

# REVIEW OF SPECIFIED CHARGES FOR ADDITIONAL BM UNITS

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<b>MEETING NAME</b>	BSC Panel
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<b>Owner/author</b>	Damian Clough
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<b>Purpose of paper</b>	Decision
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<b>Classification</b>	Public
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<b>Summary</b>	Following discussion of Specified BSC Charges at the 8 March 2018 Panel meeting, ELEXON was tasked with bringing a paper back to the Panel identifying options for review of Section D charges, focusing on the Specified BSC Charge for Additional BM Units in particular. This paper addresses the action, and recommends that the Panel should not undertake any systematic review of charges at this time, but should reduce the Additional BM Unit Monthly Charge to £60 per month with effect from 1 <sup>st</sup> October 2018, with the potential for further reductions next year.
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## 1. Background

- 1.1 ELEXON costs are recovered by a combination of Specified Charges which recover a portion of ELEXON costs, with the remainder allocated to Parties using a variety of funding shares (based on metered energy).
- 1.2 Section D of the Balancing and Settlement Code (BSC) sets out the basis on which costs are allocated between BSC Parties. This includes BSC Specified Charges set out in Annex D-3. The Code stipulates that these charges are to be determined by the Panel, but in the event that these charges are not revised, then the rates prevailing in one BSC Year shall continue to apply in the following year. Any changes to the amount or rates require notification to all Parties no later than the start of the BSC Year (1 April 2018).
- 1.3 When the Panel previously conducted a consultation on Supplier Volume Allocation (SVA) Specified Charges in 2008 and in subsequent reviews, the option of basing charges on cost drivers was favoured by Parties, i.e. BSC Parties should in general pay for costs in a manner that is reflective of the costs of providing the product or service giving rise to the cost. This would include costs which are directly cost reflective (e.g. number of Metering System IDs (MSIDs)) or otherwise energy volumes. We endeavour to identify cost drivers for each BSC Specified charge whenever possible.
- 1.4 The Panel approves cost changes for Section D charges and in particular Specified Charges. Any fundamental change (i.e. a methodology change) to how costs are recovered must be carried out via a BSC Modification.
- 1.5 The last review of Specified BSC Charges was [paper 276/10](#), presented to the Panel meeting on 9 March 2018. It proposed that those charges without identified cost drivers should remain unchanged.

## 2. Summary of issue

- 2.1 A BSC Party wrote to the Panel in March 2018 (in connection with paper 276/10) challenging the charge for Additional BM Units, and proposing that it should be reduced.
- 2.2 Their rationale for reducing the charge was as follows *"To obtain the benefit of SECALF requires us to split our portfolio with all import MPANs in our default BMUs and all export MPANs in ADBMUs. This would ensure the SECALF is automatically and consistently employed against export BMUs and result in a more accurate calculation of our required credit cover. However, at the current unit charge, the ADBMUs required to do this*

# REVIEW OF SPECIFIED CHARGES FOR ADDITIONAL BM UNITS

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*would be a large cost for a small supplier, thus we are caught between tying up precious financial resource in excess credit or a significant increase in costs for the required ADBMUs.*

*We question why a single ADBMU is charged at the same rate as the combined default BMUs."*

- 2.3 The charge for Additional BM Units is one of those Specified Charges listed in paper 276/10 as having no identified cost driver. There is no evidence from ELEXON's own records (or from such further documentation as we have been able to obtain from Ofgem's archives) that the initial rates (set prior to NETA go-live in 2001) were based on any specifically identified costs which ELEXON incurs, either through our Agents or internally.
- 2.4 After discussing paper 276/10 and the concerns raised, the Panel agreed that ELEXON should bring back a paper and recommendation on the various principles and options (e.g. for reviewing specific BSC Charges or BSC Section D as a whole).

## 3. Options for a full review of Section D charges

- 3.1 As explained above, BSC Parties have in the past argued for cost-reflective charges, based on the actual cost drivers that cause ELEXON and its agents to incur costs. But the majority of ELEXON costs cannot be easily linked to specific transactions or processes for which parties can be charged. For this reason, most of the Specified BSC Charges defined in Annex D-3 recover costs from parties based on some proxy for actual cost drivers, such as:
- **Energy-based charging** i.e. charging per MWh as a proxy for actual cost drivers. The majority of BSC costs are recovered through Funding Shares (on a per MWh basis); and the Notified Volume Charge (defined in Annex D-3) is also a charge of this type. Such charges have the advantage of being simple, and unlikely to provide customers with artificial incentives to contract with one party rather than another. But they are not directly cost-reflective (as few if any of the costs incurred by ELEXON in settling a customer's energy are directly driven by the customer's energy volume);
  - **Customer-based charging** i.e. charging for each customer, or entity typically associated with a single customer site (e.g. Metering System). Specified BSC Charges that can be regarded as falling into this category include the CVA Metering System Monthly Charge, CVA BM Unit Monthly Charge and SVA Metering System Monthly Charge. These may be more cost-reflective than energy based charges, but have a proportionally higher impact on customers who use smaller volumes of energy.
  - **Party-based charging** i.e. charging for each BSC Party, or entity typically associated with a BSC Party or type of BSC Party (e.g. Base BM Units). Specified BSC Charges that can be regarded as falling into this category include the Base Monthly Charge, Dataline Monthly Charge, Base BM Unit Monthly Charge and Additional BM Unit Monthly Charge. These charges may in principle incentivise customers to contract with large BSC Parties (who can spread the charge over more customers, reducing the cost per customer).
- 3.2 If the Panel decides that a full review should be undertaken immediately, we recommend that ELEXON should first create a set of high level options and principles for Charges and Cost Recovery. These should consider (among other things) the arguments for the different types of charging described in paragraph 3.1 above. The identified options should then be raised as an Issue, and discussed by an Issue Group to consider possible solutions, requirements or to define the scope and issue further. The recommendations of the Issue Group would then be to raise a Modification Proposal, if they require changes to the structure of charges set out in Annex D-3, or implemented through a BSC Panel decision, if they do not.

# REVIEW OF SPECIFIED CHARGES FOR ADDITIONAL BM UNITS

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## 4. Timing

- 4.1 Industry is currently undergoing substantial change. Proposed changes are likely to increase the numbers of BSC Parties who only use parts of ELEXON systems, on an ad-hoc basis or may only operate in a certain part of the country. The proposed creation of Virtual Lead Parties as part of [P344 'Project TERRE implementation into GB market arrangements'](#) illustrates an example where a set of BSC Parties will use some parts of ELEXON systems and not others, intermittently. Ofgem is currently investigating the Supplier Hub model, plus there will be changes to Network Charges and the principles behind how users of a System should be charged.
- 4.2 ELEXON is currently updating its Legacy systems. This programme of change is about delivering a platform (as part of the Foundation Architecture) which will build a stable, flexible base for the future and act as a central market platform to facilitate the decentralisation and innovation of the energy market. The Foundation programme is ELEXON's response to a changing market, positioning ourselves for vision 2025 and building our platforms for the future. The implementation of this programme provides an opportunity to perform a deep dive assessment of the costs and drivers of particular processes. It would be inefficient to do a review before implementation.
- 4.3 Internally we have initiated a full review but immediately questions arose over the validity of this review, due to the changing market as well as changes to underlying costs as described above. We will continue to review Section D charges but we do not recommend officially doing a fundamental review for the charging year 2019/20. We do recognise that a full review is needed in the near future to ensure charges remain fit for purpose but this should be done for the charging year 2020/21, at the earliest, when the future market will become more certain. The remainder of this paper will concentrate on Specified Charges for Additional BM Units where there is a near time need to investigate and potentially change charges, ahead of any full scale review.
- 4.4 Please note the recent consultation released by Ofgem 23 July 2018 'Getting more out of our electricity networks by reforming access and forward-looking charging arrangements'<sup>1</sup>. First implementation of any change is expected in April 2022. There may be merit in aligning any review and implementation with this Significant Code Review (SCR).

## 5. Cost Recovery Principles relevant to the Additional BM Unit Monthly Charge

- 5.1 When deciding what the Specified Charge for an Additional BMU should be in future we considered the following principles in recovering costs.
- 5.2 The Panel can approve a change to the Specified Charge. Any change to how the charge is levied on users can only be done via a BSC Modification.
- 5.3 **Fixed vs Variable**
- 5.3.1 There are initial costs involved in setting up an Additional BMU. These are not charged up front as a one off cost. There are also ongoing costs for storing and transmitting data for a BM Unit.
- 5.3.2 If an Additional BMU has an energy value of 0 this will result in the Party paying minimal costs if charges were solely based on energy values (variable). However there will be ongoing costs associated with processing this BMU as detailed above. Reducing the cost of an Additional BM Unit to 0 may not recover costs if Energy values are minimal. Initial set up and ongoing costs have not been calculated.

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<sup>1</sup> <https://www.ofgem.gov.uk/publications-and-updates/getting-more-out-our-electricity-networks-through-reforming-access-and-forward-looking-charging-arrangements>

## REVIEW OF SPECIFIED CHARGES FOR ADDITIONAL BM UNITS

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- 5.3.3 A significant proportion of ELEXON charges are recovered via either Metering System ID (MSID) or energy charges. Larger users pay more, but they will also have a larger customer base to pass on these costs through tariffs or wholesale costs.
- 5.3.4 Taking into account 4.2.3, fixed charges for Additional BMU's have a larger effect on smaller Suppliers. They are also more likely to raise Additional BMU's for reasons of credit.
- 5.3.5 If a BMU has a higher Energy value than another BMU this does not cost more to process than the BMU with a smaller Energy Value. The process and calculation is the same for both
- 5.3.6 As part of the work to calculate the costs for data as part of Electricity Market Reform (EMR) and Additional BM Units, it was noted that each 'inactive' Additional BM Unit will add approximately 5,500 bytes (0.00524 MB) to the SAA-I014 flow. As the cost of storage and computing power has decreased over time it is difficult to quantify what this actually means in terms of cost but it will be minimal.
- 5.4 **Proportion of Cost Recovery**
- 5.4.1 A limited amount of revenue is collected through Specified Charges as illustrated in the tables in Appendix 1; the vast majority of revenue is collected through either Specified Charges with Drivers or through the Main Funding Shares.
- 5.4.2 As the number of Suppliers has increased, the number of Base BMU's has also increased. Coupled with a decrease in ELEXON's costs the percentage of costs recovered through Specified Charges has increased from less than 2% to around 8%.

## 6. Further Considerations

### 6.1 P344 Secondary BM Unit Costs

- 6.1.1 As part of P344 it will be necessary to calculate a new set of Specified Charges for a Secondary BM Unit. These charges may be different to Additional BM Units or mirror them. When comparing charges it is important to consider what other charges Parties may or may not pay. A direct comparison from an equitable point of view may question whether a Specified Charge should be higher or lower than another but it's important to consider all costs a Party pays.
- 6.1.2 As Secondary BM Units have no Contracted Energy volumes associated with them for the purposes of calculating Main Funding Shares, a limited number of costs will be recovered from these BM Units apart from Specified Charges. MSID's will also be within the Base or Additional BM Units so double charging will occur if the current charge per MSID is adopted. It is planned that there will be some alignment with the cost of Additional BM Units and Secondary BM Units.

### 6.2 Drivers for Raising Additional BM Units / Additional Secondary BM Units

- 6.2.1 A generator may register an Additional BMU with ELEXON in order to participate in the BM through their supplier, whilst remaining as SVA registered plant. P310 also incentivises Suppliers to raise Additional BMU's to achieve a more accurate credit position. Talks within Issue Groups ([Issue 70 'Settlement of Secondary BM Units using metering at the asset'](#) and [Issue 71 'Introduction of a baselining methodology as an alternative to Physical Notifications'](#)) have noted that there may be the need to create a number of additional Secondary BM Units for Baselining purposes, representing Technology types etc.

### 6.3 Base BMU vs Additional BMU's Charges

- 6.3.1 When a new Supplier registers with ELEXON they are assigned 14 Base BM Units even if they only intend to operate in one GSP Group. This is a possible justification for **one** Additional BM Unit being charged the same as 14 Base BM Units.

# REVIEW OF SPECIFIED CHARGES FOR ADDITIONAL BM UNITS

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## 6.4 Unintended Consequences

- 6.4.1 Before changing the Specified Charge for an Additional BM Units it is important to understand the impact this may have. BM Units are an aggregation of MSID's. Substantially reducing the charge may result in a glut of new Additional BM Units being raised in a short space of time. There may be considerable administration costs over and above business as usual for BSC Parties in creating new Additional BM Units. For example National Grid utilise BM Units for billing Transmission Network Use of System (TNUoS) and Balancing Services Use of System (BSUoS) charges. There is time and effort involved in setting up new BM Units in their systems. As well as the initial set up costs, the size of files, subsequent download times and ongoing storage costs, will increase for all Industry participants if the number of BM Units substantially increases. Unintended consequences are not sufficient in magnitude to prevent change but do need to be considered.

## 7. Options for Change

- 7.1 In light of the considerations identified above, we have identified the following five possible approaches to reviewing the Additional BM Unit Monthly Charge.
- 7.2 **Option 1 - Do Nothing.** Clearly there is an option to leave the Additional BM Unit Monthly Charge unchanged at £100/month. However, although we are not recommending a full review of Section D charges as discussed in section 4, we do believe it is appropriate to amend this charge. Concerns have been raised that the charge is not cost-reflective, and is causing unjustified extra costs for certain Suppliers. If Secondary BM Units mirror the costs of Additional BM Units but at the current existing charge, the current charge has been noted as a potential blocker for new entrants who wish to participate in TERRE. We feel that there are equitable reasons to reduce the charge, and the current charge may act as a barrier to entry for new Market Entrants participating in Project TERRE and other potential future Ancillary Services. For these reasons we do not recommend option 1.
- 7.3 **Option 2 - Undertake a deep dive of ELEXON costs.** Correctly identifying the additional costs by each Additional BM Unit registration is likely to be challenging, and in any case the costs may change dramatically as a result of implementing the Foundation Programme. For this reason we do not believe this option is currently appropriate, and would be better considered as part of a full review of Section D charges for the 2020/21 or 2021/22 BSC Years).
- 7.4 **Option 3 - Remove Specified Charges without Drivers.** The review of the Additional BM Unit charge highlights potential issues in having Specified Charges without cost drivers as it is difficult to evidence the charge. The charge could potentially be removed (by setting it to zero) without a Modification Proposal. However it must be noted that the Additional BM Unit Charge has been in place for a number of years and this is the first time that it has been openly challenged (potentially due to [P310 'Revised Credit Cover for Exporting Supplier BM Units'](#)). It feels correct to have a fixed charge for an Additional BM Unit. If Secondary BM Units charges mirror the cost of Additional BM Units then a fixed charge is a necessity as Secondary BM Units do not have credited energy volumes so will pay minimal amounts towards costs. Reducing the charge to 0 may lead to a sudden increase in additional BM Units and unintended consequences. This may have a large impact on the current system as well as other Industry Systems and potentially increase costs for other users who do not have embedded generation within their portfolio. We do not recommend setting the Additional BM Unit Monthly Charge to zero, due to the risks it could pose to other parties.
- 7.5 **Option 4 - Reduce Additional BM Unit Charges.** The Additional BM Unit Charge has not prevented BM Units being raised but may be seen as a blocker for future BM participation as we move to a more decentralised energy market. All 14 Base BM Units are raised at the same time and users are forced to have 14 Base BM Units even if not required. From an initial set up perspective there is justification in having a similar charge for an Additional BM Unit. However the Specified Charge is an ongoing charge and not a one off charge. It is therefore not equitable to have the same charge for 14 Base BM Units as it is for one

# REVIEW OF SPECIFIED CHARGES FOR ADDITIONAL BM UNITS

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Additional BM Unit. As Additional BM Units are optional and may have reduced or 0 credited energy volumes (in the case of Secondary BM Units) the charge should not be reduced to 1/14<sup>th</sup> of the current charge but should be higher. It is important that there is a fair balance between cost reflectivity and removing barriers to new entrants. We believe that the current charge may be imposing inappropriate costs on certain types of Supplier, and may act as a barrier to entry. We therefore recommend that the charge be reduced, but not to zero.

- 7.6 **Option 4a - Reduce Additional BM Unit Charges on a Phased basis.** There are a number of fixed costs associated with registering BM Units and managing them, irrespective of energy. Unintended consequences of reducing the charges are not quantifiable as well as the potential number of Additional BM units, which may be raised as a result of the cost decrease. To reduce the potential administration problems which may occur if the cost decrease led to a significant number of Additional BM Units all being raised at once, the charge decrease could be handled on a phased basis to move to the agreed number over two years, for example. This would determine the price elasticity of the charge and allow it to be reviewed before committing to a further price decrease. The alignment with Secondary BM Units needs to be considered in terms of whether or not the current and reduced charge of £60 is seen as a blocker to new market entrants
- 7.7 We recommend that the Panel adopt Option 4a, as it provides a route to addressing current issues while avoiding unnecessary risk. We propose reducing the charge to £60 for the current year 2018/19 with the option to further reduce the charge for 2019/20 to £20. This reduction would be agreed as part of the normal annual process. The Panel and ELEXON should keep this charge under constant review and analyse the number of Additional BM Units which are being raised and by which BSC Parties and report to Panel on a regular basis.

## 8. Recommendations

- 8.1 We invite you to:
- a) **AGREE** that, for the reasons explained in section 4, a full review of Section D charges is not required for charging year 2019/20; and
  - b) **AGREE** that the Additional BM Unit Monthly Charge should be reduced to £60/month with effect from 1 October 2018, and reviewed again prior to the 2019/20 BSC Year, in accordance with Option 4a.

## Appendices

Appendix 1 – Historic Cost Recovery

### For more information, please contact:

Damian Clough, ELEXON Design Authority

[Damian.Clough@elexon.co.uk](mailto:Damian.Clough@elexon.co.uk)

07551 124617

# REVIEW OF SPECIFIED CHARGES FOR ADDITIONAL BM UNITS

## Appendix 1 - Historic Cost Recovery

Table 1

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total ELEXON Costs	71,811	71,590	66,170	58,960	37,021	33,074	34,160	35,183	31,493	30,079	30,003	29,539	27,413	30,874	30,885	33,293	37,159
Base Monthly Charge	492	514	564	579	599	561	555	591	624	660	706	748	794	866	948	1072	1202
CVA Metering Systems	332	336	336	339		463	464	464	468	472	481	490	494	498	498	508	528
CVA BM Unit	385	410	410	417	465	511	519	541	556	583	672	720	746	776	810	810	880
Base BM Unit Monthly Charge	52	53	53	69	72	69	62	66	71	82	83	90	108	117	139	177	212
Additional BM Unit Monthly Charge	60	70	70	19	6	2	2	2	2	1	2	22	22	34	60	54	110
Base Replacement Supplier BM Unit						1	1										
Total	1,321	1,383	1,433	1,423	1,641	1,607	1,603	1,664	1,721	1798	1944	2070	2164	2292	2455	2621	2932

Table 2

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Base Monthly Charge	0.7%	0.7%	0.9%	1.0%	1.6%	1.7%	1.6%	1.7%	2.0%	2.2%	2.4%	2.5%	2.9%	2.8%	3.1%	3.2%	3.2%
CVA Metering Systems	0.5%	0.5%	0.5%	0.6%	1.3%	1.4%	1.4%	1.3%	1.5%	1.6%	1.6%	1.7%	1.8%	1.6%	1.6%	1.5%	1.4%
CVA BM Unit	0.5%	0.6%	0.6%	0.7%	1.4%	1.5%	1.5%	1.5%	1.8%	1.9%	2.2%	2.4%	2.7%	2.5%	2.6%	2.4%	2.4%
Base BM Unit Monthly Charge	0.1%	0.1%	0.1%	0.1%	0.2%	0.2%	0.2%	0.2%	0.2%	0.3%	0.3%	0.3%	0.4%	0.4%	0.5%	0.5%	0.6%
Additional BM Unit Monthly Charge	0.1%	0.1%	0.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.1%	0.1%	0.1%	0.2%	0.2%	0.3%
Base Replacement Supplier BM Unit						0.0%	0.0%										
Total	1.8%	1.9%	2.2%	2.4%	4.4%	4.9%	4.7%	4.7%	5.5%	6.0%	6.5%	7.0%	7.9%	7.4%	7.9%	7.9%	7.9%