

EMR – Panel Update

Meeting Name	BSC Panel
Meeting Date	13 February 2014
Purpose of paper	For Information
Summary	This paper is the Panel's monthly update on ELEXON's appointment as the Settlement Agent for both Contracts for Difference (CfDs) and for the Capacity Market (CM).

1. Engagement

DECC/Counterparty

- 1.1 As well as participating in various DECC work groups, ELEXON is also a member of DECC's Programme Management Board (PMB) (along with all DECC's workstream leads, National Grid and Ofgem), which is chaired by Jonathan Mills, the Senior Responsible Officer (SRO) for EMR within DECC. The PMB is the forum through which ELEXON's progress and risks are formally communicated.
- 1.2 DECC has established a Business Design Authority (BDA) covering the CfD arrangements, to locate in one place the policy that is being determined by DECC's different workstreams. National Grid has established the equivalent body for the CM.
- 1.3 The BDA's assess the impact of changes to policy (baselined to that described in the consultation document issued in October) and restrict the programme and Ministers making changes without understanding the impact on implementation. ELEXON is a member of both BDA forums.
- 1.4 In mid-January 2014 National Grid (in its capacity as the CM Delivery Body) launched their Implementation Programme and held an open event where they shared their proposed implementation plan and timescales. Further events are planned. The Counterparty Body will be holding equivalent events for CFD. We will be participating in these forums as appropriate.
- 1.5 Engagement with the Counterparty/DECC continues in the following areas:
 - Review and comment on the various artefacts that the Counterparty is producing – Business Process Maps (currently being developed by PwC), Traceability Matrices (mapping legislative requirements to systems, processes and organisations);
 - Draft Code and Licence changes;
 - Counterparty's IT systems and interface with the Settlement Agents systems.
- 1.6 Appendix 3 provides a high-level overview of DECC's workgroup structure and ELEXON's engagement in them.

Panel/Industry

- 1.7 **Code and Licence changes:** DECC launched its Code and Licence¹ change consultation on 15 January 2014 which includes the draft BSC changes together with the draft changes to section C3 of the Transmission Licence. The closing date for the receipt of responses is 13 February 2014.
- 1.8 **EMR System interfaces:** We have drafted and shared with DECC/Counterparty, a document setting out the interface options between the CFD/CM Settlement System and Suppliers and Generators and DECC has asked that ELEXON share the options with industry through a consultation. It is planned to issue the consultation towards the end of week commencing 3 February 2014. This creates the opportunity to establish a direct line of communication with EMR parties.
- 1.9 **Panel Committees:** In late January/early February we concluded a round of Panel Committee² updates where we have taken the opportunity to share our understanding of DECC's latest policy proposals where there may be an impact on BSC Parties (Suppliers and Supplier Agents in particular). Feedback from committees suggests some concern that DECC is not engaging widely enough on its proposals. ELEXON has provided this feedback to DECC.

2. Governance

- 2.1 We continue to work with DECC and the Counterparty to develop the contractual and structural arrangements for the provision of EMR services. DECC is proposing a single contract covering both CFD and CM services and this structure and more generally the terms, are being discussed with DECC.
- 2.2 At its meeting on 5 February, the BSCCo Board agreed that a subsidiary would be incorporated to provide the EMR services and keep EMR obligations and risks separate from BSCCo. To maintain oversight, the subsidiary board will comprise the BSCCo Chairman, one of the BSCCo Non- Executive Directors (NEDs) and two of ELEXON's Executive, plus the BSCCo company secretary as Company Secretary. As with the funding arrangements for all other EMR matters, the cost of incorporating the new subsidiary company is funded through the DECC grant.
- 2.3 Activities in 2014/15 are to be funded by grant from DECC (as for 2013/14) and it is intended that terms will be identical.

System Procurement

- 2.4 An update on the procurement progress is contained in Attachment 1 (221/14a) which is confidential.

3. Requirements' certainty

- 3.1 DECC's secondary legislation consultation concluded on 24 December 2013. DECC received about 120 responses and all stakeholders, including ELEXON, are seeking early sight of any proposed policy changes. DECC has stated that it is considering the consultation responses in order that revised policy options can be presented to Ministers and is considering how and when revised policy preferences can be shared with stakeholders ahead of the formal publication deadline in July 2014.
- 3.2 The area of policy change that is most likely to change is the Supplier Obligation (SO) which sets out the mechanism by which Suppliers will fund both CfD and CM arrangements. The so called "fixed levy" arrangement was not particularly well received by stakeholders. However, we are told that there is little

¹<https://www.gov.uk/government/consultations/emr-consultation-on-industry-code-and-licence-modifications>

²<http://www.elexon.co.uk/wp-content/uploads/2013/09/EMR-Update-to-BSC-Committees-v1.0.pdf>

consensus to be drawn from the alternative proposals put forward by consultation respondents which are wide and varied.

4. Changes to the BSC and BSC Systems and processes

- 4.1 As mentioned earlier, DECC launched its Code and Licence change consultation on 15 January 2014 which includes the draft BSC and Transmission Licence changes. The consultation close 13 February 2014.
- 4.2 The BSC System changes are being implemented in the June 2014 release and will deliver the Supplier and Generator volumes needed by the EMR Settlement Agent to calculate the CFD and CM payments. Communications regarding the release implementation timescales will be notified to BSC Parties through the established channels. Implementation is progressing according to plan.

5. Financial Regulations

- 5.1 DECC has shared with us their legal advice concerning the impact of financial services regulation on the Capacity Market scheme. The advice concludes that the capacity agreement is neither a financial instrument for the purposes of MiFiD, nor a "specified investment" for the purposes of FSMA.
- 5.2 As regards FCA authorisation, the latest update (mid-January) is that DECC are to seek counsel's final view on both the Counterparty and ELEXON which they will then present to the FCA. We continue to maintain the pressure on DECC to bring this issue to a timely conclusion. As stated in previous reports, the interests of BSCCo, the EMR subsidiary, DECC and the Counterparty are all aligned is wishing to avoid FCA authorisation.

6. Resource effort and expenditure

- 6.1 CfD/CM expenditure is contained in Attachment 1 which is confidential.

7. Recommendation

- 7.1 The BSC Panel is invited to:

a) **Note the EMR update.**

Attachments:

Attachment 1: CfD/CM Confidential Update

For more information, please contact:

David Osborne, Market Development Manager

david.osborne@elexon.co.uk

020 7380 4199