

Information Sheet

What are BSC Funding Shares?

This information sheet explains the role Funding Shares play in recovering our costs from BSC Parties. We will cover the charges Parties must pay and how we calculate the Funding Shares, before going on to describe what happens when a Party Defaults. **Section D** of the **Balancing and Settlement Code (BSC)** covers BSC Costs and Funding Shares.

Some of the BSC Costs are collected as tariffs, but this only accounts for around a third of the overall amount. Funding Shares are ratios calculated for each BSC Party based on their generation or supply in the last month, and these determine what share of that remaining money they will have to pay.

We will also explain what happens to the money a Party owes when it cannot pay its charges. Essentially this unpaid debt is split among the other Parties. This method is also used for any unpaid Trading Charges, and we will cover this at the end of the document.

What are the BSC Costs and Funding Shares?

ELEXON's costs, and the contracted costs of BSC Agents are paid by Parties signed up to the BSC. The BSC refers to these costs as 'BSC Costs'. Parties pay a proportion of the BSC costs every month - their 'BSCCo Charges'.

We can break the BSC Costs into smaller groups:

Supplier Volume Allocation (SVA) Charges: This covers the operational aspects of the SVA system, and is split equally between Generator Parties and Supplier Parties. Generators contribute to the Production half, specifically the Production Charging SVA Costs. Suppliers pay the other half of the SVA Charges, and this part splits into the Consumption Charging Net SVA Costs and the SVA Specified charges. SVA Specified charges are a tariff-style payment for half-hourly meters. In total, these amount to around 15% of the BSC Costs each month.

Specified Charges: Parties pay a fixed amount monthly for various things on a tariff basis. These include:

- A basic BSC subscription (£250)
- CVA Balancing Mechanism (BM) Units (£50 per BM Unit)
- Supplier BM Units (£100 per BM Unit)
- Metering Systems (£100 per Central Volume Allocation (CVA) metering system)
- Notified Volume Charge (£0.0025/MWh)



There is more information in the BSC, which you can read at www.elexon.co.uk. If you are interested, you can also see current and past values of the **Funding Shares** there. If you have any questions about Funding Shares or BSC Costs, **email the BSC Service Desk** or call **0870 010 6950**.



BSC Costs are collected to recover the costs of ELEXON and are covered in **Section D** of the BSC. Trading Charges are the costs relating to imbalance and system operation and are covered in Section T of the BSC. We have an **Information Sheet on Trading Charges** which you can view here.



Section D4 of the BSC details the BSC Costs and their recovery. The main specified charges are in Annex D-3.

Individual Parties need to pay Further Charges for services we provide or procure on their behalf. We recover around 30% of each month's costs through Specified Charges.

Net Main Costs: This consists of the money not recovered through one of the above methods, and comes to around 55% of the total BSC Costs for that month.

Default Costs: Occasionally a Party defaults on its payments, and leaves its share unpaid. This 'bad debt' is reallocated among the other Parties.

Funding Shares measure how much of the BSC Costs Parties must pay. The Specified Charges define what each Party needs to pay each month, but the remaining charges are 'lump sums'. We need a way of deciding how much of each of these portions each Party needs to pay, and for this we use Funding Shares.

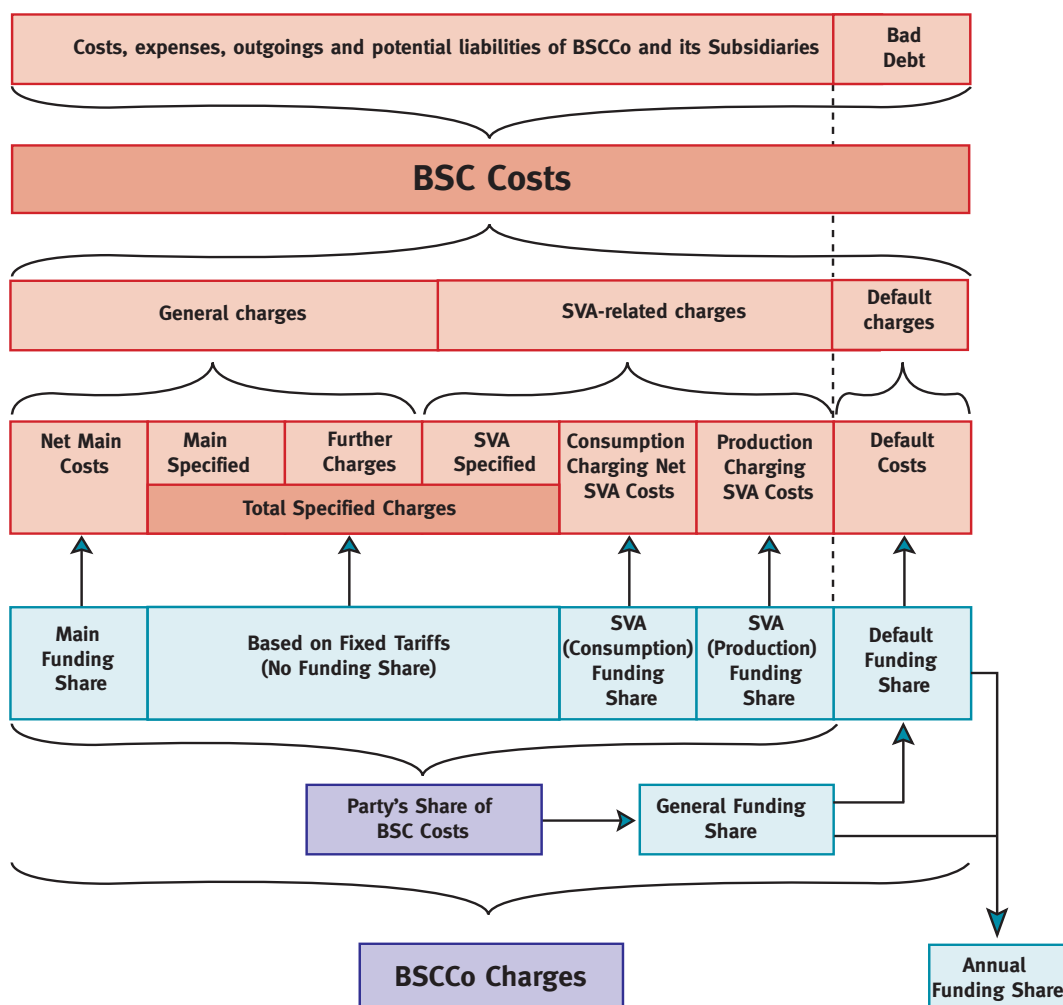
For each Party, we derive a ratio for each portion based on the energy Parties produce or consume in a month – the Funding Shares. Parties that generate or supply more will ultimately pay a larger share of the costs. These Funding Shares are:

- The Main Funding Share - applied to the Net Main Costs;
- The SVA (Production) Funding Share - applied to the Production Charging SVA Costs;
- The SVA (Consumption) Funding Share - applied to the Consumption Charging Net SVA Costs;
- The General Funding Share - derived from the Party's total payments; and
- The Default Funding Share - applied to the Default Costs.

Below you can see how the BSC Costs break down (in red) and how the Funding Shares apply to these charges (in blue).



The Funding Shares are defined in BSC Sections D1.2.1 and D4.



How are the Funding Shares derived?

The Main, SVA (Consumption) and SVA (Production) Funding Shares are used to split portions of the BSC Costs. These are generally derived from a Party's Credited Energy Volumes (QCE) – they are based on the Party's metered generation and/or consumption. In this way, a Party that generates or consumes more electricity will pay a larger proportion of the related Costs.

Main Funding Share

We calculate the Main Funding Share (FSM) for each Party for each month, and use it to calculate the Party's share of the Monthly Net Main Costs (BSC Section D4.1(a)). It reflects the Party's share of the total Credited Energy Volumes in a month.

The Main Funding Share includes generated and consumed electricity. The energy a sole BM Unit produces or consumes counts towards its total QCE in the relevant account.

But Trading Units can cause exceptions. If a BM Unit that belongs to a Trading Unit is generating while the Trading Unit as a whole is consuming in a Settlement Period or vice versa, its QCE will count negatively towards this calculation. This BM Unit offsets some of the QCE of other BM Units in the Trading Unit and reduces exposure to imbalance.

The Funding Share accounts for BM Units that produce and/or consume energy. The amount of QCE credited to a Party's account is calculated as a fraction of total QCE across all the accounts of that kind. This is done for both accounts, and these combined gives the Party's share of the Net Main Costs for that month.

So if a Party has 200MWh credited to their Production account, and there is 20,000MWh credited overall to Production, the Party has $200/20,000$ of the Production QCE, which is 0.01 or 1%. Say they also have 0.03 or 3% of the Consumption QCE then their Main Funding Share would be $(0.01+0.03)/2$, which is 0.02 or 2%. As a result, the Party would pay 2% of the money counted as the Net Main Costs.

Parties who accumulate no Credited Energy Volumes will not contribute to the Net Main Costs.

SVA (Production) Funding Share

We calculate the SVA (Production) Funding Share (FSPS) monthly for each Party, based on its share of total Credited Energy Volumes for Production BM Units. This Share is used against the Monthly Production Charging SVA Costs (BSC Section D4.1(c)).

We use the same method to calculate this Funding Share as the Main Funding Share, except we only include Production BM Units. So, Parties who accumulate nothing in their Production account do not contribute to this part of the BSC Costs.

Continuing the above example, the Party has 200MWh of energy in their Production account, out of a total of 20,000MWh. As a result, their SVA (Production) Funding Share would be $200/20,000$, which is 0.01 or 1%, and they would therefore pay 1% of the month's Production Charging SVA costs.

SVA (Consumption) Funding Share

We calculate the SVA (Consumption) Funding Share (FSCS) for each Party every month. This Share splits the Monthly Consumption Charging Net SVA Costs (BSC Section D4.1(b)). We look here at the Party's share of Non Half Hourly consumption over the given month.

Parties who meter using Half Hourly meters pay a small, fixed tariff on each of these meters. We only consider Non Half Hourly meters for the Monthly Consumption Charging Net SVA Costs. This Funding Share doesn't use QCE, but instead considers the Corrected Correctable Supplier Deemed Take (CCSDT). The CCSDT is the amount consumed by a Supplier's Non Half Hourly metered customers in a GSP Group in one Settlement Period. In this Funding Share, it's the sum of this Deemed Take over all GSP Groups.

As this Funding Share is calculated against Non Half Hourly meters, a Party who does not consume through such a meter (or at all) won't contribute to this portion of the BSC Costs.

Fixed Tariffs

The Specified Charges are all tariff-style payments. Each Party is charged a fixed amount based on various factors as the BSC explains. Because the payments depend on individual Parties, no Funding Share applies to this part of the BSC Costs.



If you are interested in the equations used to calculate the Funding Shares, please see BSC Annex D-1.



The CCSDT is shown in BSC Annex S-1.

General Funding Share

The BSC Costs for each Party are calculated by adding their Total Specified Charges to their share of the other BSC Costs as dictated by their Funding Share. Each month, each Party must pay its:

- Total Specified Charges;
- Main Funding Share of the Monthly Net Main Costs;
- SVA (Consumption) Funding Share of the Monthly Consumption Charging Net SVA Costs; and
- SVA (Production) Funding Share of the Monthly Production Charging SVA Costs.

We calculate the General Funding Share for each Party as the ratio of the total amount. In other words, the General Funding Share of a Party is the percentage of the total BSC Costs it paid.

Imagine a total amount of £10m needs to be paid in a given month by four Parties, and the calculations for these four Parties means one pays £1m of this, one pays £2m, one pays £3m and one pays £4m. This means that the General Funding Share of the first Party is $\frac{£1m}{£10m}$, which is 0.1 or 10%. Similarly, the other Parties come out with 0.2, 0.3 and 0.4 respectively, or 20%, 30% and 40%.

Annual Funding Share

We calculate an Annual Funding Share by averaging each Party's General Funding Share, including the latest month, on a rolling basis. This gives us the Party's rough share of all the payments made in the last year, rather than just the current month. If a Party Defaults, we use the Default Funding Share in place of the General Funding Share.

What happens if a Party Defaults?

When a Party defaults, we consider that share of the BSC Costs as a 'bad debt'. To recover the outstanding amount, we divide the 'Default Costs' among other Parties, and charge them through the Default Funding Share.

We calculate the Default Funding Share by reconsidering the General Funding Share, but without the share of money owed by the Defaulting Party(ies). This gives each non-Defaulting Party its share of the BSC Costs excluding the bad debt. Each Party will then pick up this amount of the Default Costs, and this will result in each Party acquiring the same percentage increase in its overall payment.

For example, let's say there are ten Parties all paying £1m in a month out of a total of £10m. This would give each a General Funding Share of $\frac{£1m}{£10m}$, which is 0.1 or 10%. If one of the Parties defaulted on their payment, then they, and the money they owed, would be removed from the calculation. This would result in one Party and £1m being removed from consideration, leaving the other nine Parties with a Default Funding Share of $\frac{£1m}{£9m}$, which is 0.1111 or around 11.1%. They would then take on 11.1% of the defaulted £1m as well as their original £1m, giving them a total payment of £1.11m or 11.1% of the total £10m.

This split means that Parties who may not actually generate or supply, and therefore only pay the Specified Charges, or who only provide one of these options, may have to pick up debt from a Supplier and/or Generator that include costs that it wouldn't otherwise have paid anything towards.

When a Default situation exists, we use the Default Funding Share in place of the General Funding Share for the purposes of calculating the Annual Funding Share, as it is the more accurate measure of the payments made that month.

What happens with Defaulted Trading Charges?

The Annual Funding Share is used to share out defaulted Trading Charges, as explained in Section N9.6.4(b) of the BSC. Because of the way that General and Default Funding Shares are calculated, Parties who are not actively trading, and so would not expect to pay Trading Charges, can pay a share of any Trading Charges defaulted by another Party.

Although we calculate the Funding Shares only to split the BSC Costs, and not for Trading Charges (as Section D1.1.4 of the BSC states), the derived Annual Funding Share splits outstanding Trading Charges under Section N when the Defaulting Party cannot cover these costs in full. In this case, each non-Defaulting Party must pay its own Trading Charges and an additional amount to cover the Default. This is the amount in Default, including interest, split according to the Annual Funding Share for that month plus VAT. This split is similar to the method for working out Defaulted BSC Costs.

Summary

Funding Shares proportionately divide parts of the BSC Costs each month to give each Party a share of the overall costs that reflects their position in the market. If a Party defaults and leaves its share unpaid, this 'bad debt' is reallocated to all the other Parties based on their own shares of the costs, so that each Party takes on the same percentage increase in their payments to cover the shortfall.