



# ELEXON Funding Shares System Audit 2018-19

31 July 2019



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31 July 2019

Dear Directors,

**BSC Auditor's<sup>1</sup> Independent Reasonable Assurance Report (the 'Report') to ELEXON Limited on the Funding Shares calculations with respect to the Balancing and Settlement Code and Code subsidiary documents.**

We were engaged by ELEXON Limited to report on ELEXON's application of the Balancing and Settlement Code and Code Subsidiary Documents (the 'Code') to the Funding Shares calculations (appendix A) for the year ended 31 March 2019, in the form of an independent reasonable assurance conclusion about whether the Funding Shares calculations is properly prepared, in all material respects, in accordance with relevant provisions of the Code, and taking into account the effective date of any revision or amendment made to the Code and Code Subsidiary Documents.

*Responsibilities of ELEXON*

The management<sup>2</sup> of ELEXON are responsible for properly applying the provisions of the Code and performing the Funding Shares calculations in accordance with Section D of the Code.

This responsibility includes designing, implementing and maintaining internal controls relevant to the preparation of calculations associated with the Funding Shares in accordance with the Code, that are free from material misstatement, whether due to fraud or error.

*Responsibilities of KPMG LLP*

**Our responsibility is to independently express a conclusion to ELEXON, based on the procedures performed and evidence obtained, as to whether the Funding Shares calculations have been properly prepared, in all material respects, in accordance with Section D of the Code.**

**We conducted our work in accordance with International Standard on Assurance Engagements (ISAE) 3000, 'Assurance Engagements Other Than Audits or Reviews of Historical Financial Information' issued by the International Auditing and Assurance Standards Board. That Standard requires that we obtain sufficient, appropriate evidence on which to base our conclusion.**

We comply with the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants and we apply International Standard on Quality Control (UK and Ireland) 1 Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements. Accordingly, we maintain a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements and professional standards (including independence, and other requirements founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour) as well as applicable legal and regulatory requirements.

<sup>1</sup> 'Funding Shares System Audit' and 'BSC Auditor' are BSC terminology, as defined within the Section H of the BSC and Code Subsidiary Documents (the 'Code'). The scope of work does not comprise reviews of historical financial information.

<sup>2</sup> In this letter, any reference to "management" of an entity means the officers, being directors or other executive officers, and those employees to whom the entity's officers have properly delegated day-to-day conduct over matters for which the entity's officers retain ultimate responsibility.

### *Scope of work*

A reasonable assurance engagement involves planning and performing procedures to obtain sufficient appropriate evidence to give reasonable assurance over the Funding Shares calculations. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the Funding Shares calculations whether due to fraud or error.

In making those risk assessments, we have considered internal controls relevant to the Funding Shares calculations in accordance with the Code in order to design assurance procedures that are appropriate in the circumstances, but not for the purposes of expressing a conclusion as to the effectiveness of the internal controls of ELEXON over the calculations associated with the Funding Shares in accordance with the Code. Our work also included: assessing the appropriateness of the Funding Shares calculations in accordance with the Code and evaluating the appropriateness of the procedures used in the preparation of the Funding Shares calculations.

The procedures performed included, but were not limited to:

- Interviews with senior management and relevant staff from the ELEXON Finance Operations team to understand the systems, processes and controls in place for the Funding Shares calculations to comply with the Code;
- Performing an assessment of a sample of files sent to the Funds Administration Agent ('FAA') and reviewing Funding Shares model outputs.

### *Key assumptions and inherent limitations*

**Our opinion does not include verification of the input data back to source. ELEXON have requested the exclusion of checking of these inputs based on the assumption that cost information is sourced from audited Financial Statements and that much of the relevant data is available to Trading Parties to check the information and calculations themselves. In particular, the determination of Annual Net Main Costs as defined in the Code, section D4.1(a), and any other information sourced from the audited Financial Statements is excluded from our scope.**

The application of the Funding Shares calculations in allocating Amounts in Default by the FAA is also specifically excluded from the scope of our assurance procedures, although the allocation of associated BSC Costs shares amongst Trading Parties is included.

The above limitations are not exhaustive, and a more detailed description of all scope exemptions is provided in the Appendix B & C to this Report.

### *Criteria*

Our opinion is provided with respect to the extent to which, in all material respects, the Funding Shares calculations as described in the Code have been applied based on the provisions within the Code. Materiality for the purpose of our opinion has been set at 1% of Funding Share values covered in our scope.

A description of the background to the Funding Shares and details of our scope are set out in the appendices to this Report. The appendices set out the activities which are subject to assurance (the subject matter), including our scope exemptions, and the relevant provisions of the Code to which these activities must comply (the criteria used to evaluate the subject matter).

### *Conclusion*

Based on the procedures performed, and subject to the key assumptions and inherent limitations set out above and in the appendices, in our opinion the Funding Shares calculations associated with the Code have been performed in accordance with Section D, taking into account the effective date of any revision or amendment made to the Code, in all material respects, in accordance with the Code.

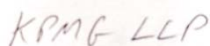
The Funding Shares calculations associated with the Code have been evaluated against the criteria as discussed earlier and in the appendices. These criteria have been developed only for the purposes of our opinion and should not be considered suitable for any other party or in any other context.

### *Restriction on the use of our report*

In accordance with the terms of our work, this independent reasonable assurance report on the Funding Shares calculations being performed in accordance with the Code has been prepared for Trading Parties to the Code, the BSC Panel and ELEXON solely in connection with the provision of reasonable assurance with respect to the extent to which the Funding Shares calculations associated with the Code have, in all material respects, been performed in accordance with the Code and for no other purpose or in any other context.

Our Report should not be regarded as suitable to be used or relied on by any party wishing to acquire rights against us other than the Trading Parties to the Balancing and Settlement Code, the BSC Panel or ELEXON for any purpose or in any context. Any party other than the Trading Parties to the Balancing and Settlement Code, the BSC Panel or ELEXON who obtains access to our Report or a copy thereof and chooses to rely on our Report (or any part thereof) will do so at its own risk. To the fullest extent permitted by law, we accept or assume no responsibility and deny any liability to any party other than the Trading Parties to the Balancing and Settlement Code, the BSC Panel and ELEXON for our work, for this independent reasonable assurance Report, or for the conclusions we have reached.

Yours faithfully



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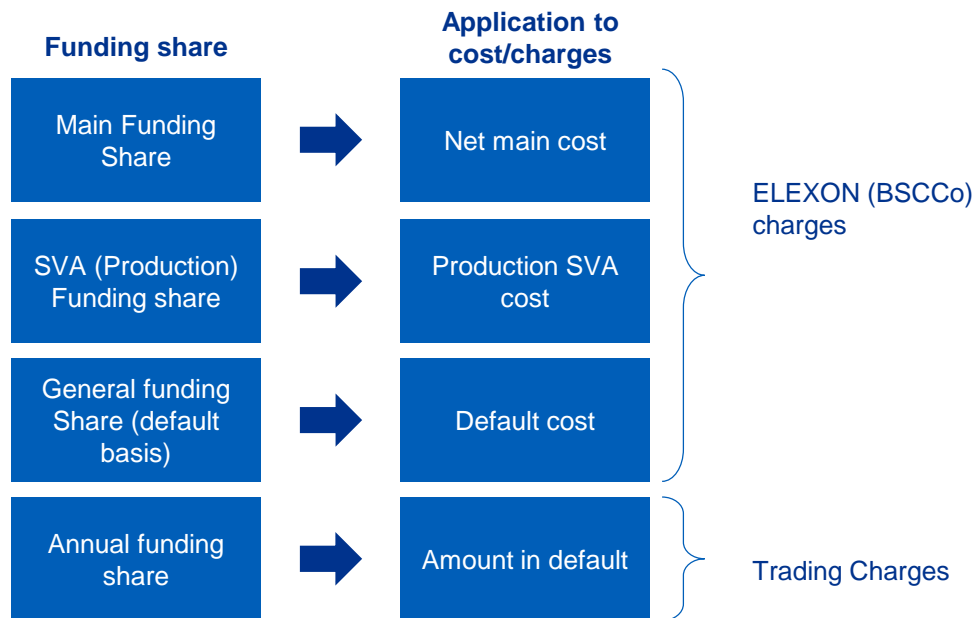
United Kingdom

# Scope - Appendix A

## Background

Funding Shares facilitate the sharing of costs associated with the operations of the BSCCo (ELEXON) between Trading Parties in the electricity market. Different Funding Shares are calculated and applied relating to different cost areas.

Each of these cost areas are allocated as follows:



The basis for calculating the Funding Shares is set out in the Balancing and Settlement Code ('BSC') Section D. The Funding Share calculations are performed by ELEXON Limited ('ELEXON') based on data provided internally and from various other parties.

Funding shares are calculated and invoiced each month based on the most up to date information available at the time of calculation. A reconciliation exercise is performed at the end of each year based on the final version of the source data and reconciling bills/credits are issued accordingly.

A schedule, the 'BSC Costs Invoice Supporting Information', is sent along with each invoice containing details of the Funding Shares and units used in the calculations.

# Scope – Appendix A (cont.)

## Basis for our assurance work

We have been appointed as BSC Auditor by ELEXON. The requirement for providing assurance over the calculation of the Funding Shares by the BSC Auditor is set out in Section H of the BSC and Code Subsidiary Documents (the 'Code').

The Funding Shares are recalculated within 28 Days of the publication of the audited accounts of ELEXON, acting as BSCCo, and the costs to which the Funding Shares are applied are based on these audited amounts. The last published accounts of ELEXON cover the period from 1 April 2018 to 31 March 2019.

We are responsible for performing a reasonable assurance engagement in accordance with International Standard on Assurance Engagements 3000 – 'Assurance Engagements other than Audits and Reviews of Historical Financial Information (Revised)' ('ISAE 3000') issued by the International Auditing and Assurance Standards Board.

Our opinion is designed to give reasonable, but not absolute, assurance that certain Funding Shares calculations performed by ELEXON and which are included in the scope of our assurance work are performed in line with the provisions of the Code. Whether a specific issue will give rise to a qualification of our assurance opinion is a judgement made by us as BSC Auditor.

## Relevant BSC Sections

The Funding Shares calculations are defined by the Balancing and Settlement Code 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 D1.2.1(e).

These Funding Shares are used in the derivation of the following charges:

Charge type	Definition
<b>ELEXON (BSCCo) Charges</b>	These are defined by BSC Annex D-4. The calculation applies the values of Main Funding Shares, SVA (Production) Funding Shares, and Default Funding Shares.
<b>Trading Charge (Amounts in Default)</b>	These are defined by BSC Section N. The calculation applies the values of Annual Funding Shares.

# Scope - Appendix A (cont.)

## Scope of the Funding Shares Assurance Engagement

The BSC Panel agreed the Scope of the Funding Shares Assurance Engagement by the BSC Auditor in March 2018. The objectives of the Funding Shares Assurance Engagement are as follows:

### A. Funding Shares and associated Charges for 2018/19

Assurance procedures over the calculation of the Main Funding Shares, SVA (Production) Funding Shares, and General Funding Shares (applied on a default basis) and associated BSC Cost shares for 2018/19 through to the BSC Costs Invoice Supporting Information provided to Trading Parties; and

### B. Annual Funding Shares for 2018/19

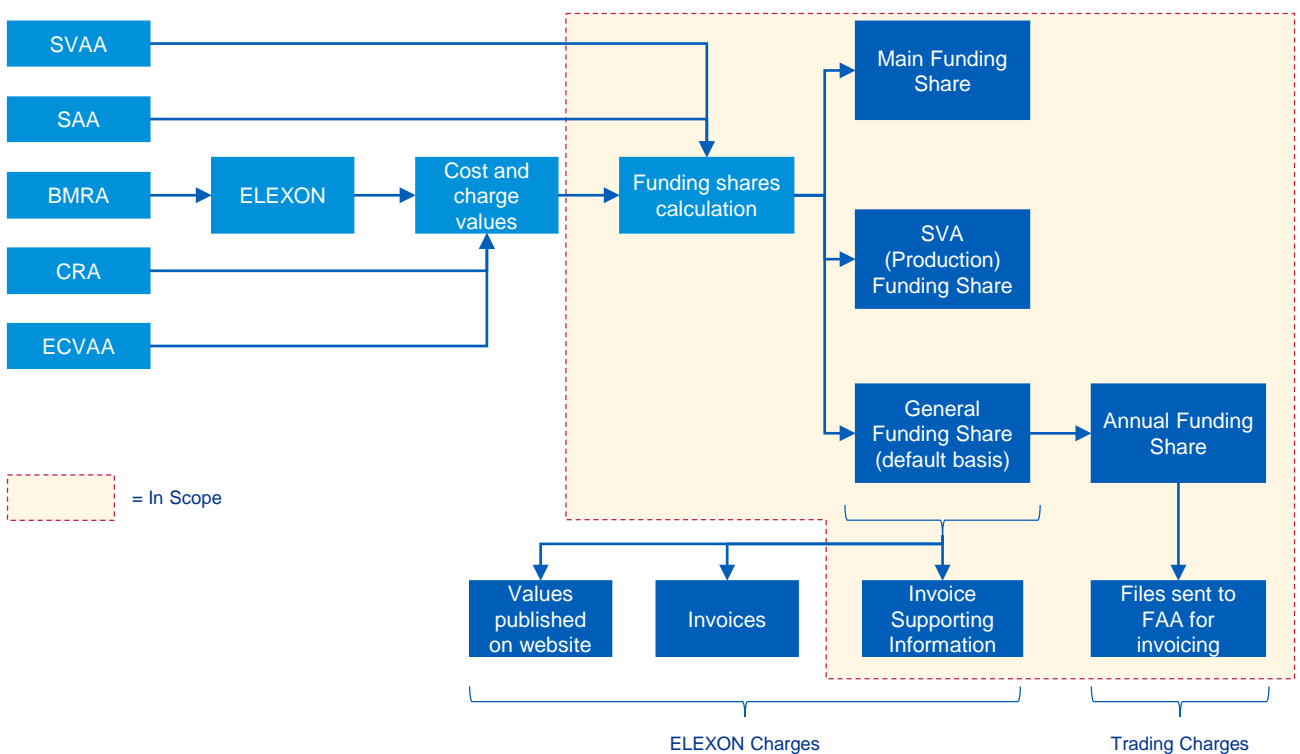
Assurance procedures over the calculation of the Annual Funding Shares for 2018/19 through to the files sent to the FAA for their use in calculating Amounts in Default.

The procedures performed as part of the Funding Shares Assurance Engagement cover the accuracy of the data provided on the BSC Costs Invoice Supporting Information for 2018/19 by considering the way the amounts have been calculated by ELEXON's Funding Shares Calculation Model from the data input by ELEXON.

The Funding Shares Assurance Engagement does not include verification of the input data back to source. A review of source data was performed by the previous BSC Auditor for the financial year ended 31 March 2010, with no issues being reported. As a result, ELEXON have requested the exclusion of checking of these inputs based on the assumption that cost information is sourced from audited Financial Statements and that much of the relevant data is available to Trading Parties to check the information and calculations themselves.

The diagram on the next page provides a summary how the scope covers the input and output values provided.

## Summary of Scope Diagram



# Exclusions from Scope – Appendix B

## Exclusions from scope

As explained above, our Funding Shares assurance procedures focus primarily on the calculation process. For the avoidance of doubt, the areas listed in the table below are outside of the scope of the Funding Shares Assurance Engagement:

Areas out of scope	Reason for exclusion
Verification of data input by ELEXON back to source.	<p>Our BSC Funding Shares assurance procedures examine the process for performing the calculations and allocations defined by the BSC.</p> <p>In relation to Funding Shares, these processes are performed primarily by ELEXON based on data provided. The scope of our procedures focuses on the calculations performed, rather than the accuracy of the input data.</p> <p>ELEXON have requested the exclusion of checking of these inputs based on the assumption that cost information is sourced from audited Financial Statements and that much of the relevant data is available to Trading Parties to check the information and calculations themselves.</p>
Verification of the Funding Shares calculations that are performed by Third Parties before being input into the Funding Shares System. These are described in Appendix C.	<p>These calculations were included as part of the review of source data during the BSC Funding Shares Assurance Engagement for FY10, which was performed by the previous BSC Auditor, without any exceptions being reported.</p> <p>There are no current plans to extend the scope of the Funding Shares Assurance Engagement to include this review this year.</p>
Verification of the total BSC and SVA Costs provided by ELEXON to which the Funding Shares are applied.	Cost information is sourced from audited Financial Statements which are available to Trading Parties.
Consideration of the principles underlying the definition of the Funding Shares, and any related costs and charges.	The Funding Shares Assurance Engagement examines compliance with the BSC, not the validity of the underlying principles applied.
Consideration of the accounting policies adopted by ELEXON in accounting for its transactions, costs and revenues.	The application of appropriate accounting policies are not defined within the BSC. Such matters are considered by the ELEXON statutory auditors.
Judgements applied by ELEXON in cases where alternative versions of input data are applied.	<p>In calculating the values of the Funding Shares, ELEXON may in certain cases apply judgement in the selection of the most appropriate input data (e.g. where there may be conflicting, or incomplete, data available).</p> <p>There is no BSC requirement for these judgements to be formally documented, although any such instances will be highlighted by our assurance procedures and will be discussed with ELEXON.</p>
The application of Annual Funding Shares in allocating Amounts in Default by the FAA.	The BSC Audit covers the application of the Funding Shares only in allocating the associated BSC Costs shares amongst Trading Parties as defined above.



# Exclusions from Scope – Appendix B (cont.)

## Exclusions from Scope (cont.)

Areas out of scope	Reason for exclusion
Any amendments made subsequent to our procedures.	As assurance providers we are only able to test information provided at the time of our work. Subsequent changes to data or systems may lead to changes in the results.  However, it is assumed that the version of data or systems made available to us will be the latest available and will remain unchanged before submission of results by ELEXON.
General controls over the IT infrastructure within ELEXON.	The application of appropriate general IT controls and suitability of infrastructure are not defined within the BSC. Such matters are considered by the ELEXON statutory auditors.

# Specific exclusions where the calculation defined is performed by a third party - Appendix C

Certain elements of the Funding Share calculation are performed by Third Parties before being input into the Funding Shares system. For these elements, we will be unable to assess whether the calculations performed in relation to the determination of Funding Shares have been made in accordance with the Code.

These are noted in the following tables:

Credited energy volumes	
<b>Code requirement</b>	The Code requires net CVA Production and CVA Consumption values for Trading Parties to be included in the calculation of Main Funding Shares.
<b>Method applied by ELEXON</b>	Single net CVA Production and CVA Consumption Figures are provided to, and used by ELEXON in the calculation.
<b>Impact on our procedures</b>	This aspect of the Funding Shares calculation is out of scope for our procedures.

Corrected Correctable Supplier Deemed Take	
<b>Code Requirement</b>	The Code requires a summation of Corrected Correctable Supplier Deemed Take values relevant to the Trading Parties to be included in the calculation SVA (Consumption) Funding Shares.
<b>Method Applied by ELEXON</b>	The summed values of Corrected Correctable Supplier Deemed Take value are provided to, and used by ELEXON in the calculation.
<b>Impact on our procedures</b>	This aspect of the Funding Shares calculation is out of scope for our procedures.



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