

Change Proposal – BSCP40/02

CP No: 1241

*Version No: 1.0
(mandatory by BSCCo)*

Title: Clarification of Interest payments by Non-Paying BSC Debtors

Description of Problem/Issue

Section N9.4 of the Balancing and Settlement Code (“Code”) sets out the provisions relating to when a Non-paying BSC Debtor must pay interest. Modification P214 Issues Relating to Funds Administration (“P214”), amongst other things, amended this provision so that it states

“Each Non-paying BSC Debtor shall pay to the account of the BSC Clearer interest from time to time (after as well as before judgment) at the Default Interest Rate on the part of the Amount in Default not covered by a Drawing from the due date up to the day of its payment or recovery from the Non-paying Debtor.”

P214 was Approved by the Authority and is due to be implemented on 6 November 2008.

In order to promote transparency and to ensure consistency it is felt that a more detailed provision should be included in the Funds Administration Agent (“FAA”) Service Description which details the practice which the FAA follows when charging interest to Non-paying BSC Debtors.

Proposed Solution

CP1241 proposes that the FAA Service Description is amended to include provisions describing the process which the FAA follows in relation to charging interest to Non-paying BSC Debtors.

The provisions within the FAA Service Description shall include the following points:

- when the FAA makes a call on a Non-paying BSC Debtor's Credit Cover, it shall also charge interest at the Default Interest Rate (2% per annum over base rate) on the amount due and payable regardless whether the claim is against cash credit or Letter of Credit. This claim would be made by the FAA in accordance with Section N of the Code.
- if the amount recovered from the Non-paying BSC Debtor by reason of a claim against cash credit or Letter of Credit does not result in sufficient funds being available to cover the original Amount in Default plus interest charged at the Default Interest Rate, the amount shall be recovered by the FAA pursuant to a Default Funding Share (which will be undertaken in accordance with Section N of the Code).
- the Default Share Amount shall be the principal amount, that is, the original Amount in Default plus interest charged at the Default Interest Rate from the due date that the Amount in Default was originally due and payable to the date when the Default Share Amount is paid (less any amount recovered by the call on credit). The interest applicable would in most circumstances be equal to five days interest as the FAA is entitled to determine the Default Share Amount for each Payment Party on D+2 and there is a three day payment timescale.
- despite the fact that a Default Funding Share may have been undertaken, the FAA is also entitled to make a claim against the Non-paying BSC Debtor or, as the case may be, against its Administrator or Liquidator. This claim will be equal to the amount in the Default Share

Amount which is equal to the remaining Amount in Default plus interest at the Default Interest Rate (less any amount recovered by the call on credit). The interest applicable would in most circumstances be equal to interest being calculated from the date of determining the Default Share Amount till the date that such Default Share Amount is paid or recovered from the Non-paying BSC Debtor.

The CP also suggests that the FAA Service Description be amended to include a provision which confirms to BSC Parties the process whereby ELEXON passes on interest and banking charges to BSC Parties. The provision should explain that, in accordance with current ELEXON practice, all interest and bank charges is charged directly to ELEXON (not ELEXON Clear) by the BSC Banker and are passed onto BSC Parties in accordance with ELEXON's standard charging mechanism.

Justification for Change

The inclusion of provisions within the FAA Service Description that describes how ELEXON and the FAA charge interest to Non-Paying BSC Debtors will make the process more transparent to Industry.

To which section of the Code does the CP relate, and does the CP facilitate the current provisions of the Code?

BSC Section N 9.4

Estimated Implementation Costs *(mandatory by BSCCo)*

The estimated ELEXON implementation cost is 7 man days, which equates to £1540.

Configurable Items Affected by Proposed Solution(s) *(mandatory by originator)*

FAA Service Description (Category 2 Document)

Impact on Core Industry Documents or System Operator-Transmission Owner Code

None

Related Changes and/or Projects *(mandatory by BSCCo)*

P214 (November 08 Release)

Requested Implementation Date *(mandatory by originator)*

If possible, this change should be targeted for inclusion into the November 08 Release (for implementation alongside Approved Modification P214).

Reason:

This CP involves an amendment to the FAA Service Description which is being revised as part of the implementation of Approved Modification P214. Including this CP into the November 08 release will make the change more cost-effective to implement.

Version History *(mandatory by BSCCo)*

N/A

Originator's Details:

BCA Name:.....Richard Bennett.

Organisation:.....ELEXON

Email Address:..... richard.bennett@elexon.co.uk

Telephone Number:..... 0207 380 4105

Date:.....29 February 2008

Attachments: No