Issue Report

Issue 77 'Review of fixed charges under the BSC'

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About This Document

This document is the Issue 77 Group's Report to the Balancing and Settlement Code (BSC) Panel. ELEXON will table this report at the Panel's meeting on 13 June 2019.

There are two parts to this document:

- This is the main document. It provides details of the Issue Group's discussions and proposed solutions to the highlighted issue and contains details of the Workgroup's membership.
- Attachment A contains the Issue 77 Proposal Form.

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1 Summary

Background

Both ELEXON's costs as the Balancing and Settlement Code Company (BSCCo) and the contracted costs of Balancing and Settlement Code (BSC) Agents are paid for by BSC Parties as described in Section D 'BSC Cost Recovery and Participation Charges' of the BSC.

In 2018, BSCCo charges totalled £37.2 million, with fixed charges (otherwise known as standing charges) representing 8% of that total (£2.9 million). Unlike the other 92% of BSCCo charges which are allocated based on volume shares, there is no specified methodology for determining such charges which are known as Specified Charges without cost drivers (such as the £250 Base Balancing Mechanism (BM) Unit Monthly Charge). Instead the BSC Panel sets such charges on an annual basis.

The BSC Panel believes it appropriate to review the appropriateness of these fixed charges without drivers and at its meeting on 31 January 2019 (286B/01) recommended the formation of an Issue group to consider Specified Charges without cost drivers.

Conclusions

The Issue 77 group evaluated the appropriateness of Specified Charges without cost drivers in reference to the Panel's recommended set of high-level principles of simplicity, cost reflectiveness, fairness and proportionality.

The Issue Group recommends the following in regards to Specified Charges without cost drivers:

- Base Monthly Charge should remain unchanged at £250/month;
- Central Volume Allocation (CVA) Metering System Monthly Charge should remain unchanged at £50/Month;
- CVA BM Unit Monthly Charge and Supplier Base BM Unit Monthly Charge should be reduced from £100/month to £0/month; and
- Supplier Additional BM Unit Monthly Charge and Base Virtual Lead Party Monthly Charge should remain at £60/month and £125/month.

Further detail and justification for these recommendations can be found in sections 3 and 4 of this paper.

What is the Balancing and Settlement Code Company?

ELEXON is known as the Balancing and Settlement Code Company (BSCCo), which administers the BSC, its subsidiary documents, systems and processes. Prices and payment are managed by ELEXON through the settlement process.

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Background

What are BSC Costs?

All costs, expenses and other outgoings of BSCCo are referred to as BSC Costs, which are recovered from BSC Parties. BSC Parties pay a proportion of the BSC Costs every month, known as BSC Charges. Section D 'BSC Cost Recovery and Participation Charges' of the BSC details the BSC Charges and their recovery.

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).

BSC Costs are recovered under two different approaches:

1. Recover costs on a tariff-style approach, where charges are fixed (subject to periodic reviews) to a per unit price. These charges are known as the Total Specified BSC Charges.

2. Recover costs based on a Party's market share.

Each month a Party must pay its:

- Total Specified Charges;
- Monthly Net Main Costs via the Main Funding Share; and
- Monthly Production Charging SVA Costs via the SVA (Production) Funding Share.

Funding Shares

The Main and SVA (Production) Funding Shares are used to split portions of the BSC Costs. These are generally derived from a Party's Credited Energy Volumes (QCE) i.e. they are based on the Party's metered generation and/or consumption. In this way, a Party that generates or consumes more electricity will pay a larger proportion of the related Costs.

ELEXON calculate the Main Funding Share (FSM) for each Party for each month, and use it to calculate the Party's share of the Monthly Net Main Costs. This reflects the Party's share of the total Credited Energy Volumes in a month.

The Main Funding Share includes generated and consumed electricity. The energy a sole BM Unit produces or consumes counts towards its total QCE in the relevant account.

The Funding Share accounts for BM Units that produce and/or consume energy.

Specified Charges

Specified Charges are the fixed charges associated with being a BSC Party. They are set out in BSC Annex D-3.3 and D-3.4 and are determined by the BSC Panel before the start of each BSC Year.

Total Specified Charges are made up of:

What are Credited Energy Volumes?

Credited Energy Volume (QCEiaj) is the allocation of metered volume from BM Unit i to Energy Account a in Settlement Period j, taking account of Transmission Loss Multipliers and applying any Metered Volume Reallocation Notices that are in force

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- Main Specified Charges: Parties pay a monthly fixed amount for various services on a tariff style basis. Examples include a monthly BSC base charge and a monthly Balancing Mechanism (BM) Unit charge;
- SVA Specified Charges: Payable only by Suppliers for each of their SVA Metering Systems (account for half of SVA Costs, which cover the operational aspects of the SVA system. Generators pay the other half via the Production Charging SVA Costs – see below); and
- Further Charges: Any ad-hoc additional services required by any provision of the BSC or a Code Subsidiary Document (CSD), with prior approval from the Panel.

What is a BM Unit?

Balancing Mechanism (BM) Units are used as units of trade within the Balancing Mechanism. Each BM Unit accounts for a collection of plant and/or apparatus.

What are the Specified Charges?

This schedule sets out the amounts/rates of the Main and SVA Specified BSC Charges, as defined in Annex D-3 of the BSC. These charges are determined each year by the BSC Panel in accordance with Annex D-3 1.2(b).

Base Monthly Charge

Every Party, with the exception of Virtual Lead Parties (VLPs), as VLPs do not hold Energy Accounts, must pay a flat monthly charge. The current rate is £250 per month.

CVA Metering System Charge

Parties have to pay a charge per Registered CVA Metering System (including those at a Systems Connection Point) for which it has been the Registrant at any point in the month. The current rate is £50 per month.

CVA BM Unit Charge

A charge is made against every CVA BM Unit for which the Party is the Lead Party for all or part of the month. If the BM Unit is a Production BM Unit at an Export Exempt site where there are also one or more Consumption BM Units, then no charge is made. If there are Production BM Units at an Export Exempt site, where there are no Consumption BM Units, then one charge is made for all BM Units at that site. The current rate is £100 per month.

Notified Volume Charge

A charge is also payable against a Party's Gross Contract Volume (which is defined in D3.3.2). The current rate is £0.0005 per MWh.

Base BM Unit Charge

A Supplier must pay a charge for its set of 14 Base BM Units for each Supplier ID that it uses in the month. This refers to the BM Units automatically allocated under Section K3.3.1(a). The current rate is £100 per month.

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Additional BM Unit Charge

If a Supplier has any additional BM Units to those described above for which it is the Lead Party, then it must also pay a charge for those. The current rate is £60 per month.

Base VLP Monthly Charge

Every VLP, who is not also a Trading Party, pays a flat monthly charge. The current rate is £125 per month.

Where a VLP is also a Trading Party, then it will pay solely the Base Monthly Charge, not the Base Monthly Charge plus the VLP Base Monthly Charge.

Secondary BM Unit Monthly Charge

A VLP must pay a charge for each Secondary BM Unit for which the Party is Lead Party, for all or any part of that month. The current rate is £60 per month, which aligns to the charge for Additional BM Units.

SVA Metering System Charge

In addition to the Main Specified Charges detailed above, Suppliers also have to pay a charge per SVA Metering System that it is the Registrant for during the month. The current rate is £0.00757 per SVA Metering System.

Historic Cost Recovery

For the financial year 2017/2018, BSC Costs were recovered:

- 92% via Funding Shares;
- 8% via Specified Charges.

The table in Appendix 1 shows Historic Cost Recovery. ELEXON's costs for the period above were in the region of £40m.

Overall, Specified Charges without cost drivers recover less than 10% of ELEXON's costs. The vast majority of revenue is collected through either Specified Charges with drivers or through the Main Funding Shares (the majority being the Main Funding Share).

ELEXON's costs are set to rise next year as outlined in our Business Plan, as communicated to, and previously published for comment by Industry. The rates for these charges do not change in line with this increase. This will mean that ELEXON will recover less from Specified Charges than before.

What is a Base BM Unit?

For any Supplier and any GSP Group, the "Base BM Unit" is the Supplier BM Unit which was registered for the Supplier.

What is the Issue?

The amount each BSC Party pays in Funding Shares depends on their market role and the volume of energy they generate, supply or trade. However, there are no drivers for the Specified Charges described in Section D, Annex D-3, with the BSC Panel determining these on an annual basis instead.

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The lack of an evidence-based approach towards setting the rates of Specified Charges without cost drivers is inconsistent with the manner in which other charges (for example the Notified Volume Charge and SVA Metering System charge) are reviewed, determined and communicated to the Parties who have to pay them.

In February 2019 (287/08) two new monthly Specified Charges for Virtual Lead Parties and Secondary BM Units were set for the 2019/20 financial year, using the existing Specified Charges methodology as a benchmark.

Furthermore, the rates for Specified Charges without cost drivers have remained broadly unaltered despite a changing market framework (along with changes to potential underlying costs such as storage and data) that will continue to develop with the introduction of new opportunities for market participants such as Project TERRE.

A recent challenge was made to the rate of the Additional BM Unit Specified Charge in 2018 (282/10). The challenge was over why the charge for an Additional BM Unit was comparable to other charges when the number of actual BM Units raised was not the same. No other BSC Parties have directly protested the methodology for setting Specified Charge rates. However, there remains an opportunity to gather industry views and feedback on an area of the BSC that has largely remained unchanged since its conception.

Furthermore, by engaging with BSC Parties through the BSC Issues process, industry views are gathered on the perceived appropriateness and cost-reflectiveness of Specified Charges and gauge industry appetite for change.

A long-term benefit of this proactive approach is its potential value in providing a documented body of evidence that may be used to support or dissuade future challenges to the rates of Specified Charges, which are considered on an ad hoc basis by the BSC Panel if an objection is raised.

Justification for Examining Issue

The Specified Charge rate for Additional BM Unit's was challenged by a BSC Party in March 2018. Following this a series of papers that investigated Specified Charges were presented to the BSC Panel (282/10, 283/10 and 284/10).

The investigation concluded that there was no supporting evidence to fully explain or justify the rate that some Specified Charges are set at, regardless of whether they are perceived as appropriate or not.

When the Panel last conducted a consultation of the Supplier Volume Allocation (SVA) Specified Charges in 2008 and in subsequent reviews, the option of cost drivers was favoured by Parties, i.e. BSC Parties should in general pay for costs in a manner that is reflective of the benefit to them of the product or service giving rise to the cost.

ELEXON endeavours to identify cost drivers for each BSC Specified charge whenever possible, but that it would not be possible to create an evidence-based approach due to the granularity of service provider contracts and supporting financial information.

Therefore, the Panel agreed that direct industry engagement through an Issue group would provide a valuable opportunity to gather industry feedback on the subject, and the formation of an Issue group was recommended by the Panel at its 31 January 2019 meeting (286B/01).

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The Panel proposed that the following Specified Charges without cost drivers should take up the main focus of discussion:

- Base Monthly Charges;
- CVA Metering System Monthly Charge;
- CVA BM Units Monthly Charges;
- Base BM Unit Monthly Charges;
- Additional BM Unit Monthly Charge; and
- Base Replacement Supplier BM Unit.

Issue Group terms of reference

ELEXON presented a paper to the BSC Panel at its 31 January 2019 meeting (286B/01) seeking the Panel's views on the terms of reference for a potential Issue group. The Panel recommended that an Issue group be formed and recommended the inclusion of the following set of high-level principles under which Specified Charges without cost drivers should be evaluated:

- Simplicity;
- Cost reflectiveness;
- Fairness; and
- Proportionality.

Additionally, the following suggestions for terms of reference under which it would be appropriate for an Issue group to assess how ELEXON's costs are recovered was also noted in the same paper:

- Consider whether the current Specified Charges without cost drivers are appropriate.
- Agree principles for the recovery of ELEXON costs to underpin the development of ELEXON charges and assessment of further options. The Issue Group will also need to consider where these principles will reside in future.
- 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 or VLPs. Are all Parties currently being charged?
- Consider the impact on the end consumer.

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3 Issue Group's Discussions

A single Issue 77 meeting was held on 15 May 2019. Issue Group discussions focused on the scope of Issue 77 and the development and application of principles with which to evaluate the appropriateness of Specified Charges without cost drivers.

Initial Discussions

Issue group members noted that, wherever possible, ELEXON endeavours to develop and apply a methodology for the recovery of BSCCo costs, but that would not be possible to create an evidence-based approach for certain Specified Charges due to the granularity of service provider contracts and supporting financial information.

Specified Charges had been implemented as part of the New Electricity Trading Agreements (NETA) in 2001, but in the years since this implementation the definitive rationale for introducing the rates had long since been lost.

Issue Group members noted that a set assumptions were made in order to arrive at the presumed methodology for Specified Charges nearly 20 years ago. It was part of the Issue 77 group's remit to question these assumptions and evaluate their effectiveness in the face of a rapidly changing electricity market.

One member stated their belief that Specified Charges were increasingly becoming less cost-reflective since their inception, and would continue to become less appropriate in the future due to upcoming changes in the market allowing flexibility, behind-the-meter development and an increased role for non-BSC Parties who increasingly benefit from BSC arrangements.

Historic Cost Recovery

ELEXON presented the Issue 77 group with the Historic Cost Recovery table in appendix 1 of this paper. It was highlighted for the group how there was no obvious causal relationship between total BSCCo costs and the amount recovered via Specified Charges.

One member commented on the marked increase in the number of BM Units over the past 18 years and pointed out that this mirrored an increased investment in BSC systems to accommodate these changes.

At this point it was clarified for the group that 2019 there likely see an increase in additional BM Units due to the implementation of Project TERRE.

ELEXON clarified that, historically, the Additional BM Unit Monthly Charge had acted as a deterrent to address a previous capacity and system constraints that was no longer in effect, in part because of increased investments in systems over the years.

Issue 77 scope and principles

A discussion of the scope of the Issue Group was held, principally whether it would be in the scope of Issue 77 to hypothetically recommend the creation of an entirely new Specified Charge.

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It was clarified for the group that, in the scenario where a charge is deemed as unfair and proposed for removal to be replaced with a better solution, then this would be in scope.

However the two would need to be directly related in order to qualify as being within scope of Issue 77.

It was highlighted that the purpose of Issue 77 is to engage with BSC Parties and gather industry views on the perceived appropriateness and cost-reflectiveness of Specified Charges, additionally 'testing the water' on the industry's appetite for change.

Central to the questions posed by Issue 77 was an evaluation of whether Specified Charges are achieving what they were originally intended to do and whether there this a better way to achieve these aims in the face of a much changed electricity market.

It was highlighted for the group that the BSC Panel had recommended the following high-level principles under which Specified Charges without cost drivers should be evaluated. These were:

- Simplicity;
- Cost reflectiveness;
- Fairness; and
- Proportionality.

In order to assist the assessment of these items, the Issue 77 group developed several additional principles.

The group further agreed a general principle whereby where it is possible to apply an identifiably cost-reflective charge then that should be the goal.

It was also agreed that, as a high-level principle, all market participants should pay a contribution to BSCCo costs that reflects the use and amount of benefit they receive from the arrangements.

As part of these discussions in developing this principle, the Issue Group noted that it would be inappropriate and unfair for Parties to pay minimal contributions to the running of BSCCo and also benefit from access to a host of BSC Systems and processes.

The Issue group also found it helpful to consider whether each Specified Charge represents a barrier to participation in the electricity market.

One member countered that the existence of a barrier is not always exclusively negative and can provide protection to the market and consumers alike, desiring a further development of the definition to encompass an "undue barrier".

The member stated that an effective "gate fee" is not necessarily harmful and can contribute to promoting good behaviour and the overall health within a market.

It was also agreed that, while some of the Specified Charges may not be truly cost-reflective, they have additional value as a method for influencing behaviour and that this should be taken into account alongside considerations of cost-reflexivity.

Deviations from true cost-reflexivity

As a useful example for illustration the additional considerations that would decide whether a given Specified Charge is appropriate, the group spent some time discussing the Accession Fee, which Parties acceding to the BSC must pay.

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The stated purpose of this fixed charge is to cover the administrative costs of entering the market, however the group discussed how that the Accession Fee of £500 as a one off charge does not accurately reflect ELEXON's operational costs that encompass the Market Entry services that are made available to an acceding Party.

Other services made available upon payment of this 'access charge' fee include access to an Operational Support Manager (OSM) and the ELEXON Portal.

However, it was felt by the Issue Group that the non cost-reflective fee offers wider benefits to innovation and accessibility and that, were it to be made truly cost-reflective and subsequently increased, that this could form a prohibitive and undue barrier to entry.

One member sought clarification on the level of support and resource given to dormant Parties. It was clarified that dormant Parties do indeed require ELEXON resource and that, at present, there were approximately 150 Parties (out of a total of 450) who were not trading.

The group highlighted that, were the Base Monthly Charge to be removed, the dormant Party could still propose changes to the BSC via a Modification or Change Proposal, but fail to contribute financially.

Obligations versus Commercial Decisions

One member noted that a licensed Supplier has no choice but to register a set of base BM Units and thus pay the Supplier Base BM Unit Monthly Charge.

The member stated their believed that it was in opposition to the choice to register Additional BM Units, for example, which were a conscious commercial decision that offered distinct benefits to the Party choosing to take this step.

As such, the member believed that this could form a useful distinction in considering what would be fair to include in the Main Funding Share.

Appetite for Change

The question of whether there should be a greater drive for cost-reflectiveness in arrangements was balanced against whether such a change would justify the cost, time and effort of changing systems to accommodate the suggestions.

In order to progress the recommendations of Issue 77, members had an option of two methods.

They could either recommend that the rate for certain Specified Charges be set to 0 – this would involve making a recommendation to the Panel, who would then make a decision.

On the other hand, if members wished to entirely remove Specified Charges from Section D, then this would involve the raising and progression of a Modification following the presentation of the Issue Report and subsequent closing of Issue 77.

Members noted the pros and cons of recommending that changes to the rates of certain Specified Charges be progressed either as a decision by the Panel versus a Modification.

A Modification was noted to provide an extra element of industry oversight and sourcing of a view from Ofgem. It was also noted that removing the charges entirely would make

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them much more difficult to change in the future, with further Modifications necessary in order to achieve this.

Were the charges to be set to 0 by the Panel, Issue 77 members identified time and cost savings with this approach. They were also comfortable with the level of oversight provided by the Panel, who they noted could recommend that a Modification be raised were they uncomfortable with the Issue Group's recommendations.

By setting the charge to 0, the Issue Group believed that the Panel could observe if this had any adverse effects and reverse the decision without raising an Industry Modification at a time where Industry resource is stretched.

Overall, members agreed that recommending changes to the rates of certain Specified Charges via a Panel decision was the more efficient approach in comparison to a Modification.

Assessing the suitability of Specified Charges without cost drivers

Base Monthly Charge

It was agreed that this Specified Charge, while not perfectly cost-reflective, is proportional to positively influence good behaviour in the market. It was noted that Parties can be dormant in terms of trading and credited energy and therefore pay limited charges (as the majority of costs are recovered from energy charges) but at the same time have access to a number of ELEXON services.

It was additionally noted that, while the fixed charge does not accurately reflect the true operational cost of ELEXON effort, the current rate allows for greater accessibility and enabling of innovation. Therefore a subsidised Base Monthly Charge was deemed appropriate.

It was felt that the monthly charge was necessary and reasonable and **thus should remain unchanged** at £250/month, as it was seen to positively influence the behaviour of market participants while not presenting an undue barrier to market entry.

CVA Metering System Monthly Charge

Members noted that there is a rationale for this fixed fee, as all SVA Parties appoint a Data Collector (DC), while in CVA this is handled by a central agent, the Central Data Collection Agent (CDCA).

In return for payment of this charge, Parties receive a particular and distinct data collection service, including the collection of some non-BSC data.

The Issue Group recommends that the CVA Metering System Monthly Charge **should remain unchanged** at £50/Month. This is on the basis that the amount is comparable to the SVA Metering System Monthly Charge and the costs incurred by Data Collection in SVA. It was additionally felt that this Specified Charge pays for particular data collection services and that, as such, it would not be appropriate via the Main Funding Share.

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CVA BM Unit Monthly Charge

For both the CVA BM Unit Monthly Charge and Supplier Base BM Unit Monthly Charge, members discussed what would happen if this Specified Charge did not exist and could not find any behavioural arguments for maintaining this fee as a Specified Charge, rather than as part of the Main Funding Share with costs covered by all Trading Parties.

It was additionally noted that this charge is obligatory and unavoidable for those Parties who pay it, rather than a conscious commercial decision.

The Issue 77 group recommends that the CVA BM Unit Monthly Charge **should be reduced from £100/month to £0/month**. This is on the basis that costs to operate within the market arising from obligations would be more appropriate to collect via the Main Funding Share.

It was speculated that these charges when first introduced may have existed to prevent a number of BM Units being raised, when storage and set up costs were higher. However, it was noted that these costs have dropped and any behaviour that this charge may have sought to prevent is not as relevant as before.

Supplier Base BM Unit Monthly Charge

The Issue Group's rationale for Supplier Base BM Unit Monthly Charge closely mirrors that for the CVA BM Unit Monthly Charge.

The Issue Group were of the belief that base BM units were necessary in order for the market to function, and noted that Suppliers must have 14 BM Units even if they only trade in one demand zone. As a result, it was agreed that this charge would be appropriate for all Parties to share the cost as part of the Funding Share.

As such, the Issue 77 group recommends that the Supplier Base BM Unit Monthly Charge **should be reduced from £100/month to £0/month**, with costs recovered via the Main Funding Share.

Additional Impact Analysis

Following the Issue Group's agreement that CVA BM Unit Monthly Charge and Supplier Base BM Unit Monthly Charge should be reduced from £100/month to £0/month, ELEXON agreed to undertake analysis on the net effect of moving costs recovered via CVA BM Unit Monthly Charge and Supplier Base BM Unit Monthly Charge to the Main Funding Share.

Following the meeting, ELEXON analysed 2018/19 figures and came to the conclusion that the split between Suppliers and other Parties doesn't materially alter as a result of moving costs recovered via CVA BM Unit Monthly Charge and Supplier Base BM Unit Monthly Charge to the Main Funding Share.

The table below demonstrates the results of this analysis, showing the split between Suppliers and other Parties as a result of moving costs recovered via CVA BM Unit Monthly Charge and Supplier Base BM Unit Monthly Charge to the Main Funding Share.

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Outcomes of Issue 77 Analysis			
Status Quo		**Post Issue 77 Recommendations**	
Suppliers	Other	Suppliers	Other
38%	62%	39%	61%

This was based on analysing the split of CVA & SVA BM Unit charges by Suppliers and other types of Party, followed by investigation into who is currently paying Net Main Cost and then working out a funding share which was apportioned to the total pot of CVA and SVA BM Units. The impact was then calculated and reassessed under the proposed alterations.

Please note that the data resulting in the above table was approximated due to limitations in the level of data segmentation available.

The outcomes of this analysis were fed back to the Issue 77 group after the meeting, who were satisfied with the outcomes and requested no further clarifications.

Supplier Additional BM Unit Monthly Charge

The group recognised that Base BM Units and Additional BM Units are two different, separate products and therefore a different rationale for charging should be applied to each.

The Issue Group agreed that the taking on of additional BM Units is a choice and that reducing this charge to 0 would result in minimal charges for certain Parties despite the additional commercial benefits they might receive.

One member also noted that the existence of this Specified Charge also positively promotes efficiency as it gives the owner an incentive to manage their data assets.

It was felt that the monthly charge was necessary and reasonable and thus **should remain unchanged** at £60/month.

This was in line with the principle that a distinction should be made between unavoidable obligations in opposition to charges resulting from conscious commercial decision.

Base Virtual Lead Party Monthly Charge

It was noted that the Base Virtual Lead Party Monthly Charge is currently the only charge that Virtual Lead Parties (VLPs) pay if they do not raise any Secondary BM Units, as they do not hold credited energy and are not the Balancing-responsible Party and therefore will pay nothing in charges which are energy or meter related.

This means that the Specified Charge is their only contribution towards the running costs of the BSC, as the fact that they do not hold credited energy means they have nothing to pay as part of the Main Funding Share.

One member was uncomfortable with removing this charge on that basis, noting that VLPs should have to pay something towards the running of BSCCo given the benefits that they will receive.

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In line with the general principle that members believed that those Parties who use the system more should pay a contribution to recognise the commercial benefits that they receive, Issue Group members considered a number of alternative solutions.

A solution whereby a one-off set up fee was paid was discussed. One member stated that this should encompass an additional contribution to BSCCo costs, due to the benefits from the arrangements that they receive.

An alternative solution whereby VLPs would be charged on a volumetric basis was explored. Under this solution, Delivered Volumes derived from the provision of a Balancing Service could be counted as credited energy for the purposes of Funding Share calculations only, meaning that they would not count towards Imbalance charges, for example . It was noted that this may cause issues with the double counting of energy but that may not an insurmountable hurdle were appropriate adjustments to be made.

The wider effects of bringing VLPs into the Funding Share by classing their volumes as Credited Energy were discussed. It was clarified that this would make VLPs liable for any Default charges, as well as giving them Panel election voting rights. Some Issue Group members noted that VLPs having Panel election rights would be a positive element of this suggestion.

The group noted that this would be a significant piece of work to undertake and was not likely to be in the scope of Issue 77.

Following discussion, it was agreed that the issue of VLPs and their contribution to the payment of BSCCo costs remained an open issue, but that the group were uncomfortable with the wider consequences of setting Base Virtual Lead Party Monthly Charge to 0 as this would result in VLP's paying minimal charges. It was felt that any future change to this charge should be made in conjunction with other changes such as bringing VLPs into the Funding Share.

It was felt that was there was no better interim solution than a monthly charge at present and, as such, the Base Virtual Lead Party Monthly Charge **should remain unchanged** at £125/month.

The group recognised that there may well be a better way to recover ELEXON's costs from VLPs than the status quo, but that this potential defect was outside the scope of Issue 77 and that there was no better interim solution than a monthly charge at present.

Interaction with P361

It was noted that, at the time of the Issue Group's meeting, Modification P361 'Revised treatment of BSC Charges for Lead Parties of Interconnector BM Units' had not yet been approved or rejected by Ofgem.

Given that the P361 solution calls for Interconnector BM Units to be exempted from the Main Funding Share and SVA (Production) Funding Share BSC Charges, it was recognised that this may impact the status quo against which the Issue group were asked to evaluate Specified Charges, with one member highlighting that ELEXON's charges may be determined as Network Charges following the outcome of P361.

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If ELEXON's charges were classed as Network Charges, it was noted that current industry workstreams such as the Targeted Charging Review may set some precedence and direction of travel in the future.

However, with no direction provided by Ofgem as to the decision it would take regarding P361, the group had no choice but to consider it as a limiting factor in their discussions.

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4 Conclusions

Following discussions as part of Issue 77, changes to the rates of two Specified Charges have been agreed as recommendations to the BSC Panel.

Subject to views from the Panel on the conclusions of the Issue 77 group and wider industry work such as P361 and the Targeted Charging Review that are currently in progress, ELEXON intend to present a paper outlining Issue 77's conclusions at the next appropriate Panel meeting.

Issue Group Recommendations

Base Monthly Charge

The Issue Group **unanimously** agreed that the monthly charge was needed and reasonable and thus **should remain unchanged at £250/month**, as it was seen to positively influence the behaviour of market participants while not presenting an undue barrier to market entry.

CVA Metering System Monthly Charge

The Issue Group **unanimously** agreed that CVA Metering System Monthly Charge **should remain unchanged at £50/month**. This is on the basis that the amount is comparable to the SVA Metering System Monthly Charge and the costs incurred by Data Collection in SVA. It was additionally felt that this Specified Charge pays for particular data collection services and that, as such, it would not be appropriate via the Main Funding Share.

CVA BM Unit Monthly Charge

The Issue Group **unanimously** agreed that the Issue 77 group recommends that the CVA BM Unit Monthly Charge **should be reduced from £100/month to £0/month**. This is on the basis that costs to operate within the market arising from obligations would be more appropriate to collect via the Main Funding Share.

Supplier Base BM Unit Monthly Charge

The Issue Group **unanimously** agreed that Supplier Base BM Unit Monthly Charge should be reduced from £100/month to £0/month. This is on the basis that costs to operate within the market arising from obligations would be more appropriate to collect via the Main Funding Share.

Supplier Additional BM Unit Monthly Charge

The Issue Group **unanimously** agreed that the Supplier Additional BM Unit Monthly Charge **should remain unchanged at £60/month.** This on the basis that the taking on of additional BM Units is a conscious commercial choice and that a fixed fee approach is appropriate and reasonable.

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Base Virtual Lead Party Monthly Charge

The Issue 77 group recommends that the Base Virtual Lead Party Monthly Charge **should remain unchanged at £125/month.** The Issue Group concluded that contributions of VLPs towards BSCCo costs are not entirely equitable but were uncomfortable with the consequences of changing the rates within the scope of Issue 77.

Issue Group Additional Conclusions

The Issue Group additionally concluded that there would be a theoretical impact on the end consumer resulting from different BSC Parties paying different elements of the costs recovered via Main Funding Share rather than Specified Charges, but that the minimal nature of these costs made this impact to consumers immaterial in practice.

Following analysis, ELEXON and the Issue Group have concluded that the split between Suppliers and other Parties does not materially alter as a result of moving costs recovered via CVA BM Unit Monthly Charge and Supplier Base BM Unit Monthly Charge to the Main Funding Share.

Outcomes of Issue 77 Analysis			
Status Quo		**Post Issue 77 Recommendations**	
Suppliers	Other	Suppliers	Other
38%	62%	39%	61%

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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%

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Appendix 2: Issue Group Membership

Issue Group membership and attendance

Issue 77 Group Attendance		
Name	Organisation	15 May 2019
Elliott Harper	ELEXON *(Chair)*	✓
Ivar Macsween	ELEXON *(Lead Analyst)*	✓
Damian Clough	ELEXON *(Design Authority)*	✓
Darren Draper	ELEXON *(Subject Matter Expert)*	☎
Phillipa Burton	Scottish Power	☎
Steph Clements	Scottish Power	☎
Alex Troth	Oxford Cloud Technology	✓
Colin Prestwich	Smartest Energy	✓
Andy Colley	SSE	☎
Mark Thomas	RWE	✓

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Appendix 3: Glossary & References

Acronyms

Acronyms used in this document are listed in the table below.

Acronyms	
Acronym	Definition
BM	Balancing Mechanism
BMU	Balancing Mechanism Unit
BSC	Balancing and Settlement Code
BSCCo	Balancing and Settlement Code Company
CSD	Code Subsidiary Document
CVA	Central Volume Allocation
FSM	Main Funding Share
NETA	New Electricity Trading Agreements
OSM	Operational Support Manager
QCE	Credited Energy Volumes
SVA	Supplier Volume Allocation

External links

A summary of all hyperlinks used in this document are listed in the table below. All external documents and URL links listed are correct as of the date of this document.

External Links		
Page(s)	Description	URL
2	BSC Section D 'BSC Cost Recovery and Participation Charges'	https://www.elexon.co.uk/the-bsc/bsc-section-d-bsc-cost-recovery-and-participation-charges/
2	BSC Panel Meeting 286B	https://www.elexon.co.uk/meeting/bsc-panel-286b-ex-committee/
6	BSC Panel Meeting 287	https://www.elexon.co.uk/meeting/bsc-panel-287/
6	BSC Panel Meeting 282	https://www.elexon.co.uk/meeting/bsc-panel-meeting-282/
7	BSC Panel Meeting 283	https://www.elexon.co.uk/meeting/bsc-panel-meeting-283/
7	BSC Panel Meeting 284	https://www.elexon.co.uk/meeting/bsc-panel-meeting-284/
9	Overview of Project TERRE	https://www.elexon.co.uk/about/trading-electricty-market/terre-wider-access/
15	P361 Modification webpage	https://www.elexon.co.uk/mod-proposal/p361/

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