner	Issue Date	Version
1	Initial Written Assessment for P214	BSCCo	09/08/07	1.0
2	Requirements Specification for P214	BSCCo	02/10/07	2.0
3	Requirements Specification for P214	BSCCo	03/09/07	1.0
4	BSC Review 2006/7 Funds Administration process	BSCCo	12/04/07	1.0
5	Issue 27 Report	BSCCo	06/07/07	1.0
6	European Union Council Directive 2001/115/EC	EU Council	17/01/02	1.0
7	Assessment Consultation for P214	BSCCo	02/10/07	1.0
8	Assessment Report for P214	BSCCo	02/11/07	1.0

APPENDIX 1: LEGAL TEXT

Draft legal text for the Proposed Modification is attached as a separate document, Attachment 1.

The proposed position of the P214 requirements in the Code and CSDs is provided as Attachment 2.

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 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
02/10/07	Requirements Specification v2.0 issued for BSC Agent impact assessment
02/10/07	Request for Party/Party Agent impact assessments issued
02/10/07	Request for BSCCo impact assessment issued
15/10/07	BSC Agent impact assessment response returned
15/10/07	Party/Party Agent impact assessment responses returned
15/10/07	BSCCo impact assessment returned
19/10/07	Fourth Assessment Procedure Modification Group meeting held
09/11/07	Assessment Report presented to the Panel
TBC	Draft Modification Report issued for industry consultation
13/12/07	Draft Modification Report presented to the Panel
TBC	Final Modification Report submitted to the Authority

ESTIMATED COSTS OF PROGRESSING MODIFICATION PROPOSAL⁵

Meeting Cost	£2,000
Legal/Expert Cost	£12,500
Impact Assessment Cost	£15,000
ELEXON Resource	71 man days £ 16,750

Please note that these costs are unchanged from those provided in the P214 Assessment Report.

APPENDIX 3: ASSESSMENT REPORT

The P214 Assessment Report is attached as a separate document, Attachment 3.

For the purposes of the Report Phase consultation and the Panel's consideration of the draft Modification Report, the P214 Assessment Report can be found on the BSC Website at: <http://www.elexon.co.uk/changeimplementation/ModificationProcess/ModificationDocumentation/modProposalView.aspx?propID=234>

The Assessment Report includes:

- The conclusions of the Modification Group regarding the areas set out in the P214 Terms of Reference;
- Details of the Group's membership;
- The full results of the Assessment Procedure impact assessment;
- Full copies of all responses to the Assessment Procedure consultation; and
- The data analysis undertaken by the Group.

APPENDIX 4: REPORT PHASE CONSULTATION RESPONSES

To be attached following Report Phase consultation

⁵ 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