ELEXON

FUNDING SHARES

Guidance Note

Public

Contents

BSC Funding Shares

This document covers:

- The charges Parties must pay
- How we calculate the Funding Shares
- What happens if a Party does not pay?

What are the BSC Costs?

Elexon's costs are paid by Parties signed up to the BSC. The BSC refers to these costs as 'BSC Costs'. As we are a 'not for profit' company the amount charged exactly matches our costs for each financial year. Parties pay a proportion of the BSC costs every month - their 'BSCCo Charges'. Section D of the BSC details the BSC Costs and their recovery.

We can break the BSC Costs into smaller groups:

Supplier Volume Allocation (SVA) Charges: This covers the operational aspects of the SVA system, and is split equally between Generator Parties and Supplier Parties. Generators contribute to the Production half, specifically the **Production Charging SVA Costs**. Suppliers pay the other half of the SVA Charges, specifically the **SVA Specified charges SVA Specified** charges are a tariff-style payment for all Half Hourly (HH) and Non Half Hourly (NHH) Meters **Specified Charges**: Parties pay a monthly fixed amount for various services on a tariff basis.

The latest charges are published on the Elexon website. Examples of these Main Specified charges are in Section D, Annex D-3 of the BSC and include:

- a basic BSC subscription, with the exception of Virtual Lead Parties that do not hold Energy Accounts
- a charge for each Central Volume Allocation (CVA) Balancing Mechanism (BM) Unit
- a charge for each set of 14 Supplier base BM Units
- a charge for each Additional Supplier BM Unit
- a charge for each CVA metering system)
- a Notified Volume Charge per MWh for Energy Contract Volume Notification and Meter Volume Reallocation Notification
- a Base Virtual Lead Party Monthly Charge, payable by each Virtual Lead Party that is not a Trading Party
- a Secondary BM Unit Monthly Charge

Individual Parties need to pay further charges for services we provide or procure on their behalf e.g. Participant Test Service Fees.

Net Main Costs: This consists of the money not recovered through one of the above methods and is paid by Parties based on their Main Funding Share.

Default Costs: Occasionally a Party defaults on its payments, and leaves its share unpaid. This 'bad debt' is reallocated among the other Parties.

What are Funding Shares?

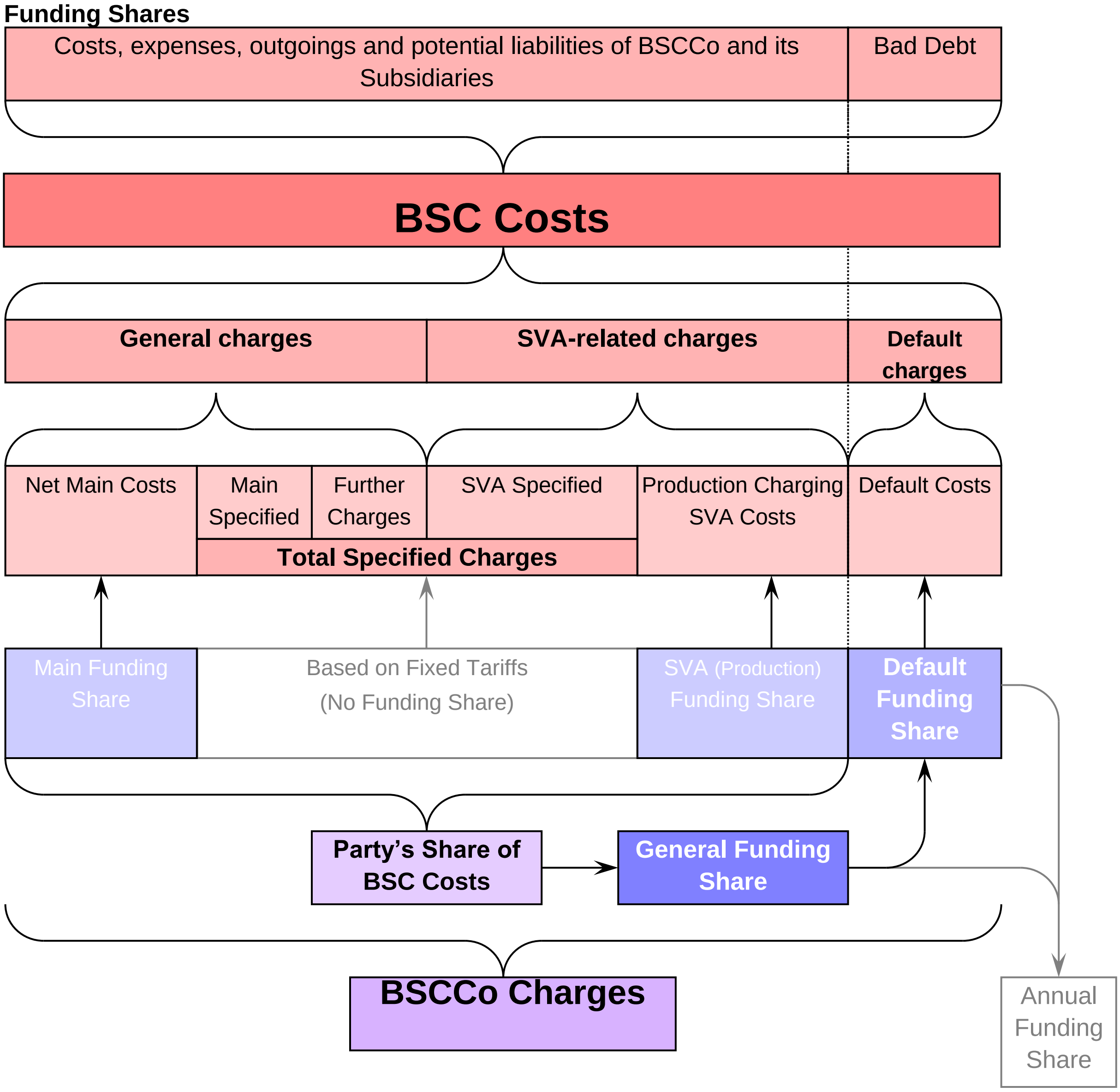
Some of the BSC Costs are collected on a tariff-style basis, but this only accounts for around a third of the overall amount. The remainder is left as a sum of money that needs to be paid. Funding Shares are ratios calculated for each BSC Party based on their generation or supply in the last month, and these determine what share of that remaining money they will have to pay. Parties that generate or supply more will ultimately pay a larger share of the costs.

The Funding Shares are defined in Section D of the BSC. They are:

- The Main Funding Share - applied to the Net Main Costs
- The SVA (Production) Funding Share - applied to the Production Charging SVA Costs
- The General Funding Share - derived from the Party's total payments
- The Default Funding Share - applied to the Default Costs.

Below you can see how the BSC Costs break down (in **green**) and show how the Funding Shares apply to these charges (in **grey**).

Funding Shares



How are the Funding Shares derived?

The Main and SVA (Production) Funding Shares are used to split portions of the BSC Costs. These are generally derived from a Party's Credited Energy Volumes (QCE) i.e. they are based on the Party's metered generation and/or consumption. In this way, a Party that generates or consumes more electricity will pay a larger proportion of the related Costs.

If you are interested in the equations used to calculate the Funding Shares, please see BSC Section D.

Main Funding Share

We calculate the Main Funding Share (FSM) for each Party for each month, and use it to calculate the Party's share of the Monthly Net Main Costs (see BSC Section D). It reflects the Party's share of the total Credited Energy Volumes in a month.

The Main Funding Share includes generated and consumed electricity. The energy a sole Non Interconnector BM Unit produces or consumes counts towards its total QCE in the relevant account.

Funding Shares

But Trading Units can cause exceptions. If a BM Unit that belongs to a Trading Unit is generating while the Trading Unit as a whole is consuming in a Settlement Period or vice versa, its QCE will count **negatively** towards this calculation. This BM Unit offsets some of the QCE of other BM Units in the Trading Unit and reduces exposure to imbalance.

The Funding Share accounts for all Non Interconnector BM Units that produce and/or consume energy. The amount of QCE credited to a Party's account is calculated as a fraction of total QCE across all the accounts of that kind. This is done for both accounts, and these combined gives the Party's share of the Net Main Costs for that month.

So if a Party has 200MWh credited to their Production account, and there is 20,000MWh credited overall to Production, the Party has 200/20,000 of the Production QCE, which is 0.01 or 1%. Say they also have 0.03 or 3% of the Consumption QCE then their Main Funding Share would be (0.01+0.03)/2, which is 0.02 or 2%. As a result, the Party would pay 2% of the money counted as the Net Main Costs.

Parties who accumulate no Credited Energy Volumes will not contribute to the Net Main Costs.

SVA (Production) Funding Share

We calculate the SVA (Production) Funding Share (FSPS) monthly for each Party, based on its share of total Credited Energy Volumes for Production Primary BM Units. This share is used against the Monthly Production Charging SVA Costs (BSC Section D).

We use the same method to calculate this Funding Share as the Main Funding Share, except we only include Non Interconnector Production Primary BM Units. So, Parties who accumulate nothing in their Production account do not contribute to this part of the BSC Costs.

Continuing the above example, the Party has 200MWh of energy in their Production account, out of a total of 20,000MWh. As a result, their SVA (Production) Funding Share would be 200/20,000, which is 0.01 or 1%, and they would therefore pay 1% of the month's Production Charging SVA costs.

General Funding Share

The BSC Costs for each Party are calculated by adding their Total Specified Charges to their share of the other BSC Costs as dictated by their Funding Share. Each month, each Party must pay its:

- Total Specified Charges, with the exception of Secondary Balancing Mechanism Unit Monthly Charges
- Main Funding Share of the Monthly Net Main Costs
- SVA (Production) Funding Share of the Monthly Production Charging SVA Costs.

We calculate the General Funding Share for each Party as the ratio of the total amount i.e. the General Funding Share of a Party is the percentage of the total BSC Costs it paid.

Imagine a total amount of £10m needs to be paid in a given month by four Parties, and the calculations for these four Parties means one pays £1m of this, one pays £2m, one pays £3m and one pays £4m. This means that the General Funding Share of the first Party is £1m/£10m, which is 0.1 or 10%. Similarly, the other Parties come out with 0.2, 0.3 and 0.4 respectively, or 20%, 30% and 40%.

Annual Funding Share

We calculate an Annual Funding Share by averaging each Party's General Funding Share, including the latest month, on a rolling basis. This gives us the Party's rough share of all the payments made in the last year, rather than just the current month. If a Party Defaults, we use the Default Funding Share in place of the General Funding Share, see below.

What happens when a Party Defaults?

When a Party defaults, we consider that share of the BSC Costs as a ‘bad debt’. To recover the outstanding amount, we divide the ‘Default Costs’ among other Parties, and charge them through the Default Funding Share.

We calculate the Default Funding Share by reconsidering the General Funding Share, but without the share of money owed by the Defaulting Party(ies). This gives each non-Defaulting Party its share of the BSC Costs excluding the bad debt. Each Party will then pick up this amount of the Default Costs, and this will result in each Party acquiring the same percentage increase in its overall payment.

For example, let’s say there are ten Parties all paying £1m in a month out of a total of £10m. This would give each a General Funding Share of £1m/£10m, which is 0.1 or 10%. If one of the Parties defaulted on their payment, then they, and the money they owed, would be removed from the calculation. This would result in one Party and £1m being removed from consideration, leaving the other nine Parties with a Default Funding Share of £1m/£9m, which is 0.1111 or around 11.1%. They would then take on 11.1% of the defaulted £1m as well as their original £1m, giving them a total payment of £1.11m or 11.1% of the total £10m.

This split means that Parties who may not actually generate or supply, and therefore only pay the Specified Charges, or who only provide one of these options, may have to pick up debt from a Supplier and/or Generator that includes costs that it wouldn’t otherwise have paid anything towards.

When a Default situation exists, we use the Default Funding Share in place of the General Funding Share for the purposes of calculating the Annual Funding Share, as it is the more accurate measure of the payments made that month.

What happens with Defaulted Trading Charges?

The Annual Funding Share is also used to recover costs when a Party defaults on its Trading Charges as explained in Section N of the BSC. Because of the way that General and Default Funding Shares are calculated, Parties who are not actively trading, and so would not expect to pay Trading Charges, can pay a share of any Trading Charges defaulted by another Party.

Although we calculate the Funding Shares only to split the BSC Costs, and not for Trading Charges (as Section D of the BSC states), the derived Annual Funding Share is used to split outstanding Trading Charges under Section N when the Defaulting Party cannot cover these costs in full. In this case, each non-Defaulting Party must pay its own Trading Charges and an additional amount to cover the Default. This is the amount in Default, including interest, split according to the Annual Funding Share for that month plus VAT. This split is similar to the method for working out Defaulted BSC Costs.

Further Information

Further information on BSC Costs and Funding Shares can be found in Section D of the BSC. If you have a query about your charges please contact the BSC Service Desk or call 0370 010 6950.

- Balancing and Settlement Code Sections
- Specified Charges