BSC Funding Shares System Audit Approach

Year ending 31 March 2019

Contents

Document Classification: KPMG Confidential

Scope of the funding shares audit

The Funding Shares assurance that KPMG will provide is set out within the BSC and is based on re-performance of the Funding Shares calculations.

Background and BSC requirements

Funding Shares are the mechanism whereby the costs associated with the operations of the Balancing and Settlements Code Company (BSCCo or ELEXON) are shared between the Trading Parties operating in the electricity market. Funding Shares are broken down by cost area as indicated in the 'Approach' section below and as set out in the 'BSC Costs Invoice Supporting Information' sent alongside invoices/credit notes for the Annual Funding Shares costs. The basis for calculating these shares is set out in the Balancing and Settlement Code ('BSC') Section D, as follows:

— 'Main Funding Shares' as defined by BSC Annex D-1, Part 1;

— '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).

Section H of the BSC (the 'Code') requires that an assurance of the calculation of Funding Shares is undertaken each year prior to the annual funding shares being applied and raised to market participants.

Funding Shares are recalculated within 28 Days of the publication of the audited accounts of ELEXON Limited. The costs to which the Funding Shares are applied are based on these audited amounts.

Assurance report

KPMG LLP is appointed by ELEXON to provide independent assurance over the extent to which the calculation of the Annual Funding Shares is performed in accordance with Section D of the Code. This assurance will be provided in the form of an independent report in accordance with International Standard on Assurance Engagements 3000 (revised) – 'Assurance Engagements other than Audits and Reviews of Historical Financial Information' ('ISAE 3000 (revised)') issued by the International Auditing and Assurance Standards Board. The expression 'audit' used in connection with this engagement is determined to mean a reasonable assurance engagement performed in accordance with ISAE 3000 (revised).

For the avoidance of doubt the following areas are not considered within the scope of the Funding Shares Assurance report:
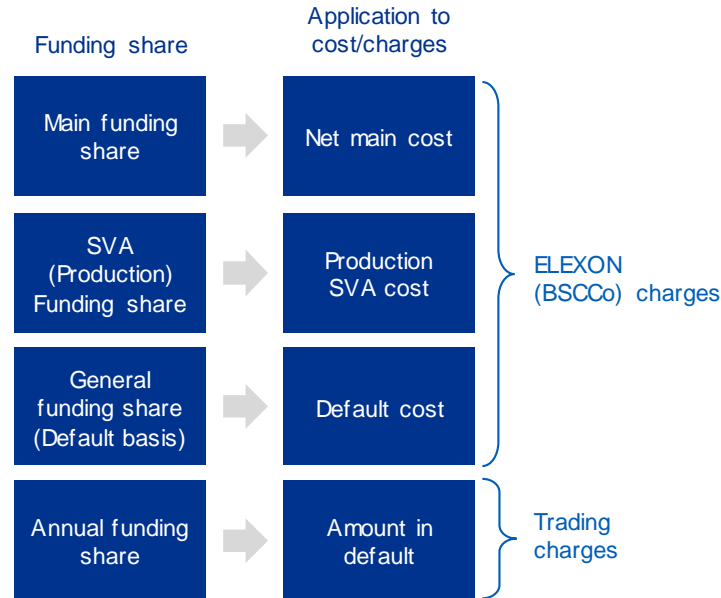
1. Completeness and Accuracy of source data input into the Funding Shares model and systems used by ELEXON to calculate the Annual Funding Shares including:

- source data originating within ELEXON;

- single net CVA production and consumption figures provided to ELEXON and used in the calculation of Credited Energy Volumes; and;

- summed values of Corrected Correctable Supplier Deemed Take provided to ELEXON and used in the calculation of Corrected Correctable Supplier Deemed Take.

2. Appropriateness of the principles of the Code and requirements therein.

3. Accounting policies adopted by ELEXON in accounting for its transactions, costs and revenues. Such matters are considered by the ELEXON statutory auditors.

Approach to the funding shares audit

Here we set out our approach to providing the Funding Shares Assurance report. Our work will focus on re-performing calculations of the Main Funding Shares, SVA (Production) Funding Shares, General Funding Shares (applied on a default basis) and associated BSC Cost shares, together with reconciling these to the BSC Costs Invoice Supporting Information.

For a selection of months, ELEXON's calculation of the Annual Funding Shares will also be re-performed and reconciled to the files sent to the FAA for use in calculating Amounts in Default.

Funding Shares are broken down by cost area and allocated as follows:

Funding share	Application to cost/charges	
Main funding share	Net main cost	⎫
SVA (Production) Funding share	Production SVA cost	ELEXON (BSCCo) charges
General funding share (Default basis)	Default cost	⎭
Annual funding share	Amount in default	⎫ Trading charges ⎭

The Funding Shares Auditor will therefore consider ELEXON (BSCCo) and Trading Charges separately when arriving at its opinion. Detailed data requests are included in Appendix A.

ELEXON (BSCCo) Charges:

For a selection of Trading Parties, ELEXON's calculation of the Main Funding Shares, SVA (Production) Funding Shares, General Funding Shares (applied on a default basis) and associated BSC Cost shares will be re-performed and reconciled to the BSC Costs Invoice Supporting Information provided to Trading Parties so as to provide reasonable assurance that the calculations have been made in accordance with the Code.

Trading Charges (Annual Funding Share):

For a selection of months, ELEXON's calculation of the Annual Funding Shares will be re-performed and reconciled, using the steps as follows, to the files sent to the Funds Administration Agent ('FAA') for use in calculating Amounts in Default so as to provide reasonable assurance that the calculations have been made in accordance with the code.
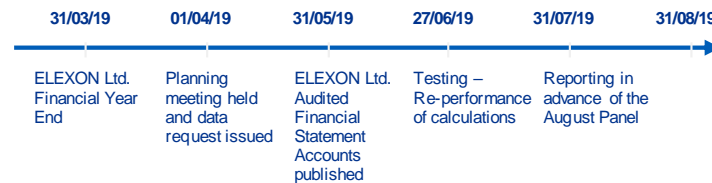
— Determine a selection of Annual Funding Share values to be assessed;

— For the selected months, obtain values of General Funding Shares for that month and the 11 preceding months;

— Re-perform the calculation of these General Funding Shares values;

— Re-perform the calculation of Annual Funding Shares values using these General Funding Share values; and

— Reconcile the resulting Annual Funding Shares values to those shown on the files sent to the FAA for their use in calculating Amounts in Default.

Timelines and deliverables

Here we set out the timetable for providing our assurance report in respect of the year ended 31 March 2019.

Timeline

The following indicative timeline is provided for the Funding Shares Assurance Reporting. All procedures will be carried out with the BSCCo.

31/03/19	01/04/19	31/05/19	27/06/19	31/07/19	31/08/19
ELEXON Ltd. Financial Year End	Planning meeting held and data request issued	ELEXON Ltd. Audited Financial Statement Accounts published	Testing – Re-performance of calculations	Reporting in advance of the August Panel	

Delivery to this timetable is dependent upon the complete, accurate and timely provision of the following:

— All relevant source data used in the calculations. This must correspond to the final version applicable to the values reported;

— The relevant allocation mapping details that apply to the source data, including the definition of those elements that should be included and excluded, when deriving the relevant BSC Costs and Charges data;

— The relevant definitions of Trading Parties and Defaulting Trading Parties; and

— Full cooperation of the team involved in managing the Funding Share calculations and corresponding amendments, and any other ELEXON employee relevant to this assignment.

Deliverables

A reasonable assurance report will be produced in accordance with the International Standard on Assurance Engagements 3000 (revised) – 'Assurance Engagements other than Audits and Reviews of Historical Financial Information' ('ISAE 3000 (revised)') issued by the International Auditing and Assurance Standards Board.

The objective of this report is to provide reasonable assurance that Funding Shares have been calculated in accordance with the requirements of the Balancing and Settlement Code and associated procedures. It does not provide absolute assurance that the Funding Shares are free from errors or that they have been calculated in accordance with the relevant requirements of the Balancing and Settlement Code and associated procedures.

For the purposes of our opinion a materiality threshold at 1% of the total funding shares allocation will be observed.

A copy of the Funding Shares Assurance Report will be made available for publication on ELEXON's website.

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Detailed data requests

Testing component	Input data required	Output data required
Elexon (BSCCo) charges	1. Value of 'Annual SVA Costs' for the year to March 2019. 2. Value of 'Annual BSC Costs' (less other income) for the year to March 2019. 3. Value of 'BSC NETA Recovery Amount' for the year to March 2019. 4. Unit volumes taken from the CRA files applicable for the calculations for the year to March 2019. 5. Unit volumes taken from the ECVAA files applicable for the calculations for the year to March 2019. 6. Unit volumes taken from PARMS data applicable for the calculations for the year to March 2019. 7. Other unit information to apply to the calculations of 'Main Specified Charges' for the year to March 2019. 8. Notified versions of the table r01_mappings. 9. A list from ELEXON of those defaulting Trading Parties excluded from the Cost and Charge calculations. 10. SQL data tables and views owned by ELEXON: — r01_data_files — viw_MPSC — r01_mappings — viw_MNMC — r01_ngcids — viw_tradingparties — r01_due — viw_defaultparties — r01_chargetypes — r01_saa_data — viw_MCNSC — r01_sva_data	The final version of the BSC Costs Invoice Supporting Information produced to accompany the ELEXON Charge bills raised.
Trading charges (Annual funding share)	1. Values of General Funding Shares involved in the calculation of the Annual Funding Share values selected. 2. The relevant version of input data, as defined in Table 5, used in the calculation of General Funding Shares provided.	Files sent to the FAA for their use in calculating Amounts in Default.