

# REVIEW OF SPECIFIED CHARGES

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<b>Purpose of paper</b>	For Decision
<b>Classification</b>	Public
<b>Summary</b>	This paper reviews the BSC Specified Charges as set out in Section D which are determined by the Panel. The paper recommends reducing the SVA Specified Charge from £0.7/MSID to £0.6/MSID per month because of the increased number of half hourly metering system. The paper also recommends that no change should be made to all other BSC Specified Charges since there is not a strong case for an increase or a reduction. The Panel is invited to approve the proposal.

## 1. Introduction

- 1.1 Section D of the Balancing and Settlement Code (BSC) sets out the basis on which costs are allocated between BSC Parties. This includes BSC Specified Charges set out in Annex D-3. The Code stipulates that these charges are to be determined by the Panel, but in the event that these charges are not revised, then the rates prevailing in one BSC Year shall continue to apply in the following year. Any changes to the amount or rates require notification to all parties no later than the start of the BSC Year (1 April 2015).
- 1.2 ELEXON costs are recovered by a combination of Specified Charges which recover a portion of ELEXON costs, with the remainder allocated to Parties using a variety of funding shares (based on metered energy).
- 1.3 When the Panel last conducted a consultation of the SVA Specified Charges in 2008 and in subsequent reviews, the option of cost driver was favoured by parties, i.e. BSC Parties should in general pay for costs in a manner that is reflective of the benefit to them of the product or service giving rise to the cost. This would include costs which are directly cost reflective (e.g. number of MSIDs) or otherwise energy volumes, as this is broadly reflective of the benefit to Parties. Therefore, we endeavour to identify cost drivers for each BSC Specified charge whenever possible.

## 2. Current Specified Charges

- 2.1 The table below shows the 2014/15 specified charges at their current rates. For more details of these charges please refer to Appendix 1.

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Specified Charge	Current Rate	Note
Notified Volume Charge (Contracts Traded)	<b>£0.0006/MWh/month</b>	To recover Energy Contract Volume Aggregation Agent (ECVAA) costs
SVA Specified Charge (Half Hourly MSIDs)	<b>£0.7/MSID/month</b>	To recover Suppliers' share of the HH related SVA costs
Dataline Monthly	Direct recovery of communication line costs charged by the BSC Central Service Agent, varied from <b>£291.25/month</b> to <b>£785.42/month</b> depending on technical specifications chosen.	Pass through
TIBCO Charges	Direct recovery of TIBCO license costs charged by TIBCO Software Inc. currently at <b>£16,426</b> for one off standard set up and <b>£246.39/month</b> for support (18% of installation cost per annum).	Pass through
Base Monthly Charge	<b>£250/month</b>	No driver
CVA Metering System Monthly Charge	<b>£50/month</b>	No driver
CVA BM Unit Monthly Charge	<b>£100/month</b>	No driver
Supplier Base BM Unit Monthly Charge	<b>£100/month</b>	No driver
Supplier Additional BM Unit Monthly Charge	<b>£100/month</b>	No driver

### 3. Proposals

- 3.1 The Notified Volume Charge is intended to recover the costs of ECVAA. Our analysis suggests the amount ELEXON recovers from the current monthly charge of £0.0006/MWh is in line with the ECVAA costs ELEXON incurs. Therefore, no change is recommended.
- 3.2 A cost driver method was favoured when the SVA Specified Charge was reviewed previously. We have conducted a similar exercise to recalculate the SVA Specified Charge based on the latest financials available, and this resulted in a unit charge of £0.6 per HH meter per month, which was lower than the prevailing charge of £0.7 per HH meter per month. This is due to the increased number of half hourly metering systems. Therefore, we suggest the unit charge reduce to £0.6 per HH meter per month. We will continue to monitor the appropriateness of the current charge as the number of half hourly metering systems increases.
- 3.3 Dataline Monthly Charge, TIBCO Set-up and Software Support Charge are purely pass-through costs charged by the BSC Central Services Agent. They are fixed but subject to indexation. The actual indexed charge for 2015/16 will be available in March 2015 and it will be notified to the Parties via the BSC website.
- 3.4 For the specified charges with no specified cost drivers (listed in the table above), there is not a strong case for an increase or a reduction. Therefore, we propose no change to these charges.

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## 4. Recommendations

4.1 We invite you to:

- a) **APPROVE** a reduction of the SVA Specified Charge from £0.7/MSID/month to £0.6/MSID/month
- b) **APPROVE** the proposal that all other Specified Charges will remain unchanged.

Appendix 1 – Details of BSC Specified Charges

Appendix 2 – Detailed Analysis of BSC Specified Charges at Their Current Rates

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## Appendix 1 Details of BSC Specified Charges

All Specified charges are set out in Annex D-3 of the BSC. They are categorised into charges aiming to recover specific cost drivers in Table 1 and charges that are not specifically linked to any cost drivers in Table 2. The two tables also detail the latest changes to each charge if applicable.

**Table 1 Detail of Specified Charges with Specified Cost Drivers**

Specified Charges	Descriptions and Charge
Notified Volume Charge	For the Gross Contract MWh determined for a Trading Party in accordance with paragraph 3.2 of Annex D-3, at a charge rate of £0.0006/MWh per month. The charge was established to recover the costs of the Energy Contract Volume Agent (ECVAA). This rate was reviewed and approved by the panel in Feb 2011 and reduced from £0.0007/MWh and subsequently in Feb 2014 when no change was proposed.
SVA Specified Charge	For each Half Hourly Metering System for which a Supplier is Registrant for all or any part of that month, at a charge rate of £0.7 per month. The charge was established to recover the Suppliers' share of the HH related SVA costs. This rate was reviewed and approved by the Panel in March 2008 to reduce from the original rate of £1.25 per month set at NETA go-live. No change was proposed in the Feb 2011 or Feb 2014 reviews.
Dataline Monthly Charge	For each high grade data communication line a Trading Party has chosen to order, from £291.25 per month to £785.42 per month based on the technical specifications chosen. The charge is a direct recovery of communication line costs charged by the BSC Central Services Agent.
TIBCO Set-up and Software Support Charge	For use of the TIBCO Software Inc ("TIBCO") Rendezvous software if a Trading Party has chosen to procure the licence from the BSC Central Services Agent through ELEXON. The charge is a direct recovery of TIBCO license costs charged by the BSC Central Services Agent, currently at £16,426 for one off standard set up and £246.39/month for support (18% of installation cost per annum).

**Table 2 Details of Specified Charges with No Cost Drivers**

Specified Charges	Descriptions and Charge
Base Monthly Charge	A Base Monthly Charge, payable by each Party, at an initial charge rate of £250 per month
CVA Metering System Monthly Charge	For each CVA Metering System (including a Metering System at a Systems Connection Point) of which a Party is Registrant for all or any part of that month, at an initial charge rate of £50 per month

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CVA BM Unit Monthly Charge	For each BM Unit (other than a Supplier BM Unit and other than BM Units as provided in paragraph D-3 3.1 (c) (ii)) for which a Trading Party is Lead Party for all or any part of that month; and for: (1) each Consumption BM Unit associated with an Exemptible Generating Plant for which (Consumption BM Unit) the Trading Party is Lead Party for all or any part of that month (and, in this case, no charge will be made for any Exempt Export BM Units at the Exemptible Generating Plant); or (2) (if there are no Consumption BM Units associated with an Exemptible Generating Plant) all Exempt Export BM Units at the Exemptible Generating Plant for which the Trading Party is Lead Party for all or any part of that month (as a single charge taking such Exempt Export BM Units in aggregate) at an initial charge rate of £100 per month
Base BM Unit Monthly Charge	For a set of Base BM Units (in aggregate) automatically allocated (in accordance with Section K3.3.1(a)) to a Supplier (in respect of each of its Supplier IDs), and held by a Supplier for all or any part of that month, at an initial charge rate of £100 per month
Additional BM Unit Monthly Charge	For each Supplier BM Unit for which a Supplier is Lead Party for all or any part of that month, and which is not charged for under paragraph D-3 3.1 (g), at an initial charge rate of £100 per month and
Replacement Supplier BM Unit	Replacement Supplier BM Unit held by a Replacement Supplier for all or any part of that month: (i) which corresponds to a Base BM Unit, to the Replacement Supplier, one twelfth of the Base BM Unit Monthly Charge; (ii) which corresponds to an Additional BM Unit, to the Replacement Supplier, the Additional BM Unit Monthly Charge, and no charge will be made in respect of Replacement Supplier BM Units under paragraphs D-3 3.1 (g) or (h) provided that, for the purposes of this paragraph 3.1, a BM Unit shall cease to be considered a Replacement Supplier BM Unit when all the Metering Systems associated with that BM Unit are no longer registered in the name of the relevant failing Supplier.

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## Appendix 2 Analysis of BSC Specified Charges at Their Current Rates

### 1. Notified Volume Charge

- 1.1 The Notified Volume Charge was established to recover the costs of the ECVAAs so that Parties not involved in physical trading are required to bear some of the costs of contract notification.
- 1.2 Compared to the last review in February 2014, ECVAAs costs for 2015/16 are expected to be £0.90m (down from £0.94m), whilst contract volumes have decreased slightly from 1600TWh to 1513TWh. A direct recovery of the ECVAAs cost suggests maintaining the current level of £0.0006MW/h.

### 2. SVA Specified Charge

- 2.1 SVA Specified Charge was last reviewed in early 2014 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.
- 2.2 We have conducted a similar exercise to recalculate the SVA Specified Charge based on latest financials available, and resulted in a unit charge of £0.6 per HH meter per month. We therefore recommend a reduction from the current rate of £0.7 to £0.6 per HH meter per month. Keeping the charge at £0.7 per HH meter per month would result in an annual over recovery of £154k.

### 3. Dataline Monthly Charge, TIBCO Set-up and Software Support Charge

- 3.1 These charges are purely pass-through costs charged by the BSC Central Services Agent and they were reviewed and approved by the Panel in a "Schedule of Specified Communication Charges" placed on the BSC website. They are fixed but subject to indexation, using the Computer Economics Limited Index ("CEL") and the Retail Price Index ("RPI") measures. The actual indexed charge for 2015/16 will be available in March 2015 and it will be notified to the Parties via the BSC website.

### 4. Specified Charges with No Cost Drivers

- 4.1 There is no evidence that these initial rates set at go-live were based on any specifically identified costs ELEXON incurs, either through our Agents or internally. Further documentation obtained from Ofgem's archives has also proved inconclusive. An analysis has been carried out on the proportion of Specified Charges since go-live. The tables show the amounts (Table 3) and the percentage (Table 4) recovered through the different charges from 2002 to 2015.

**Table 3 Charges in £,000**

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Total ELEXON Costs	71,811	71,590	66,170	58,960	37,021	33,074	34,160	35,183	31,493	30,079	30,003	29,539	27,413	30,874
Base Monthly Charge	492	514	564	579	599	561	555	591	624	660	706	748	794	866
CVA Metering Systems	332	336	336	339	465	463	464	464	468	472	481	490	494	498
CVA BM Unit	385	410	410	417	499	511	519	541	556	583	672	720	746	776
Base BM Unit Monthly Charge	52	53	53	69	72	69	62	66	71	82	83	90	108	117
Additional BM Unit Monthly Charge	60	70	70	19	6	2	2	2	2	1	2	22	22	34
Base Replacement Supplier BM Unit						1	1							
Total	1,321	1,383	1,433	1,423	1,641	1,607	1,603	1,664	1,721	1,798	1,944	2,070	2,164	2,292

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**Table 4 Charges of % of Total**

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2010	2010	2010	2010	2010
Base Monthly Charge	0.7%	0.7%	0.9%	1.0%	1.6%	1.7%	1.6%	1.7%	2.0%	2.2%	2.4%	2.5%	2.9%	2.8%
CVA Metering Systems	0.5%	0.5%	0.5%	0.6%	1.3%	1.4%	1.4%	1.3%	1.5%	1.6%	1.6%	1.7%	1.8%	1.6%
CVA BM Unit	0.5%	0.6%	0.6%	0.7%	1.4%	1.5%	1.5%	1.5%	1.8%	1.9%	2.2%	2.4%	2.7%	2.5%
Base BM Unit Monthly Charge	0.1%	0.1%	0.1%	0.1%	0.2%	0.2%	0.2%	0.2%	0.2%	0.3%	0.3%	0.3%	0.4%	0.4%
Additional BM Unit Monthly Charge	0.1%	0.1%	0.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.1%	0.1%	0.1%
Base Replacement Supplier BM Unit						0.0%	0.0%							
Total	1.8%	1.9%	2.2%	2.4%	4.4%	4.9%	4.7%	4.7%	5.5%	6.0%	6.5%	7.0%	7.9%	7.4%

- 4.2 No indexation has been applied to any of the above charges since go-live. Whilst the rates have remained constant there has been an increase in the amounts recovered due to changes in the numbers of parties, metering systems, BMUs etc. The proportion of cost recovered in percentage terms has increased to a greater extent due to the reduction in ELEXON's costs over the last 15 years. ELEXON costs that are not recovered via Specified Charges form part of the Net Main Cost.
- 4.3 If the same proportion of cost recovery delivered through these specified charges as at go-live were to be maintained, then the current rates would need to be reduced (by approximately 76% for these charges). However, it could also be argued that as these charges were not intended to recover a specific area of cost, but were set at a level thought to be "reasonable" at that time, indexation could have been applied in the past.
- 4.4 There is not a strong case for an increase or a reduction, and in light of this we propose no changes to these Specified Charges with no cost drivers.