

REVISION OF SPECIFIED CHARGES 2019-2020

MEETING NAME BSC Panel

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Purpose of paper For Decision

Classification Public

Summary This paper reviews the BSC Specified Charges as set out in BSC Section D which are determined by the Panel. The paper recommends the flat charge levied of £100/month for CVA BM Units and Supplier Base BM Units be reduced to £0/month following the Issue Group 77 workgroup meeting.

1. Introduction

- 1.1 Section D of the Balancing and Settlement Code (BSC) '[BSC Cost Recovery and Participation Charges](#)' sets out the basis on which costs are allocated between BSC Parties. This includes BSC Specified Charges set out in Annex D-3. The Code stipulates that these charges are to be determined by the Panel.
- 1.2 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).
- 1.3 When the Panel last conducted a consultation of the Supplier Volume Allocation (SVA) Specified Charges in 2008 and in subsequent reviews, the option of levying charges based on a clear cost driver 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. This would include costs which are directly cost reflective (e.g. number of Metering System IDs (MSIDs)) or otherwise energy volumes, as this is broadly reflective of the benefit to Parties. Therefore, we endeavour to identify cost drivers for each BSC Specified Charge whenever possible.
- 1.4 The BSC Panel instructed ELEXON to review the appropriateness of the Specified 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.
- 1.5 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
 - Base Replacement Supplier BM Unit
 - Virtual Lead Party Monthly Charge

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2. Issue 77

- 2.1 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.
- 2.2 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, which would then make a decision. Alternatively, if members wished to entirely remove any Specified Charges from Section D, then this would require a Modification to the Code. 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. 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.
- 2.3 The Issue Group has recommended revising the rate of two current Specified Charges: the monthly charge attributed to CVA; and Supplier Base BM Units.

3. Proposals

- 3.1 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 appropriately collected via the Main Funding Share.
- 3.2 The Supplier Base BM Unit Monthly Charge should be reduced from £100/month to £0/month, with costs recovered via the Main Funding Share.
- 3.3 Further details of both proposals can be found in Appendix 1.

4. Recommendations

- 4.1 We invite you to:
 - a) **APPROVE** the reduction of CVA BM Units to £0 per month; and
 - b) **APPROVE** the reduction of Supplier Base BM Units to £0 per month.

Appendices

Appendix 1 – Issue group 77 assessment of the suitability of Specified Charges without cost drivers

Appendix 2 – Impact analysis of changing charge rates

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Appendix 1 Issue group 77 assessment of the suitability of Specified Charges without cost drivers

| Specified Charge | Issue Group Assessment |
|--|--|
| <p>Base Monthly Charge</p> | <p>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.</p> <p>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.</p> <p>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.</p> |
| <p>CVA Metering System Monthly Charge</p> | <p>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).</p> <p>In return for payment of this charge, Parties receive a particular and distinct data collection service, including the collection of some non-BSC data.</p> <p>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.</p> |
| <p>CVA BM Unit Monthly Charge</p> | <p>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.</p> <p>It was additionally noted that this charge is obligatory and unavoidable for those Parties who pay it, rather than a conscious commercial decision.</p> <p>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.</p> <p>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.</p> |
| <p>Supplier Base BM Unit Monthly Charge</p> | <p>The Issue Group's rationale for Supplier Base BM Unit Monthly Charge closely mirrors that for the CVA BM Unit Monthly Charge.</p> <p>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.</p> <p>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.</p> |

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| 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. |
| 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. |

Appendix 2 Impact Analysis of changing charge rates

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 (approx. £1.16m) to the Main Funding Share.

Historic Cost Recovery

| FSS Invoiced | 15-16 | 16-17 | 17-18 | 18-19 | TOTAL |
|-----------------------------|----------------|------------------|------------------|------------------|------------------|
| Base BM Unit Monthly Charge | 140,300 | 179,800 | 213,200 | 245,600 | 778,900 |
| CVA BM Units | 809,000 | 835,400 | 885,300 | 918,500 | 3,448,200 |
| TOTAL | 949,300 | 1,015,200 | 1,098,500 | 1,164,100 | 4,227,100 |

