ELEXON

Funding Shares Audit Findings and Reconciliation MHHS Rate

BSC Panel

Date of meeting	**10 August 2023**	Paper number	**XXX/XX**
Owner/author	**Kathy Ferrari**	Purpose of paper	**For Information**
Classification	**Public**	Document version	**V1.0**

Summary **Elexon invites the Panel to note the results of the recent audit of the calculation of Funding Shares for year ending 31 March 2023, as part of the BSC Audit and the reconciliation rate MHHS Monthly Implementation Charge.**

1. Background

1.1 Funding Shares are the mechanism whereby the costs of operating the Balancing and Settlement Code (BSC) procedures are shared between Trading Parties existing in that market.

1.2 The basis for calculating these shares is set out in BSC Section D – BSC Cost Recovery and Participation Charges. In summary, they are calculated each month based on the best 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. Reconciling bills and credits are then issued as necessary.

2. Scope

2.1 BSC Panel paper 338/07 Funding Shares Audit Approach 2022-2023 set out the scope of the Funding Shares Audit for the year ending 31 March 2023, as required by BSC Section H5.1.2.

2.2 In summary, the resulting scope of the audit was as follows:

a) Review of Funding Shares and Associated Charges for 2022/23; and

b) Review of Annual Funding Shares for 2022/23.

3. Findings

3.1 The BSC Auditor's report is attached to this paper. In summary the BSC Auditor's opinion is that, based on the agreed scope of the work, the calculations have been performed in accordance with the relevant sections of the BSC and BSC Code Subsidiary Documents (CSDs).

3.2 The BSC Auditor's work identified no significant errors affecting the accuracy of the final Funding Shares for the financial year to 31 March 2023.

3.3 We are now in a position to complete the final reconciliation of the 2022/23 BSC Charges.

4. Reconciliation rate for MHHS Monthly Implementation Charge

When Modification P413 was introduced for MHHS it gave mechanism to perform a reconciliation at the end of the year.

The Reconciliation MHHS Monthly Implementation Charge rate is follows

a) MHHS Monthly Implementation Charge rate for 2022/2023 £0.05003 MSID per month

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5. Recommendations

5.1 We invite you to:

a) **NOTE** the findings of the 2022/23 Funding Shares Audit.

b) **NOTE** the Reconciliation rate for MHHS Monthly Implementation Charge £0.05003 MSID per month

Appendices

Appendix 1 - Detailed Analysis of BSC MHHS Monthly Implementation at current rates

Attachments

Attachment A – KPMG Audit Opinion Letter

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Appendix 1 Analysis of BSC MHHS Monthly Implementation Charge at Current Rate

1. MHHS Monthly Implementation Charge

2.1 The MHHS Monthly Implementation Charge rate was last set in March 2022, with the budget of £19.5m. The revised rate set in March 2022 was £0.05074. With the final budget for 2022/23 being £17.6m, the reconciliation rate of £0.05003 per SVA MSID per month as been set for 2022/23 year.

MHHS Implementation Management Monthly Charge	22-23 Actual Final Rec
Number of Metering Systems	352,145,310
Annual MHHS Budget	17,616,679
Monthly	Annual
Specified Charge Calculation	**0.05003**

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ELEXON

Funding Shares Audit[1] 2022-23

27 July 2023

KPMG

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

We were engaged by ELEXON Limited to report on ELEXON's application of the BSC and Code Subsidiary Documents as in effect as at 31 March 2023 (the 'Code') to the Funding Shares calculations (as defined in section A.3 of Appendix A of our Report) for the year ended 31 March 2023, in the form of an independent reasonable, but not absolute, assurance conclusion about whether the Funding Shares calculations are properly prepared, in all material respects, in accordance with Section D of the Code.

Responsibilities of the management of ELEXON

In this letter, any reference to "management" of ELEXON means the directors and those employees to whom the directors of ELEXON have properly delegated day-to-day conduct over matters for which the ELEXON directors of ELEXON retain ultimate responsibility.

The management of ELEXON are responsible for properly applying the provisions of the Code and performing the Funding Shares calculations in accordance with the relevant provisions of the Code. This responsibility includes designing, implementing, and maintaining internal controls relevant to the preparation of the Funding Shares calculations in accordance with Section D of the Code, that are free from material misstatement, whether due to fraud or error.

Management are responsible for recalculating the Funding Shares within 28 Days of the publication of the audited statutory financial statements of ELEXON. The costs, which are an input to the Funding Shares calculations, are derived from these audited statutory financial statements. The last published statutory financial statements of ELEXON cover the period from 1 April 2022 to 31 March 2023.

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 (UK) 3000 ('ISAE (UK) 3000'), 'Assurance Engagements Other Than Audits or Reviews of Historical Financial Information', issued by the UK Financial Reporting Council. That standard requires that we obtain sufficient, appropriate evidence on which to base our conclusion. Whether a specific issue will give rise to a modification of our assurance opinion is a judgement made by us as BSC Auditor.

[1] *'Funding Shares Audit' and 'BSC Auditor' are BSC terminology defined within Section H of the BSC and Code Subsidiary Documents (the 'Code'). The scope of our work does not comprise an audit or review of historical financial information.*

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We comply with the Institute of Chartered Accountants in England and Wales ('ICAEW') Code of Ethics which includes independence, and other requirements founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour, that are at least as demanding as the applicable provisions of the IESBA Code of Ethics.

We apply International Standard on Quality Control (UK) 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements* and accordingly, we maintain a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

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 of ELEXON relevant to the Funding Shares calculations in order to design assurance procedures that are appropriate in the circumstances, but not for the purposes of expressing a conclusion as to the design and effectiveness of these internal controls.

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 assist with compliance with Section D of the Code;
- Re-performing the Funding Shares calculation for a selection of files sent to the Funds Administration Agent ('FAA') and comparing the output of our recalculations to the ELEXON's Funding Shares model outputs; and
- Comparing the data included on the BSC Costs Invoice Supporting Information for 2022/23 to the amounts calculated by ELEXON's Funding Shares Calculation Model.

ELEXON agreed the Scope of the Funding Shares Assurance Engagement by the BSC Auditor in April 2023. We were engaged to provide the assurance set out above in respect of the Funding Shares calculations as defined in section A.3 in Appendix A of our Report. The Funding Shares calculations within the scope of our work are only those applied in allocating the associated BSC Costs shared amongst Trading Parties. The application of the Funding Shares calculations in allocating Amounts in Default (as defined in the Code) by the FAA is not within the scope of our work.

Key assumptions and inherent limitations

Inherent limitations in our evaluation of the underlying subject matter against the applicable criteria (as defined in the Criteria section of our report) are detailed below:

Component of work	Limitations to testing performed
Input data used by ELEXON into the Funding Shares calculations	We were not required to, nor have we, performed procedures over the accuracy or completeness of the input data from which the Funding Shares calculations have been prepared. Consequently, in issuing our report, we are reliant on the input data being accurate. Therefore, regardless of whether the Funding Shares calculations have been properly prepared, in all material respects, in accordance with Section D of the Code, if the input data were to differ, the actual value of the Funding Shares calculations could differ from the amounts calculated by a material amount.
Consideration of the principles underlying the definition of the Funding Shares, and any related costs and charges in the Code.	The Code defines how the Funding Shares calculations are to be performed. We are not required to, nor have we, considered or assessed the appropriateness of the underlying principles in the Code.
Consideration of the accounting policies adopted by ELEXON in accounting for its transactions, costs and revenues.	Certain inputs into the Funding Shares calculations are derived from ELEXON's statutory financial statements. We were not required to, nor have we, performed procedures in respect of whether the accounting policies adopted and applied by ELEXON are appropriate.
Judgements applied by ELEXON in cases where alternative versions of input data are applied.	In calculating the values of the Funding Shares, the Code allows ELEXON to, 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). We were not required to, nor have we, performed procedures over the appropriateness of the judgements made by ELEXON in such scenarios.

Criteria

Our conclusion is provided with respect to the extent to which, in all material respects, the Funding Shares calculations have been properly prepared in accordance with Section D within the Code.

Materiality for the purpose of our conclusion has been set at £938,380, being 1% of the Funding Shares values covered in our scope, as agreed with ELEXON.

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). The criteria used to evaluate the subject matter is Section D of the Code.

Section D of the Code in relation to the Funding Shares calculations has been developed for the purpose of assisting ELEXON in the calculation of the Funding Shares and as a result, the Funding Shares calculations may not be suitable for another purpose.

Conclusion

Based on the procedures performed and evidence obtained, and subject to the key assumptions and inherent limitations set out above, in our opinion, the Funding Shares calculations for the year ended 31 March 2023 have been properly prepared, in all material respects, in accordance with Section D of the Code.

This conclusion is to be read in the context of the remainder of this report, in particular the scope of our work and the inherent limitations explained above, and the restrictions on the use of our report below.

Restriction on the use of our report

This independent assurance report is made solely to ELEXON in accordance with the terms of our engagement. Our work has been undertaken so that we might state to ELEXON those matters that we have been engaged to state in this report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume any responsibility to anyone other than ELEXON for our work, for this independent assurance report, or for the conclusions we have reached.

KPMG LLP

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Chartered Accountants

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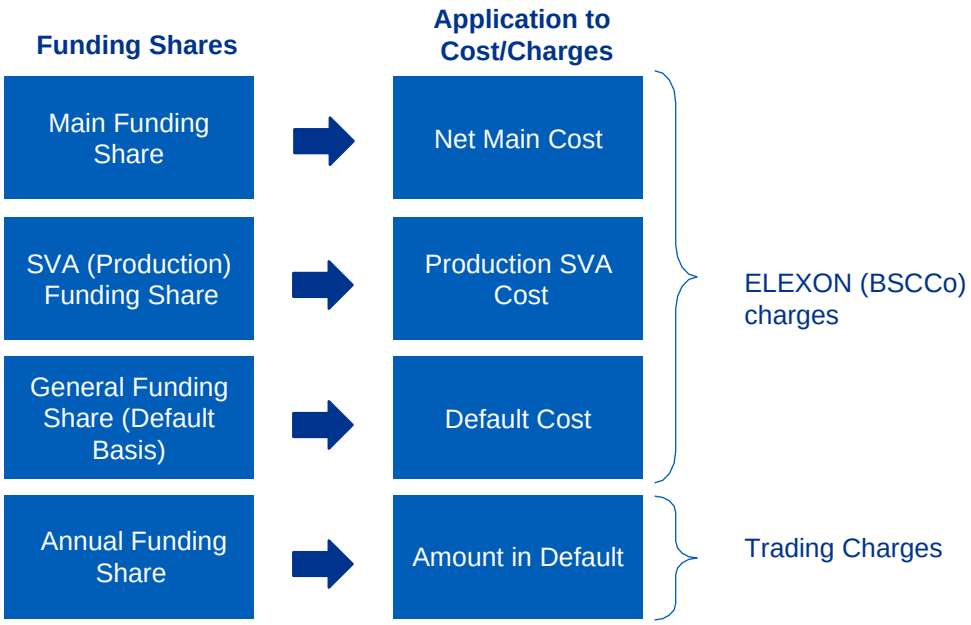
27 July 2023

The maintenance and integrity of ELEXON's website is the responsibility of the Directors of ELEXON; the work carried out by us does not involve consideration of these matters and, accordingly, we accept no responsibility for any changes that may have occurred to our Report since 27 July 2023. KPMG LLP has carried out no procedures of any nature in relation to our Report subsequent to 27 July 2023 which in any way extends this date. In addition, we have carried out no procedures of any nature in relation to changes to the Code subsequent to 31 March 2023.

A.1 Background

Funding Shares facilitate the sharing of costs associated with the operations of the BSC Company ('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 Shares calculations are performed by 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.

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A.2 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 statutory financial statements of ELEXON, acting as BSCCo, and the costs to which the Funding Shares calculations are applied are based on these audited amounts. The last published statutory financial statements of ELEXON cover the period from 1 April 2022 to 31 March 2023.

We have been engaged to provide a reasonable assurance engagement in accordance with International Standard on Assurance Engagements (UK) 3000 – 'Assurance Engagements other than Audits and Reviews of Historical Financial Information (Revised)' ('ISAE (UK) 3000') issued by the UK Financial Reporting Council.

Our opinion is designed to give reasonable, but not absolute, assurance that the Funding Shares calculations (as defined in A.3 below) performed by ELEXON in the scope of our assurance work are properly prepared, in all material respects, in accordance with Section D of the Code. Whether a specific issue will give rise to a modification of our assurance opinion is a judgement made by us as BSC Auditor.

A.3 Definitions

In our assurance report, the 'Funding Shares calculations' are defined as the calculations of the:

— '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 calculations are used in the derivation of the following charges:

Charge type	Definition
ELEXON (BSCCo) Charges	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.
Trading Charge (Amounts in Default)	These are defined by BSC Section N. The calculation applies the values of Annual Funding Shares.

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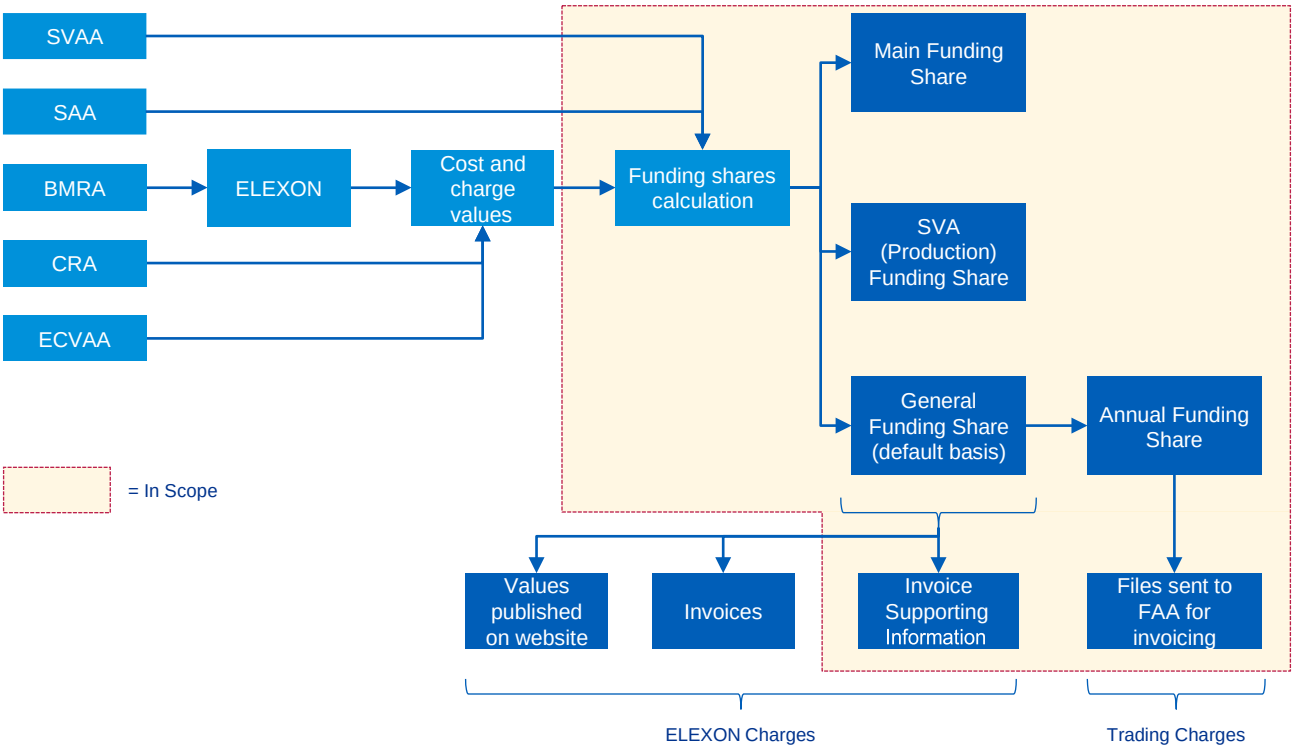
A.4 Summary of Scope Diagram

The diagram below provides a summary how the scope covers the input and output values provided.



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