

**Private and Confidential**

To: ELEXON Limited

6 August 2009

Reference: Panel 158/09

**BSC Auditor's Report on the calculations performed in relation to the determination of Funding Shares for the year ended 31 March 2009**

1. We have audited the calculations performed in relation to the determination of Funding Shares for the year ended 31 March 2009 ('the Audit Period').
2. Words and expressions defined in the Balancing and Settlement Code (the 'Code') shall, unless the context otherwise requires, have the same meaning in this report.

**Basis of opinion and scope of work**

3. We conducted our audit in accordance with:
  - (a) Our Terms of Reference; and
  - (b) Relevant Auditing Standards issued by the Auditing Practices Board in the United Kingdom.
4. A description of the background to Funding Shares and details of our scope are set out in Appendix A to this report.
5. At the request of ELEXON and with the agreement of the Panel, the completeness and accuracy of certain inputs to the Funding Shares calculation are not included in the scope of our audit as they are considered to be included as part of the ELEXON Group statutory audit. In particular, the determination of Annual Net Main Costs as defined in the Code, section D 4.1(a) is excluded from our scope.
6. The application of the Funding Share calculations in allocating Amounts in Default by the FAA is also specifically excluded from the scope of our work, although the allocation of associated BSC Costs shares amongst Trading Parties is included.
7. The work we performed in order to reach our opinion was designed to provide reasonable, but not absolute, assurance that the Funding Share calculations performed by ELEXON, within the parameters of the scope defined in paragraphs 3 to 6 above, are performed in line with the requirements of the Code and the Code subsidiary documents.

**Opinion**

8. On the basis of the scope of work set out in paragraphs 3 to 7 above, in our opinion the calculations performed in relation to the determination of Funding Shares for the year ended 31 March 2009 have been performed in accordance with the relevant provisions of the Code and Code Subsidiary Documents, taking into account the effective date of any revision or amendment made to the Code and Code Subsidiary Documents.
9. We have previously made a number of recommendations to ELEXON for the improvement of the overall Funding Share processes, but none of these would affect our opinion.

**Use of this report**

10. This report is confidential and is intended solely for the use of ELEXON Limited, Trading Parties to the Code and the Panel. While we acknowledge that this opinion will be published on the ELEXON website, this is for information purposes only and we do not intend that it should be relied upon by anyone other than the parties mentioned above. It may not be copied or disclosed to anyone else without our prior written consent, which we may grant, withhold, or grant with conditions.

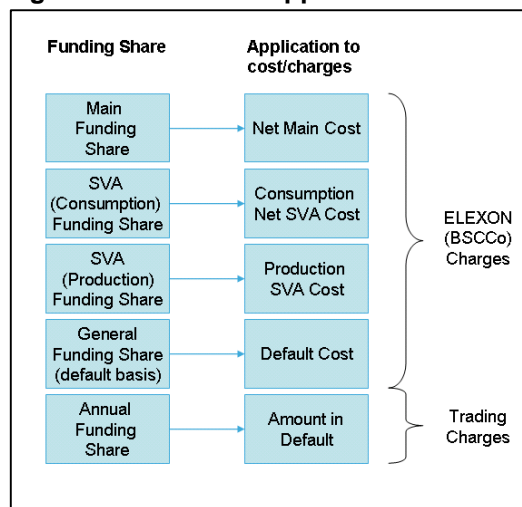
PricewaterhouseCoopers LLP  
Chartered Accountant

**Scope – Appendix A**

**Background**

1. Funding Shares are the mechanism whereby the costs of operating the electricity market are shared between the Trading Parties existing in that market. Different Funding Shares are calculated and applied relating to different cost areas.

**Diagram 1 – Funding Shares and their application to ELEXON and Trading Charges**



2. The basis for calculating these shares is set out in the Balancing and Settlement Code ('BSC') Section D. The share calculations are performed by ELEXON Limited ('ELEXON') based upon data provided internally and from various other parties.
3. Funding shares are calculated each month based on the best information available at the time of calculation. A reconciliation exercise is performed at the end of each year based on the final version of the source data. Reconciling bills/credits are issued accordingly.
4. A schedule, the "BSC Costs Invoice Supporting Information", is sent along with the invoice containing details of the Funding Shares and units used in the calculations.

**Basis for the audit**

5. We have been appointed as BSC Auditor by ELEXON. The requirement for an audit of the calculation of Funding Shares, by the BSC Auditor, is set out in Section H of the BSC Code (the 'Code').
6. The Funding Shares are recalculated within 28 Days of the publication of the audited accounts of ELEXON, acting as BSCCo. The costs to which the Funding Shares are applied are based on these audited amounts. The last published accounts of ELEXON cover the period from 1 April 2008 to 31 March 2009.
7. The work we perform in order to reach our opinion is designed to provide reasonable, but not absolute, assurance that certain Funding Shares calculations performed by ELEXON which are included in the scope of our audit are performed in line with the requirements of the Code and the Code Subsidiary Documents.

## Relevant BSC Sections

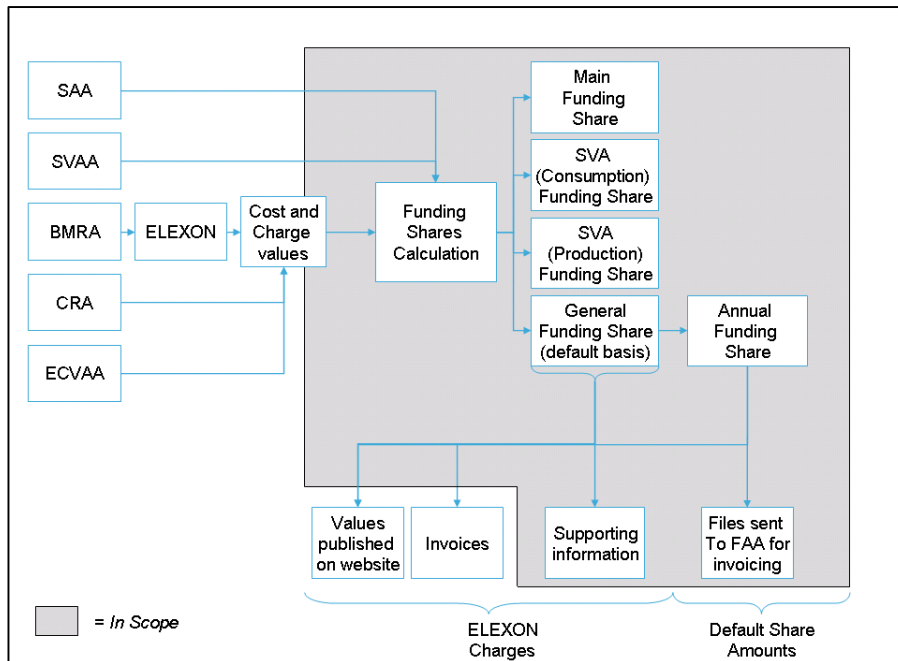
8. The Funding Shares calculations are defined by the Balancing and Settlement Code Section D as follows:
  - “Main Funding Shares” as defined by BSC Annex D-1, Part 1;
  - “SVA (Consumption) Funding Shares” as defined by BSC Annex D-1, Part 2;
  - “SVA (Production) Funding Shares” as defined by BSC Annex D-1, Part 3;
  - “General Funding Shares” (applied on a default basis to create Default Funding Shares) as defined by BSC Annex D-1, Part 4; and
  - “Annual Funding Shares” as defined by BSC Section D, 1.2.1(e).
9. These Funding Shares are used in the derivation of the following charges:
  - ELEXON (BSCCo) Charges  
These are defined by BSC Annex D-4.  
The calculation applies the values of Main Funding Shares, SVA (Consumption) Funding Shares, SVA (Production) Funding Shares, and Default Funding Shares.
  - Trading Charge – Amounts in Default  
These are defined by BSC Sections N.  
The calculation applies the values of Annual Funding Shares.

## Scope of the Funding Shares audit

10. The Panel agreed the Scope of the review by the BSC Auditor on 14 May 2009.
11. The objectives of the Funding Shares Audit are as follows:
  - A) Review of Funding Shares and associated Charges for 2008/09**  
Audit the calculation of the Main Funding Shares, SVA (Consumption) Funding Shares, SVA (Production) Funding Shares, and General Funding Shares (applied on a default basis) and associated BSC Cost shares for 2008/09 through to the BSC Costs Invoice Supporting Information provided to Trading Parties;
  - B) Review of Annual Funding Shares for 2008/09**  
Audit the calculation of the Annual Funding Shares for 2008/09 through to the files sent to the FAA for their use in calculating Amounts in Default.
12. The Funding Shares Audit reviews the accuracy of the data provided on the BSC Costs Invoice Supporting Information for 2008/09 by considering the way the amounts have been calculated by ELEXON's Funding Shares Calculation Model from the data input by ELEXON.
13. The audit does not include verification of the input data back to source. ELEXON requested the exclusion of checking of these inputs based on the assumption that cost information is sourced from audited Financial Statements and that much of the relevant data is available to BSC Parties to check the information and calculations themselves.

14. The following diagram provides a summary how the audit scope covers the input and output values provided.

**Diagram 2 – Summary of Scope Diagram**



**Exclusions from scope**

15. As explained above, the Funding Shares Audit focuses primarily on the core of the calculation process. For the avoidance of doubt, the areas listed in Table 2 below are outside the scope of the Funding Shares Audit:

**Table 2 – Areas out of scope and reason for their exclusion**

Areas out of scope	Reason for exclusion
Verification of data input by ELEXON back to source.	<p>The BSC Funding Shares Audit examines the process for performing the calculations and allocations defined by the BSC.</p> <p>In relation to Funding Shares, these processes are performed primarily by ELEXON based on data provided. The scope of the audit focuses on the calculations performed, rather than the accuracy of data the input.</p> <p>ELEXON requested the exclusion of checking of these inputs back to source on this basis, and with awareness that much of the relevant data is available to BSC Parties to check the information and calculations themselves.</p>

Areas out of scope	Reason for exclusion
<p>Verification of the Funding Share calculations that are performed by Third Parties before being input into the Funding Shares System. These are described in Appendix B.</p>	<p>These calculations were included as part of the one-off review of source data during the BSC Funding Shares Audit for FY07 without any exceptions being identified.</p> <p>ELEXON is satisfied that there have been no changes at the respective Third Parties that would affect these calculations.</p>
<p>Verification of the total BSC and SVA Costs provided by ELEXON to which the Funding Shares are applied.</p>	<p>Cost information is sourced from audited Financial Statements which are available to Trading Parties.</p>
<p>Consideration of the principles underlying the definition of Funding Shares, and any related costs and charges.</p>	<p>The BSC Funding Shares Audit examines compliance with the BSC, not the validity of the underlying principles applied.</p>
<p>Consideration of the accounting policies adopted by ELEXON in accounting for its transactions, costs and revenues.</p>	<p>The application of appropriate accounting policies are not defined within the BSC. Such matters are considered by the ELEXON Group statutory auditors.</p>
<p>Judgements applied by ELEXON in cases where alternative versions of input data are applied.</p>	<p>In calculating the values of Funding Shares, ELEXON may in certain cases apply judgement in the selection of the most appropriate input data (e.g. where there may be conflicting, or incomplete, data available).</p> <p>There is no BSC requirement for these judgements to be formally documented, although any such instances are highlighted by the audit work and discussed with ELEXON.</p>
<p>The application of Annual Funding Shares in allocating Amounts in Default by the FAA.</p>	<p>The BSC Audit covers the application of Funding Shares only in allocating the associated BSC Costs shares amongst Trading Parties as defined above.</p>
<p>Any amendments made subsequent to this review.</p>	<p>As auditors we are only able to test information provided at the time of our work. Subsequent changes to data or systems may lead to changes in the results.</p> <p>However, it is assumed that the version of data or systems made available to us is the latest available and remains unchanged before submission of results by ELEXON.</p>

<b>Areas out of scope</b>	<b>Reason for exclusion</b>
General controls over the IT infrastructure within ELEXON.	The application of appropriate general IT controls and suitability of infrastructure are not defined within the BSC. Such matters are considered by the ELEXON Group statutory auditors.