

Modification Proposal – BSCP40/03MP No: P249
(mandatory by BSCCo)**Title of Modification Proposal** (mandatory by originator): **Revision of banking arrangements under the BSC****Submission Date** (mandatory by originator): **10 December 2009****Description of Proposed Modification** (mandatory by originator)

This Modification Proposal seeks to amend the Balancing and Settlement Code (BSC) so that the provisions for the BSC Clearer's banking arrangements are revised in order to enable the BSC Clearer to invest monies from the Reserve Account in financial institutions in addition to the BSC Banker. This arrangement is intended to leverage an optimum rate of return on the cash lodged in the Reserve Account by Trading Parties as Cash Cover (and, if appropriate, on cash which is otherwise held in the Reserve Account).

It is considered that the optimum rate of return would be better able to be achieved by having flexibility in relation to the institutions in which a proportion of the monies could be held, and also in relation to the period of time for which monies could be deposited. For example, monies deposited on a term deposit (e.g. up to 3 months) could generally be expected to achieve a higher rate of return than monies kept on (say) overnight deposit. It is not intended that monies should be lodged for periods longer than 3 months.

This Modification therefore seeks to introduce some flexibility into the Code provisions to allow a proportion of monies held in the Reserve Account to be re-deposited into other financial institutions which meet certain criteria. These criteria (and other relevant matters) could be those set out in a policy approved by the ELEXON Board from time to time. This policy would be operated under the governance of the ELEXON Board.

The additional financial institutions would not be BSC Bankers (as currently defined) and the vehicles in which the Reserve Account monies could be invested would not be BSC Accounts (as currently defined). In relation to the transfer of funds from the Reserve Account to the relevant other financial institutions who have met the criteria, this would best be done by BSCCo instructing the FAA on the necessary action, and the FAA then passing on instructions to the BSC Banker to proceed with the payment of the relevant Reserve Account monies into the term accounts set up with the chosen financial institutions.

A limited proportion of the Reserve Account monies would be invested with any one institution, with the exception being the BSC Banker holding the Reserve Account. In other words, the BSC Banker could hold one hundred per cent of the Reserve Account monies, but each other financial institution could not hold more than a set percentage specified in the policy referred to above. The same percentage would apply to all such other financial institutions (for example no financial institution other than the BSC Banker could at any time hold more than (say) 40% of the Reserve Account monies). The policy could also (for example) specify that not less than a specified proportion of the Reserve Account monies would always remain in the Reserve Account held with the BSC Banker.

BSCCo would have responsibility for selecting the financial institutions, other than the BSC Banker, from those complying with the criteria and with whom Reserve Account monies may be deposited.

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All monies held in the Reserve Account, and all monies which may be re-deposited in other financial institutions, will be treated as a single pool of monies. Returns on the investment of these monies would be credited to the Trading Parties in the same manner as interest earned on the Reserve Account monies is currently credited under the Code. In other words it would be credited on a pro-rata basis, based on the Trading Party's share.

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

This Modification seeks to remove the limitation in the BSC that prevents the BSC Clearer from re-investing monies held in the Reserve Account with financial institutions other than the BSC Banker so as to leverage a better return on these funds for Trading Parties. Similarly the BSC can be said to restrict the ability of the BSC Clearer to place such funds on term deposits with a view to obtaining a greater return on investment.

Impact on Code *(optional by originator)*

Section N.

Modification Proposal – BSCP40/03	MP No: P249 <i>(mandatory by BSCCo)</i>
<p>Impact on Core Industry Documents or System Operator-Transmission Owner Code <i>(optional by originator)</i></p> <p>None.</p>	
<p>Impact on BSC Systems and Other Relevant Systems and Processes Used by Parties <i>(optional by originator)</i></p> <p>None.</p>	
<p>Impact on other Configurable Items <i>(optional by originator)</i></p> <p>The FAA Service Description, the FAA User Requirements Specification and the EPFAL Interface Definition and Design Part 2 will require revision to bring them into line with any new provisions in the BSC.</p>	
<p>Justification for Proposed Modification with Reference to Applicable BSC Objectives <i>(mandatory by originator)</i></p> <p>This Modification Proposal can be considered to better facilitate Applicable BSC Objective (d), promoting efficiency in the implementation and administration of the balancing and settlement arrangements. A Modification to adjust the provisions in the BSC relating to the Reserve Account and the methodology of payments into and out of the Reserve Account falls within the category of such an “efficiency” Modification.</p>	
<p>Urgency Recommended: No <i>(delete as appropriate) (optional by originator)</i></p>	
<p>Justification for Urgency Recommendation <i>(mandatory by originator if recommending progression as an Urgent Modification Proposal)</i></p> <p>Not applicable</p>	
<p>Details of Proposer:</p> <p><i>Name</i> BSC Panel</p> <p><i>Organisation</i></p> <p><i>Telephone Number</i></p> <p><i>Email Address.</i></p>	

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Attachments: No (delete as appropriate) (mandatory by originator)

If Yes, Title and No. of Pages of Each Attachment: