

TERMS OF REFERENCE FOR A FULL REVIEW OF ELEXON CHARGES

MEETING NAME BSC Panel

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Purpose of paper Decision

Classification Public

Summary Following discussion of Specified BSC Charges at the 13 September 2018 Panel meeting, ELEXON was tasked with bringing a paper back to the Panel identifying Terms of Reference for a full review of Section D charges initially via an Issue Group. This paper addresses the action to bring back Terms of Reference, but also recommends that the Panel should wait until the release of Ofgem's minded to decision in relation to the [Targeted Charging Review](#) due in Quarter four of this year, before the Issue Group is raised.

1. Background

- 1.1 ELEXON costs are recovered by a combination of Specified Charges which recover a portion of costs, with the remainder allocated to BSC Parties using a variety of funding shares (based on metered energy).
- 1.2 The last review of Specified BSC Charges was presented to the Panel in March 2018 ([paper 276/10](#)). It proposed that those charges without identified cost drivers should remain unchanged.
- 1.3 ELEXON presented [paper 282/10](#) to the Panel on 13 September 2018 recommending that the charge for Additional BM Units should be reduced from £100 to £60 for 2018/19, and any full review of the recovery of ELEXON's costs should be delayed until there was more certainty over ELEXON's future costs and direction of the market.
- 1.4 The Panel approved the reduction in the charge for Additional BM Units to £60 for the remainder of 2018/19, but disagreed that a full review should be delayed, with the rationale that the industry is constantly evolving and that there is unlikely to be a stable period in the near future. Therefore there would never be an optimum time to undertake a review so it should be started as soon as possible.
- 1.5 The Panel agreed that a full review of Section D charges should be carried out and that an Issue Group should be formed. The Panel agreed that the Issue Group should focus on ELEXON's costs only, but to take into account Ofgem's findings from its [review of cost recovery of residual charges](#), which are due by the end of 2018. The Panel requested that ELEXON return to the Panel in October 2018 to present the Issue Group's Terms of Reference.

2. Issue Group's Terms of Reference

- 2.1 Listed below are the Terms of Reference we believe are appropriate for an Issue Group in relation to assessing and amending how ELEXON's costs are recovered.

i) Agree Principles for the recovery of ELEXON costs.

Principles will underpin the development of new charges and can be used to assess any options. The Issue Group will also need to consider where these principles will reside in future i.e. do they need to be codified? The Principles for the Targeted Charging Review are as follows;

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1. reducing distortions
2. fairness
3. proportionality and practical considerations

Appendix 1 contains a non-exhaustive list of potential Principles for the Issue Group. We are not asking the Panel to agree these Principles, but due to the importance of Principles in any review we are asking for Panel feedback on these Principles ahead of the Issue Group.

ii) The Issue Group should determine which Parties should pay for ELEXON costs and if charges can/should be split based on a Party basis?

Should all Parties be charged i.e. Generation, Storage, Consumption, Virtual Lead Parties and Non BSC Parties (change)? For the recovery of the Transmission Network Use of System (TNUoS) residual, the Targeted Charging Review proposes that Generators should not pay the residual. A number of inflight Industry modifications are currently proposing removing charges on Storage.

iii) Consider how potential changes to charges may interact with the existing Targeted Charging Review/Significant Code Review (SCR).

For example, a recent Connection Use of System Code (CUSC) Modification [CMP307 'Expanding the BSUoS charging base to include embedded generation'](#) presented at the CUSC Panel on 28 September 2018, aimed to remove an embedded benefit for Balancing Services Use of System (BSUoS). The CUSC Panel came to an agreement that BSUoS as a whole was not in scope of the Targeted Charging Review/SCR, but if a Modification is raised, which explicitly aims to remove an embedded benefit or the solution itself removes an embedded benefit, then it will fall within the scope of the Targeted Charging Review/SCR. Ofgem will provide a letter to the October 2018 CUSC Panel giving further direction on BSUoS and the Targeted Charging Review/SCR. This is relevant for example, if an option is to recover ELEXON's costs from gross demand, this may remove an embedded benefit, thus then fall under the Targeted Charging Review/SCR and potentially delay any Ofgem decision and Implementation Date.

iv) Consider the settlement of Balancing Services in the context of widening up access of the Balancing Mechanism and if these costs should be separately recovered and if so how?

Currently, Virtual Lead Parties will pay limited ELEXON charges from April 2019 will not be responsible for the Meters or have Credited Energy. If Specified Charges without cost drivers are removed then these charges will reduce to near zero. National Grid ESO recently mentioned that it envisaged opening up the use of Secondary BM Units to more than just Replacement Reserve.

v) Consider if the recovery of ELEXON costs can be aligned with other industry work on the recovery of costs for example, charging of the Residual considered under the Targeted Charging Review and any review of BSUoS.

Ofgem plans to publish a minded to decision in Quarter four of this year on the Targeted Charging Review/SCR and National Grid ESO is holding workshops on BSUoS at the start of October 2018. There may be merit for simplicity and consistency to align how we recover our costs with other Industry charges.

vi) Consider the impact on the end consumer.

A 'per Meter' charge may proportionally impact smaller customers and benefit large intensive users. Alternatively should energy intensive users pay more proportionally per transaction?

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vii) Investigate how the recovery of costs is undertaken in other Sectors for example, Financial Services, Water Industry.

Financial services have recently introduced Principal Regulation. The Issue Group should review other sectors for potential best practice in the recovery of costs.

viii) Consider European Electricity Balancing Guidelines (EB GL) and how the equivalents of ELEXON recover their costs in Europe.

There are a number of equivalents of ELEXON within Europe who are separate from the System Operator. For example, Austria has a Clearing and Settlement Agent (CSA) called [APCS](#). Examination of how these organisations recover their costs may prove valuable to the Issue Group. It is also important to check that the recovery of costs and any future changes are in line with EB GL.

3. When to raise an Issue Group

- 3.1 We note the Panel's comments at the September 2018 Panel that there will always be change, therefore there is not an optimum time to raise an Issue Group. For this reason an Issue Group to review recovery of charges should be raised as soon as possible.
- 3.2 However, if the Panel agree that Term of Reference **iii)** is applicable, then there is merit in delaying the raising of an Issue Group until Ofgem's minded to decision is formally published.
- 3.3 ELEXON will continue to gather evidence on other Industry Sectors to aid Terms of Reference **vii, viii** in the interim period between now and the Issue Group.

4. Recommendations

- 4.1 We invite you to:
- a) **AGREE** the Terms of Reference for an Issue Group to be raised to review the recovery of ELEXON's costs; and
 - b) **AGREE** that an Issue Group will not be raised until Ofgem has published its minded to decision on the Targeted Charging Review in Quarter four of 2018.

Appendices

Appendix 1 – Potential Principles

For more information, please contact:

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Appendix 1 – Potential Principles

- Stable and Predictable
- Simplicity
- Transparency
- Unavoidable
- Minimise behavioural change
- Accurately Recovers all costs in a calendar year
- Cost reflective
- Fair to the end consumer