

ASSESSMENT REPORT for Modification Proposal P214 'Issues relating to Funds Administration'

Prepared by: P214 Modification Group

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This document has been distributed in accordance with Section F2.1.10 of the Balancing and Settlement Code.¹

Proposed Modification P214 seeks to amend the Balancing and Settlement Code ('the Code') to update funds administration procedures 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.

No Alternative Modification has been developed.

MODIFICATION GROUP'S RECOMMENDATIONS

The P214 Modification Group invites the Panel to:

- **AGREE a provisional recommendation that Proposed Modification P214 should be made;**
- **AGREE a provisional Implementation Date for Proposed Modification P214 of 6 November 2008 if an Authority decision is received on or before 8 February 2008, or 25 June 2009 if the Authority decision is received after 8 February 2008 but on or before 4 September 2008;**
- **AGREE the draft legal text for Proposed Modification P214;**
- **AGREE that Modification Proposal P214 be submitted to the Report Phase; and**
- **AGREE that the P214 draft Modification Report be issued for consultation and submitted to the Panel for consideration at its meeting of 13 December 2007.**

¹ The current version of the Code can be found at <http://www.elexon.co.uk/bscrelateddocs/BSC/default.aspx>.

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SUMMARY OF IMPACTED PARTIES AND DOCUMENTS

As far as the Modification Group has been able to assess, the following parties/documents would be impacted by P214.

Please note that this table represents a summary of the full impact assessment results contained in Appendix 4.

Parties	Sections of the BSC	Code Subsidiary Documents
Distribution System Operators <input checked="" type="checkbox"/>	A <input type="checkbox"/>	BSC Procedures <input checked="" type="checkbox"/>
Generators <input checked="" type="checkbox"/>	B <input type="checkbox"/>	Codes of Practice <input type="checkbox"/>
Interconnectors <input checked="" type="checkbox"/>	C <input type="checkbox"/>	BSC Service Descriptions <input checked="" type="checkbox"/>
Licence Exemptable Generators <input checked="" type="checkbox"/>	D <input type="checkbox"/>	Party Service Lines <input type="checkbox"/>
Non-Physical Traders <input checked="" type="checkbox"/>	E <input type="checkbox"/>	Data Catalogues <input checked="" type="checkbox"/>
Suppliers <input checked="" type="checkbox"/>	F <input type="checkbox"/>	Communication Requirements Documents <input checked="" type="checkbox"/>
Transmission Company <input checked="" type="checkbox"/>	G <input type="checkbox"/>	Reporting Catalogue <input type="checkbox"/>
Party Agents	H <input type="checkbox"/>	Core Industry Documents
Data Aggregators <input type="checkbox"/>	I <input type="checkbox"/>	Ancillary Services Agreement <input type="checkbox"/>
Data Collectors <input type="checkbox"/>	J <input type="checkbox"/>	British Grid Systems Agreement <input type="checkbox"/>
Meter Administrators <input type="checkbox"/>	K <input type="checkbox"/>	Data Transfer Services Agreement <input type="checkbox"/>
Meter Operator Agents <input type="checkbox"/>	L <input type="checkbox"/>	Distribution Code <input type="checkbox"/>
ECVNA <input type="checkbox"/>	M <input checked="" type="checkbox"/>	Distribution Connection and Use of System Agreement <input type="checkbox"/>
MVRNA <input type="checkbox"/>	N <input checked="" type="checkbox"/>	Grid Code <input type="checkbox"/>
BSC Agents	O <input type="checkbox"/>	Master Registration Agreement <input type="checkbox"/>
SAA <input type="checkbox"/>	P <input type="checkbox"/>	Supplemental Agreements <input type="checkbox"/>
FAA <input checked="" type="checkbox"/>	Q <input type="checkbox"/>	Use of Interconnector Agreement <input type="checkbox"/>
BMRA <input type="checkbox"/>	R <input type="checkbox"/>	BSCCo
ECVAA <input type="checkbox"/>	S <input type="checkbox"/>	Internal Working Procedures <input checked="" type="checkbox"/>
CDCA <input type="checkbox"/>	T <input type="checkbox"/>	BSC Panel/Panel Committees
TAA <input type="checkbox"/>	U <input type="checkbox"/>	Working Practices <input checked="" type="checkbox"/>
CRA <input type="checkbox"/>	V <input type="checkbox"/>	Other
SVAA <input type="checkbox"/>	W <input type="checkbox"/>	Market Index Data Provider <input type="checkbox"/>
Teleswitch Agent <input type="checkbox"/>	X <input checked="" type="checkbox"/>	Market Index Definition Statement <input type="checkbox"/>
BSC Auditor <input type="checkbox"/>		System Operator-Transmission Owner Code <input type="checkbox"/>
Profile Administrator <input type="checkbox"/>		Transmission Licence <input type="checkbox"/>
Certification Agent <input type="checkbox"/>		
Other Agents		
Supplier Meter Registration Agent <input type="checkbox"/>		
Unmetered Supplies Operator <input type="checkbox"/>		
Data Transfer Service Provider <input type="checkbox"/>		

1 EXECUTIVE SUMMARY

The key conclusions of the P214 Modification Group ('the Group') to date are outlined below.

The Group:

- **DISCUSSED** the principle and implications of the Modification Proposal, and **NOTED** relevant European Union legislation in the area of e-billing which was applicable to P214;
- **COMMISSIONED** data analysis from BSCCo and the FAA, to support its consideration of the appropriate monetary threshold value to apply under P214 and the implications of the threshold for different sizes of Party, and **COMMISSIONED** further data analysis from BSCCo and the FAA to quantify the likely long-term central cost savings under P214;
- **REQUESTED** impact assessments from the FAA, Parties and BSCCo in respect of various different solution options for the Proposed Modification, to help it assess the potential costs, impacts and lead times of these options;
- **AGREED** (following its consideration of the impact assessment responses) a solution for the Proposed Modification, including:
 - The mandatory introduction of automated, unencrypted email delivery of invoices to Parties, and the discontinuation of current automated faxed invoicing;
 - The option for Parties to voluntarily opt in or out of receiving postal invoices in addition to automatically receiving these invoices by email;
 - The combining of all different types of FAA charges onto single invoices, to reduce the volume of low-value transactions;
 - The introduction of a monetary threshold, such that Parties would not be billed for their charges until their net accrued balance (either payable or receivable) was greater than this threshold;
 - An initial value for the monetary threshold of £500, with the ability for the Panel to revise this value from time to time as required without requiring a Modification Proposal;
 - The introduction of an additional fixed time threshold of 3 months (tied to the financial year), such that Parties would be billed for their accrued charges at least once every financial quarter;
 - The ability, in certain limited circumstances (such as withdrawal or insolvency), for Parties to request Advice Notes without having breached the thresholds;
 - The introduction of different processes for the different types of supporting invoice backing information, to reflect Parties' existing use of this information; and
 - Amendments to the Code to reflect other modern banking procedures which are already current practice amongst the industry.
- **CONDUCTED** an industry consultation on the merits of P214, in which the majority view of respondents was that P214 would better facilitate the achievement of the Applicable BSC Objectives;
- **AGREED** a unanimous view that the Proposed Modification would better facilitate the achievement of Applicable BSC Objectives (c) and (d) by delivering long-term efficiency gains for the FAA and Parties, which might help reduce barriers to market entry and thereby promote competition;
- **AGREED** an initial view that P214 should be implemented as part of an existing release, and that it could not identify any reason to tie implementation to the financial year;

- **NOTED** that, due to the interaction with ELEXON's Project Isis, the BSC Panel had agreed that only critical changes should be delivered in the February 2009 Release – and therefore agreed that P214 should therefore be implemented in either the November 2008 Release or June 2009 Release;
- **NOTED** that the total central implementation costs of P214 were estimated to be in the region of £290k in the November 2008 Release and £260k in the June 2009 Release;
- **CONSIDERED** potential alternative solutions in the area of formalising, removing or capping the current Advance Funds Lodgement facility (in addition to or in replacement of the threshold component of the Proposed Modification solution), but on balance **AGREED** that the future of the Advance Funds Lodgement facility should not be considered as part of P214;
- **AGREED** that it could not identify any other potential Alternative Modification which it believed might better facilitate the achievement of the Applicable BSC Objectives, when compared with the Proposed Modification and in relation to the defect set out in the Modification Proposal; and
- **NOTED** that Her Majesty's Revenue and Customs had confirmed that they had no concerns with the solution proposed by the Modification Group.

A description of the P214 solution is provided in Section 2. Further information regarding the Group's discussions of the areas set out in the P214 Terms of Reference is contained in Section 3.

A summary of the Group's views regarding the merits of the Proposed Modification can be found in Section 4. A copy of the Group's full Terms of Reference can be found in Appendix 2, whilst a summary of the responses to the Assessment Procedure consultation and impact assessment can be found in Appendices 3 and 4 respectively.

2 DESCRIPTION OF MODIFICATION

This section outlines the solution for the Proposed Modification, as developed by the Modification Group.

For a full description of the original Modification Proposal as submitted by ScottishPower ('the Proposer'), please refer to the P214 Initial Written Assessment (IWA).

2.1 Background

2.1.1 Background to P214

P214 was raised following the BSC Review for 2006/7 which focussed on the area of Funds Administration. The BSC Review identified a number of issues with the current process to do with the following areas:

- Small Value Transactions;
- Processing of Transactions;
- Current banking practice not reflected;
- VAT Reporting;
- BSC Party Standing Data;
- Recovery of Credit Cover; and
- Lodging Funds.

Following the presentation of the BSC Review to the BSC Panel ('the Panel') Standing Issue 27 'BSC Review - Funds Administration' was raised to further consider the issues and potential solutions. As a result of the Standing Issue Group discussions, it was concluded that a modification should be raised to resolve the concerns from Issue 27 relating to processing of transactions, small value transactions and current banking practice not being reflected.

2.1.2 Current Process

For each transaction the Funds Administration Agent (FAA) produces an Advice Note and a subsequent Confirmation Notice. The Advice Note details the amounts payable by or to a Payment Party on the relevant Payment Date, and the Confirmation Notice is the official VAT documentation confirming what was received or paid. There is a requirement set out in the Communications Requirement Document that Advice Notes and Confirmation Notices be posted to each BSC Party ('Parties'). Parties are also optionally able to request that Advice Notes and Confirmation Notices are faxed to them alongside the mandatory posted Advice Notes/Confirmation Notices. Every month the FAA issues an estimated 2000 Advice Notes and Confirmation Notices (excluding Defaults), with the average Advice Note and backing sheets comprising 10 sheets of paper each. With Defaults this has been as high as 8,200 a month.

There are three main types of Advice Notes: Trading Charges Advice Notes, Default Charges Advice Notes and ad-hoc charges Advice Notes.

2.1.3 Trading Charges Advice Notes

Trading Charges Advice Notes are produced at a daily granularity when a Party has incurred Trading Charges. This means that a larger Party is likely to receive one Advice Note per day, while a smaller Party may receive a Trading Charges Advice Note on a more infrequent basis.

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, in addition 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.

The Trading Charges Advice Note is made up of the following Trading Charges. In each case the net amount (exclusive of VAT) for the Settlement Day, is shown to be payable by or to the Trading Party:

- The Daily Party Balancing Mechanism (BM) Unit Cashflow;
- The Daily Party Non-Delivery Charge;
- The Daily Party Energy Imbalance Cashflow;
- The Daily Party Information Imbalance Charges; and
- The Daily Party Residual Settlement Cashflow.

2.1.4 Default Charges Advice Notes

Default Charges Advice Notes contain Default Share Amount charges. These Charges arise when a Party goes into payment Default by not paying amounts due. The outstanding debt is funded by all Payment Parties in proportion to their Annual Funding Share. If the Amount in Default (or part of it) is repaid then the money received is returned to payment Parties in proportion to the amounts in which they funded the debt. Default Charges Advice Notes are issued whenever a payment Default occurs. In practice this can mean that if several Parties go into Default around the same time then the volume of Advice Notes will substantially increase as there is currently one Advice Note per daily amount defaulted. A Party in Default quite often has daily amounts unpaid for the entire fourteen months reconciliation period.

2.1.5 Ad-hoc charges Advice Notes

Ad-hoc charges Advice Notes comprise all other charges, such as charges arising as a result of Extra-Settlement Determinations. An Extra-Settlement Determination is a determination performed outside the timetabled Volume Allocation Runs and Settlement Runs which the Panel requests be carried out. By their nature ad-hoc charges Advice Notes are very infrequent.

2.1.6 Backing sheets

Each Advice Note and Confirmation Notice is accompanied by backing sheets. The backing sheet contains a detailed breakdown of each individual payable and receivable charge (and the VAT associated with each charge) which lies behind the net daily amount shown on the Advice Note.

2.1.7 Delivery of Advice Notes, Confirmation Notices and backing sheets

Advice Notes and Confirmation Notices are currently posted on a mandatory basis. Parties may also request that Advice Notes be faxed to them. In order to fax Advice Notes the FAA has an autofax facility, capable of handling large quantities of faxing each day.

Backing sheets are also currently posted on a mandatory basis. Parties may also request Trading Charges backings sheets be emailed to them. This is done in American Standard Code for Information Interchange (ASCII) pipe delimited format. Backing sheets for Default Charges and ad-hoc charges are not available by email.

2.1.8 BSC Banking facilities

One of the concepts of the current arrangements is that all payments balance to zero each day. However there are occasions, such as Defaults, where this is practically not the case. In order that the Clearing Account balances to zero each day the FAA and the BSC Banker have put in place a sweeping facility. Amounts are automatically swept between the various BSC bank accounts at the end of each day. This system ensures that amounts received from Parties are moved from the Collection to the Clearing Account, and if for any reason there is a debit on the Clearing Account at the end of the day (for example because of a Default), an equivalent amount is swept from the Borrowing Account to the Clearing Account. This ensures that at the end of the day only the Borrowing Account overdraft facility is used for any funds shortfall. This

system of end of banking day sweeps enables the transfer of funds from the Collection to the Clearing Account each day regardless of when amounts are received during the day.

2.1.9 Defect which P214 is seeking to address

The Proposer believes that Parties are currently subject to processes and obligations which are inherently onerous and costly to operate. The posted documents may well arrive too late to be used by Parties and the fax machines struggle with the volume of correspondence. Parties have 3 Business Days in which to pay the Advice Note, and the posted Advice Note may well arrive too late to make a payment within the required timetable. P214 proposes that Advice Notes and Confirmation Notices be emailed to Parties. The Proposer believes this would reduce the manual processing which the FAA currently undertakes and also reduce the volume of paper required, assist Parties in chasing up missing files, reduce the volume of paperwork, and allow Parties to print out only the Advice Notes and supporting documentation that is required.

Each day a Party may receive multiple Advice Notes for Trading Charges, Default Charges and ad-hoc charges, each of which has to be individually processed, and each requires a bank charge to be paid. P214 proposes to combine three types of Advice Notes/Confirmation Notice onto a single daily combined Advice Note/Confirmation Notice. This would reduce the amount of transaction processing and bank charges.

Another issue identified by the Proposer with the current Funds Administration process is the number of small value transactions which are processed by the FAA. Particularly for Default Charges, a Party may be required to pay an Advice Note for an amount less than the cost of processing the transaction. If this amount is not paid promptly then the Party will be in payment Default of the Code. P214 proposes setting up a threshold below which an Advice Note is not produced so that all Advice Notes are for amounts that warrant the expense of their processing.

Finally, it is noted that BSC Section N 'Clearing, Invoicing and Payment' and Balancing and Settlement Code Procedure (BSCP) 301 'Clearing, Invoicing and Payment' were largely created from their equivalent predecessors under the Pooling and Settlement Agreement. As a consequence of this, they reflect banking practices that are no longer relevant. The progression of banking practices has benefited Parties and the FAA and working practices have been developed to reflect them. The Proposer believes that these should be reflected in the Code as well.

2.2 Overview of Proposed Modification

The Proposed Modification is divided into four main parts:

- Introducing electronic delivery of Advice Notes/Confirmation Notices;
- Combining the amounts from Trading Charges, ad-hoc charges and each Default Charge onto one Advice Note and one Confirmation Notice;
- Introducing thresholds below which an Advice Note/Confirmation Notice would not be issued; and
- Amending the Code to bring it in line with modern banking practices.

The requirements are summarised in the following sections. For a detailed explanation of the requirements, please refer to the revised P214 Requirements Specification (Reference 2). Version 1.0 of the Requirements Specification was issued for Party, Party Agent, BSC Agent and BSCCo impact assessment on 3 September 2007, with responses returned on 14 September 2007. Version 1.0 of the Requirements Specification contained a number of solution options in order to assist the Modification Group in its decisions regarding the solution of P214. A revised Requirements Specification (version 2.0), containing a single solution was issued alongside the consultation to allow Parties, Party Agents, BSC Agents, BSCCo and the Transmission Company to further assess the proposed solution.

2.3 Introducing electronic delivery of Advice Notes/Confirmation Notices

2.3.1 Parties' communication preference

Under P214 the emailing of Advice Notes, Confirmation Notices and backing sheets would be mandatory. Parties would also have the ability to choose whether or not they receive posted copies of Advice Notes, Confirmation Notices and backing sheets. From the Implementation Date all Parties would receive their Advice Notes, Confirmation Notices and backing sheets by email and post. If they so choose Parties would be able to opt out of receiving Advice Notes, Confirmation Notices and backing sheets by post at any time after the Implementation Date. The posted Confirmation Notices would clearly be marked 'copy' for VAT purposes. An additional section would be added to the Funds Accession Form (BSCP301/04(a) in BSCP301, that would allow Parties to opt out of or opt in to receiving postal Advice Notes, Confirmation Notices and backing sheets. Parties would be able to opt in or out of receiving items by post at any time, and opting out of receiving items by post does not mean a Party would not be able to opt back in to receiving items by post. Parties would be obliged to provide the FAA with an email address for receiving FAA communications.

The current communication methods of fax and/or post would continue up until the Implementation Date, after which automated fax would be discontinued and replaced by automated email. The implementation period would be used to obtain an email address for each Party.

2.3.2 Format of electronic Advice Notes and Confirmation Notices

Advice Notes and Confirmation Notices would be produced electronically in Portable Document Format (PDF). The electronic PDF Advice Notes and Confirmation Notices would be accessed by using PDF reader software, of which Adobe Reader, which is freely available, is the most common. PDF is an accepted format for documents within the industry, with the majority of documents published on the BSC Website being in PDF format.

2.3.3 Format of electronic backing sheets for Advice Notes and Confirmation Notices

Backing sheets for Trading Charges would be produced electronically in ASCII pipe delimited format, this is no change to the current format. This format is a delimited text file that stores tabular data using pipes (|) to separate values. Such files can be viewed in their original text file format, or viewed in a spreadsheet format by using software such as Microsoft Excel, or uploaded directly into a Party's Funds Administration system.

The backing sheets for Default Charges and ad-hoc charges will be produced electronically in PDF format.

2.3.4 Mechanism for electronic delivery of Advice Notes/Confirmation Notices

Electronic Advice Notes, Confirmation Notices and backing sheets would be delivered via email. Parties would provide a single email address in order to receive all electronically delivered files. Separate emails would be sent for Advice Notes, Confirmation Notices, Trading Charges backing sheets, Default Charges backing sheets and ad-hoc charges backing sheets.

2.3.5 Encryption of electronic Advice Notes/Confirmation Notices

Currently electronic Trading Charges backing sheets are encrypted. Under P214 none of the electronic Advice Notes, Confirmation Notices and backing sheets would be encrypted.

2.3.6 Back-up systems

If the failure of an electronic delivery of an Advice Note/Confirmation Notice/backing sheets occurs there would be a back-up procedure that Parties could use. The FAA would initially contact the affected Party by telephone and either:

- (a) request a temporary email address to deliver the file electronically;
- (b) request a fax number in order to fax the document to the Party; or

- (c) agree with the Party to post the document in question.

If the FAA is unable to contact the Party then the Advice Note/Confirmation Notice/backing sheets would be posted to the Party until such time as the FAA is able to contact the Party and confirm the situation or resolve the email non-delivery problem.

If there is a failure of the FAA email system then the FAA would contact BSCCo who would inform Parties of the failure, and of the agreed course of action until the FAA's email system is restored to full operation.

2.4 Combining the amounts from Trading Charges, ad-hoc charges and each Default Charge onto one Advice Note and Confirmation Notice

2.4.1 Combined Advice Note and Confirmation Notice

The FAA would combine all Trading Charges, Default Charges and ad-hoc charges onto a single Advice Note and a single corresponding Confirmation Notice. The combined Advice Note and combined Confirmation Notice would clearly split out the Trading Charges, Default Charges and ad-hoc charges so that Parties are able to determine the invoice amounts for each separate Charge class. A total of the Charges would also be shown on the combined Advice Note and combined Confirmation Notice.

In redesigning the combined Advice Note and combined Confirmation Notice the FAA would endeavour to reduce the amount of white, unused, space in the documents, so that the size of the file and the size of the document is kept manageable.

2.4.2 Backing sheets

Unlike Advice Notes and Confirmation Notices, backing sheets would not be combined.

Trading Charges backing sheets would be emailed to each individual Party (i.e., at Party ID level) as and when Trading Charges are incurred, whether or not a Party has breached their threshold. For Parties that have daily Trading Charges this would mean they receive a Trading Charges backing sheet each day. This would allow Parties that currently use automated electronic systems to check their backing sheets to continue to do so in a similar manner. It will also allow Parties to monitor their daily charges.

Default Charges backing sheets would only be sent when the threshold has been breached. The Default Charges backing sheet would be redesigned in order that the daily Default Charges for any particular Default are presented in tabular form, with the charge for each day on each row. This would mean that Parties would only receive a single Default Charges backing sheet for an ongoing Default, rather than several backing sheets detailing the Default Charge for each preceding day.

Due to the ad-hoc nature and rare occurrence of ad-hoc charges, ad-hoc charges backing sheets would be sent when a Dispute Charge occurs.

2.5 Introducing thresholds below which an Advice Note/Confirmation Notice would not be produced

2.5.1 Introduction of Thresholds

In order to reduce the instances of Parties receiving Advice Notes and Confirmation Notices for small value amounts a threshold would be introduced for small value transactions. This threshold would take the form of a monetary threshold and a time threshold, and be applied at the Party ID level. All Trading Charges, Default Charges and ad-hoc charges incurred would count towards the monetary threshold, with amounts payable offset against amounts receivable such that it would be the Party's net position which was monitored against the threshold.

2.5.2 Monetary Threshold

The initial monetary threshold would be set to £500, although as stated in section 2.5.5 the Panel may change the monetary threshold from time to time. An Advice Note would be issued when a Party's

accumulates an overall (i.e. net) payable or receivable balance of £500. For more details regarding the operation of the threshold see section 3.4.6.1.

2.5.3 Time Threshold

The time threshold would be aligned to the quarterly VAT return dates (i.e. the end of March, June, September and December). If a Party does not breach its monetary threshold then an Advice Note would be issued each quarter in order that amounts do not accrue for more than 3 months.

Furthermore, an Advice Note would be triggered for each quarter end regardless of the threshold or whether or not an Advice Note had previously been triggered within the quarter.

The first of the time thresholds would be less than quarterly if a shorter time elapses between the Implementation Date and the next tax quarter, so all outstanding threshold balances would be cleared at the end of the tax year.

2.5.4 Threshold Administration

The FAA would be required to manage the daily excess or shortfall of funds that would arise from thresholds. This would be accomplished by using current FAA banking facilities, such as the Reserve Account and the Borrowing Account. There would be no impact on Parties' bank accounts or their methods of payment.

2.5.5 Threshold Governance

The Group proposes the following wording for the Code regarding the monetary threshold:

means £500 or such other amount as the Panel may determine from time to time.

Any alterations to the threshold would be governed by the Panel, which would have the ability to periodically review the monetary threshold as required. The basis for the Panel's review would be likely to be a repeat of the analysis undertaken by BSCCo for this Modification Proposal. After reviewing the findings of such analysis the Panel would issue a recommendation of a proposed threshold for industry consultation, after which a final decision on the monetary threshold would be made. The Panel may wish to delegate responsibility for recommending the proposed monetary threshold to the Imbalance Settlement Group (ISG).

The legal text would set the initial monetary threshold used from the Implementation Date until such time as the Panel decides to change it.

The time threshold would be written into the Code and a modification would be required to change it.

2.5.6 Requesting of ad-hoc Advice Notes

There would be certain situations where a Party could request an Advice Note even though its balance had not breached the monetary or time thresholds; these situations include withdrawal, administration, insolvency and a Party changing Value Added Tax (VAT) status. There may be other situation where it may be appropriate for BSCCo to instruct that an ad-hoc Advice Note should be issued. A Party requesting an ad-hoc Advice Note would be required to contact BSCCo. In the case of withdrawal and change of VAT status BSCCo would automatically request an Advice Note from the FAA at the appropriate time as part of the withdrawal process/change of VAT status process. Once the Advice Note had been issued the monetary threshold would be reset to zero, although the time threshold would remain unchanged.

2.6 Amending the Code to bring it in line with current banking practice

The Code would be amended in order to bring it in line with current banking practice. The required amendments are set out in Appendix 1, which provides legal text for the required changes. The proposed changes would not impact Parties and would be drafting current practice in to the Code.

3 AREAS RAISED BY THE TERMS OF REFERENCE

This section outlines the discussions and conclusions of the Modification Group regarding the areas set out in the P214 Terms of Reference.

3.1 Requirement for Her Majesty's Revenue and Customs approval

The introduction of thresholds would lead to a daily shortfall or excess of funds. This would lead to a change in the current concept of payments balancing to zero each Payment Day. This change would require Her Majesty's Revenue and Customs (HMRC) approval, which was sought during Assessment Procedure once the Modification Group had an agreed solution.

BSCCo and its financial advisors have met with HMRC and have received verbal confirmation that the proposed solution would present HMRC with no issues. Formal written confirmation from HMRC is still outstanding.

3.2 Introducing electronic delivery of Advice Notes/Confirmation Notices

3.2.1 Method for electronic delivery

The Modification Group considered the possible methods for electronic delivery of Advice Notes/Confirmation Notices. It was agreed by the Group that the electronic sending of Advice Notes and Confirmation Notices would be a more efficient process than the current use of post and fax. The Group noted that the BSC Review 2006/7 and the Standing Issue 27 Group had considered two main approaches – emailing Advice Notes/Confirmation Notices, and creating an online e-billing site which could be accessed through the internet. The Group's view was that email was the preferred option as it was simple, widely used and should prove a cheaper option to implement than an e-billing internet site. The Proposer confirmed that the Modification Proposal specified the use of email and it wasn't their intention to progress the online solution as part of P214. BSCCo noted that both options had been impact assessed by the Standing Issue 27 Group and the e-billing option had proved to be considerably more expensive to implement for limited additional benefits.

3.2.2 Parties' communication preferences

3.2.2.1 Modification Group's initial discussion

The Group considered whether the electronic sending of Advice Notes, Confirmation Notices and backing sheets should be mandatory. The Group noted that there were a range of options for introducing electronic sending. At one extreme email could be set up as the only communication method for issuing Advice Notes Confirmation Notices and backing sheets. At the other extreme email could be added alongside the current methods of post and fax, without removing either of the current methods. The Group viewed that introducing email alongside the current communication methods was potentially the most expensive option, especially if Parties were given a choice of how they received their documentation. This option would mean the FAA would be required to maintain its support of an automated fax system, and administer a list of Parties' preferences.

The Group agreed that email would be a more efficient communication system than fax and post, noting that fax is an increasingly inefficient communication system when compared to email. The FAA also commented that the current autofax facility was reaching the end of its supported period and further work would be required to update it for future use. The Group also noted that post was slow as a communication option when compared to email, indeed some Parties did not receive their posted Advice Notes in time to pay their due Charges.

The Group agreed that post and fax should be replaced by email as far as possible, and the initial view was that email should be the mandatory communication method, with all other methods phased out. BSCCo advised the Group that legally they were not able to stop all post based communications without giving companies the opportunity to opt out of receiving post. European Directive 2001/115/EC (Reference 6) states in Article 2 2(c) that:

'Invoices...may be sent either on paper or, subject to an acceptance by the customer, by electronic means.'

This means there is a requirement to obtain the customer's consent to electronic invoicing in the U.K. This cannot be done implicitly (i.e. by getting the software/systems installed and signing the relevant contractual documents). The directive is imposed such that acceptance by the parties must be explicit.

With this in mind the Group considered the most efficient way of introducing electronic delivery without compromising the BSC Clearer's legal obligations. The Group wanted to provide Parties with an incentive to opt out of post and hence agreed that email should be mandatory. In order to comply with Reference 6 the Group agreed that the system use both post and email from the Implementation Date. Parties would be able to opt out of post from the Implementation Date onwards (and opt back in again in the future if required). Forms would be published in BSCP301 for Parties to complete in order to opt in/out of post.

Current communication methods would continue until up to the Implementation Date, after which automated fax would be discontinued and replaced by automated email. The implementation period would be used to obtain an email address for each Party.

The Group next discussed whether Advice Notes, Confirmation Notices and backing sheets should be delivered in separate emails. There was a suggestion that different departments within an organisation may want to receive the different documents. However, the Group eventually concluded that each Party should provide the FAA with a single email address, and any subsequent internal processes should be the responsibility of the Party and not the FAA. The Group noted that Parties would be able to set up shared mailboxes or put in place forwarding rules so that the right departments were sent the right documents.

3.2.2.2 Views of Respondents to Assessment Procedure Consultation

As part of the Assessment Procedure Consultation participants were asked whether they would opt out of receiving posted Advice Notes, Confirmation Notices and backing sheets. Of the 11 respondents, 9 agreed that they would opt out of receiving post, 1 respondent was neutral, noting they would not be impacted by P214, and one respondent commented that they could see opting out of post to be an attractive option but did not indicate a firm preference.

3.2.2.3 Modification Group's further discussion

The Modification Group noted the majority support for opting out of posted Advice Notes, Confirmation Notices and backing sheets. The Group commented that the potential efficiency gains of P214 would increase with the higher the percentage of Parties that opted out of receiving posted Advice Notes, Confirmation Notices and backing sheets.

The BSCCo impact assessment had suggested that the form for opting in or out of posted Advice Notes, Confirmation Notices and backing sheets should comprise an additional section in the existing Funds Accession Form in BSCP301, rather than a separate form. This would reduce the number of forms Parties would be required to fill in. The Group agreed this was a sensible way forward.

3.2.3 Encryption

3.2.3.1 Modification Group's initial discussion

The Group considered whether encryption was required when sending Advice Notes, Confirmation Notices and backing sheets electronically. A number of Group members noted that the Trading Charges backing sheets could currently be requested in electronic format, and that these were encrypted with a form of software called Gnu Privacy Guard (GPG). It was suggested by some members of the Group that if encryption was used for Trading Charges backing sheets then it should also be used for Advice Notes, Confirmation Notices and other types of backing sheet. Another member of the Group remarked that their organisation sent potentially confidential documents, such as contracts, via email without any form of encryption and questioned whether encryption was required.

The Group resolved to ask a question in the industry Impact Assessment as to whether Parties would be impacted by encryption as currently happens (i.e. only Trading Charges backing sheets), or by full encryption of all Advice Notes, Confirmation Notices and backing sheets.

3.2.3.2 Initial Industry Impact Assessment views

The Industry Impact Assessment suggested there was a preference for the option where backing sheets remain encrypted, but Advice Notes are not encrypted. However, one respondent indicated that they would prefer no encryption as they believed that the cost of system development and the issues of encrypted files being blocked by the organisation's firewall outweighed any benefits of encryption. One respondent noted, when subsequently contacted by phone, that they did not believe the Advice Notes, Confirmation Notices and backing sheets to be commercially sensitive enough to require encryption.

3.2.3.3 Modification Group's further discussion

The Group debated the requirement for encryption. It was suggested that encryption could be a barrier to entry for smaller Parties. One Group member noted that their organisation's impact assessment had highlighted that the encryption software would need to be supported by their Information Technology (IT) department, and this would lead to an increased implementation cost. It was noted that many smaller Parties may not be able to easily support the encryption software. The Group noted that other flows of information were unencrypted and BSCCo noted that the many current forms of communication each contained security risks. With post there was always the possibility of the wrong paperwork being put in the wrong envelope or being posted to the wrong address. With fax it is possible to send a fax to the wrong fax machine, or for someone other than the intended recipient to pick up the fax.

The FAA noted that decryption software costs were around €100. It was also suggested that encryption had been implemented during the days of the Pooling and Settlement Agreement, when email was a less established form of communication.

The Group concluded that unencrypted email posed no greater risk than the current forms of communication. The Group agreed that encryption should not be part of the solution of P214 for any emails. This would include the removal of encryption for the electronic Trading Charges backing sheets.

3.2.3.4 Revised Industry Impact Assessment views

One respondent noted that their implementation time would be 10 Working Days if encryption was not used and 3 months if encryption was a requirement.

3.2.4 Format of Advice Notes, Confirmation Notices and backing sheets

3.2.4.1 Modification Group's initial discussion

The Group considered which format should be used for electronic Advice Notes, Confirmation Notices and backing sheets. The two potential formats available were PDF or an ASCII delimited file format. The format of the current backing sheets was originally believed by the Group to be Comma Separated Values (CSV), but was subsequently clarified as being ASCII pipe delimited format. The electronic Trading Charges backing sheets are currently issued in ASCII pipe delimited format, which is very compact and can be loaded directly into a company's system for analysis. The disadvantage is that ASCII pipe delimited format is not easily readable unless it is loaded into a program like Microsoft Excel or a bespoke system.

The other option would be PDF, which had the advantage of being easily readable, with no extra work needed to manipulate the document. PDF reader programs, such as Adobe Reader, are freely available, and as PDF cannot be easily altered the original document should always be preserved. It was noted by a Group member that some PDF documents can now be changed using a suitable Writer program. The FAA advised the Group that PDF Advice Notes and Confirmation Notices represented the least development option. BSCCo therefore proposed that ASCII pipe delimited format could be used for the backing sheets, as is done currently, with PDF format being used for the new electronic Advice Notes and Confirmation Notices. The Group agreed with this proposal, noting that some development would still be required by the FAA to produce ASCII pipe delimited file format backing sheets,

Following the industry impact assessment responses the Group re-evaluated whether Default Charges and ad-hoc charges backing sheets should be issued in ASCII pipe delimited format or remain as PDF; the details of the Group discussion are in section 3.3.4. Following this discussion the Group agreed that ad-hoc and Default Charge Backing sheets should be issued in PDF format.

3.2.4.2 *Modification Group's further discussion*

At the final Group meeting the Group considered whether any changes should be made to the solution regarding the format of backing sheets. The Group noted that Trading Charges backing sheets were currently available electronically in ASCII pipe delimited format and that this should continue, as some organisations have developed systems that make specific use of this format. One Group member questioned whether the backing sheets for ad-hoc charges and Default Charges should also be made available in the ASCII pipe delimited file format. They noted that the situation may arise where Parties wish to validate their Default Charges and ad-hoc charges in a similar way to their Trading Charges, and this would be accomplished more easily with an ASCII pipe delimited file than a PDF document. A Party may also wish to use the Default Charges and ad-hoc charges backing sheets to validate their Trading Charges. Without all three charge classes a Party would be unable to monitor their total position through the use of backing sheets, thus they would be unable to predict when they should be receiving Advice Notes.

The Group noted that they had previously taken the view that there was no appetite in the industry for Default Charges backing sheets and ad-hoc charges backing sheets to be available in ASCII pipe delimited file format, and this had been confirmed by the impact assessments. The Group also considered that it may not be possible to validate ad-hoc charges and Default Charges as, by their nature, it is difficult to predict when they will occur, thus removing the reason for providing backing sheets in a format that can be loaded into a Party's system.

It was also noted that the file format of backing sheets would be defined in the Code Subsidiary Documents (CSDs) rather than the Code. This means a Change Proposal (CP) could be raised at a later date to change the file format if it subsequently became clear that there was an appetite for ASCII pipe delimited file format Default Charges and ad-hoc charges backing sheets. It was also noted that the inclusion of ASCII pipe delimited file format Default Charges and ad-hoc charges backing sheets would potentially lead to a slight increase in development cost. The Group agreed that Default Charges backing sheets and ad-hoc charges backing sheets should be in PDF format.

3.2.5 *Back-up processes*

It was noted by the Group that a suitable back up system would be required in the event of failure of a Party's email system. The Group agreed that the back up procedure should be as follows: the FAA would initially contact the affected Party by telephone and request either: (a) a temporary email address to deliver the file electronically, (b) a fax number in order to fax the document to the Party, or (c) agree to post the document in question to the Party. If the FAA was unable to contact the Party then the Advice Note/Confirmation Notice/backing sheet would be posted to the Party until such time as the FAA is able to contact the Party and confirm the situation or resolve the email non-delivery problem.

The Group noted that there should also be a procedure in case the FAA's email system failed. The Group agreed that if there was a failure of the FAA email system then the FAA would contact BSCCo who would inform Parties of the failure, and of the agreed course of action until the FAA's email system is restored to full operation.

3.2.6 *Consideration of whether Advice Notes and Confirmation Notices should be emailed with their respective backing sheets*

3.2.6.1 *Modification Group's initial discussion*

The Group considered whether Advice Notes/Confirmation Notices should be emailed together with their respective backing sheets, or separately. A Group member highlighted that their organisation currently handles electronic Trading Charges backing sheets using a software package called SONET. In order to

check their Trading Charges for each day the Trading Charges backing sheet is loaded into SONET directly from the email. In their view it would be better to keep Advice Notes and Confirmation Notices separate from their backing sheets. The Group noted that this was a question to ask the industry as part of the Impact Assessment.

In order to gain further details of the impact the Group assessed the following electronic delivery options:

- Advice Notes and Confirmation Notices would be emailed together with their associated backing sheets; and
- Advice Notes and Confirmation Notices would be emailed separately from their associated backing sheets.

3.2.6.2 Industry Impact Assessment views

The industry Impact Assessment suggested that the majority of respondents would prefer, and would be least impacted by the option where Advice Notes/Confirmation Notices were emailed separately from backing sheets, as it would require less system development, and fit better into the current electronic backing sheet processing systems, such as SONET. Parties noted that their systems were set up to receive Trading Charges backing sheets from emails with a single attachment. Attaching Advice Notes or Confirmation Notices into the email would mean Parties would need to develop their systems to select the correct attachment from an email.

3.2.6.3 BSC Agent Impact Assessment

The FAA Impact Assessment noted that the solution for electronic sending of Advice Notes, Confirmation Notices and backing sheets was similar whichever option was chosen.

3.2.6.4 Modification Group's further discussion

The Group noted that costs for all option combinations for P214 were of the same magnitude.

The Group considered the Industry Impact Assessment responses. The Group acknowledged that respondents preferred emails to be delivered separately for separate types of document. The Group agreed that each combined Advice Note, combined Confirmation Notice, Trading Charges backing sheet, ad-hoc charges backing sheet and Default Charges backing sheet would each be sent in individual emails.

3.2.7 Group's further views on e-billing as potential alternative

The Group considered whether setting up an e-billing website, similar to an internet banking website, would be an alternative solution to the issue of electronic delivery of Advice Notes, Confirmation Notices and backing sheets. BSCCo noted that an Impact Assessment for an e-billing solution had been undertaken as part of Standing Issue 27. The implementation costs of such a solution were initially estimated to be in the region of £400,000. The Group noted that such a solution would be an extensive change to the current process and be more costly to implement for Parties and the FAA. Such a solution would require all Parties to use the system in order to be effective. The Group noted that if the online solution was progressed then a significant amount of work would be necessary to develop the requirements. This would likely require an extension to the Assessment Procedure, as the areas to be assessed would be different from the email solution. The Group dismissed e-billing as an alternative as it would be a more costly solution, requiring more development than the Proposed Modification for little extra benefit.

3.2.8 Modification Group's Conclusions

The Group:

- **AGREED** Advice Notes, Confirmation Notice and backing sheets would be delivered via email;
- **AGREED** Advice Notes, Confirmation Notices and backing sheets would each be delivered in a separate email;

- **AGREED** receiving Advice Notes, Confirmation Notices and backing sheets by email would be mandatory and that post would be optional;
- **AGREED** that emailed Advice Notes, Confirmation Notices and backing sheets would not be encrypted;
- **AGREED** each Party would be required to provide the FAA with a single email address as an electronic point of contact; and
- **AGREED** an e-billing site should not form part of an Alternative Modification.

3.3 Combining the amounts from Trading Charges, ad-hoc charges and each Default Charge onto one daily Advice Note and Confirmation Notice

3.3.1 Modification Group's Initial Discussion

The Group noted that there were two main areas for discussion regarding combining amounts from Trading Charges, ad-hoc charges and each Default Charge onto single Advice Note and single Confirmation Notice. Firstly, there was the issue of combining the different Charges onto combined Advice Notes and combined Confirmation Notices themselves. Secondly, there was the problem of what to do with the backing sheets which are issued concurrently with the Advice Notes and Confirmation Notices. On the subject of Advice Notes and Confirmation Notices the Group agreed that Trading Charges and Default Charges should be combined into a single Advice Note and single Confirmation Notice. One Group member noted that, as well as Trading Charges Advice Notes/Confirmation Notices and Default Charges Advice Notes/Confirmation Notices, there were Advice Notes/Confirmation Notices issued for the purposes of Extra Settlement Determinations and other ad-hoc charges. These were collectively called ad-hoc charges. The Group agreed these should also be included in the scope of the modification, and should be combined with Trading Charges and Default Charges onto a combined Advice Note and combined Confirmation Notice.

The Group discussed what a combined Advice Note and combined Confirmation Notice might look like. It was agreed that the Advice Note/Confirmation Notice should clearly separate out the various different Charges, so it was easy for a Party to deduce the amount of Trading Charges, Default Charges and ad-hoc charges on each Advice Note. There should also be a total at the bottom of each combined Advice Note and combined Confirmation Notice, so Parties would know the net amount they owed or were due.

The Group considered how the impact of thresholds might affect a combined Advice Note. BSCCo noted that their financial advisors had suggested that HMRC would require separate thresholds for payable amounts and receivable amounts for the purposes of tracking VAT. In order to accommodate this requirement the Group initially suggested that a daily combined payable Advice Note, and a daily combined receivable Advice Note be produced. Thus each Party would receive a maximum of two Advice Notes each day.

Following on from discussion on the combined Advice Notes the Group considered how the associated backing sheets may be dealt with under P214. Currently the three types of Charges have three different types of backing sheet. Each is different in design, and only one, Trading Charges, is currently issued electronically. The Group considered whether a combined Advice Note should have a combined backing sheet. The Group requested BSCCo and the FAA present possible solutions. The solutions presented were as follows:

- Option BS1 – Combine all Trading Charges, ad-hoc charges and Default Charges onto one single backing sheet. As with Advice Notes and Confirmation Notices, there would be separate backing sheets for payable and receivable amounts.
- Option BS2 – Separate backing sheets for Trading Charges, ad-hoc charges and Default Charges. This option would combine create six backing sheets containing:
 - All payable Trading Charges onto a single backing sheet file

- All receivable Trading Charges onto a single backing sheet file
- All payable ad-hoc charges onto a single backing sheet file
- All receivable ad-hoc charges onto a single backing sheet file
- All payable Default Charges onto a single backing sheet file
- All receivable Default Charges onto a single backing sheet file
- Option BS3 – Individual backing sheets for each individual Trading Charge, Dispute Charge and Default Charge. This would be continuing the current situation.

One Group member noted that their organisation requested the Trading Charges backing sheets electronically so that they could be uploaded automatically using a program called SONET. In their view the best option would be to not combine backing sheets, and indeed keep separate each daily backing sheet. The Group noted that under this option there was a potential issue when combined with thresholds. If an organisation did not breach its threshold for a the time based maximum (3 months) then when they were finally sent an Advice Note it would contain many backing sheet attachments, possibly hundreds. This might be difficult for organisations to deal with and might lead to an email which was blocked by firewall software. On the other hand, if organisations had developed software to automatically load Trading Charges backing sheets then it was likely they would want any changes to backing sheets to be minimal. The Group noted that it was important to understand the system impacts and costs to Parties of each option. BSCCo agreed that the impact assessment would ask Parties if they currently use the electronic backing sheets, and how backing sheets were used.

The issue of email size was next discussed. Whichever combined backing sheet option was chosen there was the potential for a large amount of data to be contained in the emails. If the size of the emails was too large then it might trigger firewall software to block or reject an email. This fed into previous discussions regarding the format of the Advice Notes, Confirmation Notices and backing sheets. It was agreed that, in order to keep file sizes small, all backing sheets should be in ASCII pipe delimited format. The FAA noted that this would require a redesign of the Default and Disputes backing sheets, although it was also noted that if backing sheets were combined then there would need to be a redesign anyway. The Group requested the FAA consider how they would redesign backing sheets whichever option was chosen. BSCCo also agreed to seek clarification from the FAA of the likely file sizes of the electronic Advice Notes, Combination Notices and backing sheets under each option.

3.3.2 Initial Industry Impact Assessment views

The industry Impact Assessment suggested there was concern among a number of respondents that the proposals to combine backing sheets would have a significant and expensive impact on Party systems. Parties noted that their systems (such as SONET) were set up to receive only Trading Charges backing sheets. Combining backing sheets would therefore entail significant development. Among Parties which used SONET the preference was to keep the new process as close to the current process as possible. There was also concern about the proposal for payable and receivable backing sheets, as this deviated from the current process, whereby a single Advice Note containing both payable and receivable Charges sent with a single backing sheet, also containing payable and receivable Charges. Among Parties that did not use SONET the view was that BS1 was the preferred option. Overall, the preferred option was BS3, with Trading Charges backing sheets kept separate from Default Charge backing sheets and ad-hoc charges backing sheets.

One Party suggested that backing sheets should be sent as charges were accrued, whether or not those charges breached the threshold. This would fit in better with the current set up for SONET. Another Party when contacted by phone agreed this may be an avenue to investigate. It was suggested by a Party subsequently contacted by phone that they would not be electronically loading ad-hoc charges and Default Charges backing sheets into a system like SONET, and hence would not need them in ASCII pipe delimited format.

3.3.3 BSC Agent Impact Assessment

The FAA noted that currently, an Advice Note or Confirmation Notice for Trading Charges, Default Charges and ad-hoc charges is generally 2 pages long for a single Payment Date. PDF backing sheets for Trading Charges can be around 10 to 20 pages long, depending on the number of Settlement Dates, Settlement Run Types and Interest Rate changes applicable to the Payment Date.

Under the three backing sheet options, the combined PDF Advice Note and combined PDF Confirmation Notices would remain the same, whilst the ASCII backing sheets would vary in content and size. Assuming that 3 months could pass between threshold breaches, 60 Payment Dates could be included in one combined Advice Note or Confirmation Notice. Assuming an agreed design could reduce the white space usage by 50%, this could reach 60 pages (2 pages X 60 Payment Dates X 50%). Additionally, combined Advice Notes or Confirmation Notices may contain Defaults and Disputes. Assuming 5 Defaults on each of the 60 Payment Dates, this could add another 60 pages. Disputes are very infrequent, and 10 pages might cover the requirement.

For BS1, Trading Charges would be combined with Default and ad-hoc charges. Assuming 20 pages for both Trading Charges and ad-hoc charges, and a single page for Defaults (with 5 Defaults per Payment Date), over 60 days, this could reach 3000 pages. However, an agreed design could reduce unused white space by 50%. For BS2, backing sheets are split by charge type. 20 pages over 60 days may reach 600 pages with 50% white space reduction. For BS3, backing sheets are split by Payment Date, as currently.

The FAA also provided indicative file sizes for the various options:

Solution	Advice Note (PDF)	Conf. Notice (PDF)	backing sheet (PDF)	backing sheet (ASCII)
Current	26KB	26KB	50KB	2KB
BS1	3.25MB	3.25MB	3.6MB	147KB
BS2	3.25MB	3.25MB	1.5MB x 3	61KB x 3
BS3	3.25MB	3.25MB	50KB x <n>	2KB x <n>

The table above represents the file sizes for a single file.

3.3.4 Modification Group's Further Discussion

The Group noted the clear concern with each of the three initial impact assessment options. The concerns revolved around the proposal that separate backing sheets be set up for payable and receivable amounts. This was different to the current situation where an Advice Note/Confirmation Notice and its associated backing sheet will contain both payable and receivable amounts. The Group noted that the intention of P214 was to improve the efficiency of the current processes, and that the spirit of the modification was not to affect wholesale the way in which industry processes the documents they receive. The Group agreed that a single combined Advice Note (with its associated Confirmation Notice) should be sent when charges accrue and a threshold has been breached. This would contain both payable and receivable Trading Charges, ad-hoc charges and Default Charges.

The Group also discussed the impact assessment proposal to issue Trading Charges backing sheets when Trading Charges accrue, whether or not a threshold had been breached. In this case the Trading Charges backing sheets would be sent for information only and there would be nothing for a Party to pay until their threshold was breached. It was noted by Group members that this solution would be to reduce the level of system changes that would be required by industry. It would also allow Parties to maintain their daily validation procedures, whereby systems such as SONET are used to validate a Party's charges against the estimates of their position.

The Group agreed that there was little appetite in industry to combine backing sheets, and agreed that they should remain separate. The Group also agreed that backing sheets would contain both payable and receivable amounts, and these would not be split into separate payable and receivable backing sheets. The Group agreed that Trading Charges backing sheets should be sent as and when Trading Charges accrue, as

this would reduce the impact on those organisations that automatically upload the backing sheets, and allow Parties to keep track of their Trading Charges while still benefiting from not receiving an Advice Note unless a threshold had been breached. The Group believed that smaller Parties in particular may benefit from this as it would allow them to keep track of the payments which they would be required to make once their threshold had been breached. At this point the Group noted their disappointment at the low level of responses to the industry Impact Assessment from smaller Parties. The Group invited smaller Parties to respond to the Consultation and the revised Impact Assessment, as it was believed a large part of P214 would provide most benefit to smaller Parties.

The Group next considered ad-hoc charges backing sheets and Default Charges backing sheets and the frequency in which they should be sent. It was proposed by BSCCo that as ad-hoc charges were, by their very nature infrequent, ad-hoc and unusual, they should be sent whenever a Dispute Charge arises, without waiting for a threshold to be breached. The Group agreed with this view. With Default Charges the Group was of the view that they would only be required once a threshold had been breached as Parties were not able to validate the Default Charges. It was noted by the FAA that currently a backing sheet would be sent for each day a Default is occurring. This may result in a large number of attachments in a Default Charges backing sheet email. The Group agreed that to reduce the number of attachments the FAA should redesign the Default Charges backing sheet so that the daily Default Charges for any particular Default are presented in tabular form, with the charge for each day on each row.

The Group discussed whether there was a requirement to send Dispute and Default Backing sheets in ASCII pipe delimited format. BSCCo had contacted Impact Assessment respondents and some had noted that they would not be loading Dispute and Default Charge Backing sheets into an automated system. The reason is that systems such as SONET validate Trading Charges backing sheets, checking the charges against their estimated position. In the case of Default and ad-hoc charges it is not possible to validate them against an estimated position, hence Parties were not keen to receive them in ASCII pipe delimited format. That being the case, the Group agreed that Dispute and Default Charge Backing sheets should be in PDF format.

The Group requested that all forms of electronic documentation have a clear and understandable file naming convention. The Group also noted, as some backing sheets would be issued on a different day from the Advice Note, there should be a clear way of identifying which backing sheet relates to which Advice Note and Confirmation Notice. This should be done using a unique reference number for each Advice Note, Confirmation Notice and backing sheet.

3.3.5 Revised Industry Impact Assessment responses

The revised industry impact assessment responses noted that the revised solution, which did not combine backing sheets, and would have a lower impact on respondents' systems than the initial combined backing sheet options. The majority of respondents commented that the revised solution would have a low impact on systems, although one respondent noted they would still be required to undertake system changes in order to implement P214. The respondent did note that the solution had improved from the initial design.

3.3.6 Modification Group's Final Discussions

The Group noted the revised industry impact assessment responses and agreed that the revised solution answered the concerns raised by respondents to the initial industry impact assessment.

3.3.7 Modification Group's Conclusions

The Group:

- **AGREED** the Trading Charges, ad-hoc charges and Default Charges for one day should be combined onto a daily Advice Note/Confirmation Notice;
- **AGREED** the combined Advice Note/Confirmation Notice would clearly differentiate between the three types of Charges, and have a net total;

- **AGREED** Backing sheets would remain separate and would not be combined;
- **AGREED** Trading Charges backing sheets would be issued when Trading Charges have accrued, whether or not a threshold had been breached;
- **AGREED** ad-hoc charges backing sheets would be sent when the Charge occurred (i.e. they would be sent whether or not the threshold had been breached);
- **AGREED** Default Charges backing sheets would only be sent when the threshold had been breached;
- **AGREED** the Default backing sheet would be redesigned to reduce its size and show each day of the Default (which had to be paid) in a tabular form, hence there would be a single Default backing sheet issued for each Default, rather than several backing sheets;
- **AGREED** the combined Advice Note, Confirmation Notice, Default Charges backing sheet and ad-hoc charges backing sheet to be issued in PDF format; and
- **AGREED** the Trading Charges backing sheet would be issued in ASCII pipe delimited format.

3.4 Introducing thresholds below which an Advice Note/Confirmation Notice would not be produced

3.4.1 Modification Group's Initial Discussion

The Group discussed the reason for introducing a threshold below which an Advice Note/Confirmation Notice would not be produced. Currently a Party can be sent an Advice Note for any size of amount. If that Party does not pay the amount within the set timetable they will be in Default of the Code. In the case of a small value transaction the cost of processing the transaction and the banking charges involved may exceed the amount itself.

The Group noted that P214 had proposed two forms of threshold – a monetary threshold (i.e. below a certain cumulative amount an Advice Note would not be produced) and a time threshold (i.e. if a Party's position was maintained below the monetary threshold then an Advice Note would eventually be produced after a set time).

The Group noted that there is already a procedure known as Advance Funds Lodgement, whereby a Party could lodge funds with the FAA so that small amounts could be withdrawn for small value transaction. This procedure is a service the FAA provided to Parties as a working practice, with the agreement of BSCCo, and is not a Code requirement. The FAA described the Advance Funds Lodgement facility, which is not documented in the Code or the Code Subsidiary Documents (CSDs). The FAA noted that some Parties have lodged sums which were too large to be only used for small value transactions, and the spirit of Advance Funds Lodgement is that it is a pragmatic solution to the issue of small value transactions. However, aside from the facility being used in a way which was not envisaged when it was set up, it does not reduce the number of small value transactions and so reduce the banking charges paid by the FAA for small value transactions. A Group member asked whether it was within the scope of the Proposed Modification to either formalise Advance Funds Lodgement in the Code or, alternatively, to remove this facility altogether. The Proposer clarified that it had not been their intention to explicitly codify or remove Advance Funds Lodgement as part of the Proposed Modification; although it was noted that the introduction of thresholds to deal with the issue of low value transactions might mean that there would no longer be an industry requirement for the Advance Funds Lodgement facility. The Group agreed that consideration of the future of Advance Funds Lodgement was outside the scope of the Proposed Modification (see Section 3.4.8).

The Group next discussed the level of the monetary threshold. BSCCo noted that the Panel had requested that the Group consider how the threshold would impact all types of Parties, whether they be large or small. The Group discussed possible ways of implementing the monetary threshold. One way was to have a single monetary threshold level for all Parties. Another proposal was that the threshold be linked to a Party's size

(e.g. proportional to its Annual Funding Share). In this way larger Parties would have larger thresholds. The Group requested that data analysis be carried out in order to assist them in a decision on the monetary threshold. The data analysis can be found in Appendix 5.

BSCCo noted that they had received advice from their financial advisors that HMRC might require separate thresholds for payable and receivable amounts. This was to prevent any netting of amounts and ensure that there were no issues with the VAT that was owed for each Advice Note. The Group initially agreed that there should be separate thresholds for payable and receivable amounts.

The Group discussed the need for a time threshold. The BSC Review had suggested a time threshold of 3 months and BSC Review consultation responses had agreed with this view. The Group discussed whether this should be a rolling three month period or a fixed threshold in line with the quarters of the tax year. It was agreed by the group that a fixed 3 month threshold, aligned to the tax year quarters was the best solution. The Group noted that aligning the monetary threshold to the tax year would be helpful for accounting purposes. In this way an organisation would always clear their threshold at the end of each tax quarter.

The FAA explained to the Group how the current sweeping facility works. A similar system would be needed to fund the excess or shortfall that would arise from the introduction of thresholds. The Group asked BSCCo and the FAA to consider how this would be best done.

3.4.2 Threshold Data Analysis

On behalf of the Group, BSCCo and the FAA undertook analysis to establish the proportion of Advice Notes which are issued in respect of low value transactions, and the full analysis results can be found in Appendix 5. Following the third Group meeting the analysis was repeated for the previous 12 months to establish whether the results were representative of more recent trends. This analysis is included in Appendix 5.

The analysis demonstrated that for payable and receivable Trading Charges around 21% are below £100 per Advice Note, and of those around 75% are below £25. For Default Charges over 96% of payable and 99% of receivable are below £100, and of those around 95% are below £25. For ad-hoc charges over 50% of payable and receivable Charges are below £100, and of those 84.2% are below £25.

3.4.3 Modification Group's discussion post data analysis

The Modification Group noted that, for Trading Charges, there was a clear difference between small value transactions and larger Trading Charges. Around 21% of Trading Charges (payable or receivable) were below £100 and around 40% were greater than £5000. The Group also noted that most Trading Charges below £100 were below £25. This suggested that a low threshold could be set in order to take account of small value transactions. The Group also reiterated its view that the problem they were trying to address was the number of small value transactions. This led the Group to discount the idea of having a threshold aligned to a Party's Annual Funding Share. This would lead to some larger Parties having much higher thresholds than smaller Parties. The Group believed that such a large threshold could lead to excessive market risk. By this the Group were considering the risk of large unpaid amounts building up, the costs of funding these through the sweeping/overdraft facility, and the potential risk of a Party defaulting on these payments.

The Group noted that the analysis showed little difference in the proportion of small value transactions for payables when compared to receivables, and therefore concluded that it would not be necessary to have different monetary values for the thresholds for payables and receivables.

The Group also noted that the threshold would work both ways, for payable and receivable amounts. This may lead to Parties not being paid large amounts they are owed. On the basis of the data analysis the Group proposed that the threshold should be no smaller than £100 and no bigger than £1000. The Group requested this be included in the Requirements Specification so participants could assess the impact of such a threshold level.

The Group noted that all thresholds, Advice Notes, Confirmation Notices and backing sheets would apply at the Party ID level – i.e. as well as being no netting between amounts payable and receivable, there would be no netting or combining between the different Party IDs held by an organisation.

The Group considered the way the threshold should be governed. BSCCo proposed that the threshold could be set out in the Code using a similar wording and model to Continuous Acceptance Duration Limit (CADL) for monetary threshold. Wording would be along the lines of:

Value is [Exxx] or such other value as may be determined by the Panel from time to time, providing that the value determined by the Panel is not less than £100 and no greater than £1000.

Any alterations to the threshold would be governed by the Panel. The Panel would have the ability to periodically review the monetary threshold as required. The basis for the Panel's review would be likely to be a repeat of the analysis undertaken by BSCCo for this Modification Proposal. After reviewing the findings of such analysis the Panel would issue a recommendation of a proposed threshold for industry consultation, after which a final decision on the monetary threshold would be made. The Panel may wish to delegate responsibility for recommending the proposed monetary threshold to the Imbalance Settlement Group (ISG).

The Group agreed the initial value of [Exxx] to be inserted in the Code would be agreed by the Group following the impact assessment.

It was noted that this approach gave certainty to participants/Ofgem as to what the threshold should be in the first year of implementation, and what the range of future thresholds could be, whilst allowing the Panel to review and reset the threshold without a Modification Proposal. It was noted that the Panel would probably want to review the threshold after a year, but thereafter its reviews could be more infrequent.

The Group agreed that for the time threshold it should be hardwired into the Code at 3 months tied to financial year quarters.

The Group also considered whether there would be a need for ad-hoc Advice Notes to be sent without thresholds being breached. The Group agreed that there may be instances where an Advice Note would need to be issued without a threshold being breached, including administration, insolvency and withdrawal. A Party who was in Default as a result of any of the circumstances set out in Section H3.1.1(g) of the Code (which includes insolvency and administration) would be entitled to request an ad-hoc Advice Note for the benefit of their creditors.

The Code currently allows Parties to withdraw once they have passed the Final Reconciliation (RF) run for their last day of trading (which takes 14 months), and providing they have settled all Trading Charges and BSCCo Charges which have been accrued up to their withdrawal date (whether or not those charges are due for payment). The Group agreed that it would not want P214 to unnecessarily lengthen the withdrawal timetable by making Parties wait for their charges to breach the thresholds before they could settle these and withdraw. It therefore agreed that, as part of the withdrawal process, Parties should therefore be entitled to request an ad-hoc Advice Note. The Group suggested that any request for an ad-hoc Advice Note should be sent to BSCCo, who would assess the validity of the claim (i.e. check the Party in question is withdrawing from the Code, or is in Default of the Code due to one of the reasons set out in section H3.1.1(g)). BSCCo would then request an ad-hoc Advice Note from the FAA. BSCCo noted that as part of a Party's normal withdrawal process BSCCo could automatically request an Advice Note when the time came for the Party to withdraw.

A Group member proposed an alternative way of implementing thresholds. The Group member noted that they were concerned with the way that thresholds and combined backing sheets would interact with the automated systems which Parties had set up for handling electronic Trading Charges backing sheets. The Group member also commented that larger Parties were unlikely to use the thresholds as their Trading Charges would always be in excess of the threshold limit. The proposal was for separate thresholds for payable Trading Charges, receivable Trading Charges, payable ad-hoc charges, receivable ad-hoc charges, payable Default Charges and receivable Default Charges. The Group agreed this should be assessed as an

option for the Impact Assessment. It was noted by the Group that this option may constitute a potential Alternative Modification.

The group agreed that the following options should be included in the Requirements Specification for Impact Assessment:

- Option T1 - In conjunction with the combined Advice Note/Confirmation Notice, all payable Charges (Trading, Dispute and Default) would be summed together when viewing the payable threshold and all receivable Charges (Trading, Dispute and Default) would be summed together when viewing the receivable threshold.
- Option T2 – Individual thresholds would exist for payable Trading Charges, receivable Trading Charges, payable ad-hoc charges, receivable ad-hoc charges, payable Default Charges and receivable Default Charges.

The Group also requested that BSCCo seek the Party costs for processing an individual transaction so they might consider where the threshold should be set. The Group noted that the threshold needed to be higher than the cost of making a payment to be worthwhile, and was mindful that transaction costs may be higher for smaller Parties who may be less able to negotiate favourable terms with banks.

3.4.4 Industry Impact Assessment

The Industry Impact Assessment showed that the majority of respondents preferred option T1, and believed it would have least impact on their systems. Only one respondent preferred option T2. A number of respondents expressed concern with the proposal to have separate payable and receivable thresholds. In the view of those respondents having separate thresholds would complicate their system developments. Another respondent noted that separate thresholds opened up the possibility where a Party would be required to pay a payable First Reconciliation (R1), where the payable threshold had been breached, before a receivable Settlement Final Run (SF), where the receivable threshold had not been breached.

One respondent suggested that further consideration should be given to Advance Lodgement of Funds as an Alternative to thresholds.

One respondent noted that they believed it was not necessary to set upper and lower limits for the threshold amount as this may need a modification to change if in the future the upper/lower limit needs to be raised/lowered.

Respondents also provided their estimated costs for processing a single transaction. These costs included the cost of banking charges, along with internal processing costs. There was a spread of costs between £6 and £75. One respondent did not provide costs, but noted that a threshold of £100 would be suitable, given their transaction costs. One Party provided confidential cost information which was not given to the Group but will be provided to the Authority to take into account in its decision making process.

3.4.5 BSC Agent Impact Assessment

The FAA noted that the solution for either option T1 or T2 was similar, however additional effort would be required to implement option T2, due to the additional complexity of maintaining and monitoring six thresholds, rather than two.

3.4.6 Further Modification Group's Discussion

The Group noted their disappointment at the low level of responses to the industry Impact Assessment from smaller Parties. The Group's belief was that thresholds should have a beneficial impact on smaller Parties, and invited smaller Parties to respond to the consultation and the revised impact assessment.

The Group noted the concern from industry that having a payable and receivable threshold would complicate system developments. The Group noted that the support for option T2 was low and so concentrated on

refining option T1. The Group reconsidered the potential way forward for thresholds. Three options were considered. Worked examples for each of these options are found below:

3.4.6.1 Option 1 – Netted threshold

The Advice Note for each day sets out the amount payable or receivable for each of the runs (Settlement Final (SF), 1st Reconciliation (R1), 2nd Reconciliation (R2), etc.) for that day. These amounts are aggregated to give the total amount payable / receivable in relation to that day. This is the net amount payable or receivable.

For each of the runs (SF, R1, R2, etc.) there is supporting information setting out the various Trading Charges making up this amount (e.g. Daily Party Energy Imbalance Cashflow, Daily Party Residual Settlement Cashflow, etc.). These are shown as separate sheets in Diagram 1, but in practice are all in one document.

It should be noted that the input and output VAT is determined at the backing sheet level. All of the positive and negative amounts are aggregated separately at this level, then the sum of input and output VAT is shown on the face of the Advice Note. The VAT can not be calculated from the face of the Advice Note.

Diagram 1 – Advice Notes and backing sheets

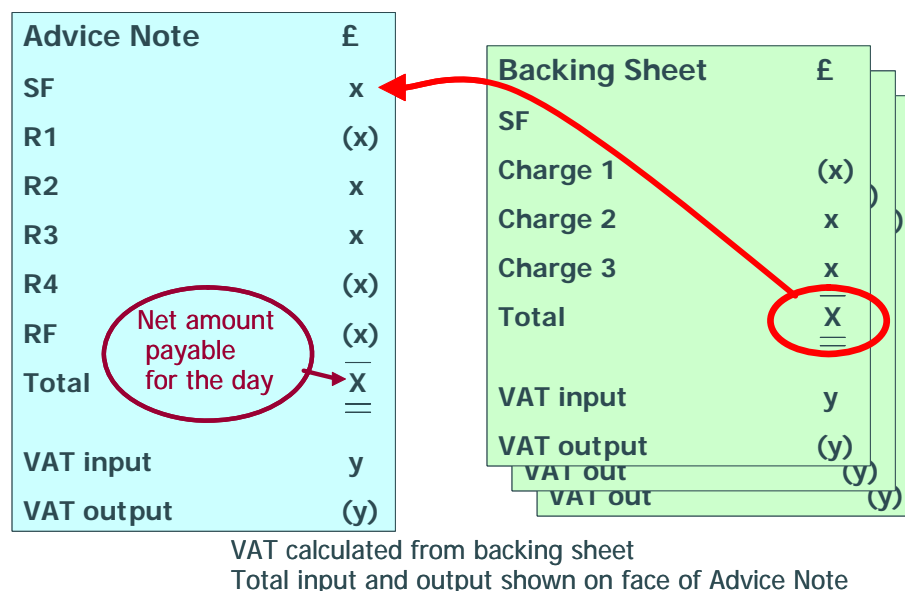


Diagram 2 demonstrates how the threshold would operate. It assumes a set of daily net amount payable figures (e.g. £250 on day 1, £125 on day 2 etc.), which are taken from the Advice Note received that day (see Diagram 1). It also assumes a threshold of plus or minus £500, as has been proposed by the Group.

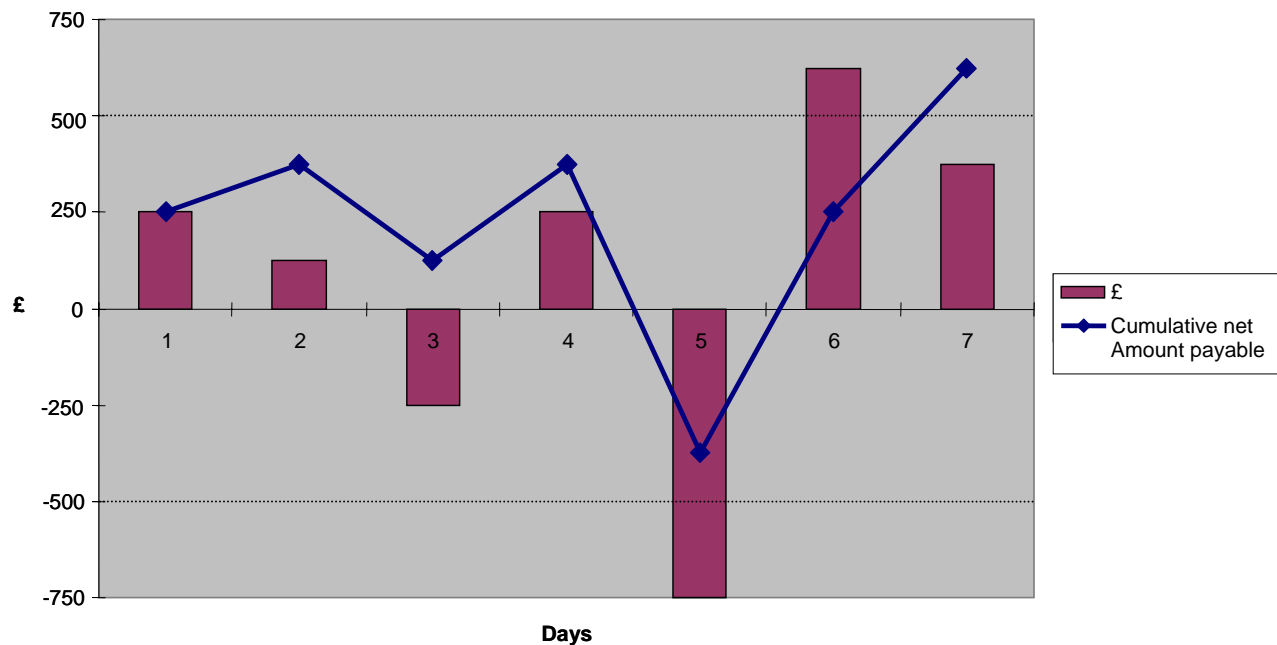
The cumulative balance is simply calculated by adding up the cumulative net amount payable figures for the previous day since the last threshold breach occurred. A negative net amount payable figure (i.e. the net amount receivable for day 3) simply reduces the cumulative amount payable.

In this example, the net amount payable for day 1 is £250. On day 2 the net amount payable is £125, making a cumulative net amount payable of £375. On day 3 the Party receive a net amount payable of -£250 (i.e. a receivable of £250). This reduces the cumulative net amount payable to £125. Day 4 increases the cumulative net amount payable to £375, with a net amount payable of £250. In this example the threshold is not breached until day 7, where a cumulative amount payable of £625 exceeds the threshold and would trigger an Advice Note for days 1 to 7. Once the threshold is passed an Advice Note would be produced and the threshold would reset to zero. The example would work exactly the same way if the cumulative total was a receivable of more than the threshold.

As stated in section 2.2.2.1, Trading Charges backing sheets would be issued to the Party for each of the days (days 1 – 7) that a Trading Charge had been incurred. These Trading Charges would not be payable by, or receivable to, the Party until the threshold was breached.

It should be noted that the VAT would simply be an accumulation of the input and output VAT for each days trading. The VAT would be calculated once the threshold is breached and the Advice Note is issued.

Diagram 2 – Option 1 – netted threshold operation



3.4.6.2 Option 2 – Payable and receivable thresholds based on the Advice Note totals

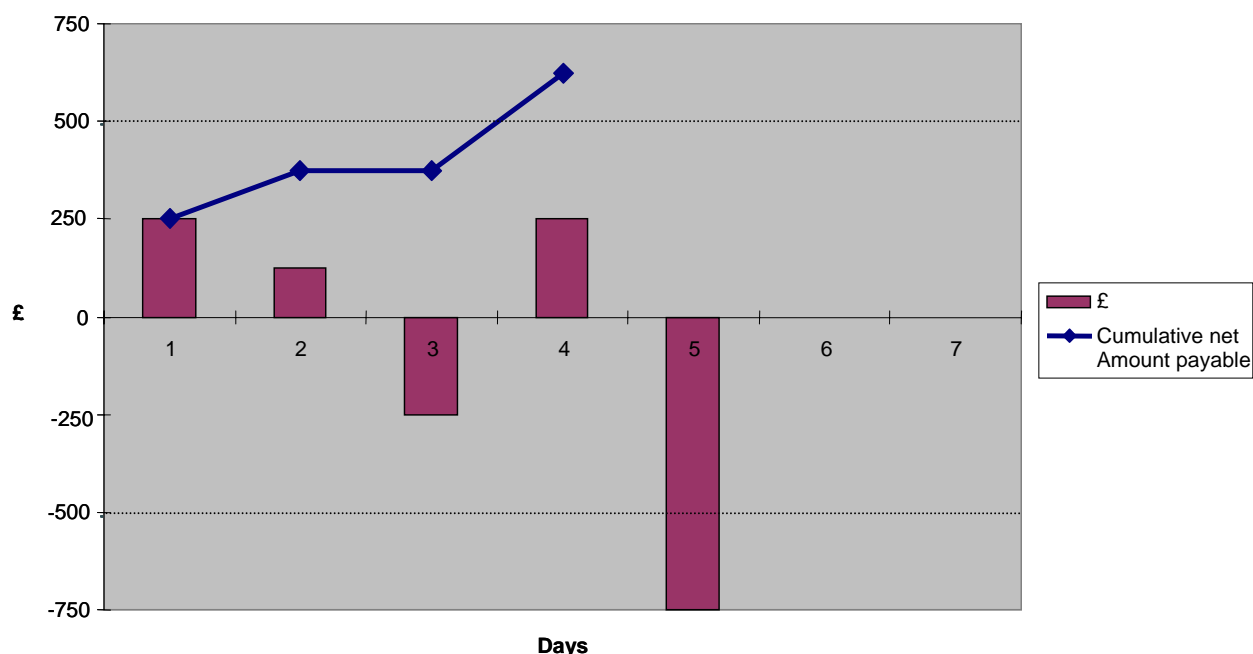
Option 2 uses the same assumptions as Option 1 but with a different trigger methodology. This option is a response to concerns that HMRC may not be comfortable netting off positive and negative net amount payable figures in order to trigger the threshold. With this option, the cumulative positive and negative figures are tracked separately. The slide tracks the positive cumulative amount and shows how the negative figure on day 3 does not impact the cumulative positive amount. In this example, day 4's trading takes the cumulative positive amount over the threshold and triggers an Advice Note for days 1 to 4. Day 5's figure of £150 receivable would also cross the threshold and trigger an Advice Note.

Again, the example would work exactly the same way if the numbers were reversed.

This option was not preferred by BSCCo. It would be more complicated to understand, it would trigger an Advice Note more often, and would lead to exactly the same VAT input and output amounts.

The Group considered two variations on option 2. One was where the payable amounts were only included in a cumulative Advice Note when the positive threshold had been breached, and receivable amounts when the negative threshold was breached. In the example, this would lead to an Advice Note for days 1, 2 and 4. This is even more complicated and could be potentially confusing for Parties.

The other variation was for each day's net amount payable to be split into two values, payable and receivable, that comprise the net amounts on which the input and output VAT are calculated. These amounts would then be tracked against the positive and negative threshold. It is important to note that the input and output VAT is exactly the same over a VAT quarter for each of these options / variations

Diagram 3 – Option 2 – Payable and receivable thresholds based on the Advice Note totals

3.4.7 Group's view on threshold options and threshold limit

The Group unanimous view was the Option 1 – netted threshold was the best solution. The Group noted that because of the way the threshold was netted it would be breached less than the other two options. The FAA would only need to keep track of a single amount for each organisation. The Group noted the netted threshold was also the simplest solution, and would probably fit best with organisations' current processes and systems. The Group believed the netted solution would allay impact assessment respondent concerns.

The Group next considered setting an initial threshold limit. The Group noted that the data analysis had suggested the threshold could be set between £100 and £1000. The Group also noted that the data analysis was split between different Charges, and the threshold would combine the Charges. With this in mind a Group member proposed a threshold of £500, noting that the data analysis indicated this could reduce the number of Advice Notes issued by approximately 30%. The Group agreed that for the consultation the threshold should be proposed as £500. The Group requested BSCCo quantify what central cost savings would arise from setting a threshold at £500. The Group also agreed that threshold limits (i.e. between £100 and £1000) need not be set in the Code as the threshold would have sufficient governance in the agreed Panel based procedures.

BSCCo noted that a further potential ad-hoc condition had been identified during the BSCCo impact assessment. If a party were to change VAT status mid way through a threshold accumulation there could be some confusion. VAT can only be calculated once a transaction has occurred, i.e. once the threshold had been breached. Hence the entire Advice Note would be based on the Party's latest VAT rate, which would not be reflective of the VAT rate which it had at the time some of the charges were accrued. BSCCo proposed that a Party changing VAT status would be a trigger for producing an ad-hoc Advice Note. When a Party notified BSCCo that it was changing VAT status, BSCCo would automatically trigger threshold and request an Advice Note. The Group agreed with this proposal.

3.4.8 Group's further views on Advance Funds Lodgement as potential alternative

The Group reconsidered whether Advance Funds Lodgement should be included in the modification. One Group member noted that Advance Funds Lodgement would not be a better solution than thresholds. With Advance Funds Lodgement there would not be the corresponding reduction in Advice Notes, as Advice Notes would still be issued for small values. A Group member wondered whether a cap on the maximum amount a Party was allowed to lodge would be a potential solution. The Group member then went on to note that they

did not see Advance Funds Lodgement as an alternative to thresholds, but it could potentially be considered alongside thresholds as an alternative to a solution that only included thresholds.

BSCCo noted that Advance Fund Lodgement was a pragmatic solution to the problem of small value transactions under the current Code baseline. The solution was not documented in the Code, and hence would not necessarily require a modification to change. A Group member noted that in their view the introduction of thresholds should remove the need for Advance Fund Lodgement. Another Group member noted concern that the issue of Advance Funds Lodgement was not included in the original Modification Proposal and that the issue may be a barrier to the implementation of the improvements set out in P214.

A Group member considered whether including Advance Funds Lodgement alongside thresholds could be considered an alternative.

The Group discussed three potential options:

- (1) remove the facility of Advance Funds Lodgement in addition to having thresholds as part of an Alternative Modification (as it could be argued that thresholds remove the need for advance lodgement of funds);
- (2) formalise the Advance Funds Lodgement Facility in addition to having thresholds, but cap the amount that could be lodged; and
- (3) use Advance Funds Lodgement as an alternative to having thresholds.

The Group had some sympathy with the idea of (1) and (2). The Group was not convinced that Parties would need to continue using the Advance Funds Lodgement facility if thresholds were introduced. It was also noted that as Advance Funds Lodgement is not a Code requirement a modification would not be required to implement options (1) and (2). The Group also noted concern that included Advance Funds Lodgement in the scope of P214 would lose sight of what the modification was trying to achieve. There was no real support in the Group for (3) because it wouldn't reduce the amount of invoices, just transaction costs. It was also uncertain whether (1), (2) or (3) would fall within the scope of an Alternative Modification (i.e. whether they would be addressing the defect set out in the Modification Proposal). The Group agreed Advance Funds Lodgement was outside the scope of P214, and that Advance Funds Lodgement did not provide the transaction reducing benefit of thresholds. It was noted that as Advance Funds Lodgement was outside the Code it could be removed without a modification once thresholds had been implemented.

3.4.9 Views of Respondents to Assessment Procedure Consultation

As part of the Assessment Procedure Consultation respondents were requested to provide views on whether they supported the proposed monetary threshold of £500, and the proposed time threshold of 3 months aligned to the tax year. In the case of monetary threshold 9 of the 11 respondents agreed with the proposed monetary threshold, one respondent, who is a non-Party, noted they were not impacted and therefore provided a neutral response, and one respondent noted that their organisation would not be significantly impacted by the monetary threshold. Respondents that agreed with the threshold cited the data analysis conducted by BSCCo and the FAA as the reasoning behind their agreement.

With regards to the time threshold 9 respondents noted their agreement, one respondent noted they were neutral, and one respondent noted that the time threshold was unlikely to be an issue for them. The respondents that agreed with the time threshold noted that the proposed 3 monthly threshold, tied into the tax year, would fit into their financial reporting requirements.

One respondent noted that they believed Advance Funds Lodgement (described in their response as 'pre-payment') was a potential alternative solution and should be more thoroughly explored. The respondent noted that Advance Funds Lodgement would have a minimal impact and that a cap could be placed on the maximum amount a Party could lodge with the FAA.

One respondent commented that a potential alternative was to have two different levels of monetary threshold for different sizes of Party. One respondent noted that the option for separate payable and receivable thresholds had been removed and, while noting the netted threshold to be an improvement, questioned the rationale for originally including the separate thresholds.

3.4.10 Modification Group's discussion of the consultation responses

The Group discussed the consultation responses. The Group noted the majority of respondents supported the proposed monetary threshold of £500 and the time threshold of 3 months aligned to the tax year.

The Group considered the consultation response that suggested different thresholds could be set for larger and smaller Parties. It was suggested by one Group member that some participants may want their threshold set to £0. BSCCo reminded the Group that the data analysis had indicated that there was a marked difference between a small value transaction and some of the common transactions of the larger Parties. The data analysis had suggested that, in order to put in place a threshold that reduced the number of Advice Notes for larger Parties, the threshold would need to be set above £5000, and indeed may potentially need to be a five figure sum in order to provide benefit for larger Parties. Some members of the Group considered a threshold of this level would pose too great a risk to the market. Another Group member noted that having different thresholds for larger and smaller Parties could be considered a barrier to entry, thus reducing competition. The Group agreed that their proposed solution should stand – a single monetary threshold of £500 applicable to all Parties.

The Group also noted the question regarding why the original solution included payable and receivable threshold. The Group noted that BSCCo's financial advisors had originally suggested that HMRC might require separate payable and receivable thresholds. However following the first impact assessment, where a number of respondents expressed concern at the payable and receivable threshold, the Group decided to progress the simplest solution of the netted threshold.

3.4.11 Group's final views on separate thresholds as a potential alternative

A Group member requested the Group reconsider having separate thresholds for separate charges. This was previously set out in option T2, as described in section 3.4.3. The Group member noted that in their view keeping the different charge types separate would be a simpler solution and have a lower impact on participants' validation systems, such as SONET. It was agreed by the Group that this solution would have to be considered as an Alternative Modification, rather than an amendment to the Proposed Modification (as part of the Proposed Modification solution as specified in the Modification Proposal form was the combining of charge types in one single Advice Note). The Group noted that they had impact assessed this potential solution as part of the first industry impact assessment. The majority of respondents preferred the combined threshold, as opposed to the separate thresholds. One Group member noted that they had considered the separate thresholds solution potentially attractive, but did not consider that it was a better solution than the combined threshold. The Group also noted that the separate threshold solution, with no combined Advice Note, may not better meet the defect identified by the Proposer than the Proposed Modification. It was also suggested that the separation of the thresholds and Advice Notes may not address all of the original defect identified in the Modification Proposal, and therefore might not be a valid Alternative Modification for P214. The Group voted by majority that the separate thresholds solution should not be considered as an Alternative Modification.

3.4.12 Group's final views on Advance Funds Lodgement as a potential alternative

The Group discussed Advance Funds Lodgement. One member commented that the inclusion of Advance Funds Lodgement in the scope of the Proposed Modification could have some benefit. In their view Advance Funds Lodgement would be a simpler solution than the introduction of thresholds, as it would have a lower impact on Parties' systems. Another Group member noted that Advance Funds Lodgement did not necessarily satisfy the defect set out in Modification Proposal in that it would not reduce the volume of transactions. With Advance Funds Lodgement the FAA still produces the same quantity of Advice Notes and

Confirmation Notices, whereas with the thresholds the quantity of Advice Notes and Confirmation Notices should reduce. One Group member noted that they thought there was some merit on placing a cap on the maximum amount a Party would be able to lodge with the FAA, however they believed that Advance Funds Lodgement was outside the scope of P214 and consequently should not be an Alternative Modification.

It was noted by the Group that if they did believe that Advance Funds Lodgement better facilitated the Applicable BSC Objectives then an extension to the Assessment Procedure would be required. In such situations a strong case would need to be presented to the Panel and the Authority regarding the requested extension. The Group noted that significant further assessment would be required to fully work up a solution on Advance Funds Lodgement, including another impact assessment and consultation. The Group also noted that Advance Funds Lodgement was not currently mandated in the Code and so could be changed without a modification. For these reasons the Group unanimously voted that Advance Funds Lodgement should not be considered as an Alternative Modification.

3.4.13 Modification Group's Conclusions

The Group:

- **AGREED** there should be a netted threshold as set out in Option 1;
- **AGREED** the threshold should take the form of a monetary threshold and a time threshold;
- **AGREED** the monetary threshold should be £500;
- **AGREED** the time threshold should be 3 months, and this should be aligned to the tax year;
- **AGREED** there would be certain situations where an Advice Note could be produced without breaching a threshold. These situations are: withdrawal, administration, insolvency and a Party changing VAT status. In the case of withdrawal and change of VAT status BSCCo would automatically request an Advice Note for the Party in question at the appropriate time;
- **AGREED** the threshold should be governed by the Panel;
- **AGREED** the FAA would need to manage the daily excess or shortfall of funds by using current FAA banking facilities, such as the Reserve Account and the Borrowing Account; and
- **AGREED** that the future of Advanced Funds Lodgement should not be considered as part of P214.

3.5 Amending the Code to bring it in line with modern banking practices

3.5.1 Modification Group's Initial Discussion

BSCCo noted that the BSC Review 2006/7 had identified a number of areas where the current practice of the FAA differed from the requirements in the Code and CSDs. The changes proposed in P214, and documented in the IWA, would not impact Parties and were only drafting current practice into the Code. With this in mind BSCCo proposed to draft the changes into the Section N of the Code and present them to the Group. The Group agreed to this proposed way forward and the legal text can be found in Appendix 1.

The one exception where the Group discussed the solution was the Letter of Credit issue. Currently Section X Annex X-1 of the Code specifies that a Letter of Credit 'shall be available for payment at a London branch of the issuing bank'. The aim of this was so that Letters of Credit could be called on in person by the FAA which is also based in Central London. However, there is at least one major bank which no longer honours Letters of Credit at their branches, insisting that all payments are made through their centralised Letters of Credit headquarters. The chances of an immediate 'in person' redemption of a Letter of Credit is further reduced by international rules that allow banks up to seven days to process or reject a Letter of Credit claim.

The FAA noted that the current description did not accurately reflect the actual Letter of Credit process. The assumption that a Letter of Credit would be paid out on the day was not correct. The FAA always presents the Letters of Credit to the BSC Banker (Barclays' Canary Wharf branch), but then the Letter of Credit would

be couriered to the Letters of Credit Headquarters of which ever bank had issued it. These could be based around the world.

The Group noted that there were international banking rules which gave banks seven days to process a claim. There was discussion about whether a time period should be hardwired into the Code or CSDs. The FAA noted that not all banks abide by these banking rules and it may be better to not hardwire a particular time period into the Code. The Group agreed BSCCo should draft proposed changes into Section N and Section X Annex X-1 of the Code and present those changes at the next meeting.

The Group discussed where a Letter of Credit should be presented. The Code currently suggests that they should be presented at a London Branch. The Group requested BSCCo consider which geographic area was most appropriate.

3.5.2 Industry Impact Assessment

No comments were received on the indicative legal text.

3.5.3 Further Modification Group's Discussion

BSCCo notified the Group that after further consideration they had amended the proposed Letter of Credit definition to include any Great Britain branch of the issuing bank.

3.5.4 Modification Group's Conclusions

The Group:

- **AGREED** with the legal text drafting as proposed by BSCCo; and
- **NOTED** the drafting was bringing the Code in to line with current banking practice.

3.6 Cost benefit analysis

3.6.1 Central cost savings

The Group requested that FAA consider the potential cost savings from the implementation of P214. The FAA assessed the modification and considers there would be an annual saving to the FAA of approximately £63.5k.

These savings include: a removal of the need for the current autofax fax cards, fax software licenses, fax support and fax lines; a 30% reduction in the number of Advice Notes processed, based on the results of the data analysis and the application of a £500 threshold; and a 50% reduction in the effort to process the paper based aspects of producing and sending Advice Notes (this assumes 100% of Parties would opt out of being issued paper Advice Notes, Confirmation Notices and backing sheets).

There would be no cost savings for the removal of encryption, as the encryption software is open source and free. The autofax servers would also be retained as they function as PDF print servers.

3.6.2 Parties' cost savings

Using the single transaction costs which Parties provided to BSCCo during the first impact assessment BSCCo has estimated the potential savings to Parties from the introduction of thresholds.

There is a base of around 2,000 Advice Notes issued each month. The data analysis (Appendix 5) suggests that approximately 30% of Advice Notes are below the proposed monetary threshold of £500. Of these, most are below the £25 mark. Assuming the threshold would reduce the number of Advice Notes issued, which are below £500 in value, by 2/3rds would mean a reduction of 400 Advice Notes per month.

From the first impact assessment Parties indicated that their costs for processing a single transaction were approximately £50.

400 Advice Notes, each costing approximately £50 to process would be a monthly saving of £20,000, and a yearly saving across all Parties of £240,000.

3.6.3 Assessment Consultation views on cost savings

As part of the Assessment Consultation Parties were requested to provide details of any cost savings that might be incurred as a result of P214. Although no respondents provided actual costs, most respondents identified that there would be time/effort/paper savings for their organisations. A number of respondents noted these savings would be greater for smaller Parties as they were the main beneficiaries of the threshold.

3.6.4 Modification Group's view on Assessment Consultation comments

The Group was encouraged by the response of smaller Parties and noted that the majority belief of respondents was that smaller Parties would benefit most from P214. The Group noted that most respondents believed there to be cost savings arising from P214, but that these savings were difficult to accurately quantify.

3.7 Implementation Approach and Costs

3.7.1 Modification Group's Initial Discussions

The Modification Group briefly considered the implementation approach for P214. BSCCo posed the question of whether P214's Implementation Date should be aligned with the start of the tax year – 6 April. It was noted by the Group that a 6 April Implementation Date would not align well with Project Isis. The implementation strategy, as agreed by the Panel (Panel 130/13), for changes during the Project Isis period is as follows:

Release Date	Contents of BSC Release
November 2008	CVA, FAA and SVA Changes
February 2009	SVA changes and only essential changes to CVA/FAA
June 2009	CVA, FAA and only essential changes to the SVA systems

An Implementation Date of 6 April 2009 would mean significant FAA system development during the Service Provider transition period. An Implementation Date of 6 April 2008 is not feasible due to the required development timescales. The lead times provided by Parties in the first impact assessment suggested a 6 month implementation period was required, whilst the combined FAA/BSCCo lead time to deliver the central changes was 8 months.

The Group agreed that it could not identify any reason why the Implementation Date should be tied to the beginning of a financial year. The Group noted that P214 would not change the way charges are calculated, only the way in which they are invoiced. The Group also noted that the time threshold set by the Group would mean that Parties would receive Advice Notes at least once every financial quarter, and considered that it was therefore unnecessary to deliver P214 outside of the usual release strategy. However, the Group did note that, depending on the chosen release, the first time threshold applied following the Implementation Date might need to be less than 3 months, in order to align it with the financial quarters. Therefore, the time threshold would be tri-monthly.

The Group agreed that it was not possible to agree specific proposed Implementation Dates until it had considered the results of the second impact assessment, and noted that the proposed dates would be the subject of consultation during the Report Phase. However, on the basis of the lead times provided in the first impact assessment responses, it considered that November 2008 or June 2009 could be potential release dates for P214. Whilst the Group considered that ideally it was not desirable to delay the delivery of benefits under P214 until June 2009, it noted the Panel's decision that only essential FAA changes should be implemented in the February 2009 release due to the interaction with the parallel running for Isis. The

Group noted that a November 2008 release date would potentially allow the Authority 2-3 months to make its decision on P214 (based on the final Modification Report being submitted in mid-December 2007).

A Group member suggested that some testing of the new processes should be carried out on Parties' systems. BSCCo advised that it has existing release procedures for participant testing, and agreed to utilise these for P214.

3.7.2 Implementation Date Project Isis interaction

The table below summarises the implementation requirements for each potential Release. P214 would be implemented during the period of Project Isis and different Releases would require different implementation activities from the FAA.

PROPOSED MODIFICATION IMPLEMENTATION COSTS²

		November 2008 Release	June 2009 Release	Tolerance
Service Provider³ Cost	Change Specific Cost	£183,500	£183,500	+/- 0%
	Testing/Deployment Cost	£50,000	£50,000	+ 100% / - 50%
	Porting	£25,000	£0	+ 100% / - 50%
	Total Service Provider Cost	£258,500	£233,500	+/-30%
Implementation Cost	External Audit	N/A	N/A	N/A
	Design Clarifications	£12,925	£11,675	+/- 10%
	Additional Resource Costs	N/A	N/A	N/A
	Additional Testing and Audit Support Costs	N/A	N/A	N/A
Total Demand Led Implementation Cost		£271,425	£245,175	+/- 30%

ELEXON Implementation Resource Cost		153 man days £33,660	153 man days £33,660	+/- 10%
Total Implementation Cost		£305,085	£278,835	+/- 30%

PROPOSED MODIFICATION ONGOING SUPPORT AND MAINTENANCE COSTS

	Stand Alone Cost	Incremental Cost	Tolerance
Service Provider Operation Cost	N/A	N/A	N/A
Service Provider Maintenance Cost	N/A	N/A	N/A
ELEXON Operational Cost	N/A	N/A	N/A

² An explanation of the cost terms used in this section can be found on the BSC Website at the following link:
http://www.elexon.co.uk/documents/Change_and_Implementation/Modifications_Process_-_Related_Documents/Clarification_of_Costs_in_Modification_Procedure_Reports.pdf

³ BSC Agent and non-BSC Agent Service Provider and software costs.

3.7.2.1 Implementation as part of the November 2008 BSC Systems Release

If P214 was implemented as part of the November 2008 Release the following activities would be required by the BSC Agent. Along with the costs for development and deployment on the existing system, which are £183,500 and £25,000; there would be an additional cost (estimated at £25,000) to port to the changes to HP-UX and Oracle 10g. There would also be an additional cost (estimated at £25,000) for the chosen Service Provider to test and deploy the ported software. It should be noted that this cost is an estimate with a wide tolerance and a more accurate estimate will not be available until the chosen Service Provider is appointed.

Implementation as part of the November 2008 Release would mean that P214 is being developed during the Isis transition period and would be tested and deployed on the existing system and the new system. This leads to an estimated total implementation cost of £258,500.

3.7.2.2 Implementation as part of the February 2009 BSC Systems Release

As agreed by the Panel on 9 August 2007 (Panel 130/13) the February 2009 Release would only be used for urgent changes so P214 is not targeted at this Release.

3.7.2.3 Implementation as part of the June 2009 BSC Systems Release

Implementation as part of the June 2009 Release would mean that P214 would be developed entirely on the new system. The new BSC Agent for FAA Business Process Outsourcing, Hosting and Communications (BPO Host) would have been appointed and would have been running the FAA system since April 2009. A key part of Project Isis is splitting the BPO Host (the provision and operation of the computer and telecommunications infrastructure necessary to run the BSC Systems) and the Application Management and Development (AM/Dev) (the activity of developing and maintaining the software applications that support the Settlement services). At this stage the BPO Host and AM/Dev roles would be split. The AM/Dev Service Provider would develop and test the system, then hand over the new system to the BPO Host, who would test and deploy the new system.

In this scenario the development cost would be £183,500 (incurred by the FAA AM/Dev Service Provider). All further costs would be incurred by the BPO Host. Until a FAA BPO Host is appointed all estimated costs have a large tolerance. The costs for the FAA BPO Host Service Provider to test and deploy are estimated at £50,000, giving an estimated total implementation cost of £233,500.

3.7.3 Results of Modification Impact Assessment

a) BSC Agent Impact

The BSC Agent has noted a implementation period of 6 months would be required. The different release-dependent implementation requirements are noted above. A more detailed list of impacts can be found in Appendix 4.

b) BSC Party and Party Agent Impact

Parties noted varying degrees of impact. One Party noted that P214 would lead to significant system development for them requiring an implementation period of 6 months. In discussion with BSCCo the Party noted this period was from the approval of P214 by the Authority and not from the point at which the redlined Code Subsidiary Documents (CSDs) became available. This was the longest implementation period. Another Party noted they would be required to change their business processes, backup procedures and email storage facilities. Other Parties noted the changes would be minimal.

The implementation period required ranged from 10 days to 6 months, with the majority of parties requiring 3 months from the point that the final redlined CSDs are available. Implementation costs ranged from minimal to a maximum implementation cost of £30,000.

Party Agents noted they were not impacted by P214.

For details of the impact on Parties and Party Agents see Appendix 4.

c) Transmission Company Impact

The Transmission Company noted in their Analysis (Appendix 4) that they were not impacted by P214. A Group member suggested that there could be a potential impact on the Balancing Services Use of System (BSUoS) Charge. The Group member suggested the potential scenario where the Daily System Operator's BM Cashflow fell below the monetary threshold, and so no Advice Note was produced to the Transmission Company on that day. The Group member wondered whether there might be an impact on the calculation of the BSUoS charges. BSCCo contacted the Transmission Company who confirmed there was no significant impact and any impact on the calculation of the BSUoS charge would be minimal.

d) BSCCo Impact

BSCCo would require a further three months on top of the FAA's implementation period (6 months) to implement P214. BSCCo would be required to make changes to the impacted CSDs, carry out testing on the amended software, train the relevant staff in the changes to the FAA operations, update Local Working Instructions to reflect the new processes and provide assurance to the implementation project. In total this would require 153 man days of effort, or £33,660. For a detailed list of impacts please see Appendix 4.

e) BSC Auditor Impact

The BSC Auditor provided an impact assessment for P214. Overall the BSC Auditor commented that the changes would be a positive step. The BSC Auditor noted a number of these changes should address some of the audit issues that are currently in place - for example 1914 - Missing Advice Notes and 1741 - Review of FAA requirements within Code and BSCPs. These changes would impact the way the BSC Auditor conducts some of their detailed testing but should not impact their actual audit approach (and thus the BSC Auditor would not need to change any of their current approach documentation or the contractual agreement). The BSC Auditor noted that, were the changes to be implemented, audit trails would need to be maintained to ensure that they are able to test and select samples. Provided these are in place this should not prevent the BSC Auditor from carrying out their audit work in these areas.

3.7.4 Views of Respondents to Assessment Procedure Consultation

As part of the Assessment Procedure Consultation respondents were asked whether they supported the Group's view that P214 should be implemented within a scheduled Release. The majority of respondents supported the Group's view that P214 should be implemented as part of a scheduled Release. The Group had earlier questioned whether P214 should be implemented on a tax year quarter. Several respondents noted this was not required. Of the respondents that did not support implementation on a scheduled Release one noted they were not impacted and so returned a neutral response and one respondent noted they were unconcerned providing 3 months of notice were provided before implementation.

One respondent considered that if P214 could be released outside a scheduled release at no extra cost then it would be of benefit to Parties.

3.7.5 Modification Group's Conclusions

The Group discussed the potential implementation options outlined in the above table. A Group member questioned why there was an implementation cost difference between the November 2008 and June 2009 Releases. BSCCo noted that the cost difference was a function of the different activities that were required for each Release. In the November 2008 Release the FAA would be required to develop on the existing system then port to the new system. In June 2009 Release there was a large unknown arising from the fact the new FAA BPO Host had not yet been appointed. Because of this it had been difficult to accurately estimate costs. June 2009 would also be the first time that the BPO Host and AM/Dev contracts had been split and there was assumed to be some additional costs arising from this as the first Release that was impacted by this split. A Group member questioned whether the costs would reduce if a Release was chosen after June 2009. BSCCo answered that it was difficult to quantify, but that the efficiency gains that had been

identified during the impact assessment and consultation should be implemented at the earliest opportunity to give the industry maximum benefit.

BSCCo noted that as part of their impact assessment they had considered whether a quicker implementation could be achieved by starting the CSD changes before the Authority decision. Following further investigation BSCCo had concluded that there would be no material difference if the CSD changes were started after an Authority decision.

The Group noted the FAA and BSCCo responses gave a required lead time of 9 months. The Group agreed that the consultation respondent comment regarding implementing outside a scheduled Release would no longer be relevant as the timescales neatly tended towards a Release date of November 2008 at the earliest. BSCCo noted that the Authority is generally given approximately 2 months to make their decision for the first Implementation Date. As the Modification Report would be issued to the Authority in December the earliest decision cut off date looked to be February 2008.

With that in mind the Modification Group therefore agreed the following recommended implementation approach for P214:

- An Implementation Date for the Proposed Modification of 6 November 2008 if an Authority decision is received on or before 8 February 2008, or 25 June 2009 if the Authority decision is received after 8 February 2008 but on or before 4 September 2008.

3.8 Legal Text

The Modification Group reviewed the legal text by correspondence. To be updated following Modification Group review.

A copy of the draft legal text can be found in Appendix 1.

3.8.1 Position of requirements in the Code and CSDs

During the progression of P214 it became clear that not all the solution requirements would need to appear in the Code. In order to assist the Group, the Panel and the Authority to understand where requirements would need to be positioned BSCCo have drafted a document detailing whether a requirement needs to be reflected in the Code, or whether a requirement will have an impact on BSCP301, the FAA Service Description, or the Communication Requirements Document. This document can be found in Appendix 1. It should be noted that the proposed location of the CSD requirements is indicative and the precise location would be determined during implementation.

4 ASSESSMENT OF MODIFICATION AGAINST APPLICABLE BSC OBJECTIVES

This section outlines the views of consultation respondents and the Modification Group regarding the merits of P214 against the Applicable BSC Objectives.

4.1.1 Modification Group's Initial Discussions

The initial **UNANIMOUS** view of the Modification Group was that the Proposed Modification would better facilitate the achievement of the Applicable BSC Objectives compared with the existing Code baseline. All members of the Group believed that the Proposed Modification would better facilitate Applicable BSC Objective (d), whilst a majority of members believed that it would also better facilitate the achievement of Applicable BSC Objective (c).

Applicable BSC Objective (c)

All but one member of the Group believed P214 better facilitated Applicable Objective (c).

Reasons:

- P214 would reduce the cost of Parties processing their Advice Notes, Confirmation Notices and Backing sheets as less effort would be required by Parties to process electronically received Advice Notes, Confirmation Notices and Backing sheets than the current paper based processes.
- P214 would reduce the volume of Advice Notes and Confirmation Notices issued to Parties. This would reduce the processing cost and the banking charges costs, as less Advice Notes would be processed and less payments would be required,
- The introduction of thresholds would reduce the time Parties spend processing Advice Notes, particularly for small value transactions where the processing and banking charges costs may outweigh the value of the Advice Note.

One Group member was unconvinced that the efficiency benefits of P214 would have an effect on competition, and was therefore neutral on Object (c).

Those members of the Group who believed that Objective (c) would be better facilitated agreed that the above benefits would promote competition by reducing Party costs and thereby potentially reducing barriers to market entry.

Applicable BSC Objective (d)

All six Group members believed P214 better facilitated Applicable BSC Objective (d), although one member believed it was only relevant in the areas of electronic delivery of Advice Notes and Confirmation Notices, and updating the Code to reflect current banking practices.

Reasons:

- P214 would reduce the FAA's costs as less paper based Advice Notes, Confirmation Notices and backing sheets would be issued. This would reduce operational effort, postage charges and time and materials. The electronic issuing of Advice Notes, Confirmation Notices and Backing sheets would also improve the efficiency of the BSC processes.
- The introduction of thresholds would reduce the quantity of Advice Notes and Confirmation Notices which the FAA would be required to issue. This would improve the efficiency of the processes.
- Amending the Code to bring it in line with modern banking practices would improve the clarity of the Code, removing redundant clauses and reducing any potential for misunderstanding by Parties and the FAA.

The Group agreed that the Proposed Modification would have a neutral impact on Applicable BSC Objectives (a) and (b).

Because the solution for the Proposed Modification consists of 4 elements, the Group gave separate consideration to whether each individual element of the solution would better facilitate the achievement of the Applicable BSC Objectives. The table below shows the views of the Group.

	Facilitate Applicable BSC Objectives							
	A		B		C		D	
	Yes	No	Yes	No	Yes	No	Yes	No
Electronic delivery	N/A	N/A	N/A	N/A	Majority	None	Unanimous	None
Combined Advice Notes	N/A	N/A	N/A	N/A	Majority	None	Majority	None
Thresholds	N/A	N/A	N/A	N/A	Majority	None	Majority	None
Current banking practices	N/A	N/A	N/A	N/A	N/A	None	Unanimous	None
Overall	N/A	N/A	N/A	N/A	Majority	None	Unanimous	None

4.1.2 Views of Respondents to Assessment Procedure Consultation

The majority view of respondents to the Assessment Procedure consultation was that the Proposed Modification would better facilitate the achievement of **Applicable BSC Objectives (c) and (d)**.

The following arguments were expressed by respondents in support of this view:

Applicable BSC Objective (c)

- P214 would lower the barriers to entry and therefore increase competition;
- Reduced Party costs, derived from a reduction in the volume and value of transactions, will drive increased competition, as will the efficiency savings arising from the introduction of the near instant delivery of Advice and Confirmation Notes (and supporting data) through the use of email;
- P214 would lead to a reduction in overheads for Parties when dealing with small volume transactions; and
- The reduction in the costs of processing invoices that would be bought about by this Modification may also facilitate Applicable BSC Objective (c) by reducing the costs of the Funds Administration process for smaller Parties.

Applicable Objective (d)

- With a potential annual central cost saving of approximately £63.5k Applicable Objective (d) – efficiency, is also likely to be met. Updating the Code and aligning it with modern banking practices represents a further efficiency improvement; and
- Efficiencies realised by the FAA, through the removal of an aging fax solution, and the reduction in defaults will be reflected to Parties, enabling further savings to be made. Bringing the Code in line with current practice will aid the administration activities currently undertaken by ELEXON and their Agents.

One respondent noted that their organisation would not experience a net benefit from P214 as their implementation costs would outweigh the efficiency savings. In their view only smaller Parties would benefit from P214. The respondent also noted that although there was not a net benefit to their organisation they did believe that P214 did better facilitate the Applicable BSC Objectives on balance due to the benefits to smaller Parties.

One respondent commented that the recent postal strike had had an impact on their organisation's communications.

One respondent noted that savings in future payment processing costs for the FAA and for industry Parties, particularly smaller participants, should outweigh the costs of implementing the change. However, the Modification Group should take into consideration participant implementation costs indicated in responses to the parallel impact assessment before coming to a final recommendation based on cost-benefit.

4.1.3 Modification Group's views on the Consultation responses

The Group noted the majority view that the Proposed Modification better facilitated Applicable BSC Objectives (c) and (d).

The Group debated whether P214 had a beneficial impact on larger Parties. One Group member noted that emailed Advice Notes, Confirmation Notices and backing sheets should have a positive benefit to larger Parties. In their view the overall benefit of P214 was positive for all Parties. One Group member noted that the introduction of a threshold below which Advice Notes would not be issued, along with the combining of different charge type Advice Notes and Confirmation Notices into a single Advice Note and Confirmation Notice, would reduce the number of small value Default Charges and ad-hoc charges (if not necessarily Trading Charges) transactions for larger Parties. Another Group member noted that some organisations may be required to make changes to their validation systems, such as SONET, in order to continue their current level of validation. For these organisations the cost of changing their systems may outweigh the efficiency savings of P214. The Group noted that only one Party had identified a significant impact on their systems as part of the revised industry impact assessment and that overall respondents believed the change would lead to improvements for all Party sizes.

4.1.4 Modification Group's Assessment

The **UNANIMOUS** view of the Modification Group was that the Proposed Modification would better facilitate the achievement of **Applicable BSC Objectives (c) and (d)** when compared to the current Code baseline.

The Group noted their rationale had not changed since initial views on the Applicable BSC Objectives, although all members present at the final Group meeting now believed that P214 better facilitated both Applicable BSC Objectives (c) and (d).

The Group agreed that the Proposed Modification would have a neutral impact on Applicable BSC Objectives (a) and (b).

4.2 Final Recommendation to the Panel

On the basis of the above assessment, the Modification Group therefore agreed a **UNANIMOUS** recommendation to the Panel that the Proposed Modification **SHOULD** be made.

Details of the Group's recommended Implementation Date and legal text can be found in Section 3.

5 TERMS USED IN THIS DOCUMENT

Other acronyms and defined terms take the meanings defined in Section X of the Code.

Acronym/Term	Definition
Ad-hoc Charges	Ad-hoc Charges are all charges other than Trading Charges and Defaults Charges such as Extra-Settlement Determinations.
Backing sheets	Each Advice Note and Confirmation Notice has an associated backing sheet. The backing sheet contains a detailed breakdown of each individual payable and receivable charge (and the VAT associated with each charge) which lies behind the net daily amount given on the Advice Note.

Acronym/Term	Definition
CSV	Comma Separated Value
GPG	Gnu Privacy Guard
HMRC	Her Majesty's Revenue and Customs
PDF	Portable Document Format

6 DOCUMENT CONTROL

6.1 Authorities

Version	Date	Author	Reviewer	Reason for Review
0.1	23/10/07	Andrew Wright	Kathryn Coffin	For peer review
0.2	24/10/07	Andrew Wright	Modification Group	For Modification Group review
0.3	29/10/07	Andrew Wright	Kathryn Coffin	For technical review
0.4	31/10/07	Andrew Wright	Steve Francis	For quality review
1.0	02/11/07	Change Delivery		For Panel decision

6.2 References

Ref.	Document Title	Owner	Issue Date	Version
1	Initial Written Assessment for P214	BSCCo	09/08/07	1.0
2	Requirements Specification for P214	BSCCo	02/10/07	2.0
3	Requirements Specification for P214	BSCCo	03/09/07	1.0
4	BSC Review 2006/7 Funds Administration process	BSCCo	12/04/07	1.0
5	Issue 27 Report	BSCCo	06/07/07	1.0
6	European Union Council Directive 2001/115/EC	EU Council	17/01/02	1.0
7	Assessment Consultation for P214	BSCCo	02/10/07	1.0

APPENDIX 1: DRAFT LEGAL TEXT

Draft legal text for the Proposed Modification is attached as a separate document, Attachment 1.

The proposed position of the P214 requirements in the Code and CSDs is provided as Attachment 2.

APPENDIX 2: PROCESS FOLLOWED

Copies of all documents referred to in the table below can be found on the BSC Website at:
<http://www.elexon.co.uk/changeimplementation/ModificationProcess/ModificationDocumentation/modProposalView.aspx?propID=234>

Date	Event
03/07/07	Modification Proposal raised by ScottishPower
09/08/07	IWA presented to the Panel
13/08/07	First Assessment Procedure Modification Group meeting held
20/08/07	Second Assessment Procedure Modification Group meeting held
03/09/07	Requirements Specification issued for BSC Agent impact assessment
03/09/07	Request for Party/Party Agent impact assessments issued
03/09/07	Request for BSCCo impact assessment issued
14/09/07	BSC Agent impact assessment response returned
14/09/07	Party/Party Agent impact assessment responses returned
14/09/07	BSCCo impact assessment returned
19/09/07	Third Assessment Procedure Modification Group meeting held
02/10/07	Requirements Specification v2.0 issued for BSC Agent impact assessment
02/10/07	Request for Party/Party Agent impact assessments issued
02/10/07	Request for BSCCo impact assessment issued
15/10/07	BSC Agent impact assessment response returned
15/10/07	Party/Party Agent impact assessment responses returned
15/10/07	BSCCo impact assessment returned
19/10/07	Fourth Assessment Procedure Modification Group meeting held

ESTIMATED COSTS OF PROGRESSING MODIFICATION PROPOSAL⁴

Meeting Cost	£2,000
Legal/Expert Cost	£12,500 ⁵
Impact Assessment Cost	£15,000
ELEXON Resource	71 man days £ 16,750

The above Impact Assessment cost has increased from £10,000 to £15,000 as a second impact assessment was required.

The legal/expert cost has increased by £2,500 from the initial assessment as an external legal consultancy was used to complete some of the drafting of the legal text. The Legal/Expert Cost is split into £5,000 for Legal costs and £7,500 for BSCCo's external financial advisors to assist in gaining approval of the P214 solution from HMRC.

⁴ Clarification of the meanings of the cost terms in this appendix can be found on the BSC Website at the following link:
http://www.elexon.co.uk/documents/Change_and_Implementation/Modifications_Process_-_Related_Documents/Clarification_of_Costs_in_Modification_Procedure_Reports.pdf

MODIFICATION GROUP MEMBERSHIP

Member	Organisation	13/08	20/08	19/09	18/10
Kathryn Coffin	ELEXON (Chair)	✓	✓	✓	✓
Andrew Wright	ELEXON (Lead Analyst)	✓	✓	✓	✓
Gary Henderson	(Proposer's Representative)	✓	✓ (tele)	✓	✓
Laurie Harman	Centrica	✓	✓	✓	✓
Alexandra Campbell	E.ON UK	✓	✓	✓	X
Christopher Wood	Gaz de France	✓	✓	✓	✓
Janice Tanner	Thames Power	✓	✓	✓	X
Jerry Morris	EDF Energy	✓	✓	X	✓
Louisa Stuart-Smith	npower	✓	X	✓	✓
Alternate	Organisation				
Sima Ajam	ELEXON (Lawyer)	✓	✓	✓	X
Roger Harris	ELEXON	✓	✓	✓	✓
Steve Francis	ELEXON	✓	X	X	✓
Beth Brown	ELEXON	Part	X	X	X
Richard Hall	Ofgem	✓	✓	✓	✓
Stephen Perez	FAA	✓	✓	X	✓
Mark Pinks	LogicaCMG	✓	✓	✓ (tele)	✓ (tele)
Matthew Gammon	npower	X	✓	X	X
Keren Garrett	npower	X	✓	X	X
Martin Wiles	FAA	X	X	✓	✓
Mike Bishop	ELEXON	X	X	✓	X

MODIFICATION GROUP TERMS OF REFERENCE

Modification Proposal P214 will be considered by a new Modification Group, comprised of members with relevant financial or funds administration experience, in accordance with the following Terms of Reference.

P214– Issues relating to Funds Administration

ASSESSMENT PROCEDURE

- 1.1 The Modification Group will carry out an Assessment Procedure in respect of Modification Proposal P214 pursuant to section F2.6 of the Balancing and Settlement Code.
- 1.2 The Modification Group will produce an Assessment Report for consideration at the BSC Panel Meeting on 9 November 2007.
- 1.3 The Modification Group shall consider and/or include in the Assessment Report as appropriate:
 - The introduction of electronic delivery of Advice Notes/Confirmation Notices – including the mechanism for electronic delivery, the requirement for encryption/decryption of files, the electronic format of the Advice Notes/Confirmation Notices, and consideration for making the mechanism of electronic delivery robust and auditable;
 - Combining the amounts from Trading Charges and each Default Charge onto one daily Advice Note;
 - Introducing thresholds below which an Advice Note would not be produced including consideration of;
 - the level of the monetary threshold and the time threshold;
 - the impact of the thresholds on different Party types;
 - whether data modelling is required in order to assist in the setting of the monetary and time thresholds;
 - how the shortfall or excess of funds that would arise from the proposed regime would be funded; and
 - a gaining of Her Majesty's Revenue and Customs (HMRC) approval for the proposed process before an Assessment Report is produced; and
 - Amending the Code to bring it in line with modern banking practices as described in the P214 Initial Written Assessment (IWA).
 - The Implementation Approach and any ISIS impacts; and
 - Legal Text and changes required to (Code Subsidiary Documents) and whether any detail is required on the CSDs during the Assessment Phase.

APPENDIX 3: RESULTS OF ASSESSMENT PROCEDURE CONSULTATION

11 responses (representing 47 Parties and 1 non-Party) were received to the P214 Assessment Procedure consultation.

A summary of the consultation responses is provided in the table below (bracketed numbers represent the number of Parties and non-Parties represented by respondents).

Q	Consultation question	Yes	No	Neutral	Other
1.	Do you believe Proposed Modification P214 would better facilitate the achievement of the Applicable BSC Objectives?	9 respondents (42 Parties)	0 respondents	1 respondent (1 non-Party)	1 respondent (5 Parties)
2.	Do you support the Modification Group's view that the Implementation Date of P214 should be within a scheduled Release?	9 respondents (42 Parties)	0 respondents 0 respondents	1 respondent (1 non-Party)	1 respondent (5 Parties)
3.	Do you support the proposed monetary threshold of £500?	9 respondents (42 Parties)	0 respondents	1 respondent (1 non-Party)	1 respondent (5 Parties)
4.	Do you support the proposed time threshold of 3 months aligned to the tax year?	9 respondents (42 Parties)	0 respondents	1 respondent (1 non-Party)	1 respondent (5 Parties)
5.	Would you opt out of receiving posted Advice Notes, Confirmation Notices and backing sheets under P214, such that you only received them by email?	9 respondents (42 Parties)	0 respondents	1 respondent (1 non-Party)	1 respondent (5 Parties)
6.	Would P214 result in long-term cost/efficiency savings for your organisation?	7 respondents (28 Parties)	1 respondent (9 Parties)	1 respondent (1 non-Party)	2 respondent (10 Parties)
7.	Do you believe there are any alternative solutions that the Modification Group has not identified and that should be considered?	2 respondents (10 Parties)	8 respondents (37 Parties)	1 respondent (1 non-Party)	0 respondents
8.	Does P214 raise any issues that you believe have not been identified so far and that should be progressed as part of the Assessment Procedure?	0 respondents	10 respondents (47 Parties)	1 respondent (1 non-Party)	0 respondents
9.	Are there any further comments on P214 that you wish to make?	1 respondents (9 Parties)	10 respondents (38 Parties + 1 non-Party)	0 respondents	0 respondents

Details of the arguments made by respondents can be found in Sections 3 and 4, along with the Modification Group's consideration of these arguments. Full copies of the consultation responses are attached as a separate document, Attachment 3.

APPENDIX 4: RESULTS OF IMPACT ASSESSMENT

During the Assessment Procedure an impact assessment was undertaken in respect of all BSC systems, processes, documentation and parties. The following have been identified as impacted by P214.

For details of the costs associated with these impacts, please refer to Section 3.

a) Impact on BSC Systems and Processes

System / Process	Impact of Proposed/Alternative Modification
FAA Systems	<p>Changes would be required to the FAA system to allow the following:</p> <ul style="list-style-type: none"> The issuing of electronic Advice Notes, Confirmation Notices and Backing sheets; The combining of Trading Charges, Reconciliation Charges and Default Charges onto one daily Advice Note for all payable and all receivable charges; and Introducing thresholds below which an Advice Note would not be produced.

A high level description of the various solution option combinations which were part of the initial solution is provided in Attachment 4.

A detailed description of the revised solution is provided in Attachment 5.

b) Impact on BSC Agent Contractual Arrangements

BSC Agent Contract	Impact of Proposed Modification
LogicaCMG (FAA)	<p>The FAA Contract would need revision in a number of areas. Some changes would need to be made to amend the way in which Advice Notes, Confirmation Notices and backing sheets are electronically delivered to Parties. In order to monitor the level of service the thresholds for the production of Advice Notes should be placed in the contract. BSCCo would also review the charge for the production and sending of Advice Notes in light of the Advice Notes being delivered via email under P214.</p>

c) Impact on BSC Parties and Party Agents

The changes as proposed would impact all Parties that currently receive Advice Notes from the FAA. Parties would no longer receive Advice Notes and Confirmation Notices by fax, and instead receive Advice Note and Confirmation Notices by email. Parties would no longer receive Advice Notes for small value transactions. This would occur for amounts payable and receivable.

Parties would receive Advice Notes, Confirmation Notices and backing sheets by email and post. Parties would be able to opt out of receiving Advice Notes, Confirmation Notices and Backing sheets by post, but receiving emailed Advice Notes, Confirmation Notices and Backing sheets would be mandatory.

Party Agents would not be impacted.

The results of the first industry impact assessment are provided as Attachment 6. The results of the revised industry impact assessment are provided as Attachment 7.

d) Impact on Transmission Company

No impact on the Transmission Company.

P214 TRANSMISSION COMPANY ANALYSIS AND IMPACT ASSESSMENT – RESPONSE PRO-FORMA

In accordance with paragraph F 2.8 of the Code, please respond to the following questions concerning P214 (including the rationale for each response):

Q	Question	Response
1	Please outline any impact of the Proposed Modification on the ability of the Transmission Company to discharge its obligations efficiently under the Transmission Licence and on its ability to operate an efficient, economical and co-ordinated transmission system.	No impact on National Grid is expected to arise from the proposed modification P214 in the context of the ability of the Transmission Company to discharge its obligations efficiently under the transmission licence and on its ability to operate an efficient, economical and coordinated transmission system.
2	Please outline the views and rationale of the Transmission Company as to whether the Proposed Modification would better facilitate achievement of the Applicable BSC Objectives.	National Grid believes that amendment of the BSC to update procedures to improve the processing of transactions and reflect current banking procedures as set out in P214 would better facilitate the achievement of the Applicable BSC Objectives.
3	Please outline the impact of the Proposed Modification on the computer systems and processes of the Transmission Company, including details of any changes to such systems and processes that would be required as a result of the implementation of the Proposed Modification.	We do not believe that there will be any impact on the computer systems and processes of National Grid.
4	Please outline any potential issues relating to the security of supply arising from the Proposed Modification.	None
5	Please provide an estimate of the development, capital and operating costs (broken down in reasonable detail) which the Transmission Company anticipates that it would incur in, and as a result of, implementing the Proposed Modification.	None
6	Please provide details of any consequential changes to Core Industry Documents and/or the System Operator Transmission Owner Code that would be required as a result of the implementation of the Proposed Modification.	None
7	Any other comments on the Proposed Modification.	No

e) Impact on BSCCo

Area of Business	Impact of Proposed Modification
Implementation	ELEXON would be required to implement changes to the Code, CSDs and BSC Systems to support this Modification Proposal.
Payment Default LWI	Changes would be required to the LWI so that it includes the new FAA activities.
Obligations Register	Changes would need to be made the Obligations Register to include the new obligations.
BSCCo Website	Changes would be required to the FAA Helpdesk page on the BSCCo Website.
Funds Transfer Agreement	Changes would be required to the Funds Transfer Agreement so that the updated banking practices were reflected.
Agreement with HMRC document	Changes would be need to the document setting out the Agreement between HMRC and BSCCo regarding tax and the BSC.
Funds Transfer Agreement	Changes would be required to the Funds Transfer Agreement in order to account for the minor changes to the definition of Reserve Account, and the use of the Reserve Account and Borrowing Account for threshold administration.

f) Impact on Code

Code Section	Impact of Proposed/Alternative Modification
Section M	Annex M1 will require minor updates to the Letter of Credit form.
Section N	Changes will be required to Section N in order to facilitate the introduction of electronic delivery of Advice Notes and Confirmation Notices. Changes would be required to allow a combined Advice Notes, Confirmation Notices and backing sheet and a threshold, below which Advice Notes would not be issued. Changes are also required to update the Code to reflect current banking practices. Details of the positioning of the changes can be found in Attachment H.
Section X Annex X-1	The definition of Letter of Credit would need to be amended in order to reflect current banking practices.

A copy of the draft legal text to give effect to these changes can be found as Attachment A.

g) Impact on Code Subsidiary Documents

Document	Impact of Proposed/Alternative Modification
BSCP301	BSCP301 will need to be updated to reflect the updated processes
Communications Requirement Document	The Communication Requirement Document will need to be updated to allow the electronic delivery of Advice Notes and Confirmation Notices.
CVA Data Catalogue	The CVA Data Catalogue will need to be updated to allow the electronic delivery of Advice Notes and Confirmation Notices.

Document	Impact of Proposed/Alternative Modification
FAA Service Description	<p>Changes would be required to the FAA Service Description to allow the following:</p> <ul style="list-style-type: none"> • The issuing of electronic Advice Notes, Confirmation Notices and Backing sheets; • The combining of Trading Charges, Reconciliation Charges and Default Charges onto one daily Advice Note for all payable and all receivable charges; • Introducing thresholds below which an Advice Note would not be produced; and • Updating the FAA Service Description to reflect current banking practice.
EPFAL IDD Part 1 (for FAA)	The EPFAL IDD Part 1 (for FAA) will need to be updated to allow the electronic delivery of Advice Notes and Confirmation Notices.

h) Impact on Core Industry Documents/System Operator-Transmission Owner Code

No impact.

i) Impact on Other Configurable Items

Document	Impact of Proposed/Alternative Modification
FAA User Requirement Specification (URS)	<p>Changes would be required to the FAA URS to allow the following:</p> <ul style="list-style-type: none"> • The issuing of electronic Advice Notes, Confirmation Notices and backing sheets; • The combining of Trading Charges, Reconciliation Charges and Default Charges onto one daily Advice Note for all payable and all receivable charges; • Introducing thresholds below which an Advice Note would not be produced; and • Updating the FAA URS to reflect current banking practice.

j) Impact on BSCCo Memorandum and Articles of Association

No impact.

k) Impact on Governance and Regulatory Framework

This change requires Her Majesty's Revenue and Customs (HMRC) approval. BSCCo have received verbal confirmation from HMRC that the proposed solution would present no issue. Written approval of the proposed solution from HMRC is still outstanding.

APPENDIX 5: DATA ANALYSIS

The data analysis is provided as Attachment 8.