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## P413 Workgroup Meeting 3 Note

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### Summary

#### 1. Welcome and Meeting Objectives

1.1 The Chair welcomed Workgroup Members and informed attendees of the required meeting outcomes.

#### 2. Legal Text review

2.1 Elexon Legal presented the drafted redlined changes for the Proposed Modification. It was highlighted to members that the redlining was only intended to give effect to the Proposed Modification (Main Funding Share) solution and that the potential Alternative Modifications relating to different cost-recovery approaches would be considered at the next Workgroup meeting following the impact assessment and consultation results (w/b 25 January 2021).

2.2 Elexon Legal informed Workgroup Members that the drafting had been developed to be as flexible as possible, given the uncertainty over what appointment process Ofgem intends to follow. The representative highlighted that the legal text obligations on Elexon would only take effect if Elexon is appointed to some or all of the Market-wide Half Hourly Settlement (MHHS) Programme Manager (PM) role. The Elexon representative highlighted that the legal text allows the specification for the PM role to be captured either in a Code Subsidiary Document or in an Ofgem document outside the BSC; again to give flexibility depending on Ofgem's preference.

2.3 Elexon noted that the bid cap of £100k included in the drafting mirrors that in other Modification Proposals enabling Elexon bids (including P390). Elexon asked whether this cap was sufficient for a PM bid, noting that the potential difference with P413 is that Elexon would be bidding as BSCCo for a role that would become a BSC activity (whereas the other Modifications concern bids by Elexon affiliates for non-BSC work). Elexon asked whether the legal text should include a process for the BSC Panel to approve a higher bid spend. Workgroup Members did not identify any reason why a higher bid cost would be necessary for this specific role and believed an ability for the Panel to approve a higher amount would undermine the purpose of the cap. They also did not believe that it would be appropriate/efficient for Elexon to spend more than this amount on a bid, given that it would be funded by BSC Parties and could be unsuccessful. Workgroup Members therefore agreed to leave the £100k bid costs unchanged within the drafting.

2.4 A Workgroup Member considered that the legal drafting should be clearer that the costs being recovered under P413 are those of Elexon fulfilling the PM role and not those of Elexon updating BSC documents, systems and processes to implement MHHS (which would be required anyway). Elexon agreed to clarify this in the text.

#### 3. Consultation Questions

3.1 Elexon presented a set of straw man consultation questions for the Workgroup to review. A Workgroup Member questioned whether there would be value in trying to quantify the benefits of P413 in addition to capturing the qualitative benefits, noting the Panel's desire to see both costs and benefits quantified for Modification Proposals. Another Workgroup Member highlighted that care should be taken to make it clear to consultation respondents that the benefits would relate to Elexon being able to be appointed to carry out the MHHS PM role and not the benefits of the MHHS PM role itself or of the wider MHHS implementation.

3.2 A Workgroup Member suggested that a cash range of benefits could be developed. Elexon expressed the view that the cash benefits of Elexon providing the PM role would be very difficult to estimate as these benefits would be realised in savings against bids from other potential providers, the values of which Elexon is not in a position to estimate. The representative also stated that providing Elexon bid costs publicly could put it at a commercial disadvantage in any competitive tender process. Elexon agreed to consider whether it is possible to provide any meaningful figures for the consultation.

## 4. Initial Views of the Proposed Modification against Applicable BSC Objectives

4.1 Elexon reminded Workgroup Members of the BSC Objectives and the Proposer's view of the benefits of the Proposed Modification against the Applicable BSC Objectives. Workgroup Members discussed the Proposer's current view of the benefits of the Proposed Modification in relation to Applicable BSC Objective (d) ('Promoting efficiency in the implementation and administration of the balancing and settlement arrangements'). These are that Elexon carrying out the PM role could be beneficial as it would allow:

- The entity with the greatest subject-matter expertise to provide the PM function for Ofgem's MHHS delivery programme, and that the programme is not relying on an entity who is trying to understand the in-depth electricity Settlement process and drivers;
- The function to be delivered on a not-for-profit basis;
- The function to be provided by an entity whose sole purpose is to provide services for the benefit of BSC Parties and the energy market; and
- Industry delivery costs and timescales to be minimised.

Workgroup Members (including the Proposer) also agreed that, in addition to the above benefits, Elexon also has a natural incentive to ensure that MHHS is implemented efficiently and effectively as it will be responsible for operating the enduring MHHS arrangements.

4.2 Workgroup Members discussed BSC Objective (d) 'Promoting efficiency in the implementation and administration of the balancing and settlement arrangements'. Workgroup Members agreed with the arguments put forward by the Proposer in the Modification Proposal as to the positive impacts of P413 on this objective. A minority of Workgroup members considered that, while they were comfortable with Elexon participating in any appointment process, these positive impacts could be balanced out by the negative impact if Elexon's bid to become PM was unsuccessful (as this would result in sunk costs for BSC Parties). These Workgroup Members therefore believed that P413 would have a neutral impact on Objective (d) overall. However, a majority of Workgroup Members (including the Proposer) believed that Elexon participating in any bidding process would improve the overall quality of all bids, and that this was an additional positive impact of the Modification. After some discussion over whether this argument could sit under Applicable BSC Objective (c), members agreed this was most relevant to BSC objective (d). No Workgroup members identified an impact on any other Applicable BSC Objectives.

4.3 The Proposer commented that three scenarios could arise if P413 is approved: (1) Elexon could be appointed as the PM without a competitive tender exercise; (2) Elexon could be the successful bidder in a competitive tender exercise; and (3) Elexon could be an unsuccessful bidder in a competitive tender exercise. The Proposer believed that P413 would better facilitate the achievement of Applicable BSC Objective (d) under all three scenarios.

4.4 Overall, a majority (5 out of 6) Workgroup Members in the meeting therefore believed that the Proposed Modification **would** better facilitate the Applicable BSC Objectives compared with the current baseline. A minority of Workgroup Members believed that the Proposed Modification would have a neutral impact on the Applicable BSC Objectives.

## 5. Terms of Reference

5.1 Elexon presented the Workgroup's Terms of Reference and summarised the Workgroup's current view against them, for inclusion in the Assessment Procedure Consultation. Elexon also confirmed that the P413 Proposed Modification did not impact the EBGL Article 18 terms and conditions.

## 6. Next Steps

6.1 Elexon informed Workgroup Members of the next steps to progress the Modification. The key milestones highlighted were:

- Updated legal drafting to be circulated to Workgroup Members
- Assessment Consultation materials to be circulated to Workgroup members W/C 7 December 2020
- Assessment Consultation period 14 December 2020 to 15 January 2021
- Next Workgroup Meeting to be held W/C 25 January 2021.

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## **Actions**

- Elexon to circulate updated legal drafting for review
- Elexon to circulate Assessment Consultation materials for review w/c 7 December 2021
- Elexon to consider whether it is possible to quantify benefits associated with P413
- Workgroup Members to complete the Doodle Poll with their availability for the January Workgroup meeting.