
P413 Workgroup 1 summary

Summary

1. Welcome and Meeting Objectives

1.1 The Chair welcomed attendees and presented the following meeting objectives to members:

- Consideration of P413 and the background;
- Consider the P413 Terms of Reference; and
- Agree initial solution and areas for further development at future meetings.

2. Proposer's solution and views

2.1 The Proposer gave background to the Modification and clarified that the current solution would require Elexon as the BSC Company (BSCCo) to provide the Programme Management (PM) function for the implementation of Market-wide Half Hourly Settlement (MHHS). The Proposer expressed the view that Elexon were best placed to provide this function for two reasons. Firstly, as Ofgem have proposed that BSC Parties should fund the costs of the PM function, there is an established mechanism for recouping funds from BSC Parties in the BSC. Secondly, Elexon has the experience and subject-matter expertise required to deliver such a programme. The Proposer believed that this Modification would further BSC objective d) 'Promoting efficiency in the implementation of the balancing and settlement arrangements'.

2.2 A Workgroup member questioned how requiring Elexon to be the PM for MHHS would be more efficient and whether this Modification had been raised prematurely, highlighting that Ofgem had not ruled out a competitive tendering exercise for the PM role. The Proposer stated that the efficiencies could be realised as a large component of the MHHS programme will be changes to BSC systems and processes and Elexon are mandated to and have experience in progressing these. An Elexon representative informed attendees that Ofgem have stated that their aspiration is for the PM function to be in place before Spring 2021 and so there is not a large amount of time to develop the P413 solution. The Elexon representative also clarified that this Modification could work alongside a procurement option if required and is ultimately about providing industry with suitable options to provide the PM function. They clarified that, without P413, it is not obvious how to get the 'Elexon option' on the table for BSC Parties to consider and comment on.

3. P413: Further MHHS/PM background

3.1 An Elexon representative presented background on Ofgem's envisaged structure and timetable for the PM role and introduced key questions for the workgroup to consider as part of the Terms of Reference.

3.2 A Workgroup member questioned whether BSC Parties should be responsible for the funding of the assurance role and whether it was required. Ofgem clarified that the proposal in its consultation was for BSC Parties to fund all the PM roles, including the assurance role, regardless of who provides them. However, Ofgem is currently reviewing the responses before determining its final position.

3.3 A Workgroup member asked whether if Modification *P390: Allowing extensions to Elexon's business and activities, subject to additional conditions* would allow Elexon to participate in a competitive procurement process. Elexon representatives clarified that P390 has not been approved by Ofgem but that, even if it was, it would not provide a

workable mechanism for the PM function. This is because P390 requires Elexon to establish a ring-fenced subsidiary, the operational costs of which cannot be subsidised by BSC Parties. The Workgroup therefore agreed that this is incompatible with Ofgem's proposal that BSC Parties fund the ongoing costs associated with the PM role.

4. Terms of Reference and Timetable

- 4.1 The Elexon Lead Analyst gave an overview of the Terms of Reference and the modification progression timetable. They highlighted the longer than usual assessment consultation time due to the Christmas period and that the Final Modification Report was expected to be sent to Ofgem by 15 March 2020 to align with the Ofgem timetable for the PM to be appointed by Spring 2021.
- 4.2 Workgroup members agreed Objective (d) is the only relevant Applicable BSC Objective for P413.

5. Areas for Consideration

- 5.1 Workgroup members considered the Terms of Reference. Key discussion points on each part of the Terms of Reference are below:

- a) *The exact BSC cost-recovery mechanism (e.g. whether this is through the BSC's Main Funding Share and whether these costs are funded by BSC Trading Parties only)*

The Workgroup discussed different cost recovery mechanisms for the change and gave an action to Elexon to explore the impacts and principles of two alternative options in further detail. The Workgroup discussed whether, rather than all BSC Trading Parties funding the PM function through the Main Funding Share, the costs of this function should be targeted at Parties who benefit from the implementation of MHHS and/or benefit from the existence of the PM function. Options considered were levying all PM costs on Suppliers, or on Suppliers and LDSOs. The group noted that the actual BSC implementation costs of MHHS (separate to the PM costs) would be recovered from all BSC Trading Parties in the normal way through the Main Funding Share.

- b) *Does the scope of the Modification Proposal allow the P413 cost-recovery mechanism to apply to any PM provider or only if Elexon provides the function?*

Workgroup Members agreed that it was outside the scope of P413 to introduce a BSC cost-recovery mechanism for a non-Elexon PM provider, noting that Ofgem could direct the necessary BSC changes in this scenario using its SCR/Smart Meters Act powers.

- c) *How the BSC provisions will ensure that Elexon is accountable to Ofgem for delivery of the PM function, including whether the BSC should give Ofgem the right to remove some or all of the function from Elexon in the event of poor performance*

Workgroup Members discussed how Elexon would be accountable to Ofgem if they were to provide the PM function. Elexon representatives noted that BSC provisions in this area may not be needed if P413 becomes more of an enabling Modification (see below), as the appointment decision and related terms and conditions could sit separately outside of the BSC. However, as originally drafted, an Ofgem decision to approve P413 represents the actual appointment (with no separate appointment decision). In this scenario, the BSC may need to include the right for Ofgem to remove some or all of the PM role from Elexon in the event of poor performance.

- d) *Whether the solution should include provisions for the appointment and governance of the Assurance provider*

The Elexon representatives asked if there could be efficiencies in Elexon procuring the Assurance provider, in a similar way to how companies procure statutory auditors. Elexon suggested that the BSC could require Ofgem to approve/ratify both Elexon's choice of Assurance provider and the brief that it undertakes the procurement against. Workgroup members expressed mixed initial views on whether this should be included in P413.

e) *Should P413 require, or enable, Elexon to be the MHHS PM?*

The Workgroup discussed whether the Modification should require or enable the Elexon to be the MHHS PM. The Elexon representatives noted that the difference between the two options is as follows:

- 'Require': Ofgem approval of P413 is approval of Elexon's appointment as PM and no further Ofgem appointment decision is needed to give this effect. Elexon becomes required to perform the PM function under the BSC on implementation of P413, with associated BSC cost-recovery provisions.
- 'Enable': Ofgem approval of P413 is required to enable Elexon to participate in a procurement exercise. P413 also contains provisions for Elexon to provide the PM function under the BSC (including cost-recovery). However, these provisions only come into effect in the event of a separate Ofgem decision, outside the BSC, to appoint Elexon as PM.

Elexon noted that its internal thinking has moved on since P413 was raised and it now sees little difference between the two options from a procurement perspective. The preference of a majority of Workgroup members was for a more enabling solution although the Proposer remained undecided. Elexon agreed to develop business requirements for both options by the next meeting to allow the Proposer and Workgroup to compare them.

A Workgroup member suggested that a Modification Proposal is not needed to allow Elexon (as BSCCo) to participate in a procurement exercise for the MHHS PM, despite the restrictions on Elexon's vires that prevent it undertaking activities outside the BSC. The member believed that this is because the PM function is such a close match to BSCCo's existing functions under the BSC. Elexon took an action to confirm whether this is the case.

f) *How will P413 impact the BSC Settlement Risks?*

Workgroup Members did not expect there to be any impact on BSC Settlement Risks due to the nature of the Modification.

i) *Should P413 be progressed as a Self-Governance Modification?*

Workgroup members agreed with the Proposer and Elexon that the modification did not meet the Self-Governance criteria.

k) *Does P413 impact the EGBL provisions held within the BSC*

Elexon's initial view was that P413 has no impact on the EGBL provisions but noted that this can be confirmed once the legal text is drafted.

5.2 Workgroup members agreed to consider sections d), g), h) and j) when the solution is developed further.

Actions

- Elexon to produce a paper on the potential mechanics and impacts of, as well as any principles to consider with, different funding approaches. Options to be included:
 - Using the Main Funding Share (Current default BSC funding mechanism)
 - A new type of SVA Funding Share levied on Suppliers only
 - A new type of SVA Funding Share levied on Suppliers and LDSOs.
- Elexon to confirm whether the MHHS PM function is sufficiently close to Elexon's existing core BSC activities that it could submit a bid into a procurement process without needing a Modification Proposal to enable such a bid.

- Elexon to confirm that the proposed solution does not impact the EBGL provisions within the BSC
- Elexon to develop draft business requirements for both “Enable” and “Require” solution options to enable the Workgroup to clearly identify the similarities and differences between the two.