

BSC
Annual Report
2010/11



1. Chairman's Report



In October last year, Ofgem appointed me as Chairman of ELEXON and the BSC Panel. I was proud to be appointed to an organisation with such an outstanding record in delivering its core responsibility – the balancing and settlement arrangements. To this end, our operational teams have had a busy, successful year. We've been working in partnership with our key service providers, Cognizant and Logica, to deliver improvements to the services we provide to the industry. We've automated manual funds administration processes; we've reviewed our web platforms to deliver a new ELEXON website and improved access to the operational data that we hold.

With the help of the industry, we've also undertaken several reviews. These included an ongoing review of the profiling and settlement arrangements and, as this year's BSC Review topic, a review of the credit cover and default processes. Both reviews concluded with recommendations for change that could result in significant cost savings for the industry. And we've continued to drive down our business costs – our expenditure of £29.5m was £2.6m below the published budget for 2010-11.

This is an exciting time to be part of the energy industry. As the Government commits to rapid transformation of the sector to secure reliable, affordable and sustainable energy, I'm very pleased with the part that ELEXON plays, and will continue to play, in supporting the change agenda.

Naturally, smart metering continues to be at the front of our minds. The Government's Smart Metering Implementation Programme relies heavily on support from industry. ELEXON is fully committed to supporting the SMIP; we recognise the issues around such a complex programme and are committed to providing solutions, supporting legacy and new processes to ensure a smooth transition from existing to new arrangements.

In January 2011, the Non Half Hourly (NHH) market achieved the target of settling over 97% of its energy on Annualised Advances (AAs) at the Final Reconciliation (RF) Run for the third consecutive month. I am told by those that have been in the industry longer than I have that this is an achievement worthy of recognition. I'd like to thank both Suppliers and the Performance Assurance Board for their diligence and efforts in working towards this target.

Finally, I must extend my thanks to the BSC Panel. Their collective experience and knowledge of the intricacies of the BSC is considerable and ELEXON could not have achieved many of its operational successes this year without the Panel's support and diligence in ensuring that the BSC continues to be delivered in line with its objectives and our obligations.

Panel membership

2011 was Panel election year, so we welcomed three new appointments – Peter Bolitho, Andrew Colley and Stuart Cotten. We were sad to say goodbye to James Nixon, John Sykes (to whom I wish a happy retirement) and Sebastian Eyre. Abigail Hall, who acted as a Consumer Panel Member and Mark Cox, who attended as Ofgem's representative, have moved onto new opportunities beyond the realms of the BSC – I wish them both the best of luck in their new endeavours.

Andrew Pinder BSCCo Chairman

The Year in Brief

- 17 Modification Proposals were raised compared to 20 in 2009/10.
- The number of Change Proposals (CP) dropped from 44 CPs raised in 2009/10 to 19 CPs.
- 17 Trading Disputes were raised.
- 12 Modifications were implemented successfully (8 outside Releases), and 23 Change Proposals were implemented, all in Releases.
- The BSC Audit was unqualified.

2. Modifications and Change

Change Proposals

Change Proposals raised: 19

Change Proposals implemented with release month:
9 (June 10), 12 (Nov 10), 2 (Feb 11). Total 23

Draft Change Proposals raised: 3

Converted to CPs: 2

Panel-raised Modifications

The Panel raised a number of Modifications on the recommendation of ELEXON and the Trading Disputes Committee. All the following Modifications were raised by the Panel, although not all were approved.

P255

P255 allowed ELEXON to discharge the duties of the Profile Administrator (PrA) in whole or in part, if the Panel agrees this to be the most efficient/cost-effective approach. This Modification gave ELEXON flexibility to deliver cost savings to customers by bringing the data analysis part of the service in-house and undertaking a competitive procurement for the data collection element. P255 was implemented on 22 July 2010.

P256

The Proposed solution introduced changes that improved the clarity and efficiency of the Trading Disputes process, including giving the TDC the power to make decisions on rectification methods for Post Final Settlement Runs (PFSRs), Extra Settlement Determinations (ESDs) and decisions not to rectify. It also allowed Parties to refer such decisions to the Panel and allowed the TDC to amend the End Date of a Trading Query/Dispute when specified on the Raising Form but with an error extending beyond that date. Changes were made to the HH query deadline to align with the NHH query deadline, RF + 70 working days. P256 was implemented in the November 2010 Release.

P257

P257 took forward two of the Trading Dispute Committee (TDC) recommended changes that came out of the Trading Dispute process review carried out in 2009. It proposed streamlining and increasing the efficiency of

Modification Proposals Progressed during the year

Modifications Open at 1 April 2010	7
Modifications Pending Authority Determination at 1 April 2010	1
Modifications Raised	17
Modifications Withdrawn	1
Submitted to the Authority	18
Modifications with Alternative Solution	5
Approved by the Authority	11
Rejected	6
Pending Authority Decision (at 31 March 2011)	2

the Trading Dispute Process by removing the concept of Trading Queries and allowing ELEXON to close invalid Trading Disputes when the Raising Party agrees that they are invalid. P257 was implemented in the November 2010 Release.

P258

P258 intended to include Party Agents into the Trading Disputes process by providing them with a mechanism to escalate error reporting. P258 would have obliged BSC Parties to instruct their Party Agents to additionally inform BSCCo of any significant errors in the final reconciliation run data which have not been reported or rectified. P258 was rejected.

P261

P261 amended legal text in P216 ‘Audit of LLF Production’ to fully reflect the intent of the approved P216 Alternative Modification solution, and allowed the Panel (as delegated to the Imbalance Settlement Group (ISG) and the Supplier Volume Allocation Group (SVG)) to correct material manifest errors going back to the start of a BSC year. P261 was implemented on 9 August 2010.

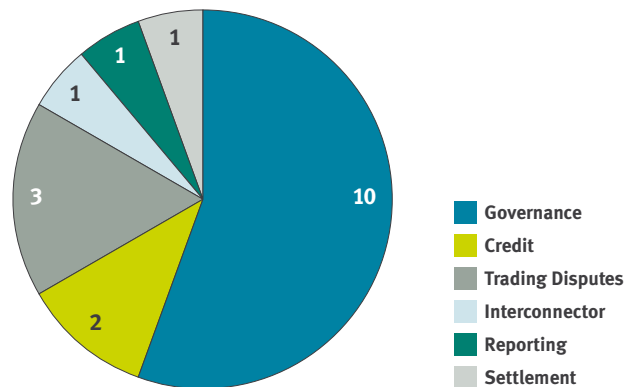
Modifications that changed Panel processes

All the Panel-raised Modifications above impacted Panel or TDC processes, but the following Modifications also changed or would change the way the Panel works.

P262

The Ofgem Code Governance Review amended the Transmission Licence to introduce a Significant Code Review Process, the ability for the BSC Panel to make decisions on Self-Governance Modifications and provisions for a Code Administrators’ Code of Practice. P262 introduced the necessary procedures and requirements into the BSC to enable the delivery of the new Transmission Licence obligations. Proposed by Alex Thomason, National Grid and implemented on 31 December 2010.

Modifications Submitted by Area



P263

One outcome of the Ofgem Code Governance Review was a modification to National Grid’s Licence to introduce a Send Back Process and Environmental Assessment requirements into the BSC. P263 introduced the Send Back Process into the BSC, which provides the Panel with the ability to revise and reconsider a Final Modification Report where requested by Ofgem. It also introduced new requirements for the Panel and Modification Groups to assess the impact of Modification Proposals on greenhouse gas emissions where those impacts are likely to be material. Proposed by Alex Thomason, National Grid and implemented on 31 December 2010.

P264

From time to time, the licensee (National Grid) may be obliged to raise Modifications to amend the BSC. P264 proposes that when the BSC Panel votes to determine its final recommendation on a Modification the Licensee has been obliged to raise, a two-thirds majority will be required. If a two-thirds majority is not reached, the Modification will be progressed as recommended for rejection. Proposed by Stuart Cotten, Drax Power. The BSC Panel has recommended that the P264 Alternative solution is implemented. The Panel is also recommending an Implementation Date of 10 Working Days following an Authority decision in respect of either Proposed or Alternative Modification P264.

P267

The development of the Smart Energy Code over the next few years will need thought into how the current arrangements and governance and the smart world will interoperate to ensure they are compatible. To ensure that this period of transition is managed in a stable manner, P267 sought to place a clear requirement on the BSC Panel to consider wider industry developments (e.g. the development of the smart metering arrangements /Smart Energy Code), and to take account of the likely longevity of a proposed change in the BSC when agreeing a timetable for progression of a change. This new requirement should also apply to the terms of reference of the Panel Committees and Modification Groups. P267 was proposed by John Stewart, npower. RWE npower withdrew P267 on 9 February 2011.

P271

As a result of the European Third Energy Package, the European Network of Transmission System Operators – Electricity (ENTSO-e) has been tasked with creating European Network Codes. National Grid, as operator of the GB electricity transmission system (NETSO), participates in the ENTSO-e meetings and are actively involved in the drafting process for the European Network Codes. P271 proposes that National Grid is obliged to report any potential or likely BSC impacts as a result of developments of the European Network Codes to the BSC Panel. It is suggested that the Panel establish a European Issues Group for this purpose. P271 was proposed by Garth Graham, SSE. The BSC Panel considered the Initial Written Assessment at its meeting on 10 March 2011 and P271 is now in the Assessment Phase.

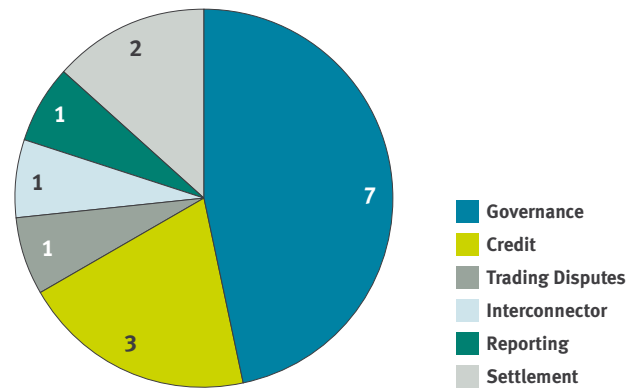
Transmission Losses Modifications

The status remained unchanged through 2010/11. During this period, Ofgem commissioned its own analysis into the matters considered by Modification P229 ‘Introduction of a seasonal Zonal Transmission Losses scheme’, in preparation for a Regulatory Impact Assessment (RIA). ELEXON and the Panel provided support to this review by clarifying the work performed in respect of P229 and by enabling Ofgem’s investigating consultants access to the consultants that undertook the analysis on behalf of the P229 Modification Group.

Ofgem recently published its RIA in May 2011, and you can see the responses at:

<http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=100&refer=Licensing/ElecCodes/BSCode/las>

Modifications Raised by Area





Panel Committees

Our thanks go to all present and past members of Panel committees who have given their time and expertise to support the Panel and the industry. To get a fuller picture of the committees and their work over the past year, please look at the quarterly reports and the committee web pages.

PAB

The Performance Assurance Board (PAB) works to provide assurance that all BSC participants are suitably qualified and that the relevant standards of performance and compliance with the BSC are maintained.

Performance Assurance Framework

This year, ELEXON has continued to develop the risk-based Performance Assurance Framework (PAF). ELEXON and the PAB have been progressing a strategy focussing on key risk areas, smart impact on assurance and KPI reporting of PAF delivery. We have continued to put papers in the open session wherever possible.

We have seen 11 new Supplier and Supplier Agent roles become Qualified and supported customers through a number of targeted audits (“TA Checks”).

The top Settlement Risks have seen some improvement over the year: a summary of the PAF activities and performance results in 2010/11 will be published in July within the Annual Performance Assurance Report. A key piece of work the PAB and ELEXON have worked together on this year has been Change Proposal 1334, which will introduce an improved set of PARMS Serials to monitor key SVA processes on 1 July 2011.

Imbalance Settlement Group

The ISG oversees and helps to develop the CVA arrangements. Over the year, key decisions included:

- Recommending to the BSC Panel that Continuous Acceptance Duration Limit (CADL) should remain at 15 minutes, and to start the next CADL review in two years with the option to undertake an ad-hoc review if required.
- Recommending for industry consultation and to the BSC Panel that no changes should be made to the Market Index Definition Statement.
- Agreeing Estimated Transmission Loss Adjustment values for 2011/12.
- During 2010/11 ISG approved:
 - 7 Metering Dispensations
 - 4 non standard BMUs
 - 1 Class 1 Trading Unit

Supplier Volume Allocation Group

The SVG continues to oversee and contribute to the development of the SVA arrangements. During the quarter, the SVG:

- Approved the SVA LLFs for April 2010 – March 2011.
- Approved the Market Domain Data change requests for MDD Versions.
- Approved the Profiling and Settlement Review Expert Group and its Terms of Reference.
- Agreed that ELEXON conduct a Cost Benefit Analysis (CBA) for Half-Hourly settlement for customers in Profile Classes 5-8 and agreed the scope, approach and timescales for the CBA.
- Approved Change Proposals for future Releases.
- Approved the Methodology statements submitted for the 2011/12 LLF methodology review in accordance with BSCP128.

Trading Disputes Committee

This year saw the introduction of changes intended to simplify the Disputes process. This has made the Disputes process more effective and efficient and gives the TDC the power to make decisions on rectification methods without the need for Panel approval. In addition, ELEXON now has the authority to close invalid Trading Disputes which speeds up the process. We saw reduced activity this year with Parties raising 17 Disputes compared to 29 in 2009-10. The TDC heard 22 Disputes, with a further three closed by ELEXON over the period. The TDC approved the methodology to resolve a Trading Dispute by applying an Extra Settlement Determination. The Panel upheld the one TDC Dispute decision that was referred.

Trading Disputes

Materiality of Disputes heard by TDC

Upheld: £4 million
Rejected: £120k

TDC Dispute decisions

9 Upheld
13 Rejected

TDC decisions

Type	Upheld	Rejected
Teleswitch data	–	1
Metering	3	6
Supplier data	3	4
Aggregation Rules	1	–
Line Loss Factors	–	1
P/C Status	–	1
Power Station Supplies	2	–

Credit Committee

The Credit Committee reviewed the Credit Assessment Price (CAP) three times. In May, the committee raised the CAP from £38/MWh to £45/MWh effective from 17 June 2010. The committee met again in June and raised CAP to £50/MWh, effective from 28 July 2010. The third review at the end of March 2011 resulted in the CAP value increasing to £56/MWh, effective from 4 May 2011.

CAP is used as a proxy for out-turn System Buy Price, and is based on forward prices. A review of CAP is triggered when the forward prices vary from CAP by more than more than a set threshold, which is currently £6/MWh.

Other Panel Business

BSC Default

In December, the Panel held an urgent meeting to consider the position of MA Energy Ltd, which was in default of the BSC. The Party was persistently breaching payment dates and its credit limit. The Panel set resolutions to minimise the exposure to other BSC Parties. In January, the Panel notified Ofgem and BSC Parties of its intention to expel MA Energy Ltd from the BSC due to persistent breach of payment obligations. In February, the Panel suspended the expulsion notice and in March deferred the expulsion decision pending further developments at MA Energy Ltd.



3. Business Review

Preparing for Smart Metering

ELEXON has been closely involved with the Government's Smart Metering Implementation Programme (SMIP). While Ofgem E-Serve was managing the Programme, ELEXON contributed to a number of industry working groups in progressing the options for the smart metering solution.

Additionally, ELEXON helped to develop early versions of the Business Process Models for smart and draft of the narrative for a Smart Energy Code (SEC). As the Programme management transitioned to DECC in early 2011, DECC asked ELEXON to provide ongoing support to the Business Process Modelling work from April 2011. ELEXON met with the Programme Director and key workstream leads in the DECC Programme to discuss how ELEXON can add most value to the ongoing work of the Programme during 2011-2012. ELEXON and the Panel remain fully committed to the success of the Programme and responded fully to the second Prospectus consultation and associated Information Requests and Ofgem Spring Package.

Profiling and Settlement Review

As part of the work of ELEXON's profiling and settlement review, it identified a potential benefit of £85m over five years for a £35m investment for suppliers of larger commercial customers if they switch to Half-Hourly settlement. There is support from most BSC Parties for half-hourly settlement at some time in the future because of better risk management for suppliers and potential less exposure to imbalance costs, more accurate demand forecasting, more cost-effective tariffs with more accurate billing, settlement and DUoS charges and reduced carbon

emissions from peak load shifting demand side reduction. The Profiling and Settlement Review Group (PSRG) was established to support ELEXON in this review and the results are reported to the Supplier Volume Allocation Group (SVG). The findings reported are taken from a cost benefit analysis (CBA) undertaken for mandated Half-Hourly settlement for Profile Classes 5-8.

These meters have been historically settled on non-Half-Hourly meter advances using profiles. The benefits are based on the availability and use of more accurate meter data by suppliers and in the settlement processes. It also, so ELEXON believes, represents an opportunity to trial Half-Hourly settlement on a smaller segment of the market before the mandated rollout of smart meters. Since April 2009, suppliers must have installed Advanced meters for all non-domestic premises for customers in Profile Classes 5-8 by 6 April 2014. The rollout of these meters is currently well underway. Further supplier licence changes will mandate that smart meters are installed for the remaining gas and electricity customers by Dec 2019. Mandated rollout is due to start in April 2014. These electricity meters will also provide Half-Hourly data. Modification P272, 'Mandatory Half Hourly Settlement for Profile Classes 5-8', raised by SmartestEnergy on 20 May 2011, seeks to change the BSC to make Half-Hourly settlement mandatory for Profile Classes 5-8.

To take this work further, we are now undertaking a CBA with the objective of clearly setting out what it will mean to settle the rest of the market (Profile Classes 1-4 customers) on a Half-Hourly basis and what barriers to Half-Hourly settlement can be addressed by the industry and/or regulatory/government bodies.



New Profile Administration Services

During the year, we reviewed the services carried out by the Profile Administrator and identified an opportunity to make significant savings by changing the structure of those services. The Profile Administrator had previously been responsible for carrying out both data analysis of the profiles and data collection of metered data from the profile sample. The data collection services were procured while the data analysis services were transitioned to ELEXON. Executing this strategy has led to estimated savings of around £2m over the next five years.

New website

In February, ELEXON launched its new website in response to feedback from customer surveys. The new website introduced streamlined navigation and better search functionality.

Customer survey

The customer survey delivered some positive results for ELEXON. Over 20% of customers thought the service had improved over the last year, and the number of customers who believe ELEXON offered improved value for money has increased by 8%. The survey has also helped ELEXON to identify areas for improvement, such as being proactive with regard to industry changes, and improving the website.

Business Plan 2010-11

In March 2011, the Panel approved the BSCCo Business Plan for 2011-12. The plan is in two parts – a Business Strategy describing ELEXON’s key activities for the coming year, and an Annual Budget setting out the associated costs. The Business Strategy is approved by the BSC Panel and the Annual Budget is then approved by the BSCCo Board.

The Business Plan this year outlines ELEXON’s vision and ambition for playing a central role in the evolving energy market. ELEXON consulted with the Panel fully before publishing the report, and fed back views from two workshops for BSC Parties held in January and in March, to the June Panel.

After consideration of the responses received during the industry consultation on the draft document, the BSC Panel approved the Business Strategy at its meeting in March. However, in doing so, the Panel wished to emphasise some important points in a covering letter which you can read along with the Business Plan and all supporting documents at <http://www.elexon.co.uk/pages/corporateandfinancialinformation.aspx>.

Discussion on the organisational and governance changes that are necessary to support ELEXON’s Business Plan are being taken forward including through Standing Issue 40, ‘Review of ELEXON’s Governance and Funding Arrangements for New Business Opportunities’. Bharat Shah, who has held a range of public and private sector positions, including Deputy Chairman of the Audit Commission and Non Executive Director of the West Bromwich Building Society, has been appointed to Chair the Issue group. The group is due to report back to the Panel in August.



BSC Audit

The BSC Auditor has completed its work for 2010/11 and presented its final report to the Panel in June 2011. The Audit opinion is not qualified (quantified errors have not breached the error threshold) and there has continued to be improvement in the main issues reported. The Auditor's findings are a key information source for our work on the Settlement Risks. The Audit report is available in the assurance section of the ELEXON website. We will respond to the findings in our Annual Performance Assurance Report (2010/11) in July.

New Market Index Data Provider

In March, the N2EX power exchange announced that it would launch a Spot Market on Tuesday 5 April 2011. Ofgem appointed NasdaqOMX Stockholm AB ('NOMX'), the clearing house for N2EX trades, as a Market Index Data Provider ('MIDP') so that its data can be used in the Reverse Price calculation. There are now two MIDPs.

European markets

ELEXON continues to monitor, and where appropriate engage with, external developments in the wider European electricity market that may impact on us and our stakeholders. In particular there are two areas of current interest. Firstly European governments have committed to single European electricity and gas markets by 2014. These will be delivered through binding Network Codes, some of which will almost certainly have impacts on the BSC. Secondly, there are also a number of new and revised European Directives and Regulations in the energy and financial sectors that will impact on the electricity industry so we are closely monitoring developments here too.

Electricity Market Reform

In December the Government published two major consultations that had the potential to impact on the BSC: on electricity market reform; and on a carbon price floor. ELEXON submitted responses to each, which can be found on the Industry Insights section of our website. In our response to the electricity market reform proposals we said that we believed that using ELEXON to undertake the data collecting, administration, settlement and invoicing roles outlined for central agents in the new policy mechanisms would provide efficiencies given the synergy with our current operations, which include settlement, credit monitoring and data handling.

The Government's conclusions on electricity market reform are due to be published as a White Paper.



4. Operational Updates

For information about our operational performance, including each Supplier Meter Registration Service and Master Registration Agreement (MRA) arrangements, please see our Trading Operations Report, ELEXON Circulars and quarterly reports on the ELEXON website.

Performance of key operational services

Service	Actual	Target
BMRA	100%	99.90%
ECVAA	99.89%	100%
Service Desk	100%	100%

5. Review against the Annual Budget

The Final result for the 2010/11 financial year is a total expenditure of £29.5m, which gives an under-spend against the approved budget of £2.6m (8.1%).

The position against budget for the full year is summarised below.

Expenditure by Type

	Budget (£m)	Actual (£m)	Var. (£m)
ELEXON Operational	16.3	15.5	0.8
Demand Led	1.6	0.4	1.2
Contracted	14.2	13.6	0.6
Total	32.1	29.5	2.6

Operational Expenditure

Operational expenditure is £0.8m under budget for the full financial year 2010/11. This is driven by:

People costs (employees, contractors) for the full financial year are £0.3m over budget. Organisation restructuring this year has led to a £0.2m saving in employees for the year, offset by contractors being brought in to address skill gaps in the organisation.

- Savings of £0.6m full year spend have been achieved through reductions in staff related costs, travel, IT Maintenance, office and general administration expenses.
- Further full year reductions of £0.5m have been made on projects and consultancy support.

Demand Led Expenditure

Demand Led expenditure is £1.2m below budget. This is due to less demand by the industry for potential modifications and impact assessments, along with a reduction of strategic development work carried out during the year.

Contracted Expenditure

Contracted Expenditure for the full year is £0.6m below budget. The main contributing factor is reduction in the Unmetered Supplies project along with efficiencies achieved through better agent contract management. This has been offset by unbudgeted costs of the BSC central system technical refresh, which was originally planned for 2011/12.

Contact Us

If you have any feedback on this Annual BSC Report please contact ELEXON's Communications Team on: communications@elexon.co.uk or call 020 7380 4317.

www.elexon.co.uk

