

P416 Digital Meeting Etiquette

- Welcome to the P416 Workgroup meeting 2 – we'll start shortly
- No video please to conserve bandwidth
- Please stay on mute unless you need to talk – use IM if you can't break through
- Talk – pause – talk
- Lots of us are working remotely – be mindful of background noise and connection speeds

ELEXION

P416 Workgroup 2

Introducing a route of appeal for the Annual Budget in line with the proposals for the Retail Energy Code

22 January 2021

Meeting Outcomes

- Agree Proposed Solution and whether to progress any Alternative Modifications
- Agree Draft Legal Text for Proposed Solution
- Assess Proposed Solution against the Applicable BSC Objectives
- Review Terms of Reference questions
- Agree Assessment Consultation questions

Agenda

Agenda Item	Lead
1. Welcome and meeting objectives	Claire Kerr (<i>Chair</i>)
2. Summary of first Workgroup Meeting	Chris Arnold (<i>Lead Analyst</i>)
3. Annual Budget approval process	Nigel Smith (<i>Elexon Finance</i>)
4. Consideration of Annual Budget line items	Amanda Rooney (<i>Elexon Strategy</i>)
5. Consider P416 Proposed Solution and any Potential Alternative Solutions	Workgroup
6. P416 Terms of Reference	Chris Arnold
7. Initial views on P416 with respect to the Applicable BSC Objectives	Workgroup
8. Legal text consideration	Nicholas Brown (<i>Elexon Legal</i>)
9. Agree Assessment Consultation questions	Workgroup
10. Summary and Next Steps	Chris Arnold
11. Meeting Close	Claire Kerr



SUMMARY OF FIRST WORKGROUP MEETING

P416 First Workgroup Meeting Summary

Initial Discussions

- **Pre-appeals process**
 - Not required
 - A requirement for a duty to consult for any appealing party to be considered further
- **Threshold for participation**
 - Not required
 - 5% by Voting Share (aligns with Special Resolution/General Resolution).
- **Criteria for Valid Appeal**
 - Consideration of four bullets.
 - Is the 4th bullet too broad? ('will, or is likely to, prejudice unfairly the interests of one or more Parties...')
- **Reporting of Annual Budget Line Items**
 - Does current Annual Budget reporting allow the Proposed Modification to work effectively?
- **Timeline**
 - Recognition that timescales could be tight particularly if pre-appeals process is added.

P416 First Workgroup Meeting Actions

Actions

The Proposer to:

- Find out rationale for '*will, or is likely to, prejudice unfairly the interests of one or more Parties, or cause them to be in breach of this Code, the Energy Licences and/or Law*' provision in REC drafting.
- To consider possible options for a pre-appeals process.

Elexon to:

- Consider different ways of presenting items within the Annual Budget to facilitate the Modification and to consider any impacts as a result of these changes.
- Explain current groupings of items under the current Annual Budget.

P416 Progression Timetable

Milestone	Date
Workgroup Meeting 1	14 December 2020
Workgroup Meeting 2	22 January 2021
Assessment Consultation	15 February 2021 – 5 March 2021
Workgroup Meeting 3	W/B 15 March 2021
Panel Meeting	8 April 2021
Report Phase Consultation	12 April 2021 – 26 April 2021
Panel Meeting	13 May 2021
Issue Final Modification Report to the Authority	17 May 2021

Implementation approach

- The Proposer intends for the Modification to be implemented in time for it to be applied to the 2022/2023 Annual Budget process and suggests implementation 5 Working Days after Authority approval.



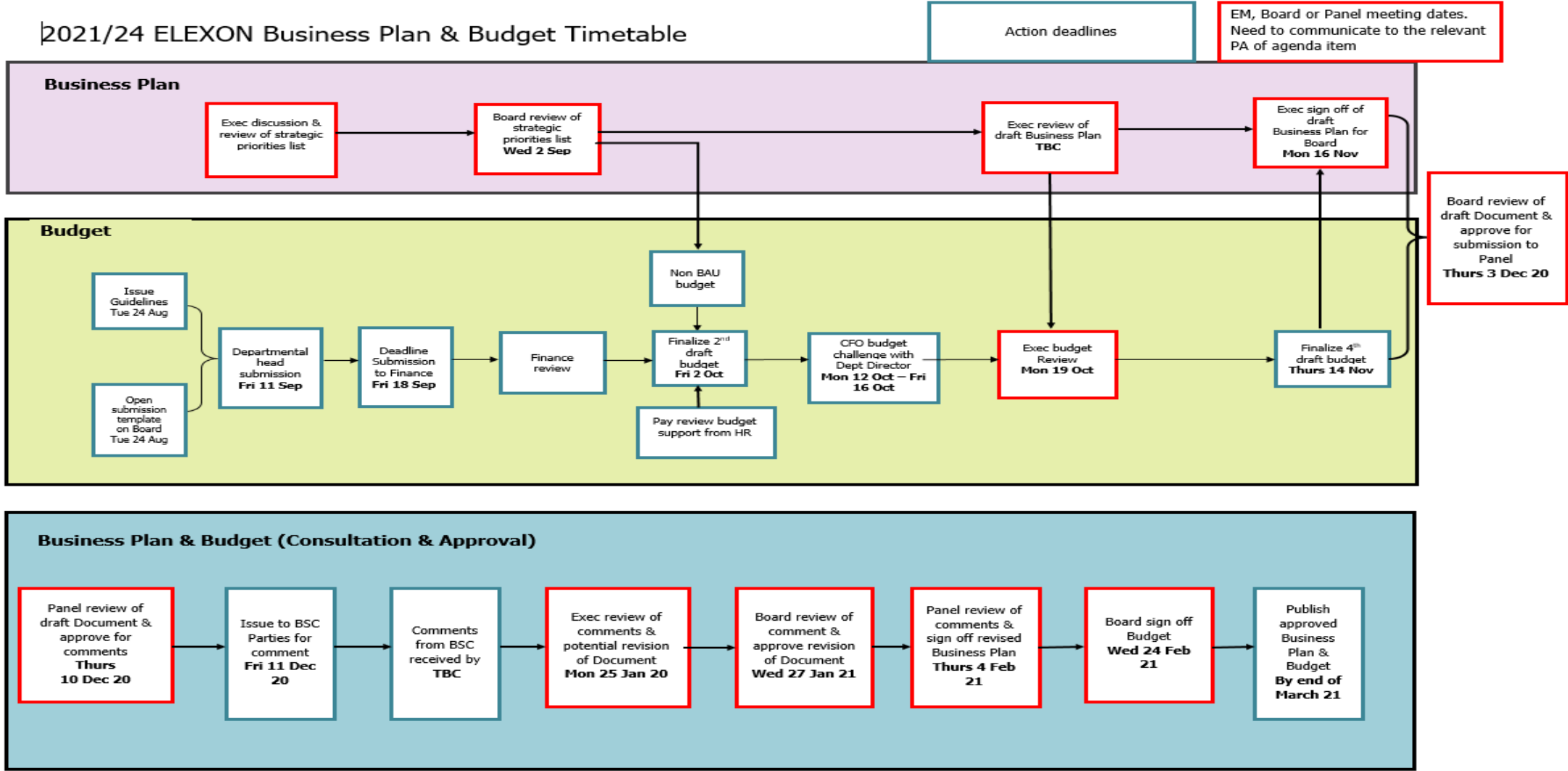
ANNUAL BUDGET APPROVAL PROCESS

Introduction

- The BSC requires ELEXON to prepare a business strategy setting out the principal activities which ELEXON expects to be carrying out in the coming financial year (the Plan Year) and each of the two following financial years. The Code also requires ELEXON to prepare an annual budget setting out the expenditure reasonably necessary in order to carry out the business strategy in the Plan Year. ELEXON produces budgets for each of the three years. The budget process is managed assuming the current BSCCo corporate structure and remit.
- The budget focuses on the on-going business as usual expenditure to deliver BSC and EMR obligations, including people costs based on the current structure, BAU Operational, Demand Led, System Strategy, and Contracted costs based on current contracts. The EMR budget is managed separately.
- The budget also includes funding requirements in support of the ELEXON strategy. The main known focus for financial year 2021/22 consists of;
 - BSC Change Assessment
 - BSC Change implementation, Kinect Programme, Technology Roadmap and Product innovation
 - Market Development Activities

Timetable

2021/24 ELEXON Business Plan & Budget Timetable



Key Dates

Following are the key delivery dates to allow us to meet the prescribed dates for the annual budget section of the ELEXON Business Plan:

24 August 2020	Seeded Baseline Budget distributed by Finance
11 September 2020	Budget submitted and reviewed by Department Executive
18 September 2020	Submission of First Baseline Budget to Finance
12-16 October 2020	CFO Challenge meetings
19 October 2020	Executive review of ELEXON budget
03 December 2020	Board approval of draft Business Plan for submission to Panel
10 December 2020	Panel Review draft Business Plan for industry comments
04 February 2021	Panel sign off Strategy
24 February 2021	Board sign off Budget

Internal Finance Process

- All Budget Holders must provide a supporting commentary to accompany their completed baseline budget using the standard proforma within our Financial Reporting System.
- These must include levels of underlying activities assumed to enable cost drivers, both fixed and variable, to be established, sensitivities to changes in assumptions, and detailed justifications for any new/increased/reduced/omitted line items compared to current levels of activity.
- The Finance team work with various departments (Customer Operations, Digital Operations and Supply Chain Management) to document contracted cost assumptions and Rules Management/Change Practices to document Demand Led and System Strategy cost assumptions.
- The budget is analysed by separating BAU/Regular activity cost and Change Investments.



CONSIDERATION OF ANNUAL BUDGET LINE ITEMS



CONSIDER
PROPOSED
SOLUTION AND
ANY ALTERNATIVE
SOLUTIONS

Proposed Solution

Proposed Solution

The change will allow for an appeal to the Authority in the case that a BSC Party reasonably believes that an item in the Annual Budget:

- was not consulted upon as part of the draft Annual Budget process, or the Board failed to have reasonable regard to the comments submitted;
- is not a legitimate item of expenditure for the Board;
- is a manifestly inappropriate provision for the activity in question, and there are not insufficient safeguards in place to ensure that the actual costs incurred will be efficient; or
- will, or is likely to, prejudice unfairly the interests of one or more Parties, or cause them to be in breach of this Code, the Energy Licences and/or Law.

Sent by party directly to Ofgem within 10WD of BSCCo decision on budget to appeal.



P416 TERMS OF REFERENCE

P416 Terms of Reference Questions

- What controls would need to be in place to prevent frivolous and vexatious appeals or that would result in Elexon being unable to meet its obligations or duties?
- TBC – Possibly the pre appeals process.
- Do the current BSCCo Annual Budget deadlines for draft publication, comment summary and BSCCo Board decision need to be changed to accommodate the appeals process? – Do current timescales allow General Meetings to be convened in a timely manner if BSC Parties wish to raise concerns on the BSCCo Annual Budget?
- The Special Resolution and General Meeting process can be used at anytime provided the minimum threshold criteria are met and depending. Whether these timescales are suitable is dependent on when the issue driving the appeal is identified.
- What process (if any) is needed to resolve a disagreement before a formal appeal is raised?
- TBC – Possibly the pre appeals process.
- How would the existing mechanisms handle such an appeal and are these sufficient?
- There is currently no specific formal appeal process within the BSC. BSC Parties can however raise special resolutions to discuss any issues with the BSCCo Board including the Annual Budget or ultimately remove Board members by calling a General Meeting.

P416 Terms of Reference Questions

- What are the potential benefits/dis-benefits of this Modification?

Benefits

- Greater disclosure on line items in budget
- Increased stakeholder engagement.

Dis-benefits

- Creates risk for Elexon in their organisation e.g. recruitment, contract negotiations.
- Changing freedom of operation for the Elexon Board could skew decisions which could provide a barrier for doing what is best for industry.
- How will P416 impact the BSC Settlement Risks?
- No impacts identified
- What changes are needed to BSC documents, systems and processes to support P416 and what are the related costs and lead times? When will any required changes to subsidiary documents be developed and consulted on?
- TBC once legal drafting is agreed
- Are there any Alternative Modifications?
- TBC

P416 Terms of Reference Questions

- Should P416 be progressed as a Self-Governance Modification?
- The Workgroup does not believe that this Modification meets the Self-Governance criteria
- Does P416 better facilitate the Applicable BSC Objectives than the current baseline?
- TBC
- Does P416 impact the EBGL provisions held within the BSC, and if so, what is the impact on the EBGL Objectives?
- TBC Once legal drafting is agreed.



INITIAL VIEWS ON P416 WITH RESPECT TO THE APPLICABLE BSC OBJECTIVES

Applicable BSC Objectives

Applicable BSC Objectives

The Applicable BSC Objectives are:

- a) The efficient discharge by the Transmission Company of the obligations imposed upon it by the Transmission Licence
- b) The efficient, economic and co-ordinated operation of the National Transmission System
- c) Promoting effective competition in the generation and supply of electricity, and (so far as consistent therewith) promoting such competition in the sale and purchase of electricity
- d) Promoting efficiency in the implementation and administration of the balancing and settlement arrangements
- e) Compliance with the Electricity Regulation and any relevant legally binding decision of the European Commission and/or the Agency [for the Co-operation of Energy Regulators]
- f) Implementing and administering the arrangements for the operation of contracts for difference and arrangements that facilitate the operation of a capacity market pursuant to EMR legislation
- g) Compliance with the Transmission Losses Principle

Proposers View

Proposer's View

There is currently no direct route of appeal for any BSC Parties not in agreement with any items in the Annual Budget, and who feel their comments have not been addressed during the drafting phase of the Business Strategy/Annual Budget.

A Party who is sufficiently motivated could lobby other BSC Parties to support the removal of Elexon Board members, which would be both disproportionate and inefficient in most cases. Introducing a route to challenge items in the Annual Budget in a limited and specific way is therefore an improvement in efficiency in the implementation of the balancing and Settlement arrangements.



LEGAL TEXT CONSIDERATIONS



AGREE ASSESSMENT CONSULTATION QUESTIONS

Assessment Phase Consultation Questions

- 1) Do you agree with the Workgroup's initial unanimous view that P416 does better facilitate the Applicable BSC Objectives than the current baseline?
- 2) Do you agree with the Workgroup that the draft legal text in Attachment delivers the intention of P416?
- 3) Do you agree with the Workgroup's recommended Implementation Date?
- 4) Do you agree with the Workgroup that there are no other potential Alternative Modifications within the scope of P416 which would better facilitate the Applicable BSC Objectives?
- 5) Do you agree with the Workgroup's assessment of the impact on the BSC Settlement Risks?
- 6) Do you agree with the Workgroup's assessment that P416 does/does not impact the European Electricity Balancing Guideline (EBGL) Article 18 terms and conditions held within the BSC?
- 7) Will P416 impact your organisation?
- 8) Will your organisation incur any costs in implementing P416?
- 9) How long (from the point of approval) would you need to implement P416?
- 10) Do you have any further comments on P416?



NEXT STEPS



MEETING CLOSE

ELEXON