

Funding Shares Audit Findings and Reconciliation Specified Charges Rates

BSC Panel

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Purpose of paper **For Information**

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Summary **Elxon invites the Panel to note the results of the recent audit of the calculation of Funding Shares for year ending 31 March 2022, as part of the BSC Audit and the reconciliation rate for SVA Specified Charge and 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 [314/07 'Approval of Funding Shares Audit Scope'](#) set out the scope of the Funding Shares Audit for the year ending 31 March 2021, 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 2021/22; and
 - b) Review of Annual Funding Shares for 2021/22.

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 2022.
- 3.3 We are now in a position to complete the final reconciliation of the 2021/22 BSC Charges.

4. Reconciliation Specified Charges Rates

- 4.1 In the Review of BSC Specified Charges paper 324/07 on 10 March 2022 Panel approved a reconciliation of the SVA Specified Charge rate in the 2021/22 Final Reconciliation process. It was detailed that this rate would be noted to Panel prior to Reconciliation Run being performed.

When Modification P346 was introduced, it gave no mechanism to perform a reconciliation at the end of the year (unlike those implemented as part of P413 for MHHS). Any over/under recovery would be washed up in the Net Main Cost. Over the years this has been sufficient as the variance has been small (<£70k), however the variance for 2021/22 was forecast to be £400k. Given that this variance is largely made up Profiling and Teleswitch costs being postponed until 2022/23, it was agreed that a reconciliation should be performed at Final Reconciliation, and a new rate set for the 2021/22 year.

The Reconciliation Specified Charges Rates are as follows

- a) SVA Specified Charge rate for 2021/22 £0.00878 MSID per month.
- b) MHHS Monthly Implementation Charge rate for 2021/2022 £0.01296 MSID per month

5. Recommendations

5.1 We invite you to:

- a) **NOTE** the findings of the 2021/22 Funding Shares Audit.
- b) **NOTE** the Reconciliation rate for SVA Specified Charge rate £0.00878 MSID per month
- c) **NOTE** the Reconciliation rate for MHHS Monthly Implementation Charge £0.01296 MSID per month

Appendices

Appendix 1 - Detailed Analysis of BSC Specified Charges at their current rates

Attachments

Attachment A – KPMG Audit Opinion Letter

For more information, please contact:

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Appendix 1 Analysis of BSC Specified Charges at their Current Rates

1. SVA Specified Charge

- 1.1 SVA Specified Charge was last reviewed in early 2021 using the SVA Cost Drivers method which was favoured by the majority of the responses from BSC Parties from a 2008 consultation. This method involves analysing the underlying SVA costs to determine how much relates to HH meters and how much relates to NHH meters. As a result of Modification P346, all SVA Consumption costs should be recovered using a Specified Charge. In 2021 Elexon conducted a similar exercise to include both HH and NHH Metering Systems and recommended a rate of £0.01001 per SVA MSID based on HH and NHH meters (approximately 31,525,844) to recover the budgeted SVA Consumption costs of £3,787.949. SVA costs had risen by £596k for the 21/22 year, the main drivers for the increase were, an increase in Teleswitch costs of £300k as a result upgrading the existing Radio Teleswitch Service (RTS) hardware, and an increase in DTS costs of £367k due to increased usage of the network has been offset by minor movements across the other services.
- 1.2 When Modification P346 was introduced, it gave no mechanism to perform a reconciliation at the end of the year (unlike those implemented as part of P413 for MHHS). Any over/under recovery would be washed up in the Net Main Cost. Over the years this has been sufficient as the variance has been small (<£70k), however the variance for 2021/22 is forecast to be £400k. Given that this variance is largely made up Profiling and Teleswitch costs being postponed until 2022/23, it was approved that a reconciliation should be performed at Final Reconciliation, and a new rate set for the 2021/22 year. Based on HH and NHH meters (approximately 380,472,173) to recover the budgeted SVA Consumption costs of £3,340,166.04 a reconciliation rate of £0.00878 per SVA MSID has been set for the 2021/22 year.

SVA Specified Charge Calculations

	21-22 ACTUAL FINAL REC
Number of Metering Systems charged in year	380,472,173
<i>SVA Costs calculation</i>	
DTS	
Profiling	
Teleswitch	
Performance Assurance	
Shared agent costs	
TOTAL SVA	6,680,332.08
50% of annual costs	3,340,166.04
Specified charge calculation	0.00878

2. MHHS Monthly Implementation Charge

- 2.1 The MHHS Monthly Implementation Charge was last reviewed in November 2021 where due to uncertainty around the timings of on-boarding service providers, the charge rate was reduced significantly, with the revised budget being reduced to £8.5m, with the expectation that the charges would fall into the following financial year

once the services had been procured. The revised rate set in November 2021 was £0.02235. With the final budget for 2021/22 year being £4.9m, the reconciliation rate of £0.01296 per SVA MSID per month as been set for 2021/22 year.

MHHS Implementation Management Monthly Charge	21-22 ACTUAL FINAL REC
Number of Metering Systems	380,472,173
Annual MHHS Budget	4,931,782
Specified Charge Calculation	0.01296