

## Section N: Clearing, Invoicing & Payment

### Introduction

[Section N](#) of the BSC details:

- (a) payments to and from ELEXON Clear and Payment Parties for Trading Charges and Reconciliation Charges;
- (b) arrangements for the Funds Administration Agent (FAA) to determine and notify Payment Parties of Trading Charges and Reconciliation Charges;
- (c) payment procedures for the FAA and Payment Parties to follow;
- (d) the obligations of ELEXON Clear and Payment Parties to make payments for Trading Charges and Reconciliation Charges and the consequences of non-payment; and
- (e) the basis on which monies and Credit Cover are held by ELEXON Clear.

Consequences of late or unpaid Trading Charges are outlined in Section H with regards to breach of the BSC. [Section N](#) only applies in relation to Trading Charges and Reconciliation Charges and other payments due under [Section N](#) and does not apply to any BSCCo Charges (as specified in [Section D](#)) or other payments due from Parties specified elsewhere under the BSC.

### Clearing Arrangements

ELEXON Clear acts as counter party to each payment or charge to be made in respect of Trading Charges or Reconciliation Charges (including Ad-Hoc Trading Charges). This means that Parties pay to or receive from ELEXON Clear an amount in respect of any Trading Charges and/or Reconciliation Charges for each Settlement Day. The amount of Trading Charges that a Party is obliged to pay for a Settlement Day is calculated under the rules specified in [Section T](#).

The obligations of a specific Party and ELEXON Clear to pay to each other any Trading Charges and/or Reconciliation Charges and/or amounts in lieu of interest on a particular Business Day are calculated on a compound basis.

A Party will only be entitled to a payment from ELEXON Clear if on the Business Day that the payment is due there is no Amount in Default<sup>1</sup> due and payable by that Party to ELEXON Clear and not paid or recovered (either in whole or in part).

A Defaulting Party will only be entitled to payment from ELEXON Clear if all amounts, liabilities and other obligations due, owing, incurred or payable by that Defaulting Party to ELEXON Clear have been paid or recovered. However, amounts, liabilities and obligations of a contingent nature shall not preclude payment where (1) a Trading Party is in Default solely for reasons of insolvency and has submitted a Withdrawal Notice and met all relevant withdrawal criteria or (2) in accordance with

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<sup>1</sup> An "Amount in Default" is all or any amount due and payable from a BSC Debtor to ELEXON Clear which has not been remitted to the relevant Collection Account by 15:30 on the relevant Payment Date (together with any amounts in lieu of interest payable that accrues and less any amounts paid or recovered in respect of the debt at that time).

[Section M](#), the Panel has deemed a Non-Supplier Trading Party that is in Default solely for insolvency reasons is entitled to the return of a portion of its Credit Cover.

The FAA (on behalf of ELEXON Clear) will credit to the Reserve Account amounts due and payable to a Defaulting Party (and will not set off that amount). While such an amount is credited to the Reserve Account it forms part of the relevant Party's Credit Cover. Set off occurs when an amount is due from ELEXON Clear to a Party, but before the Business Day when the amount due becomes payable, an Amount in Default was due from the Party to ELEXON Clear which has not been paid or recovered. In these circumstances the amount due by ELEXON Clear is set off the Amount in Default.

The liability of ELEXON Clear to make payments on a Business Day is limited so that the aggregate amount of such payments (excluding VAT) does not exceed the aggregate of the payments (excluding VAT) that ELEXON Clear has been paid by or recovered from Parties (including by way of realising Credit Cover) and through drawing on the Credit Facility<sup>2</sup>.

Any amounts in respect of VAT that ELEXON Clear is required to pay to Parties on a Business Day is funded from VAT receipts from Parties on that Day and, subject to certain conditions, by drawing on the Credit Facility. If this is not sufficient, then ELEXON shall fund the excess via ELEXON Clear. The FAA is required to notify ELEXON of amounts due from it and payable to ELEXON Clear so that ELEXON Clear has sufficient funds to pay amounts in respect of VAT and also of amounts due from ELEXON Clear and payable to ELEXON and so that ELEXON Clear is not left with an excess of amounts in respect of VAT.

To the extent that the resolution of a Trading Dispute results in payments or charges becoming necessary, these are effected through a Reconciliation Settlement Run (giving rise to new Reconciliation Charges) or through an Ad-Hoc Trading Charge.

## Payment Calendar

By the end of January in each year the FAA, in consultation with the Settlement Administration Agent (SAA) and subject to the approval of ELEXON, determines for each Settlement Day in the following BSC Year the Initial Payment Date, the Initial Notification Date, the Payment Date for each Timetabled Reconciliation Run, the Notification Date for each Timetabled Reconciliation Run and prepares a Payment Calendar showing these dates.

Each Initial Payment Date falls as close as practicable to 29 days after the Settlement Day to which it relates. Payment Dates and Notification Dates fall on a Business Day and no Payment Date is fewer than 3 Business Days after the relevant Notification Date.

The FAA distributes the Payment Calendar to ELEXON, the SAA and each Payment Party and will send the prevailing Payment Calendar to any Party upon its becoming a Trading Party.

## Banking Arrangements

The FAA establishes and operates, on behalf of ELEXON Clear, the following accounts (BSC Accounts):

- (a) a Clearing Account with the BSC Banker;
- (b) a Collection Account to which payments from Trading Parties are made;
- (c) a Reserve Account with the BSC Banker, to which all Cash Cover, proceeds of Letters of Credit (as provided for in [Section M](#)) and surplus payments received from Payment Parties arising from the Advice Note Threshold Limit are credited or debited;

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<sup>2</sup> The Credit Facility is a facility agreement (in a form approved by the Panel) between ELEXON Clear and the BSC Banker, which provides for the BSC Banker to make available a certain amount to ELEXON Clear (the amount must be approved by the Panel if it exceeds £4,000,000 but in any event cannot exceed £10,000,000).

- (d) a Borrowing Account with the BSC Banker under which permitted Drawings or to cover payments due from Payment Parties that are below the Advice Note Threshold Limit; and
- (e) any other account that the FAA (with ELEXON's permission) considers desirable to enable ELEXON Clear to perform any of its obligations under [Section N](#).

The FAA shall also establish the means by which to facilitate and manage the transfer of Reserve Account monies between the Reserve Account and an Investment Account(s) ELEXON, in accordance with the Treasury Policy, can instruct the FAA to transfer certain monies between the Reserve Account and an Investment Account. ELEXON Clear and the FAA enter into a Funds Transfer Agreement, which is in a form approved by the Panel and with a bank approved by the Panel (the BSC Banker), which sets out the BSC Accounts and the basis on which the FAA will operate them.

Each Payment Party (unless otherwise agreed by the Panel) must have a Settlement Account at a Settlement Bank. Payment Parties must (no later than 10 Business Days prior to becoming a Trading Party) provide a Settlement Account designation to the FAA to which the FAA is instructed to make payments on behalf of ELEXON Clear and must select the Collection Account into which payments due from the Payment Party will be transferred. [BSCP301](#) provides procedures for a Payment Party changing its Settlement Account or its Collection Account. The FAA supplies bank details, sort code and account numbers for the Reserve Account and the Collection Account to each Payment Party. The FAA also supplies bank details, sort code and account numbers for the Clearing Account, the Reserve Account, the Collection Account, the Borrowing Account (if any) and all other BSC Accounts and the Settlement Accounts to ELEXON and ELEXON Clear.

## Taxation

Generally speaking, each Payment Party is bound by any agreement made between ELEXON Clear and any tax authority on the treatment for taxation purposes of obligations to pay amounts in respect of Trading Charges between ELEXON Clear and the Payment Party. The FAA is required to make any deductions necessary for legal and/or tax purposes on behalf of ELEXON Clear and any BSC Debtor.

So that ELEXON Clear can properly account for VAT, Parties are required to inform us about information relating to the Party and VAT in accordance with [BSCP301](#). Parties must also notify of any changes in such information as soon as it is aware of this.

The BSC also sets out the assumptions that ELEXON Clear and ELEXON may make about a Party's VAT status unless notified otherwise by the Party and the basis on which ELEXON, ELEXON Clear and Parties may charge amounts in respect of VAT.

## Advice Notes and Confirmation Notices

Advice Notes detail the Trading Charges, Default Charges and/or ad-hoc charges that a Party has accrued since its last Advice Note. The Advice Note also details the date a Party must pay these charges by (the Payment Date). However, it is not the Party's Tax Invoice.

Advice Notes come with backing sheets, which provide a breakdown of the Trading Charges, Default Charges and/or ad-hoc charges (where such charges exist). For Trading and Ad-Hoc Charges, each backing sheet will relate to a line item on the Advice Note. A Default Charge backing sheet may detail several line items on a Party's Advice Note.

A Confirmation Notice is issued to a Party once it pays the Trading Charges, Default Charges and/or ad-hoc charges detailed on the related Advice Note. The document confirms payment and will provide details of the Advice Note to which it relates and acts as the Tax Invoice.

## When does the FAA issue Advice Notes?

The FAA will only send a Payment Party and an Advice Note:

- when the sum of its Trading Charges, Default Charges and/or ad-hoc charges exceeds the Advice Note Threshold Limit;
- on a Quarter Date; or
- under certain exceptional circumstances, such as if a Payment Party is withdrawing from the BSC, is a Defaulting Party or has changed its VAT status.

The Advice Note Threshold Limit is set at £500. The BSC Panel will occasionally review this. The FAA will send Advice Notes when a Payment Party has accumulated an amount that it owes or is owed which exceeds, or is equal to, this Threshold Limit. Therefore, the frequency that Payment Parties receive Advice Notes will depend on their business.

Quarter Dates refer to the quarterly VAT period end dates at the end of March, June, September and December. The FAA issue Payment Parties with an Advice Note for each Quarter Date, regardless of the monetary Advice Note Threshold Limit or whether an Advice Note previously triggered within the quarter. If the last day of the quarter falls on a non working day, the Advice Note will be issued to on the last working day of the quarter.

When the FAA is required to issue an Advice Note that date is known as the Advice Note Date.

## When does the FAA issue backing sheets?

When a Payment Party incurs Trading Charges, Default Charges and/or ad-hoc charges on a calendar Payment Date, it will receive a separate backing sheet for each of these. Where such charges exist, backing sheets will be sent out:

- For each calendar Payment Date in the case of Trading Charges;
- For each Calendar Payment date in the case of Ad-Hoc charges; and
- With a Party's Advice Note in the case of Default Charges (i.e. when either the time or monetary Threshold is breached or overridden). Please note that Default Charge backing sheets are sent out when either of the thresholds is breached and may contain details of default charges for more than one Calendar Payment Date.

## Calculation of Payments and Advice Notes

Following each Settlement Run, the SAA must submit to the FAA the following information in relation to the corresponding Settlement Day:

- (a) the Settlement Day;
- (b) whether the Settlement Run is an Initial Settlement Run, Timetabled Reconciliation Settlement Run or Post-Final Settlement Run;
- (c) the identity of each Trading Party;
- (d) for each Trading Party for that Settlement Day, the Daily Party 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;
- (e) for each Trading Party, the net credit or debit amount for that Settlement Day for the Trading Charges listed under paragraph (d) above (the "Trading Charges Amount"); and
- (f) for NETSONETSO, the Daily System Operator BM Cashflow (a single credit or debit amount for the Settlement Day) (the 'Trading Charges Amount'.

For any Reconciliation Settlement Run, the amounts referred to in paragraphs (d), (e) and (f) are determined as though it were the first Settlement Run to be carried out, therefore disregarding any payments which may have been paid or become payable on any prior Payment Date in relation to that Settlement Day. The FAA then checks to ensure that the difference between the total amounts owing and the total amounts owed (excluding VAT in both cases) is less than £10. If this is not the case, the FAA notifies the SAA and the SAA provides corrected information, which the FAA will assess to determine whether the difference is now less than £10.

Following the receipt of information from the SAA in relation to a Reconciliation Settlement Run, the FAA calculates the difference between the amount owing or owed to a Trading Party in that Reconciliation Settlement Run compared to the amounts owing or owed under the previous run (whether it be a previous Reconciliation Settlement Run or an Initial Settlement Run). In relation to differences between a current and prior run, amounts in lieu of interest are applied to those differences over the period since the last Payment Date to the relevant Reconciliation Payment Date. Any differences plus amounts in lieu of interest is referred to as a "Reconciliation Charge".

On each Advice Note Date the FAA issues Advice Notes containing the Trading Charges and Reconciliation Charges, Default Charges and/or ad-hoc charges that a Party has accrued since its last Advice Note. In addition on each Advice Note Date the FAA notifies each Collection Bank of amounts payable by each Payment Party and the BSC Banker of the amount to be remitted to the Clearing Account by each Collection Bank. Advice Notes are emailed and posted to Payment Parties, although Parties may opt out of receiving posted Advice Notes.

[Section N](#) contains the rules to be applied in the event that the FAA is unable (for whatever reason) to determine by the close of business on the Notification Date the amount to be incorporated into Advice Notes.

On the relevant Payment Date, each BSC Debtor (i.e. Parties owing money to ELEXON Clear) and ELEXON Clear pay the full amounts (including any applicable VAT) notified in the Advice Note as being payable by them. A Payment Party can query an amount calculated, and/or notified to it in an Advice Note by the FAA, if and only if it has paid the amount. The FAA will investigate the query and, if directed to do so by the Panel, will issue corrected Advice Notes to all affected Parties for payment by or to ELEXON Clear 5 Business Days after the date of the corrected Advice Notes.

[Section N](#) sets out the rules for NETSO in relation to Trading Charges created by the Replacement Supplier process.

## **Payment Procedure**

BSC Debtors must ensure that payment is credited to the relevant Collection Account as soon as practicable but no later than the end of the Business Day on the Payment Date (i.e. the date upon which that payment is due). If a BSC Debtor becomes aware that it will not be able to do this, it must notify the FAA immediately with associated reasons. Not later than 11:00 on day after the Payment Date, the FAA checks to ascertain whether all credited amounts due have been credited to each Collection Account and not later ensures that all amounts have been remitted to the Clearing Account. If an overpayment is made, the FAA will do what it can to identify the source of the overpayment and credit it by 11:00 on day after the Payment Date to the overpaying Party's Settlement Account, or if requested by that Party, its Reserve Account, or such other account authorised by ELEXON.

At about 15:00 on the Payment Date the FAA calculates the amounts available for payment by ELEXON Clear to BSC Creditors and by 11:00 on day after the Payment Date the FAA arranges for the remittance from the Clearing Account to the relevant Settlement Accounts of the BSC Creditors. If required, the FAA will arrange for the transfer of funds from the Reserve Account or the Borrowing Account to the Clearing Account or vice versa.

The Clearing Account clears at the close of business of each Payment Date (any non-zero amounts in the account are transferred to the Reserve Account) so that the balance of the account is nil.

## Payment Default

If, on a Payment Date (where there is an Amount in Default, this is the "Affected Date"), the FAA considers it likely that there will be an Amount in Default in relation to any BSC Debtor the FAA will have recourse to sums available under the following (in the following order, except when the Party is already a Defaulting Party under the BSC, in which case the order is (b), (c), (a), (d)) until it is satisfied that the Clearing Account will clear:

- (a) drawing under the Credit Facility;
- (b) if the FAA is satisfied that Cash Cover provided by the Non-paying BSC Debtor will be paid into the Clearing Account in the requisite timescales for it to be applied to the Amount in Default by close of business, the Reserve Account;
- (c) if the FAA is satisfied that the proceeds of a call under the Letter(s) of Credit provided by the Non-paying BSC Debtor can be paid into the Clearing Account in the requisite timescales for it to be applied to the Amount in Default by close of business, the Letter(s) of Credit;
- (d) if after application of the preceding steps sufficient funds have not been provided to enable the account of ELEXON Clear to clear at the end of the Business Day, the FAA will reduce payments (excluding those parts of the payments in respect of VAT – the "VAT Elements") by ELEXON Clear to all BSC Creditors pro-rata on the basis of the amounts payable (excluding the VAT Elements) to them by ELEXON Clear, in an aggregate amount equal to the Amount of Default not covered through the application of paragraphs (a) to (c). The FAA will account for these reductions in the Ledger Accounts as amounts owed by ELEXON Clear to each BSC Creditor whose payments were reduced, the 'Shortfall Creditor'. (The amount of such reduction plus an amount in lieu of interest is a 'Shortfall Amount'.) The FAA will not reduce the VAT Elements (if any) of the payments due from ELEXON Clear to all BSC Creditors.

Any amount subsequently received from a Non-paying BSC Debtor is applied by the FAA to the Amounts in Default payable by that Party, with the longest outstanding Amounts in Default being settled first. As soon as any portion of an Amount in Default is paid or recovered, the FAA applies the proceeds first to the drawing under the Credit Facility and second any non VAT Elements of the remaining proceeds are applied to the non VAT Elements of the Shortfall Amounts or the Default Share Amounts and the VAT is calculated and paid on these amounts.

[Section N](#) also sets out the payments due from Non-paying BSC Debtors in lieu of interest.

If the debt persists on the Business Day after the Affected Date and the FAA has reduced payments (under (d) above), the FAA will (not later than close of business on that Business Day) draw on the Non-paying BSC Debtor's Cash Cover by debiting the Reserve Account and crediting the Settlement Accounts of the Shortfall Creditors. If a Shortfall Amount still remains after drawing on the Non-paying BSC Debtor's Cash Cover, the FAA will call on the Non-paying BSC Debtor's Letter of Credit to repay the debt.

Where the FAA has made a drawing under the Credit Facility to cover the Amount in Default and that Amount in Default persists by the second Business Day after the Affected Date no later than 15:30 hours on that Business Day the FAA will debit the Reserve Account (the maximum amount that can be debited is limited to the lower of the Amount in Default and the Cash Cover provided by the Non-paying BSC Debtor) in order to repay the drawing and, if there still remains an amount of the drawing left owing, make a call under the Non-paying BSC Debtor's Letter of Credit to repay the debt.

However, the FAA shall take the above actions just one Business Day after the Affected Date, rather than second Business Day after, if the Non-Paying Debtor was a Defaulting Party under the BSC on the Affected Date.

If after calling on the Non-paying BSC Debtor's Cash Cover and Letter of Credit there still remains an amount outstanding of the drawing under the Credit Facility, or there still remains an amount outstanding to Shortfall Creditors, by 17:00 on the second Business Day after the Affected Date, the outstanding debt is funded by all other Payment Parties in proportion to their Annual Funding Share (on a default basis, for the month in which the Affected Date fell).

If the FAA has no reason to believe that the calls on the Non-paying BSC Debtor's cash and Letters of Credit will be not paid and the sums are sufficient to cover the outstanding Amount in Default then, even though the monies are not available by 17:00 on that second Business Day, ELEXON may approve the FAA deferring action for up to a further three Business Days, i.e. up to the fifth Business Day after the Affected Date.

Further, where the Advice Note has a Notification Date that is a Quarter Date, and the Advice Note is below the Advice Note Threshold Limit, currently set to £500, then subject to agreement by ELEXON, the FAA can delay action for up to a further 13 Business Days i.e. up to the fifteenth Business Day after the Affected Date.

The FAA notifies ELEXON, the Panel and each Payment Party of these amounts and makes arrangements for the shortfall to be paid by those Payment Parties. If the Amount in Default (or a part of it) is subsequently repaid: the non VAT elements of the money received (increased by VAT if applicable); and monies received in lieu of interest; is returned to the Payment Parties, both in proportion to the amounts in which they funded the debt.

### **Confirmation Notices in Respect of a Payment Date**

Within two Business Days after a Payment Date the FAA issues Confirmation Notices to each Payment Party which sets out the amounts paid in or out of the Clearing Account in respect of Trading Charges for that Trading Party inclusive of VAT, exclusive of VAT and the VAT amount, and any other information required for the purposes of VAT and relevant European legislation. Similar information is provided to NETSONETSO in relation to the Daily System Operator BM Cashflow.

### **Payment Errors**

If for any reason an overpayment is made to a Payment Party, that Payment Party is required to repay the overpayment immediately. If the repayment is not made or recovered by the Business Day which is two Business Days after the date on which the overpayment was notified to the FAA by the relevant Payment Party or by the FAA to the relevant Payment Party, the FAA will call upon the relevant Payment Party's Cash Cover first and Letter(s) of Credit second to repay the unpaid amount (to the Borrowing Account). If it is not possible to credit an amount equal to the unpaid amount, that unpaid amount is then treated as an "Amount in Default" and the unpaid amount shall be funded by Payment Parties in relation to their Annual Funding Share (as described previously).

Any underpayment is repaid to the Payment Party concerned as soon as the FAA becomes aware of it (together with any amounts in lieu of interest earned by ELEXON Clear as a result of the underpayment).

### **Enforcement of Claims**

If the result of a debt has been that Payment Parties have funded that debt on the basis of Annual Funding Shares, the Panel can decide to instruct ELEXON to institute proceedings on behalf of ELEXON Clear against the Non-paying BSC Debtor for the recovery of the Amount of Default plus amounts in lieu of interest. In making such a decision the Panel must consult with the Payment Parties (other than the Non-paying BSC Debtor) and must notify its decision no later than 28 days after the Affected Date.

## Ledger Accounts

The FAA maintains ledger accounts showing all amounts payable and receivable by each Payment Party and ELEXON Clear. Each Payment Party is entitled to receive a quarterly extract of the ledger account which is relevant to it, showing its debited and credited amounts. A Payment Party can request that it receives a monthly extract of the ledger account. The ledger accounts are kept confidential from the Panel and all Payment Parties, unless required to provide information to a Payment Party relating to its own accounts or for the purposes of calculating Energy Credit Cover or monitoring or enforcing compliance by a Trading Party of the provision of Credit Cover, or unless it needs to be disclosed to the BSC Auditor for the purpose of any BSC Audit.

Each Payment Party must promptly review all extracts of ledger accounts sent to it and, (where practicable, within ten Business Days of receiving the extract(s)) will notify the FAA of any errors on the face of the extracts that it is aware of or notify the FAA that it is not aware of any errors. The FAA shall resolve any notices disputing the accuracy of a ledger account by consulting with the Payment Party that gave the notice and agreeing the information where possible.

## Need more information?

For more information please contact the **BSC Service Desk** at [bscservicedesk@cgi.com](mailto:bscservicedesk@cgi.com) or call **0370 010 6950**.

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