
P413 Workgroup 2 Summary

Summary

1. Welcome and Meeting Objectives

1.1 The Chair welcomed Workgroup members and presented the following meeting objectives to attendees:

- Agree whether to further develop a different cost-recovery mechanism for Elexon's MHHS PM costs as a potential Alternative Modification and, if so, agree the high-level solution for this Alternative;
- Agree Business Requirements for the Proposed Modification so that Elexon can begin drafting legal text; and
- Determine Workgroup views on any remaining Terms of Reference actions.

1.2 The Chair informed members that the Proposer was not able to attend the meeting but that the Proposer's Alternate was in attendance. Elexon confirmed the following Proposer preferences having discussed these with the Proposer before the meeting:

- P413 should be an 'enabling' rather than a 'requiring' modification; and
- P413 should recover Elexon's MHH PM costs using the existing Main Funding Share mechanism.

2. P413: Funding Approaches

2.1 The Elexon presenter talked Workgroup members through the note provided by Elexon on the possible options for delivering, and potential implications of, the alternative cost-recovery mechanisms suggested by members at Meeting 1. The presenter also highlighted the P413 progression timeline and Ofgem's timescales for appointing the MHHS PM.

2.2 The Elexon representative noted that the Proposer had chosen the Main Funding Share to be the cost-recovery mechanism under the Proposed Modification, although they reserved the right to change their mind on the basis of any further view that might be provided by Ofgem following its consultation. Elexon noted that this keeps the Proposed Modification as a document-only change that can be implemented 5 Working Days after Ofgem approval.

2.3 The Elexon presenter highlighted that any alternative mechanism to levy costs on LDSOs and/or Suppliers would have impacts on Elexon's Funding Share System. The necessary changes could not be implemented in time for the start of the 2020/21 BSC Year should Ofgem still want the PM in place by Spring 2021. Elexon noted that a way around this would be to implement the system changes later on in the year and then reconcile charges, although this would result in the liable Parties receiving more charges in one go.

2.4 Elexon noted that the Proposer did not wish the cost-recovery discussions to distract from the need to enable Ofgem to appoint Elexon in line with its programme timescales or to affect Elexon's ability to begin undertaking PM activities immediately if appointed. Elexon asked what principles would be behind levying all PM costs on LDSOs and/or Suppliers. Some Workgroup Members believed it was inappropriate in principle to levy costs on types of BSC Party who would not benefit from the PM function and/or implementation of MHHS, and therefore believed that generators should not bear these costs. These members argued that, in the absence of any further direction from Ofgem, it was for the Workgroup to agree the most appropriate BSC solution. One member considered that Smart Export Guarantee / Feed-In Tariff export generators would benefit from MHHS. Some members were unconvinced as to whether the complexity and implementation costs of a new BSC cost-recovery mechanism would be justified. These members considered that, if the MHHS PM costs were recovered using the Main Funding Share, generators would simply pass their share of these costs through to Suppliers. They also considered that, if costs were levied on LDSOs through a new BSC mechanism, LDSOs would also pass these costs to Suppliers through distribution charges. Overall, more members were in favour of exploring a Supplier-only charging option

than a Supplier and LDSO charging option. However, some members remained unconvinced of the benefits of progressing this and considered that the Main Funding Share was closest to Ofgem's consultation proposal to use 'current funding structures'.

- 2.5 Elexon noted that, as set out in its note, there are two ways that a new cost-recovery mechanism could be implemented: as a Funding Share (variable ratio) or as a Specified BSC Charge (fixed charge). It advised that a Specified Charge could be lower-impact from a system-change perspective but that consideration would need to be given to whether to reconcile this fixed charge at the end of the year to avoid any under or over-recovery falling on generators through the Main Funding Share. This would also add complexity and is not something that happens for other Specified Charges.
- 2.6 Elexon highlighted that the Workgroup would also need to decide whether or not the new mechanism forms part of SVA Costs. It also advised that increasing Suppliers' share of BSC Costs could increase their Voting Shares and share of Default Costs. Workgroup Members expressed no clear preference between the different ways that a new cost-recovery mechanism could be implemented in practice. Elexon noted that, if this is to be progressed, the Workgroup will need to define the Business Requirements in more detail so that a service provider impact assessment (on costs and lead times) can be obtained and legal text drafted. It noted that this would need to happen before the planned P413 consultation in mid-December. On balance, a majority of members agreed that there was sufficient merit in exploring alternative cost recovery mechanisms further through an extra ad-hoc meeting although some of these members remained undecided on whether this was ultimately better than using the Main Funding Share. Elexon agreed to host an extra ad-hoc session, before the planned November meeting, to discuss in further detail.

3. P413: Business Requirements

- 3.1 The Elexon representative gave a summary of the background of the P413 change and reminded Workgroup Members that the draft Business Requirements had been developed for both 'enabling' and 'requiring' Elexon to be the PM so that Workgroup Members could more clearly see the practical differences between the two approaches.
- 3.2 The Workgroup Members considered each Business Requirement. Key points are below:
- Workgroup Members agreed that the Modification should 'enable' Elexon to be the PM rather than 'require' due to the minimal practical differences between the two approaches as well as the benefit for leaving the option open for Ofgem to take an alternative approach to appointing Elexon the PM if they are minded to do so.
 - Workgroup Members discussed the establishment of the independent assurance provider business requirements (BR11 -13). The group noted the uncertainty over whether or not Ofgem might wish Elexon to procure the Assurance provider or run the procurement itself. The Business Requirements were changed to reflect an obligation on Elexon to procure the MHHS independent Assurance function, only if required to by Ofgem. It agreed that P413 should require Elexon to procure this provider only if requested to do so by Ofgem.
 - Elexon asked whether the requirements should incorporate any additional monitoring, escalation or enforcement provisions that utilise existing BSC governance structures such as the Performance Assurance Board (PAB). A Workgroup Member expressed the view that there could be a benefit of appointing Elexon as the PM if it meant these could be used. Other members were concerned about the potential impact on the PAB's workload and whether this should therefore be undertaken by a separate committee or sub-committee. Some questioned whether this was already the role of the PPC and PMO and/or fell under wider programme governance outside of the BSC. The group noted that the PAB could only monitor/take action on BSC Parties' (Suppliers') implementation activities, with other key players like the DCC not being BSC Parties. Licence changes would therefore still be needed to ensure all relevant participants are required to implement MHHS and co-operate with the PMO. On balance, the Workgroup agreed that no provisions in this area needed to be incorporated into P413. However, it noted that this did not prevent Ofgem from directing extra BSC changes in this area as part of the Industry Code changes to deliver MHHS.

The Workgroup proposed no other changes to the requirements. Elexon agreed to update the Business Requirements accordingly. It noted that it will now use these requirements to begin drafting legal text for the Proposed Modification, for the Workgroup to review at its November meeting.

4. Outstanding Terms of Reference Questions

4.1 The Workgroup considered the outstanding Terms of Reference questions. The key points are below:

- a) *The exact BSC cost-recovery mechanism (e.g. whether this is through the BSC's Main Funding Share and whether these costs are funded by BSC Trading Parties only)*

The Workgroup noted that the Proposed Modification uses the Main Funding Share. It agreed to consider an alternative cost recovery mechanism at the ad-hoc Workgroup meeting

- c) *How the BSC provisions will ensure that Elexon is accountable to Ofgem for delivery of the PM function, including whether the BSC should give Ofgem the right to remove some or all of the function from Elexon in the event of poor performance*

The Workgroup agreed that, under the 'enable' option, Ofgem can de-appoint Elexon outside of the BSC and that the P413 provisions only apply for the duration of Elexon's appointment by Ofgem. It therefore agreed that no BSC de-appointment process needed to be included in P413. It discussed SLAs/KPIs, noting that Parties would be interested in having sight of these. However, it noted that these are a matter for Ofgem and should not be included in P413.

- d) *Whether the solution should include provisions for the appointment and governance of the Assurance provider*

The Workgroup agreed to include provisions in P413 for Elexon to procure/appoint the Assurance provider at Ofgem's request. If Ofgem did not request this, then these BSC provisions would not be used. If Elexon did procure the provider then Ofgem would ratify/approve the procurement process and appointment.

- e) *Should P413 require, or enable, Elexon to be the MHHS PM?*

The Workgroup agreed that P413 will 'enable' Elexon to be the MHHS PM. This therefore involves two Ofgem decisions: one on whether to appoint Elexon and one on whether to approve P413. The P413 BSC requirements on Elexon to provide the MHHS PMO, SI and PPC function would only become effective ('switch on') if Ofgem separately appoints Elexon to this role outside of the BSC. P413 will contain provisions to enable Elexon to participate in any formal tender process and recover bid costs from BSC Parties.

4.2 The remaining Terms of Reference items g), h), j) and k) will be considered in future Workgroup meetings.

Actions

- Elexon to update the draft Business Requirements;
- Elexon to develop legal text for the Proposed Modification;
- Elexon to organise an ad-hoc meeting to discuss alternative cost-recovery mechanisms; and
- Elexon to confirm that the proposed solution does not impact the EBGL provisions within the BSC.