

## P337 'Extension to the payment timescales for Quarter Date Advice Notes below the Advice Note Threshold Limit'

P337 seeks to extend the payment timescales for Quarter Date Advice Notes below the Advice Note Threshold Limit of £500 from three Business Days to 15 Business Days.

This will allow ELEXON to defer action, giving Parties an additional 13 Business Days to pay the Advice Note and avoid unnecessary actions, such as the Party defaulting.

This Report Phase Consultation for P337 closes:

**5pm on Monday 4 April 2016**

The Panel may not be able to consider late responses.



The BSC Panel initially recommends **approval** of P337

This Modification is expected to impact:

- ELEXON
- BSC Parties



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## About This Document

This is the P337 Draft Modification Report, which ELEXON is issuing for industry consultation on the BSC Panel's behalf. It contains the Panel's provisional recommendations on P337; including a recommendation that P336 should be progressed as a Self-Governance Modification. The Panel will consider all consultation responses at its meeting on 14 April 2016, when it will make its decision on whether or not the change should be made.

There are three parts to this document:

- This is the main document. It provides details of the solution, impacts, costs, benefits, drawbacks and proposed implementation approach.
- Attachment A contains the draft redlined changes to the BSC for P337.
- Attachment B contains the specific questions on which the Panel seeks your views. Please use this form to provide your responses to these questions, and to record any further views/comments you wish the Panel to consider.

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P337  
Report Phase Consultation

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10 March 2016

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Version 1.0

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### Why Change?

The current BSC arrangements regarding Quarter Date Advice Notes below the Advice Note Threshold Limit (ANTL) mean that a BSC Party can receive an unexpected invoice for a small amount (between £0.01 and £500). The Party is then expected to pay the amount due within three business days. If the Advice Note goes unpaid the Party risks an Event of Default under BSC Section H.

### Solution

P337 seeks to extend the payment timescales for Quarter Date Advice Notes below the ANTL (£500) from three Business Days to 15 Business Days. This will allow ELEXON to defer action for 15 Business Days, which gives non-paying Parties an additional 13 Business Days to work with ELEXON and ensure the Advice Note is paid and the Party does not enter into Payment Default.

### Impacts & Costs

The cost to implement this Modification is estimated at £240 (one man day) for ELEXON to implement the required document changes. Any updates required to internal and FAA processes will be covered under business as usual processes.

There are no anticipated impacts to BSC Parties or Party Agents due to the implementation of this Modification. However, BSC Parties will benefit from this Modification, as it will extend the payment timescales for Quarter Date Advice Notes below the ANTL. This will give non-paying Parties an additional 13 Business Days to work with ELEXON to ensure the Advice Note is paid (reducing the risk of the Party unnecessarily entering into Section H Default).

### Implementation

The Panel recommends an Implementation Date for P337 of **3 November 2016**, as part of the November 2016 BSC Systems Release.

### Recommendation

The Panel initially unanimously recommends that P337 would better facilitate Applicable BSC Objective (d) and so should be **approved**. It also unanimously agreed that P337 should be progressed as a Self-Governance Modification.

## 2 Why Change?

### What are Advice Notes?

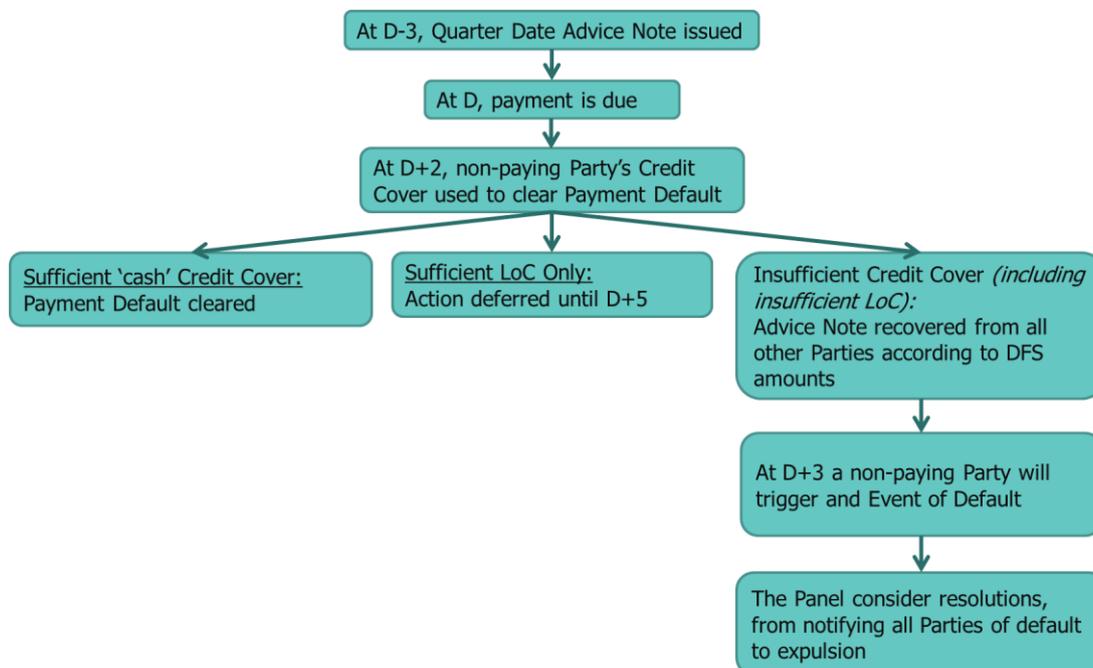
Advice Notes are invoices for payment of Trading Charges and Reconciliation Charges. Each day, if the Advice Note value for a Party is above the Advice Note Threshold Limit (ANTL), currently set at £500, it is released, i.e. issued to the Party for payment. Otherwise the Advice Note value will accumulate until it breaches the threshold or reaches the applicable Quarter Date (the date at the end of each Quarter: means 31 March, 30 June, 30 September and 31 December). An Advice Note will be released at the Quarter Date if it has any value at all, even if it is very small.

Once an Advice Note is released, it has a payment due date of three Business Days later. The process for the quarterly Advice Note trigger was introduced by [P214 'Issues Relating to Funds Administration'](#) in November 2008.

BSC [Section N 'Clearing, Invoicing and Payment'](#) details the obligations for clearing, invoicing and payment of Trading Charges and Reconciliation Charges. This section also includes information on the production of Advice Notes and actions to be taken for unpaid Advice Notes.

### What is Payment Default?

Payment Default is an event where a BSC Party does not pay its Advice Note within three Business Days. The BSC specifies a day by day process for Payment Default in BSC Section N9. This refers to the payment due date as the Affected Date (D). We then count Working Days after the Affected Date D as D+1 (+1 Business Day), D+2 (+2 Business Days) etc. The current Payment Default process for unpaid Advice Notes is shown in the diagram below:



### Previous default activity (and issues with the Advice Note processes) presented to the Panel

ELEXON presented a paper to the Panel ([Panel 244/14](#)) at its September 2015 meeting, detailing default activity for Quarter 1 of the 2015 BSC Year. The Quarter Date occurred on



### What are Trading Charges?

Every day, Trading Charges are calculated for each BSC Party. Trading Charges are made up of:

- Account Energy Imbalance Cashflow
- Information Imbalance Charges
- Period BM Unit Cashflow
- BM Unit Period Non-Delivery Charges
- Residual Cashflow Reallocation Cashflow (RCRC)



### What is a Default Funding Share (DFS)?

Occasionally a BSC Party defaults on its payments, and leaves its share unpaid. This 'bad debt' is therefore reallocated among the other Parties as Default Funding Shares.

30 June 2015 with a Payment Date of 3 July 2015. There were 22 Quarter Date Advice Notes which were Payment Defaults at D+1. The Advice Notes totalled £958, for which:

- Five paid at D+1; (4 July 2015)
- Four paid at D+2; (5 July 2015)
- Seven had cash Credit Cover which was used at D+2 (5 July 2015); and
- Six did not pay and had no Credit Cover and had a total remaining debt of £326.

Five Parties were allowed to go beyond the D+2 deadline, at which point Default Funding Shares (DFS) should have been applied. ELEXON took the decision to delay action as the Parties were in contact with, and had agreed payment with, the Funds Administration Agent (FAA). At D+3 further payments reduced the outstanding debt to £107. This outstanding amount was made up of two Advice Notes, of which one was for only £0.07. The larger Advice Note was then paid at D+7, with the £0.07 amount paid at D+15.

Due to the sums of money involved the issue was considered low risk to BSC Parties. Furthermore, correspondence with the non-paying Parties was positive, with Parties making an effort to pay as soon as possible. ELEXON advised the Panel that, if DFS was applied, the process to charge and reverse the DFS spans 10 Working Days and provide no benefit to BSC Parties.

ELEXON added that the Parties involved will have been named as defaulting Parties on corresponding Advice Notes. This prompts queries from industry regarding the reason for default. The reputational consequences of publishing a Party ID for a DFS are extreme compared to the values owed in the case of Advice Notes below the £500 ANTL.

ELEXON believes that notifying the Panel at D+3 to determine Section H Default Resolutions in these situations is not an efficient use of BSC or Panel resources, particularly where non-paying Parties are active in arranging payment. The Panel agreed with ELEXON's view that a Modification should be raised to address this. This Modification therefore proposes an extension for Quarter Date Advice Notes, allowing action to be deferred but in any case not later than the 15th Business Day after the Affected Date.

## What is the issue?

In circumstances relating to Quarter Date Advice Notes below the ANTL, a BSC Party may not have received an Advice Note for three months or longer. The Advice Note will request a payment between £0.01 and £500. It is often the case that a small irregular invoice is not processed by the BSC Party within three Business Days, and for the BSC this results in Payment Default.

This can then result in a DFS being processed, allocated to other Parties and then reversed as the Advice Note is received shortly after. This is an inefficient use of BSC resources and may cause confusion to Parties having Default Funding Share amounts on their Advice Notes with the defaulting Party identified.

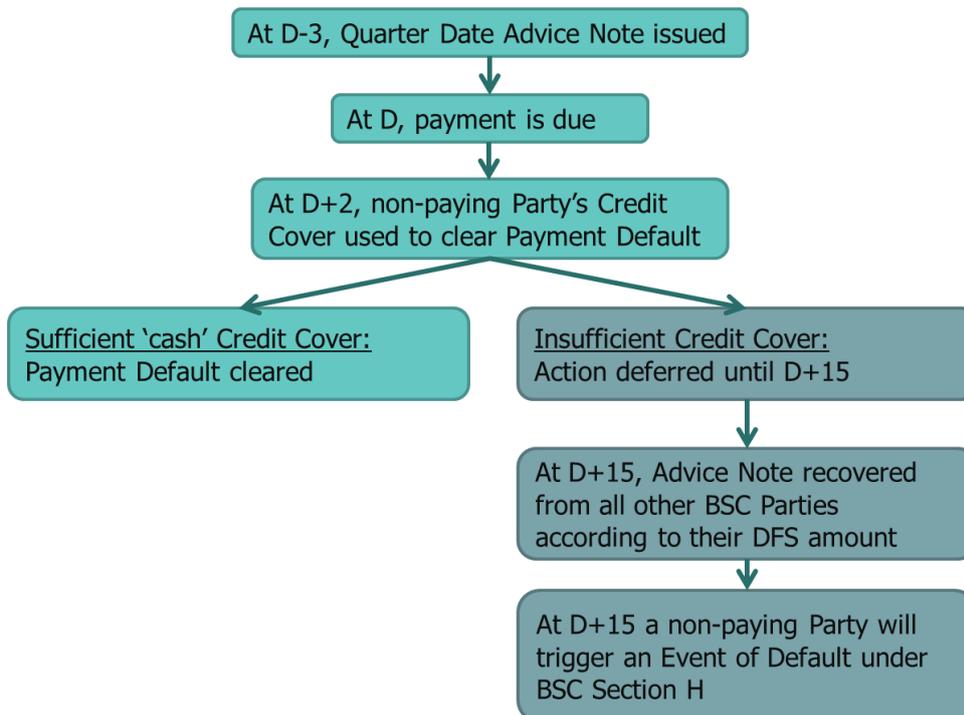
#### Proposed solution

The BSC Panel raised [P337 'Extension to the payment timescales for Quarter Date Advice Notes below the Advice Note Threshold Limit'](#) on 10 March 2016.

The current BSC arrangements regarding Advice Notes mean that a BSC Party can receive an unexpected invoice for a small amount which they are expected to pay within short timescales. If the Advice Note goes unpaid the Party risks an Event of Default under BSC Section H.

P337 seeks to extend the payment timescales for Quarter Date Advice Notes below the ANTL (£500) from three Business Days to 15 Business Days. This will allow ELEXON to defer action for 15 Business Days, which gives non-paying Parties an additional 13 Business Days to work with ELEXON and ensure the Advice Note is paid and the Party does not enter into Section H Default. It will also lower the risk of Panel involvement, which is only required when a non-paying Party enters into Section H Default.

We believe that it is reasonable to allow 15 Business Days to make payment in this specific circumstance because Quarter Date Advice Notes are infrequent and the ANTL means that the value of such Advice Notes is limited to less than £500. The diagram below details the proposed new process for these Advice Notes:



For the avoidance of doubt, this Modification will not affect the arrangements where an Advice Note value is above the ANTL of £500.

## Self-Governance

The Panel believe that this Modification meets the Self-Governance Criteria as it will have no material impact on:

- existing or future consumers;
- competition;
- the operation of the Transmission System;
- wider market/network management issues or Code procedures; and
- does not discriminate between different classes of Parties.

## Draft Legal Text

The draft legal text changes to deliver the P337 proposed solution can be found in Attachment A.



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### What are the Self-Governance Criteria?

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A Modification that, if implemented:

(a) is unlikely to have a material effect on:

- (i) existing or future electricity consumers; and
- (ii) competition in the generation, distribution, or supply of electricity or any commercial activities connected with the generation, distribution, or supply of electricity; and
- (iii) the operation of the national electricity transmission system; and
- (iv) matters relating to sustainable development, safety or security of supply, or the management of market or network emergencies; and
- (v) the Code's governance procedures or modification procedures; and

(b) is unlikely to discriminate between different classes of Parties.

## 4 Impacts & Costs

### Estimated central implementation costs for P337

The cost to implement this Modification is estimated at £240 (one man day) for ELEXON to implement the required document changes. Any updates required to internal and FAA processes will be covered under business as usual processes.

### Indicative industry impacts and costs

There are no anticipated impacts to BSC Parties or Party Agents due to the implementation of this Modification. However, BSC Parties will benefit from this Modification, as it will extend the payment timescales for Quarter Date Advice Notes below the ANTL. This will give non-paying Parties an additional 13 Business Days to work with ELEXON to ensure the Advice Note is paid (reducing the risk of the Party unnecessarily entering into Section H Default).

#### Report Phase Consultation Questions

Will P337 impact your organisation?

*If 'Yes', please provide a description of the impact(s) and any activities which you will need to undertake between Ofgem's approval of P337 and the PP337 Implementation Date (including any necessary changes to your systems, documents and processes). Where applicable, please state any difference in impacts between the Workgroup's proposed solutions.*

Will your organisation incur any costs in implementing P337?

*If 'Yes', please provide details of these costs, how they arise and whether they are one-off or on-going costs. Please also state whether it makes any difference to these costs whether P337 is implemented as part of or outside of a normal BSC Systems Release. Where applicable, please state any difference in costs between the Workgroup's proposed solutions.*

The Panel invites you to give your views using the response form in Attachment B.

### P337 impacts

#### Impact on BSC Parties and Party Agents

| Party/Party Agent | Potential Impact   |
|-------------------|--|
| BSC Parties       | There are no anticipated impacts to BSC Parties due to the implementation of this Modification. However, BSC Parties will benefit from this Modification, as it will extend the payment timescales for Quarter Date Advice Notes below the ANTL. |

#### Impact on Transmission Company

There is no impact on the Transmission Company anticipated.

#### Impact on BSCCo

ELEXON (as BSCCo) will need to implement the required document changes under this Modification. Updates may also be required to internal documentation and FAA processes to account for the extended payment timescales.

#### Impact on BSC Systems and processes

There are no impacts to BSC Systems. However, there may be some changes required to internal and FAA processes in order to account for the extended payment timescales.

#### Impact on Code

| Code Section | Potential Impact  |
|--------------|---|
| Section N    | Changes are required to BSC Section N in order to implement this Modification – see Attachment B. |

#### Impact on other Configurable Items

| Configurable Item       | Potential Impact                                     |
|-------------------------|--|
| FAA Service Description | Changes are required to implement this Modification. |

## 5 Implementation

### Recommended Implementation Date

The Panel recommends an Implementation Date for P337 of **3 November 2016** as part of the November 2016 BSC Systems Release.

This is the next available release that this Modification can be implemented in.

### Report Phase Consultation Question

Do you agree with the Panel's recommended Implementation Date?

*Please provide your rationale.*

The Panel invites you to give your views using the response form in Attachment B.

### Panel's initial views on P337

The Panel considered ELEXON's Request to Raise this Modification on 10 March 2016.

A Panel Member wished to confirm that ELEXON is already deferring action for Quarter Date Advice Notes below the ANTL due to the short timescales. We confirmed that this is the case. The intention behind deferring actions is to lessen the risk of a Party entering into Section H default for values less than £500. Details of the steps we take and recent default activity were presented to the Panel in September 2015 ([Panel 244/14](#)).

A Panel Member advised that they have had experience with Advice Notes below the ANTL. They confirmed that they can be very infrequent and quite difficult to deal with in just three Business Days. The Member fully supports this Modification and believes it is a sensible approach to make the process more efficient for BSC Parties, ELEXON and the Panel.

The Panel agreed to raise this Modification.

### Panel's initial recommendations

#### Applicable BSC Objectives

The Panel initially unanimously believed that this Modification will better facilitate **Applicable BSC Objective (d)** as allowing an additional 13 Business Days' discretion for the payment of Quarter Date Advice Notes below the ANTL will make the processes more efficient for BSC Parties, ELEXON and the Panel.

**The Panel therefore initially unanimously recommends that P337 should be approved.**

#### Self-Governance

The Panel initially unanimously agreed that P337 should be progressed as a Self-Governance Modification, as it has no material impact on the specified categories and does not discriminate between different classes of Parties.

#### Implementation approach

The Panel initially unanimously agreed with the recommended Implementation Date for P337 of **3 November 2016** as part of the November 2016 BSC Release, as noted in Section 5.

#### Legal text changes

The Panel initially unanimously agree that the draft legal text changes to BSC Section N deliver the P337 solution. Full details of the proposed changes can be found in Attachment B.



#### What are the Applicable BSC Objectives?

(a) The efficient discharge by the Transmission Company of the obligations imposed upon it by the Transmission Licence

(b) The efficient, economic and co-ordinated operation of the National Electricity Transmission System

(c) Promoting 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

(d) Promoting efficiency in the implementation of the balancing and settlement arrangements

(e) Compliance with the Electricity Regulation and any relevant legally binding decision of the European Commission and/or the Agency [for the Co-operation of Energy Regulators]

(f) Implementing and administering the arrangements for the operation of contracts for difference and arrangements that facilitate the operation of a capacity market pursuant to EMR legislation

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## Report Phase Consultation Questions

Do you agree with the Panel's initial unanimous recommendation that P337 should be approved?

*Please provide your rationale with reference to the Applicable BSC Objectives.*

Do you agree with the Panel's initial unanimous view that P337 should be treated as a Self-Governance Modification?

*Please provide your rationale.*

Do you agree with the Panel's recommended Implementation Date?

*Please provide your rationale.*

Do you agree with the Panel that the redlined changes to the BSC deliver the intention of P337?

*Please provide your rationale.*

The Panel invites you to give your views using the response form in Attachment B.

## 7 Recommendations

The BSC Panel initially recommends to the Authority:

- That P337 should be progressed as a Self-Governance Modification;
- That P337 should be **approved**;
- An Implementation Date for P337 of 3 November 2016; and
- The draft BSC legal text for P337.

## Appendix 1: Glossary & References

### Acronyms

Acronyms used in this document are listed in the table below.

| Acronym |   |
|---------|---|
| Acronym | Definition  |
| ANTL    | Advice Note Threshold Limit   |
| BSCP    | Balancing and Settlement Code Procedure ( <i>Code Subsidiary Document</i> ) |
| D       | Affected Date   |
| DFS     | Default Funding Share   |
| FAA     | Finance Administration Agent ( <i>BSC Agent</i> )                           |
| SCR     | Significant Code Review   |

### External links

A summary of all hyperlinks used in this document are listed in the table below.

All external documents and URL links listed are correct as of the date of this document.

| External Links |  |   |
|----------------|--|---|
| Page(s)        | Description                                  | URL   |
| 3              | P214 page of the ELEXON website              | <a href="https://www.elexon.co.uk/mod-proposal/p214-issue-relating-to-funds-administration/">https://www.elexon.co.uk/mod-proposal/p214-issue-relating-to-funds-administration/</a>         |
| 3              | BSC Code Sections page of the ELEXON website | <a href="https://www.elexon.co.uk/bsc-related-documents/balancing-settlement-code/bsc-sections/">https://www.elexon.co.uk/bsc-related-documents/balancing-settlement-code/bsc-sections/</a> |
| 6              | P337 page of the ELEXON website              | <a href="https://www.elexon.co.uk/mod-proposal/p337/">https://www.elexon.co.uk/mod-proposal/p337/</a>   |
| 4, 11          | BSC Panel 244 page of the ELEXON website     | <a href="https://www.elexon.co.uk/meeting/bsc-panel-242/">https://www.elexon.co.uk/meeting/bsc-panel-242/</a>   |