4.7 Issue Form

Issue Form - BSCP40/04	Issue Number: 77 *(mandatory by BSCCo)*

Issue Title

Review of fixed charges under the BSC

Issue Description

Summary

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 BM Unit Monthly Charge). Instead they are set on an annual basis by the BSC Panel.

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

Background

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.

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 (VLPs) and Secondary Balancing Mechanism (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 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

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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 proactively in this manner, we will gather industry views 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 whenever an objection is raised.

How are Specified Charges determined?

BSC Specified Charge rates are set and approved by Panel on an annual basis. The methodology for the structure of charges was created in the year 2000.

A Specified Charge can be deemed as being appropriately cost reflective even if there is no evidence to support the actual rate.

Many of the rates for Specified Charges without drivers have not changed since 2000 even though there has been substantial change within the industry.

Specified Charges with drivers (such as Supplier Volume Allocation (SVA) Specified Charges) do change if the underlying costs and numbers (such as energy/meters) alter.

It is 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.

Historic Cost Recovery

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

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).

Overall, Specified Charges without cost drivers recover less than 10% of ELEXON's costs.

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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, which has not been challenged 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.

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 explain the rate that some Specified Charges are set at. 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 endeavour 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, direct industry engagement through an Issue group will 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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Potential Solution(s)

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:

1. Consider whether the current Specified Charges without cost drivers are appropriate.
2. 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.
3. 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, VLPs and non-BSC Parties (change) and are all Parties currently being charged?
4. Consider the impact on the end consumer.

While the purpose of this Issue group is in part to determine whether there is a defect in the current arrangements for Specified Charges without cost drivers, the following high-level potential outcomes may be considered and amended as appropriate by the Issue group should a defect be identified:

1. Specified Charges without cost drivers are deemed as appropriate by Industry therefore no requirement to change.
2. Specified Charges without cost drivers are deemed as inappropriate and removed from Section D. Revenue is recovered from the Main Funding Share (not all Parties pay this charge as it's based on Credited Energy).
3. All charges are simplified and revenue collected through Credited Energy or a fixed Meter charge.

Proposer's Details

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Appendix 1: Historic Cost Recovery

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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