

What stage is this document in the process?

01 Initial Written Assessment

02 Definition Procedure

03 Assessment Procedure

04 Report Phase

Request to Raise a Modification Proposal

Revision of banking arrangements under the BSC

We are requesting that the BSC Panel raise a Modification Proposal to revise the BSC banking arrangements are revised to enable the BSC Clearer to invest a proportion of the monies lodged in the Reserve Account in financial institutions other than the BSC Banker.

This arrangement is intended to enhance the rate of return for Trading Parties on the cash balances lodged in the Reserve Account.



ELEXON recommends
The attached Modification Proposal is raised and is subject to a 3 month Assessment Procedure



Medium Impact:
BSCCo, BSC Clearer and the Funds Administration Agent (FAA)



Low Impact:
Trading Parties

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About this document:

This document invites the BSC Panel to raise a Modification to the BSC on efficiency grounds. The BSC Panel is asked to consider the recommendations and agree that a Modification be raised and progressed to the Assessment Procedure. ELEXON will present this document for the consideration of the BSC Panel on 10 December 2009.

Should the BSC Panel choose to raise this Modification Proposal, this document will also constitute an Initial Written Assessment (IWA).

Further information is available in the draft Modification Proposal which forms an attachment to this document.



Any questions?

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Current Situation

Current funds, primarily Trading Parties' Cash Cover, amounting to approximately £106 million, are held in a single Reserve Account with Barclays Bank plc, the BSC Banker.

At present the BSC does not allow for the re-investment of monies deposited in the Reserve Account with financial institutions other than the BSC Banker, and does not seem to envisage "term" deposits.

This constrains the economic efficiency with which these funds may be managed.

The Opportunity

We considered that we could better achieve an optimum rate of return by having flexibility in relation to:

- the institutions in which a proportion of Reserve Account monies could be held; and
- 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 be expected to achieve a higher rate of return than monies kept on (say) overnight deposit.

What is the Reserve Account?

The Reserve Account is a BSC Account, established with the BSC Banker (currently Barclays Bank plc) in the name of the BSC Clearer (currently ELEXON Clear Ltd) and operated by the FAA. It holds:

- Trading Parties' Cash Cover;
- Proceeds of Letters of Credit; and
- Surplus payments received from Payment Parties in relation to Advice Notes.



What is the BSC Clearer?

The BSC Clearer, currently ELEXON Clear Ltd, is established in accordance with Section N of the BSC to act as a counter party to each Payment Party. Each Party is entitled to receive from the BSC Clearer, and is obliged to pay to the BSC Clearer, amounts in respect of Trading Charges and Reconciliation Charges.

Overview

We are requesting that the BSC Panel raises a Modification Proposal to revise the BSC banking arrangements to enable the BSC Clearer to invest a proportion of the monies lodged in the Reserve Account in financial institutions other than the BSC Banker.

Monies deposited in the Reserve Account and those monies which are subsequently deposited in other financial institutions will be considered as a single pool, in order to enable Trading Parties to share proportionally the returns on those monies invested.

This arrangement is intended to leverage an optimum rate of return on the cash balances lodged in the Reserve Account by Trading Parties as Cash Cover, as well as surplus payments received from Payment Parties, which are managed by the BSC Clearer.

Proposal

The draft Modification Proposal (Attachment A) proposes to:

- clarify the roles of the BSC Banker and the Reserve Account, and establish the ability to deposit monies from the Reserve Account in other financial institutions;
- establish the mechanism for identifying the criteria for, and governance of, the financial institution identification, selection and investment process or policy; and
- establish the allocation of investment returns (i.e. the apportionment between Trading Parties of interest received on deposited monies). The Modification would make it clear that the current situation, in relation to interest payments as set out in the Code, would still apply.

The Modification Proposal does not propose to amend the BSC provisions relating to the FAA operating a single Reserve Account in the name of the BSC Clearer.

3 Applicable BSC Objectives

ELEXON can recommend that a Modification Proposal is raised by the BSC Panel where it is considered to better facilitate **Applicable BSC Objective (d)** as described in paragraph 2 of the Transmission Licence.

We believe that introducing the capability to invest Reserve Account monies in financial institutions other than the BSC Banker so as to enhance the return on investment for Trading Parties will increase the economic efficiency with which these funds may be managed.

It is therefore our view that adjusting 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 an “efficiency” Modification.



What are the Applicable BSC Objectives?

- a) The efficient discharge of the obligations of the Transmission Licence;
- b) The efficient, economic and co-ordinated operation of the GB transmission system;
- c) Promoting effective competition in the generation and supply of electricity and in the sale and purchase of electricity; and
- d) Promoting efficiency in the implementation and administration of the balancing and settlement arrangements.

4 Proposed Progression

Should the Panel agree to raise the Modification Proposal we will progress the Modification in line with the approach set out below.

Modification Group

We recommend forming the Modification Group from members of the Governance Standing Modification Group assisted by experts from Trading Parties with relevant financial or funds administration experience.

Terms of Reference

We believe that the Modification Group should consider the following matters:

Modification Terms of Reference	
Ref	Area
1	The effect of the Modification on Applicable BSC Objective (d) and any other relevant BSC Objective(s).
2	Whether an Alternative Modification is required.
3	The most effective implementation approach for the Modification, including whether the necessary Code Subsidiary Document changes are drafted in the Assessment Procedure or during implementation.



Modification Group Terms of Reference

ELEXON recommends that the Modification Terms of Reference should include the specific areas identified in this IWA.

Timetable and Costs

ELEXON recommends that the Modification undergoes a 3-month Assessment Procedure.

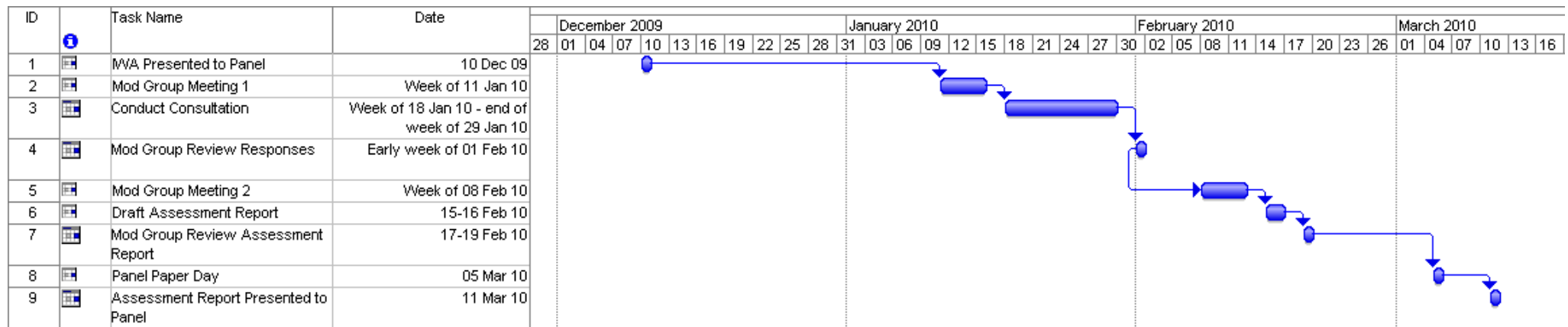
It is estimated that progression of this Modification will require:

- 2 Modification Group meetings;
- 1 BSC Agent impact assessment;
- 1 industry consultation and impact assessment; and
- 1 request for Transmission Company analysis.

A high-level timetable is provided on the following page.

Estimated progression costs based on proposed timetable	
Meeting costs (including Modification Group member expenses)	£1000
Non-ELEXON legal and expert costs	£0
Service Provider impact assessment costs	£3000
ELEXON resource	29 man days, equating to £6960

Timetable and Costs



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5 Likely Impacts

Impact on BSC Systems and process

BSC System/Process	Potential impact
BSC Systems	N/A

Impact on BSC Agent/service provider contractual arrangements

BSC Agent/service provider contract	Potential impact
Funds Administration Agent (FAA)	Any changes to the operating practices of the FAA as noted below with reference to the Service Description will need to be reflected in the BSC Services Agreement.

Impact on BSC Parties and Party Agents

We do not anticipate any impact on Parties and Party Agents.

Impact on Transmission Company

We do not anticipate any impact on the Transmission Company.

Impact on ELEXON

Area of ELEXON's business	Potential impact
ELEXON Board / ELEXON Finance	<p>BSCCo will be required to establish the governance provisions and associated policies and procedures for:</p> <ul style="list-style-type: none"> • identifying candidate financial institutions; • selecting suitable investment vehicles; • monitoring and maintaining the proportion of Cash Cover lodged in the Reserve Account; and • instructing the FAA with respect to investment of Reserve Account monies.

Impact on Code

Code section	Potential impact
Section N 4.1.1, 4.6 and 8.6	To provide the facility for the FAA to operate the depositing of Reserve Account monies in financial institutions other than the BSC Banker. To enable transfers from the Reserve Account to an account not held by the BSC Banker.

Impact on Code Subsidiary Documents

CSD	Potential impact

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Impact on Code Subsidiary Documents	
FAA Service Description	The FAA Service Description will need to be updated to reflect the planned revision in the operation of the Reserve Account and to allow for longer term deposits to be made with other financial institutions.

Impact on Core Industry Documents and other documents	
Document	Potential impact
Ancillary Services Agreements	None
Connection and Use of System Code	None
Data Transfer Services Agreement	None
Distribution Code	None
Distribution Connection and Use of System Agreement	None
Grid Code	None
Master Registration Agreement	None
Supplemental Agreements	None
System Operator-Transmission Owner Code	None
Transmission Licence	None
Use of Interconnector Agreement	None

Impact on other Configurable Items	
Configurable Item	Potential impact
FAA User Requirements Specification	This will require revision to explain the FAA processes in managing funds between the Reserve Account and other financial institutions.
EPFAL Interface Definition and Design Part 2	This will require revision to reflect any revision to the flows between the BSC Clearer and the FAA.

Other Impacts	
Item impacted	Potential impact
None	None

6 Recommendations



ELEXON invites the Panel to:

- **NOTE** the limitation in the BSC preventing the re-investment of monies deposited 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; and
- **AGREE** to raise the attached Modification Proposal to enable the investment of Reserve Account monies with financial institutions other than the BSC Banker.

If appropriate, the Panel is also invited to:

- **DETERMINE** that this Modification Proposal progresses to the Assessment Procedure;
- **AGREE** the Assessment Procedure timetable such that an Assessment Report should be completed and submitted to the Panel at its meeting on 11 March 2010;
- **DETERMINE** that the Modification Group should be formed from members of the Governance Standing Modification Group and experts from Trading Parties with relevant financial or funds administration experience; and
- **AGREE** the Modification Group's Terms of Reference.

Recommendation

ELEXON recommends the BSC Panel raise a Modification and progress it to a 3 month Assessment Procedure.

7 Further Information

You can find more information in:

Attachment A: Modification Proposal Form

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Modification Proposal – BSCP40/03MP No:
(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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(mandatory by BSCCo)

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: <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>	

Modification Proposal – BSCP40/03

MP No:
(mandatory by BSCCo)

Details of Proposer's Representative:

Name Chris Rowell

Organisation. ELEXON Ltd

Telephone Number 020 7380 4337

Email address chris.rowell@elxon.co.uk

Details of Representative's Alternate:

Name

Organisation

Telephone Number

Email address

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

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