

BSC Modification Proposal Form		At what stage is this document in the process?
Mod Title: 'Improving efficiency of Default Funding Share process and Energy Supply Company Administration'		<div style="display: flex; flex-direction: column; gap: 5px;"> <div style="border: 1px solid green; background-color: #28a745; color: white; padding: 5px; display: flex; align-items: center; justify-content: center;"> 01 Modification </div> <div style="border: 1px solid #17a2b8; background-color: #e0f2f1; padding: 5px; display: flex; align-items: center; justify-content: center;"> 02 Workgroup Report </div> <div style="border: 1px solid #9c27b0; background-color: #e0e0e0; padding: 5px; display: flex; align-items: center; justify-content: center;"> 03 Draft Modification Report </div> <div style="border: 1px solid #ff9800; background-color: #ffe0b2; padding: 5px; display: flex; align-items: center; justify-content: center;"> 04 Final Modification Report </div> </div>
Purpose of Modification: <p>This Modification seeks to allow the Funds Administration Agent (FAA) to process a Default Funding Share for unpaid Trading Charges earlier to reduce the cost of the borrowing facility and reduce the risk of shortfall. The Modification will also allow the Panel to instruct the FAA to release Trading Charges where the default relates to an Energy Supply Company Administration (ESCA).</p>		
Does this Modification impact any of the European Electricity Balancing Guideline (EBGL) Article 18 Terms and Conditions held within the BSC? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No		
	<p>Elexon recommends that this Modification should:</p> <ul style="list-style-type: none"> be raised by the Panel in accordance with provisions of Section F2.1.1(d)(i) be treated as a Self-Governance Modification Proposal be sent directly into the Report Phase <p>This Modification will be presented by the Proposer's representative to the BSC Panel to the BSC Panel on 8 September 2022. The Panel will consider whether to raise the Modification in accordance with BSC Section F 2.1.1(d)(i) and determine how best to progress the Modification.</p>	
	<p>High Impact: N/A</p>	
	<p>Medium Impact: N/A</p>	
	<p>Low Impact: All BSC Parties Elexon</p>	

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Any questions?

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Timetable

The Proposer recommends the following timetable:

Panel considers Modification Proposal	08 September 2022
Report Phase Consultation	12 September 2022 - 27 September 2022
Draft Modification Report presented to Panel	13 October 2022
Self-Governance Appeals Window	13 October 2022 – 03 November 2022
Publish Final Modification Report	14 October 2022

1 Why Change?

What is the issue?

The Default Funding Share (DFS) process is performed in the event of non-payment of Trading Charges by a BSC Party with insufficient Credit Cover to clear the unpaid amount. This typically requires nine Working Days (WD) from generating the Advice Note to receiving funds. The unpaid amount is mutualised and invoiced to all other BSC Parties pro rata after six working days. These timings are a result of legacy procedures which involved manual operation and printing of notices by postal arrangements.

This then leaves the Funds Administration Agent (FAA) with insufficient funds to balance payments to zero until the non-payment is recovered. The FAA must therefore use a borrowing facility to cover the debt with debt interest paid by all customers. The FAA is also limited by the BSC to be able to hold a maximum borrowing facility of £10m, but is currently set at £5m.

If there are insufficient funds to cover payments out, the FAA will operate a shortfall process. This results in payments out to BSC Parties being scaled back until the funds can be recovered via the DFS. This can have an impact on BSC Party cash flow and creates a significant administrative burden for the FAA, putting daily Trading Charge processes at risk. Further, the shortfall process does not impact all Parties equally, those that have amounts payable are not impacted.

When a BSC party goes in Administration, Section N allows for monies due to the party to be withheld and be used to offset their debt. However in the event of an ESCA, because the party is in Administration and paying off their debts, Section N cannot be enforced.

Desired outcomes

The desired outcome is a reduction in the likelihood of performing the shortfall process and a reduced cost to serve by lower utilisation of the borrowing facility. This is achieved as a result of mutualising debts through DFS earlier.

The Panel would be able to instruct the FAA to make payments to the BSC Party that is in ESCA to allow the administrator to continue to operate the business with a normal BSC cashflow timescale.

2 Solution

Proposed Solution

The proposed solution is based on a change to Funds Administration Agent system, the BSC and Code Subsidiary Documents to allow Trading Charges for a Defaulting Party (BSC Parties in Section H Default) to be mutualised from the Advice Note/Notification date onwards without delay, reducing the duration of outstanding payments from 6 WD (ND+9) to 0 WD (ND+3).

Diagram 1 demonstrates the payment scenarios which can occur in relation to payments. Under normal operation payments are made and received at ND+3 and balance to zero. In the event of a payment default where the Party has Credit Cover, the Credit Cover is used to resolve the default. There is a two WD borrowing period in practice as the Credit Cover is not technically utilised immediately, often the payment would be made a day after notification of the missed payment.

Where the Credit Cover is zero and the Payment is not received, the BSC requires the DFS to be actioned on ND+5 and therefore the mutualisation would go into Advice Notes on ND+6, allowing 3 WD for BSC Parties to make payment of the mutualised amounts when added to their Trading Charges.

Where the Party is in Section H Default, the Panel can instruct the FAA to treat the Party as a 'Defaulting Party' meaning that no payments will be made to the Defaulting Party and DFS is expected, so can be brought forward by two days.

In each example there is a funding gap for different durations from two to six working days. The proposed solution demonstrates that on instruction to treat the Party as a Defaulting Party, the funding gap can be completely removed and stop the need for use of the Borrowing Account. This is dependent on identifying an Event of Default under BSC Section H and Panel approval to treat the Party as a Defaulting Party.

Diagram 1: Billing Timeline

Scenario	Notification Date (ND)	ND+1WD	ND+2	ND+3	ND+4	ND+5	ND+6	ND+7	ND+8	ND+9
Normal Operation	Advice Note (Invoice)			Payment Received						
Payment Default with Credit Cover	Advice Note (Invoice)			Payment Not Received		Credit Cover Used				
Payment Default no Credit Cover	Advice Note (Invoice)			Payment Not Received			Default Funding Share Advice Notes			Mutualised Payments Received
Payment Default (Section H Default)	Advice Note (Invoice)			Payment Not Received	Default Funding Share Advice Notes			Mutualised Payments Received		
Proposed Solution (Section H Default)	Default Funding Share Immediately – Default Funding Share Advice Note			Payment Received						

Payments to a Party in ESCA are controlled through operational procedures by the FAA. There is no system solution required to make payments to a Party in ESCA. The decision to make payments to the Party would be made by the Panel following analysis and recommendation presented by Elexon.

Benefits

Cost to serve

The borrowing facility available to the FAA in the form of an overdraft has a standing charge and interest payable at a market rate. The costs are charged to BSC Parties. By

reducing the unpaid amounts to be mutualised through DFS, the duration and amount of borrowing is reduced. The savings will be passed to BSC Parties. The current cost of borrowing includes a fixed fee and variable interest fees, both of which are expected to reduce with earlier DFS.

Probability of Shortfall

The shortfall procedure has not been utilised in the history of the BSC, however with higher Energy Imbalance Prices persisting, more frequent peak prices and other challenging market conditions the probability of operating the shortfall procedure has increased. The procedure may be seen as a burden for both the FAA operation and BSC Parties. This is taking into consideration the additional administrative efforts and customers managing changes to expected cashflow. This is because the shortfall process requires a scaling back of payments out on the payment date followed by further undo procedures once mutualised amounts have been recovered.

Manual Process Risk

As part of the Kinect Programme, considerations for FAA's re-development are under review. Currently, the FAA is dependent on a number of manual procedures, which means the operation of shortfall carries a manual process risk. Reducing the probability of shortfall reduces the risk of peaks in manual processing.

Market wide Impact of ESCA

Enabling BSC cashflow to continue, subject to BSC Panel decision, would enable the administrator to continue to operate the business with potentially lower borrowing from HM Treasury.

3 Relevant Objectives

Impact of the Modification on the Relevant Objectives:	
Relevant Objective	Identified impact
a) The efficient discharge by the Transmission Company of the obligations imposed upon it by the Transmission Licence	Neutral
(b) The efficient, economic and co-ordinated operation of the National Electricity Transmission System	Neutral
(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	Neutral
(d) Promoting efficiency in the implementation of the balancing and settlement arrangements	Positive
(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]	Neutral
(f) Implementing and administrating the arrangements for the operation of contracts for difference and arrangements that facilitate the operation of a capacity market pursuant to EMR legislation	Neutral
(g) Compliance with the Transmission Losses Principle	Neutral

The Modification will better facilitate BSC Applicable Objective (d) because it will shorten the DFS process which will lead to reducing the cost of borrowing facility and reducing the risk of shortfall.

4 Potential Impacts

Impacts on Core Industry Documents

Impacted Core Industry Documents			
<input type="checkbox"/> Ancillary Services Document	<input type="checkbox"/> Connection and Use of System Code	<input type="checkbox"/> Data Transfer Services Agreement	<input type="checkbox"/> Use of Interconnector Agreement
<input type="checkbox"/> Retail Energy Code	<input type="checkbox"/> Transmission License	<input type="checkbox"/> System Operator Transmission Owner Code	<input type="checkbox"/> Supplemental Agreements
<input type="checkbox"/> Distribution Code	<input type="checkbox"/> Grid Code	<input type="checkbox"/> Other (please specify)	

No impact on other Core Industry Documents identified.

Impacts on BSC Systems

Impacted Systems				
<input type="checkbox"/> CRA	<input type="checkbox"/> CDCA	<input type="checkbox"/> PARMS	<input type="checkbox"/> SAA	<input type="checkbox"/> BMRS
<input type="checkbox"/> EAC/AA	<input checked="" type="checkbox"/> FAA	<input type="checkbox"/> TAAMT	<input type="checkbox"/> NHHDA	<input type="checkbox"/> SVAA
<input type="checkbox"/> ECVAA	<input type="checkbox"/> ECVAA Web Service	<input type="checkbox"/> Elexon Portal	<input type="checkbox"/> Other (Please specify)	

The FAA generates Advice Notes and Backing Sheets for Trading Charges each working day. The same Trading Charges will be billed just on a different timescale. Therefore the change only impacts the FAA which is the BSC Agent at the final stage of the Balancing and Settlement process.

Impacts on BSC Parties

Impacted Parties			
<input type="checkbox"/> Supplier	<input type="checkbox"/> Interconnector User	<input type="checkbox"/> Non Physical Trader	<input type="checkbox"/> Generator
<input type="checkbox"/> Licensed Distribution System Operator	<input type="checkbox"/> National Electricity Transmission System Operator	<input type="checkbox"/> Virtual Lead Party	<input type="checkbox"/> Other (Please specify)

BSC Parties will be billed the same amounts but would be billed earlier to prevent the need to borrow and reduce the risk of Shortfall. BSC Parties should not observe any operational change.

Impacts on consumers and the environment

Impact of the Modification on consumer benefit areas:	
Consumer benefit area	Identified impact
Improved safety and reliability	Neutral
Lower bills than would otherwise be the case	Neutral
Reduced environmental damage	Neutral
Improved quality of service	Neutral
Benefits for society as a whole	Neutral

Legal Text Changes

[BSC Section N 'Clearing, Invoicing and Payment'](#) – a new clause will be introduced in Section N to allow DFS from the Notification Date as prescribed in the Settlement Calendar.

5 Governance

Self-Governance

<input type="checkbox"/> Not Self-Governance – A Modification that, if implemented:	
<input type="checkbox"/> materially impacts the Code's governance or modification procedures	<input type="checkbox"/> materially impacts sustainable development, safety or security of supply, or management of market or network emergencies
<input type="checkbox"/> materially impacts competition	<input type="checkbox"/> materially impacts existing or future electricity consumers
<input type="checkbox"/> materially impacts the operation of national electricity Transmission System	<input type="checkbox"/> is likely to discriminate between different classes of Parties
<input type="checkbox"/> involves any amendments to the EBGL Article 18 Terms and Conditions related to Balancing; except to the extent required to correct an error or as a result of a factual change	
<input checked="" type="checkbox"/> Self-Governance – A Modification that, if implemented:	
Does not materially impact on any of the Self-Governance criteria provided above	

This Modification will not materially amend any BSC processes or procedures, it will simply allow the FAA to process a Default Funding Share for unpaid Trading Charges at an earlier date. As such, we do not believe it will materially impact the Self-Governance Criteria and so should be treated as a Self-Governance Modification.

Progression route

<input type="checkbox"/> Submit to assessment by a Workgroup – A Modification Proposal which:	
does not meet any criteria to progress via any other route.	
<input checked="" type="checkbox"/> Direct to Report Phase – A Modification Proposal whose solution is typically:	
<input checked="" type="checkbox"/> of a minor or inconsequential nature	<input type="checkbox"/> deemed self-evident
<input type="checkbox"/> Fast Track Self-Governance – A Modification Proposal which meets the Self-Governance Criteria and:	
is required to correct an error in the Code as a result of a factual change including but not limited to:	
<input type="checkbox"/> updating names or addresses listed in the Code	<input type="checkbox"/> correcting minor typographical errors
<input type="checkbox"/> correcting formatting and consistency errors, such as paragraph numbering	<input type="checkbox"/> updating out of date references to other documents or paragraphs
<input type="checkbox"/> Urgent – A Modification Proposal which is linked to an imminent issue or current issue that if not urgently addressed may cause:	
<input type="checkbox"/> a significant commercial impact on Parties, Consumers or stakeholder(s)	<input type="checkbox"/> a Party to be in breach of any relevant legal requirements.

a significant impact on the safety and security of the electricity and/or gas systems

We believe this Modification is suitable for progressing straight to the Report Phase as the proposal is of a minor nature, amending timelines of a process, not the process itself. Further, the solution is fully developed.

Does this modification impact a Significant Code Review (SCR) or other significant industry change projects, if so, how?

We do not believe that this Modification impacts any ongoing SCRs, and so request that Ofgem treats this as an SCR exempt Modification Proposal.

Does this Modification impact any of the EBGL Article 18 Terms and Conditions held within the BSC?

The proposed Modification is not expected to impact or extend any of the EBGL Article 18 Terms and Conditions held within the BSC.

Implementation approach

Exelon recommends an Implementation Date for this Modification 10 WD after the Self-Governance appeal window closes. This is so the benefits can be realised as soon as possible and importantly before December 2022, when the highest risk of needing to call on the shortfall process exists.

There is a six week lead time for the system changes to be completed, the work will progress in parallel to the Modification so both the document changes and system changes can be implemented at the same time.