

Modification Proposal – BSCP40/03MP No: 214
(mandatory by BSCCo)**Title of Modification Proposal** (mandatory by originator):**Issues Relating to Funds Administration****Submission Date** (mandatory by originator):**3rd July 2007****Description of Proposed Modification** (mandatory by originator)

This Modification Proposal seeks to amend the current provisions for the Funds Administration process by:

1. Introducing electronic delivery of Advice/ Confirmation Notes;
2. Combining the amounts from Trading Charges and each Default Charge onto one daily Advice Note;
3. Introducing thresholds below which an Advice Note would not be produced; and
4. Amending the Balancing and Settlement Code (BSC) to bring it in line with modern banking practices.

These are some of the approaches that were proposed by the BSC Review 2006/7 'Funds Administration process', and discussed further by the Issue 27 (BSC Review) Group.

1. The move to emailing Advice/Confirmation Notes is intended to save time for the FAA (as manual processing currently takes around 2 hours per Party, per Settlement Run) and for Parties through a more efficient process; increase reliability of delivery; reduce time spent on Party validation; reduce the volume of paper used; make it easier to chase up missing files; remove reliance on the postal system and allow the BSC Party to print off the Advice Notes and supporting documentation only as required.

2. Combining the amounts from Trading Charges and each Default Charge onto one daily Advice Note is intended to reduce the number of invoices, and by including any Default Charges, would lessen the likelihood of the combined transaction being of low value. This combined Advice Note would continue to be at a Party level.

3. Inserting both a monetary and time threshold, below which an Advice Note would not be produced, is intended to deliver a significant reduction in the volume of small value transactions processed. This would also reduce the possibility of a Balancing and Settlement Code (BSC) Party defaulting on payment of a minimal amount (due to oversight of one of many small transaction invoices) and cutting back on the need for reallocation runs for the Default Charge Amounts that often result in low value payments.

4. Amending the Code to reflect current banking practice and to grant the opportunity to allow more flexibility on location of banks and timings of data submissions. Some of the current banking practices are not supported by the Code and BSCP301 'Clearing, Invoicing and Payment', leaving enforcement of any procedures open to challenge.

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Description of Issue or Defect that Modification Proposal Seeks to Address (mandatory by originator)

The BSC Review identified numerous issues with the current funds arrangements. Two prominent areas were Processing of Transactions and Small Value Transactions.

Processing of Transactions

Irrespective of the amount of any given transaction there is a large volume of work associated with each payment as set out in the Code and BSCP301 'Clearing, Invoicing and Payment'.

Each transaction involves the production of an Advice Note with supporting documentation. There is a requirement in the Communications Requirement Document to fax and post this documentation and the subsequent Confirmation Note (the VAT document) to each BSC Party.

The current processes entail central expenditure on many reams of paper, time taken to print invoices and related documentation and man-hours of envelope stuffing, despite the fact that most of the relevant documentation has already been faxed to BSC Parties.

The average payment run uses 10 sheets of paper per BSC Party (total 1,000), posted first class, and with an equivalent copy received by fax by BSC Parties. There are an estimated 8,200 Advice and Confirmation notes sent out each month.

The posted versions may well arrive too late to be used by BSC Parties in funds administration, especially where sent abroad, and serve only as a back up to be filed and/or as VAT documentation.

Fax machines may struggle with the volume of correspondence, and due to the fact that BSC Parties hold no electronic versions, the Funds Administration Agent (FAA) helpdesk currently receives around 40 queries from BSC Parties a month requesting additional copies and historic information.

Parties, who only hold paper copies, face a manually intensive and inefficient process to enter this data into their computer systems.

Small Value Transactions

On each Payment Date the amounts due to and from each BSC Party for the trading relating to the Settlement Day approximately 29 days earlier, and the amounts relating to the various Reconciliation Charges for the Settlement Days for up to 14 months in the past, are amalgamated and the net amount is paid to / collected from BSC Parties.

Depending on the size of the BSC Party and its trading position this can be a small amount of money to be settled each day.

If a BSC Party does not pay an amount due, irrespective of how small it may be, the full BSC Default process as set out in Section N of the BSC is initiated, allocating the amount between the remaining BSC Parties if there is insufficient Credit Cover (CC). A separate transaction is used to allocate the Default Charge Amount to other BSC Parties. This can result in a large volume of transactions, each of low financial value (e.g. at times only several pence).

In these cases, this process is disproportionately expensive to the amount of monies it is trying to

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recover.

The current level of small value transactions is inefficient for both the FAA and for BSC Parties due to the volume of paperwork and process associated with each transaction. Many of these payments are processed manually.

Current Banking Practices not reflected in the Code

BSC Section N ‘Clearing, Invoicing and Payment’ and BSCP301 ‘Clearing, Invoicing and Payment’ were largely created from their equivalent predecessors in the Electricity Pool. As a consequence of this, they reflect banking practices that are no longer relevant. The progression of banking practices has benefited BSC Parties and the FAA and working practices have been developed to reflect them. The Modification Group should seek to establish whether these need to be reflected in the Code as well.

This Modification Proposal seeks to amend the BSC to address the defects 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.

Impact on Code *(optional by originator)*

Section M ‘Credit Cover and Credit Default’, Section N ‘Clearing, Invoicing and Payment’ and Section X ‘Definitions and Interpretation’

Impact on Core Industry Documents or System Operator-Transmission Owner Code *(optional by originator)*

None.

Impact on BSC Systems and Other Relevant Systems and Processes Used by Parties *(optional by originator)*

The Funds Transfer System and related systems and processes (such as Local Working Instructions) will be impacted.

Impact on other Configurable Items *(optional by originator)*

Changes would be required to BSCP301 and the Communications Requirement Document in order to allow Advice Notes, Confirmation Notes and supporting information to be emailed.

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Justification for Proposed Modification with Reference to Applicable BSC Objectives
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Applicable BSC Objective (C) - The promotion of 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

BSC Parties are currently subject to processes and obligations which are inherently onerous and costly to operate. Streamlining these processes will result in efficiency and cost saving giving rise to subsequent increase in effective competition.

Applicable BSC Objective (d) – Promoting efficiency in the implementation and administration of the balancing and settlement arrangements

The streamlining of paperwork and volume of transactions for small value transactions will reduce the potential for errors and unnecessary expenditure to occur, leading to improved efficiency in the implementation and administration of the balancing and settlement arrangements.

Urgency Recommended: No *(delete as appropriate) (optional by originator)*

Justification for Urgency Recommendation *(mandatory by originator if recommending progression as an Urgent Modification Proposal)*

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<p>Attachments: No <i>(delete as appropriate) (mandatory by originator)</i></p> <p>If Yes, Title and No. of Pages of Each Attachment:</p>	