

SCOPING PAPER FOR A REVIEW OF SECTION D CHARGES

MEETING NAME	BSC Panel Meeting
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Date of meeting	8 November 2018
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Paper number	284/06
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Owner/author	Damian Clough
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Purpose of paper	For Decision
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Classification	Public
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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 meeting on 11 October 2018, identifying Terms of Reference for a full review of Section D charges, initially via an Issue Group. Following the Panel meeting, the Panel requested an overview of current charges and historic principals to enable it to assess the size and scope of any review before it could agree the Terms of Reference. This paper addresses the action to bring back an overview of ELEXON's charges and cost recovery as well as Charging Principles.
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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 BSC Parties using a variety of Funding Shares (based on metered energy).
- 1.2 The last review of Specified BSC Charges was documented in [paper 276/10](#), presented to the Panel on 9 March 2018. 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 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 for the remainder of 2018/19, but disagreed that any full review should be delayed, with the rationale that industry is constantly evolving. They therefore believed that 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, and 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 at its 11 October 2018 meeting to present the Issue Group's Terms of Reference [paper 283/10](#).
- 1.6 Following the review of the Terms of Reference, the Panel requested further information on the charges so it could gain an understanding of all charges and scope the review. This paper therefore provides further detail on ELEXON's charges and cost recovery, and seeks the Panel's feedback on the scope of the review and agreement on the Terms of Reference for the review.

2. ELEXON charges in detail

- 2.1 ELEXON's costs and the contracted costs of BSC Agents are paid for by BSC Parties as described in Section D of the BSC. The amount each BSC Party pays (Funding Shares) depends on their market role and the volume

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of energy they generate, supply or trade. Funding Share data by month can be found on the ELEXON Portal. Note that BSCCo Charges are entirely separate from Trading Charges, which are the charges that Parties incur, or the payment to which they are entitled, as a result of delivering energy to or offtaking energy from the system.

2.2 The table below shows revenue recovered to date for 2018/19 from each Section D charge.

Charge	Total	%
Additional BM Unit Monthly Charge	£ 87,240.00	0.3%
Base BM Unit Monthly Charge	£ 134,500.00	0.5%
Base Monthly Charge	£ 717,500.00	2.8%
Base TIBCO Support	£ 37,954.49	0.1%
CVA BM Unit	£ 524,600.00	2.0%
CVA Metering Systems	£ 313,250.00	1.2%
Dataline Installation	£ 10,397.92	0.0%
Dataline Rental	£ 200,160.38	0.8%
Dataline Support	£ 37,739.92	0.1%
Net Main Cost	£ 20,385,828.08	79.3%
Notified Volume Charge	£ 465,440.99	1.8%
Production SVA Cost	£ 1,413,577.54	5.5%
SVA MS Monthly Charge	£ 1,364,055.66	5.3%
Total	£ 25,692,244.98	100%

2.3 The Net Main Cost and Production Supplier Volume Allocation (SVA) costs are specified as Funding Shares with the remainder classed as Specified Charges. Therefore the majority of costs are recovered through Funding Shares.

Charge Split	Total	%
Funding Share	£ 21,799,405.62	85%
Specified Charge	£ 3,892,839.36	15%
Total	£ 25,692,244.98	100%

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- 2.4 For each "invoice month", ELEXON calculates its Annual BSC costs to be recovered from BSC Parties by all Main Specified Charges, SVA Specified Charges and Net Annual Costs. An amount equal to 1/12 of the calculated Annual BSC costs for the current year is then used as the amount to recover from BSC Parties in that invoice month. ELEXON then calculates, using this amount, the various Funding Shares, Specified Charges and Net Annual Costs during that BSC Year, up to and including the invoice month, for which each Party is liable.
- 2.5 Actual Initial Settlement Run (SF) data is used where available and estimated initial data where SF data is not available, for the calculation of all Funding Shares. Deducting all amounts previously invoiced in that BSC Year for each Party then gives the amount for which each Party is liable for the current month. Thus any over or under estimate in any month will be reconciled in future months. A final calculation is made within 28 days of the publication of ELEXON's audited accounts for the BSC Year, and a final invoice ensures that the amounts paid by each Party in respect of the BSC Year are then correct.

3. Current Specified Charges

- 3.1 The table below shows a list of Specified BSC Charges set in March 2018 and updated in September 2018 for the Additional BM Unit charge change. There are a mix of charges varying from straight cost pass through, to cost recovery based on volumes or meters, to specified drivers with no driver.

Specified Charge	Current Rate	Note
Notified Volume Charge (Contracts Traded)	£0.0005/MWh/month	To recover Energy Contract Volume Aggregation Agent (ECVAA) costs
SVA Specified Charge (Half Hourly (HH) MSIDs)	£0.00598/MSID/month	To recover Suppliers' share of the HH related SVA costs
Dataline Monthly	Direct recovery of communication line costs charged by the BSC Central Service Agent, varied from £291.25/month to £785.42/month depending on technical specifications chosen.	Pass through
TIBCO Charges	Direct recovery of TIBCO license costs charged by TIBCO Software Inc. currently at £16,426 for one off standard set up and £246.39/month for support (18% of installation cost per annum).	Pass through
Base Monthly Charge	£250/month	No driver
CVA Metering System Monthly Charge	£50/month	No driver
CVA BM Unit Monthly Charge	£100/month	No driver

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Supplier Base BM Unit Monthly Charge	£100/month	No driver
Supplier Additional BM Unit Monthly Charge	£60/month	No driver

4. Accession application fee

- 4.1 The charge for acceding to the code is currently £500. The fee is listed within Section A of the BSC. The current review aims to examine charges within BSC Section D. A defect would need to be created for an Issue and subsequent Modification. The scope of the defect would need to be widened beyond just BSC Section D Charges to include the Accession Application Fee.
- 4.2 The first Accession Application Fee was set by the Panel in August 2000 at £500 (see paper 01/05 included in Attachment A). The paper set out the following recommendation:
- “It is recommended that the application fee be set at an initial level of £500. This figure represents an estimate of the average cost to ELEXON of processing an application, including provision of advice to applicants, validation of party details, preparation and execution of accession agreements and delivery of relevant notices.
- ELEXON will keep the level of the fee under review and will advise the Panel if it transpires that the company faces a different level of costs in practice.”

5. Review of Historic Charging Principles

- 5.1 A thorough review of historic charges has led to the conclusion that ELEXON's charges were set as part of the design of New Electricity Trading Arrangements (NETA) through the NETA programme. We have been unable to find the individual papers which may have listed the principles on which the original charges were set. We have requested copies from the National Archives. Attachment B shows a section of a paper produced by DTI and Ofgem which compares costs and charges incurred in the Pool to those proposed under NETA. This paper was taken to the BSC Panel in August 2000 seeking Panel approval for the allocation of costs.
- 5.2 It appears that a number of charges pre-existed before NETA and therefore one of the aims was to assign costs correctly to the existing charges and to recover costs from participants in a comparable way to the previous regime. This, however, is an assumption (confirmed by members of the expert groups at the time) based on the lack of evidence of papers approving the actual charge structure compared to three papers seeking approval of the cost allocation to those charges. Those costs which are not comparable are recovered through the Main Funding Share, which would be similar to how Pool costs were recovered, which were based on a volume and market share basis.
- 5.3 Any review of principles would therefore need to examine the charges set for the Pool and not created at NETA.

6. New participants

- 6.1 Since 2000/1 there have been large changes to the electricity industry, particularly with the increase in decentralised energy. An increasing amount of energy is produced from embedded sources not classed as Generators in terms of Balancing Mechanism Units (BMUs) and the Balancing Mechanism (BM), and their energy flows through Suppliers' BMUs.

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7. Issue Group's Terms of Reference

7.1 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:

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

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

Should all BSC 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 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 Balancing System Use of System (BSUoS) charges.

Ofgem plans to publish a minded to decision in Quarter four of this year on the Targeted Charging Review/Significant Code Review (SCR) and National Grid Electricity System Operator (ESO) held workshops on BSUoS on the 5th and 12th October 2018. There may be merit for simplicity and consistency to align how we recover our costs with other industry charges.

iv) 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?

v) Investigate how the recovery of costs is undertaken in other Sectors for example financial services, water industry

Principal Regulation has recently been introduced to the financial services sector. The Issue Group should review other sectors for potential best practice in the recovery of costs.

8. Recommendations

8.1 We invite the Panel to:

- a) **AGREE** the Accession Fee in BSC Section A is in scope of the review;
- b) **AGREE** all charges within BSC Section D will be in scope of the review; and
- c) **AGREE** the Term of References for an Issue Group to be raised to review the recovery of ELEXON's costs.

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Attachments

Attachment A – Paper 01/05 Approval of level of Accession Application Fee

Attachment B – Paper 0101A2_180800 ELEXON's Business Plan (Go Active to March 2003) DTI/Ofgem

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