

REVIEW OF SPECIFIED CHARGES (WITHOUT COST DRIVERS)

MEETING NAME BSC Panel Meeting

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Owner/author Damian Clough

Purpose of paper Information

Classification Public

Summary Following discussion of Specified BSC Charges at the 13 September 2018 Panel meeting, ELEXON was tasked with bringing back a series of papers over the next two Panel meetings, identifying Terms of Reference for a possible review of Section D Charges, as well as the scope of a review. Following feedback from the 8 November 2018 Panel meeting that the Issue should focus on Specified Charges, this paper sets out an approach for reviewing Specified Charges without cost drivers.

1. Background

- 1.1 ELEXON costs are recovered by a combination of Specified Charges which recover a portion of ELEXON costs, with the remainder allocated to BSC Parties using a variety of Funding Shares (based on metered energy).
- 1.2 The last review of Specified BSC Charges was documented in [paper 276/10](#), presented to the Panel on 9 March 2018. It proposed that those charges without identified cost drivers should remain unchanged.
- 1.3 ELEXON presented [paper 282/10](#) to the Panel on 13 September 2018 recommending that the charge for Additional Balancing Mechanism (BM) Units should be reduced to £60 for 2018/19, and any full review of the recovery of ELEXON's costs should be delayed until there was more certainty over ELEXON's future costs and direction of the market.
- 1.4 The Panel approved the reduction in the charge for Additional BM Units for the remainder of 2018/19, but disagreed that any full review should be delayed, with the rationale that industry is constantly evolving. They therefore believed that there would never be an optimum time to undertake a review so it should be started as soon as possible.
- 1.5 The Panel agreed that a review of Section D charges should be carried out and that an Issue Group should be formed. The Panel requested that ELEXON return to the Panel at its 11 October 2018 meeting to present the Issue Group's Terms of Reference [paper 283/10](#).
- 1.6 Following the review of the Terms of Reference, the Panel requested further information on the charges so it could gain an understanding of all charges and scope the review. At its 8 November 2018 meeting ([paper 284/06](#)), the Panel agreed that a review of ELEXON Specified Charges should be carried out with a focussed scope, rather than a wider Section D review. The Panel discussions can be summarised as following:
 - Some Panel Members voiced their concerns over carrying out a full review of all ELEXON Charges due to the Industry resource and costs of such a review, especially if a full review of all charges is not actually necessary.
 - There was uncertainty over what changes may be needed i.e. review a particular subset of charges or conduct a full review with the aim of replacing all charges.

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- The Panel agreed that it is not currently clear whether industry participants regard all of the current charging structure in relation to Section D charges as being an issue or whether there are only certain charges which are viewed as defective.
 - All Panel Members agreed that the current charging structure has been in place since 2000 and since this time there has been considerable industry change such as, for example, a large increase in the numbers of Parties as well as new types of Parties. This, coupled with future industry developments, may mean that the current charging structure is not fair and may in fact act as a barrier to entry. Due to this and the lack of evidence to support a number of the current charges, both in terms of charge rate as well as why the charge exists, reviewing the charging structure will provide this evidence and assurance where possible. The findings of a review could also aid the scope of any future work.
- 1.7 An Issue Group will therefore be raised with a minimal scope of examining and replacing/removing Specified Charges with no drivers. These were agreed by the Panel as being arbitrary and lacking supporting evidence.

2. Purpose of Issue Group

- 2.1 The Issue Group will first of all set high level principles to which the Specified Charges without cost drivers should aim to follow where possible. Initial principles proposed by the Panel are:
- Simplicity;
 - Cost reflectiveness;
 - Fairness; and
 - Proportionality.
- 2.2 It will then assess each of those charges within scope against those principles set within the Issue Group. Specified Charges that do not meet these principles will be identified and potential candidates for being changed.
- 2.3 The Issue Group will assess charges against known or predicted future change to see if they remain fit for purpose. Additionally, it will gain knowledge of users including potential new users i.e. Virtual Lead Parties (VLPs)' views of the current charges and how they may feed through to the end consumer:
- Do Industry participants see the current Specified Charges and costs as a potential defect?
 - Do current Specified Charges alter or change behaviour?
 - How are costs passed on to the end consumer?
 - Do Parties understand the Charges?
 - Can they forecast the Charges and/or do they need to forecast these Charges?
- 2.4 If the Issue Group feels that it is appropriate to remove these Specified Charges without cost drivers, the Issue Group will then need to consider how best to recover the revenue shortfall. The default option would be to then collect the revenue which would have been recovered through these Specified Charges through the Main Funding Share. The Issue Group will need to assess if this is appropriate.
- 2.5 Paragraph 2.3 above will aid any future Modifications to the BSC necessary and help to ensure any change is proportional and efficient. For example, the review may find that although certain charges may need improvement, the scale and size of ELEXON's charges compared to other industry charges and costs may not warrant the time, effort and resource to drastically alter this charge.
- 2.6 The Issue Group will consider changes required and whether the change could potentially be undertaken on a staged basis i.e. first of all remove those charges which are clearly not cost reflective or fair and may act as

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a barrier to innovation, then consider changes to other charges at a later date if deemed necessary. For example, certain charges could be reduced to zero via the existing Panel process for setting the rate for Specified Charges.

- 2.7 The Issue Group may consider the monthly charges for VLPs as well as Secondary BM Units, or as a minimum set industry expectation on the likely nature of these charges. However, in the interim and pending any outcomes of the forthcoming Issue Group, the BSC Panel will separately be presented with the approval of such costs in time for the February 2019 BSC Release.

3. Issue Group's Terms of Reference

- 3.1 Listed below are the Terms of Reference we believe are appropriate for an Issue Group in relation to assessing and amending how ELEXON's costs are recovered.

i) Consider whether the current Specified Charges without cost drivers are appropriate

ii) Agree principles for the recovery of ELEXON costs

Principles will underpin the development of ELEXON charges and can be used to assess any options. The Issue Group will also need to consider where these principles will reside in future.

iii) The Issue Group should determine which BSC Parties should pay for ELEXON costs and if charges can/should be split based on a BSC Party basis?

Should all BSC Parties be charged i.e. Generation, Storage, Consumption, VLPs and non-BSC Parties (change) and are all Parties currently being charged?

iv) Consider the impact on the end consumer

4. Recommendations

- 4.1 We invite you to:

- a) **NOTE** that ELEXON will raise an Issue Group related to the consideration of Specified Charges in Q1 2019.

For more information, please contact:

Damian Clough, ELEXON Design Authority

Damian.Clough@elexon.co.uk, 07551 124617