

Phase

Initial Written Assessment

Definition Procedure

Assessment Procedure

Report Phase

Implementation

Request to raise a Modification 'Extension to the payment timescales for Quarter Date Advice Notes below the Advice Note Threshold Limit'

ELEXON is requesting that the Panel raise a Modification to extend the payment timescales for Quarter Date Advice Notes below the ANTL (£500) from three Business Days to 15 Business Days. This will allow ELEXON to defer action, giving non-paying Parties an additional 13 Business Days to work with ELEXON and ensure the Advice Note is paid without the Party defaulting.



ELEXON recommends that this Modification is progressed directly to the Report Phase with an initial recommendation to approve

This Modification is expected to impact:

- ELEXON
- BSC Parties

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About This Document

This document is a request to raise a Modification and Initial Written Assessment (IWA), which ELEXON will present to the Panel on 10 March 2016. The Panel will consider the recommendations and agree whether to raise and how to progress this Modification.

There are three parts to this document:

- This is the main document. It provides details of the Modification Proposal, an assessment of the potential impacts and a recommendation of how the Modification should progress.
- Attachment A contains the draft Modification Proposal Form.
- Attachment B contains the draft legal text to deliver this Modification.



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1 Why Change?

What are Advice Notes?

Advice Notes are invoices for Trading Charges and Reconciliation Charges. Each day, if the Advice Note value is above the Advice Note Threshold Limit (ANTL), currently set at £500, it is released; otherwise it will accumulate over a number of days until it breaches the threshold or reaches the Quarter Date. Once an Advice Note is released, it has a payment due date of three Business Days later. The process for the quarterly Advice Note trigger was introduced by [P214 'Issues Relating to Funds Administration'](#) in November 2008.

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

What is Payment Default?

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



What are Trading Charges?

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

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



What is a Default Funding Share (DFS)?

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

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

ELEXON presented a paper to the Panel ([Panel 244/14](#)) at its September 2015 meeting, detailing default activity for quarter 1 of the 2015 BSC Year. The Quarter Date occurred on 30 June 2015 with a Payment Date of 3 July 2015. There were 21 Quarter Date Advice Notes which were Payment Defaults at D+1. The Advice Notes totalled £958, for which:

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

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

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

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

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

What is the issue?

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

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

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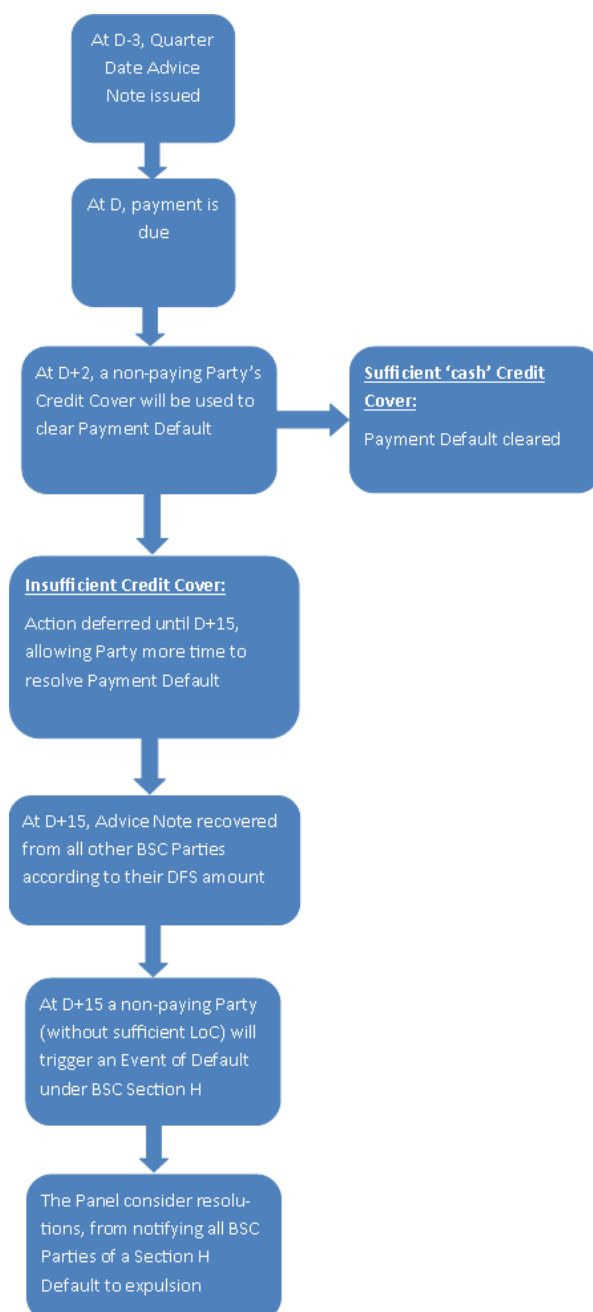
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Proposed solution

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

We are requesting that the Panel raises a Modification to extend the payment timescales for Quarter Date Advice Notes below the ANTL (£500) from three Business Days to 15 Business Days. This will allow ELEXON to defer action for 15 Business Days, which gives non-paying Parties an additional 13 Business Days to work with ELEXON and ensure the advice note is paid and the Party does not enter into Payment Default.

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



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

Applicable BSC Objectives

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

Implementation approach

We are recommending an Implementation Date for this Modification of **3 November 2016** as part of the November 2016 BSC Systems Release. This is the next available release that this Modification can be implemented in.



What are the Applicable BSC Objectives?

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

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

(c) Promoting effective competition in the generation and supply of electricity and (so far as consistent therewith) promoting such competition in the sale and purchase of electricity

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

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

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

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3 Proposed Progression

Next steps

We believe that this Modification is a fully-developed solution and does not require further assessment by a Workgroup. We therefore believe that this Modification should progress directly to the Report Phase.

This Modification will have no interaction with the ongoing Next Day Switching Significant Code Review (SCR). Therefore, we believe this Modification should be exempt from this SCR.

Self-Governance

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

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

We are therefore requesting, should the Panel agree to raise it, that this Modification be treated as a Self-Governance Modification.

Timetable

We are recommending that this Modification be progressed directly to the Report Phase as a Self-Governance Modification. We propose the following timetable:

Proposed Progression Timetable	
Event	Date
Request to Raise presented to Panel	10 Mar 16
Report Phase Consultation (<i>15 Working Days</i>)	10 Mar 16 – 04 Apr 16
Present Draft Modification Report to Panel	14 Apr 16
Self-Governance Appeal Window (<i>if Self-Governance</i>)	15 Apr 16 – 06 May 16
Issue Final Modification Report to Authority (<i>if not Self-Governance</i>)	15 Apr 16



What are the Self-Governance Criteria?

A Modification that, if implemented:

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

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

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4 Likely Impacts

Estimated central implementation costs for this Modification

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

Indicative industry impacts and costs

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

Impact on BSC Parties and Party Agents

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

Impact on Transmission Company

There is no impact on the Transmission Company anticipated.

Impact on BSCCo

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

Impact on BSC Systems and processes

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

Impact on Code

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

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Impact on Code Subsidiary Documents

CSD	Potential Impact
BSCP301	Changes may be required to implement this Modification.

Impact on other Configurable Items

Configurable Item	Potential Impact
FAA URS	Change may be required to implement this Modification.
FAA Service Description	

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5 Recommendations

We invite the Panel to:

- **RAISE** the Modification Proposal in Attachment A.

If the Panel agrees to raise this Modification then we invite the Panel to:

- **AGREE** that this Modification progresses directly to the Report Phase;
- **AGREE** that this Modification:
 - **DOES** better facilitate Applicable BSC Objective (d);
- **AGREE** an initial recommendation that this Modification should be **approved**;
- **AGREE** an initial Implementation Date of 3 November 2016;
- **AGREE** the draft legal text;
- **AGREE** an initial view that this Modification should be treated as a Self-Governance Modification; and
- **NOTE** that ELEXON will issue the Draft Modification Report (including the draft BSC legal text) for a 15 Working Day consultation and will present the results to the Panel at its meeting on 14 April 2016.

Appendix 1: Glossary & References

Acronyms

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

Acronym	
Acronym	Definition
ANTL	Advice Note Threshold Limit
BSCP	Balancing and Settlement Code Procedure
D	Day
DFS	Default Funding Share
FAA	Finance Administration Agent
SCR	Significant Code Review

External links

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

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

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