

Modification Proposal

MP No: 39
(mandatory by BSCCo)

Title of Modification Proposal (mandatory by proposer):

Improvements To The Administration Of The Payment Default Process

Submission Date (mandatory by proposer): 20 September 2001

Description of Proposed Modification (mandatory by proposer):

The proposal aims to remove inconsistencies between operating practices and the payment default procedures documented in the Code. There are four main changes that are proposed:

The timescales relating to the transfer of funds (section N8.2) should be modified to take into account the delay which arises from the processing of these funds by the relevant banks.

Default thresholds should be introduced, whereby insignificant default amounts are treated differently to significant amounts e.g. amounts under £1,000 are not escalated to the Panel within the same timescales as defaults of £1,000,000.

Credit Cover in the form of a Letter of Credit is not available immediately, therefore the Code should include provisions for Letters of Credit to be called on the Payment Date (if payment hasn't been received) so that the funds are available on D+1.

An explicit statement should be added to the Code stating that BSC Parties should use a UK bank, or they will be liable for the charge which is applied to the transfer of money to a foreign bank.

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

Section N8.1.1 of the Code states that parties should ensure payment is credited to the Collection Account by 12:00 on the relevant Payment Date. In practice, Trading Parties make instructions for payments on the day that they are due. However, these payments take time to process and thus while an instruction can be made in the morning, payment is usually received in the afternoon. In any event payments cannot be made after approximately 17:00 for Barclays Bank and 15:00 for other collection banks.

Sections N8.2.1/2 of the Code state that the FAA shall find out whether all required amounts have been credited to the Collection Account by 13:00 and that these are then remitted to the Clearing Account by 13:30 on the relevant Payment Date to allow payment to BSC Creditors. In practice this is conducted after the payment deadlines for the relevant banks.

The Code states that Letters of Credit must be capable of being called upon immediately. However in practice there are several manual steps involved, including an authorised person from the FAA travelling to Canary Wharf to sign for the credit at Barclays Bank. Therefore once a Letter of Credit is called on there is a finite amount of time before the funds are available (e.g. if the decision is made after 15:00, it is unlikely that funds will be available until the next Business Day). Furthermore the Code does not allow for Letters of Credit to be called on the Payment Date if there is money available in the BSCCo's Borrowing Account. Thus Letters of Credit will only be called when the Borrowing Account can not be used, in which event there will probably be a delay of one Business Day before credit is available.

There are some parties with only small outstanding balances, whilst others can be quite significant. Under the Code there is no minimum threshold, therefore if a party fails to transfer the required amount on the relevant Payment Date, ELEXON can issue a Payment Default notice. This Payment Default should be escalated to the Panel if the party doesn't pay within 3 days of the notice being issued. This could mean a lot of work is carried out in order to present to the Panel a default for a small amount e.g. £10.

A separate issue is that a charge is made when crediting foreign accounts. Foreign parties therefore will not receive the full amount of any credit if they don't use a UK bank. The Code does not explicitly say whether the relevant party or the BSC Clearer should pay these charges. In the absence of an explicit statement, it may be that some parties are expecting to be able to claim these charges back from BSC Clearer.

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Impact on Code (optional by proposer):

This proposal will require significant changes to Section N8 and N9 of the Code which relate to the Payment Procedure and Payment Default respectively.

Impact on Core Industry Documents (optional by proposer):

There is currently no BSCP to cover Payment Default. A new BSCP describing this procedure will be proposed for implementation in parallel with this Modification.

Impact on BSC Systems and Other Relevant Systems and Processes Used by Parties (optional by proposer):

The proposed change is mainly procedural, therefore it is not envisaged that there will be an impact on any systems. However there may be changes to the payment processes used by parties to enable revised timescales in the Code to be met.

Impact on other Configurable Items (optional by proposer):

Justification for Proposed Modification with Reference to Applicable BSC Objectives (mandatory by proposer):

The Modification Proposal has been raised by the BSC Panel on the recommendation by BSCCo, in accordance with section F2.1.1 (d) This proposal would better facilitate the objective in Condition 7A (3) (d) of the Transmission Licence, Promoting efficiency in the implementation and administration of the balancing and settlement arrangements.

The proposal will promote efficiency by introducing default thresholds so that insignificant default amounts are not progressed to the Panel as quickly as significant amounts.

The proposal will also modify the timescales relating to payment of Trading Charges to account for the time delay in processing funds. This will allow the operating practices to reflect the process set out in the Code.

Details of Proposer:

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Organisation:

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Details of Proposer's Representative:

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Attachments: NO

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