ELEXON

P413 Ad-Hoc Workgroup Summary

Summary

1. Welcome and Meeting Objectives

1.1 The Chair welcomed Workgroup members. She informed attendees that the objective of the session was to agree business requirements for an alternative BSC mechanism by which all the BSC Costs of Elexon providing the Market-wide Half Hourly Settlement (MHHS) Programme Manager (PM) function would be recovered from Suppliers. She advised that this will enable Elexon to obtain a service provider impact assessment of the implementation costs and lead times associated with this potential solution, for inclusion in the Workgroup's Assessment Procedure Consultation in mid-December 2020.

1.2 Elexon confirmed that the Workgroup did not need to decide at this stage whether to formally progress these requirements as an Alternative Modification. The impact assessment results are unlikely to be known by the next Workgroup meeting on 20 November 2020, but can be included in the consultation along with the requirements and a question on whether industry participants would support progression of this solution. The Workgroup can then make a decision at its final meeting in January 2021 on whether to take it forward as an Alternative Modification.

2. Key Discussion Points

2.1 The Workgroup discussed Elexon's straw man business requirements, as set out in Elexon's note of 20 October 2020. Elexon noted the lack of strong views from Workgroup members at Meeting 2 on how a Supplier-only charging solution should be delivered in practice. Elexon advised that it had therefore try to develop an approach which would achieve the principle of levying all of Elexon's PM costs on Suppliers, while minimising the impact on the Funding Share System (FSS). Elexon noted that the longer the time needed to amend the FSS, the more back-dating of Suppliers' charges would be required.

2.2 An Elexon representative highlighted the following key features of the straw man business requirements:

- Back-dating/reconciliation of charges would be required in the 1st year, as it is not possible to implement a FSS change prior to 1 April 2021, given that the P413 Modification Report will be submitted to Ofgem in mid-March 2021
- To minimise the FSS impacts, costs would be levied on Suppliers through a new Main Specified Charge rather than a new Funding Share, as this would enable re-use of existing input data already held in the system.
- The new charge would be levied on a monthly basis and would not be an SVA (operational) Cost.
- Charges would be allocated on a £ per SVA Metering System basis.

2.2 Elexon highlighted that a consequence of levying all PM costs on Suppliers is that Suppliers' overall share of BSC Costs will increase, and therefore their share of Default Costs. Elexon confirmed that this would be the case regardless of whether the costs are levied on Suppliers as a new Funding Share or as a new Specified Charge, since either way Suppliers would be paying proportionally more of the total BSC Costs. Elexon noted that it would also increase Suppliers' Voting Shares where these remain below the Voting Share cap of 6%. Elexon noted that levying costs through the Main Funding Share under the Proposed Modification would not have this effect. This is because, although total BSC Costs would increase once PM costs are added into the BSC, Parties' proportions of the total BSC Costs would remain the same as currently (as no particular type of Party would be paying an overall higher or lower ratio).

2.3 Workgroup members noted that Default Costs are uncapped. Some members argued strongly that it would be inappropriate for Suppliers' proportion of Default Costs to increase as a result of P413. These members stated that they would only support levying all PM costs on Suppliers if the calculation of Default Funding Shares was changed to prevent this from happening.

2.4 Elexon noted that the existing BSC principle is that Default Costs are recovered in proportion to Parties' overall share of BSC Costs, and noted that PM costs will be BSC Costs if they are recovered under the BSC. Elexon asked on what basis/principle the new charge would therefore be excluded from the calculation of Default Funding Shares. Some Workgroup members expressed the view that it was inappropriate for PM costs to increase Suppliers' Default Costs, due to their expected magnitude.

2.5 Elexon noted that Default Funding Shares are calculated using General Funding Shares. These are in turn calculated using the sum of all BSC Costs paid by a Party (the Party's total Specified BSC Charges + its total Funding Share charges) to work out the Party's overall proportion of total BSC Costs. Currently, the FSS does not need to know what individual charges make up these different totals. Elexon noted that, to exclude the new P413 Supplier-only charge from the calculation of General/Default Funding Shares, the FSS would need to know and subtract this charge amount. Elexon noted that this was likely to significantly increase the FSS implementation costs and lead times, although this could be established through the impact assessment.

2.6 Workgroup members did not propose any other changes to the straw man business requirements. Elexon agreed to impact assess these requirements both with and without the additional requirement to exclude the new Supplier-only charge from the calculation of the General Funding Shares (which in turn feeds into the calculation of Default Funding Shares and the Annual Funding Shares used to work out Voting Shares). This will enable the Workgroup to see what difference this extra requirement makes to the costs and lead times.

2.7 The Proposer asked if the impact assessment should also include an option whereby Elexon's PM costs are levied on both Suppliers and LDSOs. Elexon advised that this would be higher impact/cost for the FSS compared with the Supplier-only solution.[1] Elexon advised that, at the Workgroup's previous meeting, more members were in favour of exploring a Supplier-only charging option than a Supplier and LDSO charging option. Elexon cautioned against including too many solutions in the impact assessment in case the time needed to assess them prevents results from being available for the Workgroup's consultation.

2.8 Elexon advised that, for now, it would not draft the additional BSC Section D legal text for the alternative cost-recovery mechanism until the Workgroup has decided whether to take it forward as an Alternative Modification

Actions

Elexon to impact assess the straw man business requirements set out in its note of 20 October, but with two variants of Requirement 14 as follows:

- Requirement 14a: The new MHHS Programme Monthly Charge will increase Suppliers' share of BSC Costs. This will have the effect of increasing Suppliers' General Funding Shares, Default Funding Shares and Annual Funding Shares. As such it will also:
    - Increase Suppliers' Voting Shares (used when voting on Resolutions at Annual BSC Meetings), but only where these remain below the overall Voting Share Cap of 6% of the votes.
    - Increase Suppliers' share of Default Costs (the unpaid BSC Costs or 'bad debts' created by Defaulting Parties).

- Requirement 14b: The new MHHS Programme Monthly Charge will be excluded from the calculation of General Funding Shares, Default Funding Shares and Annual Funding Shares. As such it will:
    - Not affect Suppliers' Voting Shares (used when voting on Resolutions at Annual BSC Meetings).
    - Not affect Suppliers' share of Default Costs (the unpaid BSC Costs or 'bad debts' created by Defaulting Parties).

[1] See Elexon's note of 5 October 2020 (and in particular the table in Appendix 1), discussed at Workgroup Meeting 2.