

Issue Report

Issue 107 'Review of Section N – Clearing, Invoicing & Payment'

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About This Document

You can find the definitions of the terms and acronyms used in this document in the [BSC Glossary](#)¹.

This document is the Issue 107 Group's Report to the BSC Panel. Elexon will table this report at the Panel's meeting on 10 August 2023.

There are two parts to this document:

- This is the main document. It provides details of the Issue Group's discussions and proposed solutions to the highlighted issue and contains details of the Issue Group's membership.
- Attachment A contains the Issue Form.



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¹ <https://www.elxon.co.uk/glossary/?show=all>



We suggest reading the following sections:

- Have 5 minutes?
Read section 1
- Have 15 minutes?
Read sections 1 and 4
- Have 30 minutes?
Read all sections
- Have longer? Read all sections and the annexes and attachments

Background

Elexon believe a review of [BSC Section N 'Clearing, Invoicing & Payment'](#)² was necessary to identify sections and associated processes which could be amended and simplified to support the effective running of the Balancing and Settlement Code (BSC) to align with modern banking practices and increase the efficiency of the service to industry. Elexon believes there are opportunities to improve the efficiency of operations and simplify the arrangements.

BSC Section N includes the following details:

- Payments to and from Elexon Clear and Payment Parties for Trading Charges and Reconciliation Charges;
- Arrangements for the Funds Administration Agent (FAA) to determine and notify Payment Parties of Trading Charges and Reconciliation Charges;
- Payment procedures for the FAA and Payment Parties to follow;
- The obligations of Elexon Clear and Payment Parties to make payments for Trading Charges and Reconciliation Charges and the consequences of non-payment; and
- The basis on which monies and Credit Cover are held by Elexon Clear.

Conclusions

The Issue Group propose that a consequential BSC Modification should be raised by the BSC Panel and progressed directly to the Report Phase, which will include the following changes:

- Improvements to BSC Section N based on findings from an Elexon review of:
 - BSC Section N4 Banking Arrangements;
 - BSC Section N6 Calculation of Payments;
 - BSC Section N8 Payment Procedure; and
 - BSC Section N13 Ledger Accounts;
- Moving the Payment Default timescales in Section N from D+2 to D+1; and
- Removal of Confirmation Notices, with the Advice Note becoming the Invoice for VAT.

The Issue Group also recommend that the structure of the Advice Note be improved as part of the design work for the new FAA system. The structure of the Advice Note is not specified in the BSC, and so this would not form part of the Modification.

² <https://bscdocs.elexon.co.uk/bsc/bsc-section-n-clearing-invoicing-payment>

2. Background

What is the Issue?

[BSC Section N 'Clearing, Invoicing & Payment'](#) was written over 20 years ago and therefore some sections within it may now be redundant and no longer align with modern ways of working (e.g. invoicing and banking practices). This results in inefficiencies and unnecessary constraints that may prevent additional benefits from being sought and realised.

Elexon believe a review of these arrangements is timely, as a key component of the current Elexon strategy is digitisation, which includes updating the existing FAA systems. Aligning a review of Section N with an update to the FAA systems could identify opportunities to streamline processes and improve efficiencies for the benefit of BSC Parties.

Issue 107 was raised to review BSC Section N to identify which areas and processes are currently pain points experienced by the Industry. The Issue also aimed to identify solutions to address these pain points, and improve efficiency of these processes.

Elexon notified the BSC Panel at its meeting on [13 April 2023](#)³ of the intention to raise this Issue. The Panel were supportive, and their feedback was fed into the review. The topics that the Issue Group were asked to consider (the Terms of Reference) were to:

- Review Section N and associated processes to remove redundant or outdated practices, remove unnecessary constraints and enable new opportunities;
- Identify pain points/issues that Payment Parties and Elexon experience;
- Identify changes that should be made to address these issues; and
- Order/prioritise any changes to be made (where a high volume of change is identified).

Further Information

BSC Section N defines the rules and governance for the FAA. The FAA role is critical to the successful operation of the BSC, effecting the transfer of funds between Payment Parties, for trades made in the Balancing Mechanism (BM) and for imbalances between contracted and actual production and consumption i.e. Trading Charges.

BSC Section N details payments to and from Payment Parties and Elexon Clear (the legal entity established to process these payments) for Trading Charges and Reconciliation Charges, including how these charges are determined and how Payment Parties are notified of these charges. It details the payment procedures for the FAA and Payment Parties to follow, the obligations to make payments, and the consequences of non-payment. It also details the basis on which monies and Credit Cover are held by Elexon Clear.

Funds Administration Agent (FAA)

The FAA is one of the Central System services that supports the operation of the BSC.

The FAA's key processes (relevant to Issue 107) are:

- Dispatch of Advice Notes and Confirmation Notices; and
- Funds transfer between BSC Parties.

³ <https://www.elexon.co.uk/meeting/bsc-panel-337/>

Trading Charges

Each Trading Party is liable to pay or receive Trading Charges for each Settlement Day. These charges are calculated in relation to Imbalance Settlement and Balancing Mechanism activity. The Settlement Administration Agent (SAA) determines the Trading Charges.

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

- Account Energy Imbalance Cashflow;
- Information Imbalance Charge;
- Period Balancing Mechanism (BM) Unit Cashflow;
- BM Unit Period Non-Delivery Charge;
- Residual Cashflow Reallocation Cashflow (RCRC); and
- System Operator BM Cashflow.

The SAA calculates these charges at every Settlement Run. It will receive and validate the latest data for the relevant Settlement Day. BSC Parties are required to submit data to Elexon so that trading charges can be calculated. The SAA sends data on the amounts owed to, or by, each BSC Party to the FAA.

Advice Note and Confirmation Notice

An Advice Note details the Trading Charges, Default Charges and/or ad-hoc charges that a Trading Party accrued since their last Advice Note. The Advice Note details the date they must pay these charges by (the Payment Date). An Advice Note is not the Party's Tax Invoice.

A Confirmation Notice is issued to a Trading Party once they pay the Trading Charges, Default Charges and/or ad-hoc charges detailed on their Advice Note. The document confirms payment and acts as the Invoice for VAT.

Previous engagement with industry

Elexon had already carried out individual interviews with small, medium and large businesses (Suppliers and Generators), prior to the raising of Issue 107. This was to understand BSC Parties' needs, pain points caused by the current FAA invoicing business processes, and to gather any improvements that can be made to the system.

The main feedback from customers from this engagement was that they would like:

- The ability to receive all documents in a single invoice; and
- Interest calculation to be shown on invoices.

3. Issue Group's Discussions

The [Issue 107 Issue Group](#)⁴ met on 6 June 2023 to consider the background to Issue 107 and to identify changes required to BSC Section N.

During the meeting, Elexon explained the proposed approach for the BSC Section N review. It was proposed that areas within BSC Section N that may contain redundancies or practices that no longer align with modern ways of working should be considered within scope of the review, but that only aspects that may impact industry should be considered by the Issue Group.

The preliminary assessment was carried out by Elexon, and was validated by the Issue Group. The following table details the initial assessment of the sections, as agreed by the Issue 107 Issue Group.

Section in BSC Section N	In/Out scope of review	Impact on industry
1. Introduction	Out	N/A
2. Clearing Arrangements	Out	N/A
3. Payment Calendar	Out	N/A
4. Banking Arrangements	In	No
5. Taxation	Out	N/A
6. Calculation of Payments	In	No
7. Advice Notes	In	Yes
8. Payment Procedure	In	No
9. Payment Default	In	Yes
10. Confirmation Notices in Respect of a Payment Date	In	Yes
11. Payment Errors	Out	N/A
12. Enforcement Claims	Out	N/A
13. Ledger Accounts	In	No

Sections identified as being in scope of the Section N review with no industry impacts were:

- [BSC Section N4 Banking Arrangements](#)⁵;
- [BSC Section N6 Calculation of Payments](#)⁶;
- [BSC Section N8 Payment Procedure](#)⁷; and
- [BSC Section N13 Ledger Accounts](#)⁸.

Elexon presented an example of an amendment that was not expected to impact industry, to ensure that the Issue Group were comfortable with the assessment. The example presented was section 4.8 'Banking Communications Links', which currently references setting up communications links with the BSC Banker. This section is now redundant as banking transactions are now all online, and there is no need to set up banking communications links. The Issue Group were happy that this example would have no industry impact, and

⁴ <https://www.elexon.co.uk/meeting/issue-107-workgroup-1/>

⁵ <https://bscdocs.elexon.co.uk/bsc/bsc-section-n-clearing-invoicing-payment#section-n-4>

⁶ <https://bscdocs.elexon.co.uk/bsc/bsc-section-n-clearing-invoicing-payment#section-n-6>

⁷ <https://bscdocs.elexon.co.uk/bsc/bsc-section-n-clearing-invoicing-payment#section-n-8>

⁸ <https://bscdocs.elexon.co.uk/bsc/bsc-section-n-clearing-invoicing-payment#section-n-13>

were comfortable with the assessment criteria used by Elexon. The Issue Group agreed that the lack of industry impact meant that these sections did not need to be discussed further in Issue 107. The Issue Group agreed that the full review of these sections should be carried out by Elexon, and the identified improvements included in the consequential Modification.

Sections identified as being in scope of the Section N review with potential industry impacts were:

- [BSC Section N7 Advice Notes](#)⁹;
- [BSC Section N9 Payment Default](#)¹⁰; and
- [BSC Section N10 Confirmation Notices in respect of a Payment Date](#)¹¹.

Considering the potential for impacts to industry, the Issue Group agreed that these sections would fall within the scope of Issue 107, and should be discussed by the Issue Group to identify potential issues.

Advice Notes

The Issue Group discussed BSC Section N7 'Advice Notes', to identify any problems experienced by industry, and improvements that could be made. BSC Section N7 specifies the information must be included in each Advice Note, but does not have any stipulations about the layout or structure.

The Issue Group raised no issues with the specifics of the provisions in N7, but did have several comments about how the structure of the Advice Notes and associated backing data could be improved. The structure of the Advice Notes is not specified in the BSC or subsidiary documents so can be altered without need for a BSC change.

An Issue Group Member stated it was not helpful that the payment amount was halfway down the Advice Note. This makes it harder to easily locate the amount to be paid. It was also noted that sometimes the backing data does not exactly match the Advice Note due to rounding.

Another Issue Group Member voiced an issue with having split out reporting of VATable and non-VATable amounts. Other Members agreed, saying that the current structure results in a lot of manual work to reconcile the Advice Note with the backing data, and that having the backing data broken down further could help to address this issue. Elexon explained that Section N is quite prescriptive on the content of Advice Notes, and specifies that there needs to be a breakdown provided for the Settlement Final (SF) and subsequent Settlement Runs.

The addition of a summary page was suggested, featuring Purchases/Sales split by Trading Charges, Default Charges and Adhoc Charges (including Disputes), with more granular information in the backing data.

Elexon explained that the feedback on the structure of the Advice Notes and backing data would not require any amendments to BSC Section N and so would not form part of the consequential Modification, but that the Issue Group's feedback would be taken on board when creating templates for Advice Notes to be generated by the new FAA system.

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⁹ <https://bscdocs.elexon.co.uk/bsc/bsc-section-n-clearing-invoicing-payment#section-n-7>

¹⁰ <https://bscdocs.elexon.co.uk/bsc/bsc-section-n-clearing-invoicing-payment#section-n-9>

¹¹ <https://bscdocs.elexon.co.uk/bsc/bsc-section-n-clearing-invoicing-payment#section-n-10>

Payment Default

The Issue Group discussed moving the Payment Default timescales in Section N from D+2 to D+1, to reflect the practicality of the current arrangements.

Section N9.6 sets out steps for provision of Credit Cover, which currently states that where Cash Cover has been provided, a BSC Party will get until D+2 to use credit cover. However, if either cash or collateral is held, in the event of Payment Default the amount of credit in the ECVA system is reduced on D+1. The proposal is to use Cash Cover on D+1 too, for consistency.

An Issue Group Member asked what the split between Cash Cover and Letter of Credit collateral held is currently. Elexon explained that 75% of BSC Parties lodge cash collateral but in terms of value, it is generally split 50/50 between cash and Letter of Credit.

The Issue Group did not have any further comments or questions about changing the timescale in Section N.

Confirmation Notices

It was noted, during Issue Group discussions, that there was some duplication of effort due to receiving both an Advice Note and a subsequent Confirmation Notice. An Issue Group Member asked why there are separate Advice Notes and Confirmation Notices, and Elexon explained that it was a legacy from the Pool and New Electricity Trading Arrangements (NETA).

An Issue Group Member explained that due to receiving an Advice Note and then a Confirmation Notice, which is the Tax Invoice, they had to enter both onto their ledger. This resulted in an unnecessary duplication of effort with no identifiable benefit. They suggested that less frequent Confirmation Notices would be preferable. They would still need to receive the daily Advice Note, as their organisation pays via Direct Debit. It was explained that under the Direct Debit guarantee, the payment/receipt needs to be notified in advanced.

The Issue Group discussed whether Confirmation Notices should be quarterly or monthly. Issue Group Members felt that monthly would be more appropriate, as Confirmation Notices are used for VAT reporting, and some organisations report VAT on a monthly basis. Furthermore, the group noted that even those that report quarterly could still want to reconcile their VAT on a monthly basis.

There was some support for a monthly Confirmation Notice, as it would mean less paperwork. An Issue Group Member did note that not all organisations will have the same month end, but this should not be an issue as the Advice Notes could be used to accrue.

The Issue Group also considered whether the Advice Note could be the Tax Invoice, rather than requiring a subsequent Confirmation Notice to act as the Tax Invoice. This approach would negate the need for the Confirmation Notice, and remove the duplication completely. This approach is currently used for Balancing Services Use of System (BSUOs) invoices, which are generated by National Grid.

Following discussion, there were mixed views as to whether the Confirmation Notice should be replaced by the Advice Note, or simply sent less frequently. The Issue Group Members generally felt that either option would be better than the status quo, but were unsure which should be recommended. It was agreed that an industry consultation should be carried out to gather wider views on the topic.

Consultation on Confirmation Notices

Due to the mixed views on the approach for Tax Invoices, the Issue Group consulted on the following two options:

- 1) Single Bill approach – Advice Note becomes the Tax Invoice; and
- 2) Monthly Confirmation Notices – Retain Confirmation Notices but reduce frequency.

Option 1 would remove the concept of Confirmation Notices and make the Advice Note the single tax document. This would significantly reduce the administration effort by removing the need to match two separate documents on a daily basis. The Advice Note would still also act as the Direct Debit Advance Notice where applicable. This is a process already adopted in the Industry under Balancing Services Use of Systems (BSUoS) invoices issued by National Grid, and within Elexon under its operation of the monthly BSC Charge process.

For Option 2, the current process would in part remain, in that Advice Notes would be issued on a daily basis (if the Advice Note Threshold is breached), however the tax documents (Confirmation Notices) would only be issued on a monthly basis, to include all charges up to the last payment date in the month. This would mean any matching process to Advice Notes and Backing Sheets would only have to happen once a month instead of daily.

Elexon issued the consultation on Friday 23 June 2023 for 15 Working Days with responses invited by Friday 14 July 2023.

There were six responses received, with Suppliers, Generators, and Interconnector Users represented. The majority of the respondents preferred Option 1, citing the potential for daily efficiency savings and reduced storage requirements. The respondent that preferred Option 2 stated that Option 1 was not viable, as the Advice Note could not be used for VAT purposes. Once Elexon clarified that Option 1 would amend the Advice Note so that it would be the invoice for VAT, the respondent was satisfied that Option 1 would be appropriate.

Summary of Issue 107 Consultation Responses

Question	High	Medium	Low	None
If Option 1 were introduced, what level of system changes would it require?	-	2	2	2
If Option 1 were introduced, what level of process change would it require?	-	2	2	2
If Option 2 were introduced, what level of system changes would it require?	-	1	3	2
If Option 2 were introduced, what level of process change would it require?	-	2	2	2
Question	Option 1		Option 2	
What is your preferred option?	5		1	

Following the consultation, the Issue Group agreed to recommend that the consequential Modification include removing Confirmation Notices for a single bill approach, where the Advice Note would become the Tax Invoice.

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4. Conclusions

The Issue Group agreed that Elexon should carry out a review to identify improvements to the following sections of BSC Section N:

- BSC Section N4 Banking Arrangements;
- BSC Section N6 Calculation of Payments;
- BSC Section N8 Payment Procedure; and
- BSC Section N13 Ledger Accounts.

The outcome of this internal review would be shared with the Issue 107 Issue Group for validation, and then form part of a consequential Modification.

The Issue Group propose that the consequential BSC Modification should be raised to take forward their recommendations. These would include:

- Improvements to BSC Section N as identified in the aforementioned Elexon review;
- Moving the Payment Default timescales in Section N from D+2 to D+1; and
- Removal of Confirmation Notices, with the Advice Note becoming the Invoice for VAT.

It is proposed that the consequential Modification be raised by the BSC Panel. This is because it will include amendments to Section N that do not impact industry, i.e. those arising from the Elexon review of Section N. The proposed amendments will promote efficiency in the implementation of the balancing and settlement arrangements, and therefore better facilitate Applicable BSC Objective (d).

The Issue Group and Elexon do not feel that there would be any benefit to additional Modification Workgroups, following the review done by the Issue 107 Issue Group, and therefore propose that this Modification be progressed straight to the Report Phase. This would make best use of industry time and support a more expedient delivery of the changes.

Elexon expect to complete the Section N review and present the consequential Modification to the BSC Panel within four months of the publication of this report.

The Issue Group also recommend that the structure of the Advice Note and Backing Sheets be improved. This would not require any amendments to BSC Section N and so would not form part of the consequential Modification, but should be considered when creating templates for Advice Notes to be generated by the new FAA system. The Issue Group's proposals include:

- Changing the location of the payment amount on the Advice Note;
- Including a summary page with Purchases/Sales split by Trading Charges, Default Charges and Adhoc Charges; and
- Including more granular data included in the Backing Sheets.

Issue Group membership and attendance

Issue 107 Group Attendance		
Name	Organisation	6 June 23
Ivar Macsween	Elexon (<i>Chair</i>)	✓
Paul Wheeler	Elexon (<i>Lead Analyst</i>)	✓
Kelly Ings	Elexon (<i>Market Design</i>)	✓
Ola Dawodu	Elexon (<i>Proposer</i>)	✓
Darren Draper	Elexon (<i>SME</i>)	✓
Angus Young	Flexitricity	✓
Chris Newsam	Shell Trading and Shipping Company	✓
Jonathan Priestley	Habitat Energy	✓
Meiyi Jiang	Cobblestone Energy DMCC	✓
Richard Obrien	SMS plc	✓
Ryan Walker	InterGen (UK) Ltd	✓
Samer Baaklini	Energetech Europe BV	✓
Thuong Phan (Scarlett)	Cobblestone Energy DMCC	✓