



# ELEXON Report

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<b>Meeting Name</b>	BSC Panel
<b>Meeting Date</b>	8 December 2011
<b>Purpose of paper</b>	For Information
<b>Summary</b>	The paper provides a summary of recent issues and developments in the period 5 November to 2 December 2011.

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## 1. Overview

1.1 This paper is provided for the information of the Panel. It presents an overview of activities and developments within ELEXON and the balancing and settlement arrangements and summarises the business of the Panel meeting. At the end of the report a summary of issues under consideration by other industry Codes is presented for information. Detailed information on operational matters will be provided in other reports, particularly the Trading Operations Report.

## 2. ELEXON News

### ELEXON Responses to Industry Consultations

2.1 In November we responded to two consultations:

- DECC's consultation on the detailed policy design of the regulatory and commercial framework for DCC (see Appendix 1 of this report for more information).
- Great Britain RES Integration Study National Report: we responded to a European study on integrating renewable generation into the various European Member State electricity markets, commenting specifically on the Great Britain report.

2.2 Our responses are available on the [Industry Insights](#) section of ELEXON website.

### European Developments

2.3 The Joint European Standing Group (JESG) met on 23 November and concentrated mainly on the draft "Network Code on Connection Requirements Applicable to all Generators" and a further technical workshop to consider this is being planned for 14 December. JESG also considered the transparency guidelines; REMIT; the Capacity Allocation and Congestion Management (CACM) Network Code; and received updates on various Framework Guidelines (the scoping documents for Network Codes).

2.4 At the time of writing, we are awaiting publication of the European Energy Regulation REMIT (Regulation on Energy Market Integrity and Transparency) in the Official Journal of the EU. Once published it becomes

effective on the 20<sup>th</sup> day following publication. A seminar on REMIT was held by the European energy regulatory body, ACER, on 28 November. There is also to be a UK stakeholder group meeting on REMIT hosted by DECC on 7 December.

- 2.5 ELEXON has been in contact with HM Treasury and the FSA to discuss the retention of our existing exemptions when the Markets in Financial Instruments Directive (MiFID) is revised.

### Governance and Vires

- 2.6 On 21 November, Ofgem published a [consultation](#) on the "Potential expansion of the role of ELEXON". We welcome the publication of this consultation and further debate on changes to our current business structure to accommodate activities beyond our existing role. We are evaluating the consultation and will be submitting a response.

## 3. Operational News

### BSC System Releases

- 3.1 The November 2011 Release went live to plan on 3 November 2011.
- 3.2 The scope of the February 12 Release has been finalised: Approved Modifications P266, P268, P269 and P273 and approved Change Proposals CP1347, CP1349, CP1350, CP1352, CP1353 and CP1354. The Release impacts CRA and FAA software and processes and the Pool Application software. Planning of the Release is nearing completion.

### BPO Service Level Review

- 3.3 We've completed a review of BPO service levels. The service levels now focus on the key processes delivered to our customers, and has been designed to drive positive behavioural change. The new service levels will come into force as soon as remaining contractual formalities have been resolved.

## 4. Summaries of Panel Business – Tabled

### Report from the Imbalance Settlement Group (ISG)

- 4.1 At its meeting on Tuesday 22 November 2011, the ISG considered nine decision papers, including one ex-committee paper which had been agreed prior to the meeting. Key decisions included deferring a decision on CP1355 until further clarification had been provided and agreeing that CP1351 should be further developed and reissued for industry impact assessment.
- 4.2 Further information can be found in the ISG Panel report 190/01a.

### Report from the Supplier Volume Allocation Group (SVG)

- 4.3 At its meeting on Tuesday 29 November 2011, the SVG considered 14 decision papers. Key decisions included approving the revised Terms of Reference for the next stage of work for the Profiling and Settlement Review Group and approving the Cost Benefit Analysis Report for mandating HH Settlement for Profile Classes 1-4. ELEXON presented a late paper for resolution of an operational issue which could have resulted in an over allocation of energy of 3TWh in the Non Half Hourly market. The SVG approved ELEXON's recommendations (see circular EL01932) which will ensure this does not happen.
- 4.4 Further information can be found in the SVG Panel report 190/01b.

### Report from the Performance Assurance Board (PAB)

- 4.5 At its meeting on Thursday 24 November 2011 the PAB considered nine decision papers and noted three information papers.
- 4.6 Further information can be found in the PAB Panel report 190/01c.

### Report from the Trading Disputes Committee (TDC)

- 4.7 At its meeting on 1 December 2011, the TDC considered seven decision papers and noted two information papers.
- 4.8 The table below summarises the TDC's decision on PFSRs for the stated settlement Days, indicating whether PFSRs were authorised or not.

GSP Group	September 2009
Eastern	Authorised
East Midlands	Authorised
London	Authorised
Merseyside & North Wales	Authorised
Midlands	Authorised
Northern	Authorised
North Western	Authorised
Southern	Not in process
South Eastern	Authorised
South Wales	Authorised
South Western	Authorised
Yorkshire	Authorised
South Scotland	Not in process
North Scotland	Not in process

- 4.9 Panel paper 190/01d contains a report of the TDC meeting.

## 5. Information Relating to Other Industry Codes

5.1 Since the last ELEXON Report, the following electricity code panels have met:

**Table 1 – Code panel meetings since last report**

Panel/committee	Meeting date
DCUSA <sup>1</sup> Panel	16 November 2011
GCRP <sup>2</sup>	17 November 2011
STC <sup>3</sup> Committee	22 November 2011
MDB <sup>4</sup>	24 November 2011
CUSC <sup>5</sup> Modifications Panel	25 November 2011

5.2 We're also involved in various workgroups under the DCUSA, MRA, CUSC and Grid Code.

5.3 This month's areas of interest are:

- [CUSC](#)
  - The CUSC Panel recommends introducing 'Proposer ownership' into the CUSC change process. The proposed CUSC solution is consistent with that introduced to the BSC by Approved Modification [P247](#) in 2010. The CUSC change is now with Ofgem for decision.
  - Ofgem has approved a set of changes to address its outstanding concerns over the legal text for the CUSC Governance Review proposals, which were implemented at the end of last year.
  - Ofgem has rejected the equivalent CUSC change to [P271](#) 'NETSO consultation in relation to any potential changes to the BSC which takes place in forums other than the BSC Panel'. Ofgem rejected P271 in October.
  - The CUSC's Balancing Services Standing Group (BSSG) is considering potential changes to the CUSC's generator compensation arrangements for access interruptions. The BSC's [P276](#)<sup>6</sup> Workgroup is currently considering what compensation arrangements should apply to generators (and possibly also to Suppliers) under P276, and whether these should sit in the BSC or should be an extension to the existing CUSC arrangements. ELEXON attended the BSSG's meeting on 30 November, and will keep the BSSG informed of the P276 Group's discussions and vice versa. We are also aware of separate industry discussions regarding compensation for Emergency

<sup>1</sup> Distribution Connection and Use of System Agreement.

<sup>2</sup> Grid Code Review Panel.

<sup>3</sup> System Operator-Transmission Owner Code.

<sup>4</sup> Master Registration Agreement (MRA) Development Board.

<sup>5</sup> Connection and Use of System Code.

<sup>6</sup> 'Introduce an additional trigger/threshold for suspending the market in the event of a Partial Shutdown'.

Instructions (following those issued to Scottish wind farms during September), and are monitoring any interaction between these, P276 and the BSSG's work.

- [Grid Code](#)

- National Grid has published the industry [responses](#) to its recent consultation on managing intermittent and inflexible generation in the Balancing Mechanism.

- [DCUSA](#)

- The results of the recent DCUSA Panel election have now been published. From 1 December, the Panel will comprise the following members:

Category	Member
DNO Member	Chris Allanson
DNO Member	Peter Waymont
DNO Reserve	Max Lalli
DNO Reserve	John Hill
Supplier Member	Glenn Sheern
Supplier Member	Kevin Woollard
Supplier Reserve	Lorna Gibb
Supplier Reserve	Sasha Pearce
IDNO Member	Donna Townsend
IDNO Reserve	Vacancy

**Table 2 – Code panel meetings during the next month<sup>7</sup>**

Panel/committee	Meeting date
CUSC Modifications Panel	16 December 2011
STC Committee	20 December 2011
DCUSA Panel	21 December 2011
MDB	29 December 2011

<sup>7</sup> The next GCRP meeting will be 18 January 2012.

### Cross-Codes Electricity Forum

- 5.4 Together with National Grid and ElectraLink, we held our tenth Cross-Codes Electricity Forum on 18 November. This forum provided overviews of new BSC changes P274-P279, an update on the BSC and DCUSA changes relating to Half Hourly Settlement (including P272), and an update from National Grid on Ofgem's Project TransmiT. We received positive feedback from attendees. We're now starting to plan our sessions for 2012.
- 5.5 Visit the [Cross-Codes Electricity Forum webpage](#) for copies of the presentation slides or contact [Kathryn Coffin](#) for more information.

**Peter Haigh**

**ELEXON Chief Executive**

#### **List of Appendices:**

Appendix 1 – Smart Update

Appendix 2 – ELEXON Monthly KPIs

#### **List of Attachments:**

Attachment A – 190/01a: Report from ISG

Attachment B – 190/01b: Report from SVG

Attachment C – 190/01c: Report from PAB

Attachment D – 190/01d: Report from TDC

Attachment E – 190/01e: Report from PSRG

Attachment F – 190/01f: Report from the Joint European Standing Group (JESG)

## Appendix 1: Smart Update

An update on our smart related activities will be provided at the BSC Panel meeting. The highlights of the last month include:

### 1. Smart DCC consultation

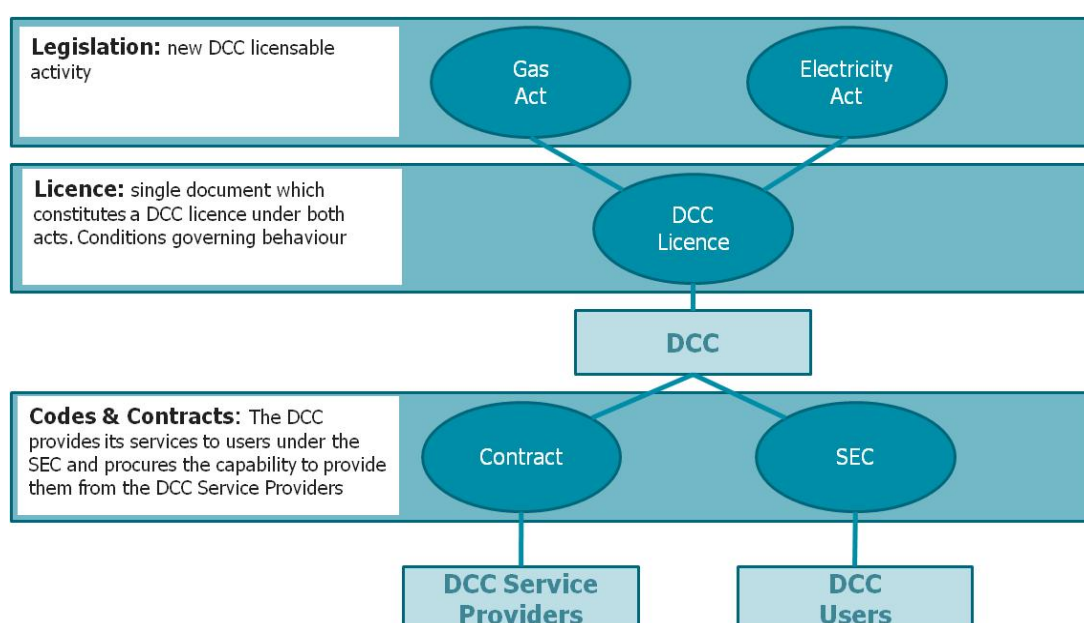
- 1.1 The SMIP issued a consultation on the detailed policy design of the regulatory and commercial framework for the DCC on 29 September. The 145 page document sets out options and seeks views on:
- How the role of DCC, a new licensable activity, will be established in gas and electricity legislation;
  - A broad range of possible DCC licence conditions;
  - Proposals to incentivise the DCC on the delivery of its own services and its procurement and contract management activities;
  - The cost recovery principles and the structure of charges for the DCC and its service providers;
  - The minimum service requirements for the Wide Area Network (WAN);
  - Proposals on the volume of adoption of foundation stage communication contracts that will be adopted by the DCC; and
  - The proposed licence application process for the initial DCC term.
- 1.2 Responses were invited for 24 November and we have prepared a comprehensive response<sup>8</sup> that covers all areas bar the WAN Requirements. We chose not to respond to this section as specification of the required service is largely a matter for users of the DCC Service and communications service providers who collectively are best placed to evaluate the potential costs and benefits associated with variations to these.
- 1.3 Whilst many of the SMIP's earlier consultations included closed questions on 'minded to' positions, the DCC consultation is more general and open in nature and gives less indication of the SMIPs current thinking on the policy design. Similarly the consultation poses specific questions on individual techniques and approaches from across a broad spectrum. Considering items in isolation may negate the fact that techniques are often highly interactive. We have relayed this concern particularly in relation to the commercial framework and the proposed incentive regime.
- 1.4 The following Sections outline the key elements of the SMIP proposals and our response.

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<sup>8</sup> Our full response is published on the ELEXON website <http://www.elexon.co.uk/pages/smartmetering.aspx>

## Proposed Regulatory Approach

- 1.5 A high-level overview of the legislative, licensing and contractual framework for DCC is shown diagrammatically below.
- 1.6 It is proposed that the licence will be let for an initial period of 10 years, with the possibility of extending for a further 5 years. We have no comment on the duration other than observing that the licence should not terminate with a major re-procurement and therefore the phasing of subsequent DCC and DCC Service Provider appointments needs to be considered.



- 1.7 The model proposed is reasonably standard. The licensable activity will be constructed around the activity of:

*contracting with all licensed domestic gas/electricity suppliers (as appropriate) in Great Britain to provide, in respect of every smart meter installed at every domestic premises which is supplied with gas/electricity (as appropriate) by each such supplier, a service by virtue of which information may be communicated by and to that meter on behalf of the supplier.*

We believe this definition correctly identifies the DCC role but have suggested that the definition be checked against the activity of meter installation, lest these Supplier agents are inadvertently captured. We have also reviewed the consequential changes that will be required to other licences and legislation and support the proposed changes.

## DCC Licence Conditions

1.8 The following objectives are proposed to be included in the DCC Licence:

- an obligation on DCC to discharge efficiently its obligations under the licence;
- a requirement for DCC to develop, maintain and operate an efficient, coordinated and economical data and communications system;
- an obligation on DCC to carry out its business in a manner that promotes or facilitates competition in the supply of gas and electricity and, if not implicitly captured within this obligation, energy efficiency services, metering services and other energy related services (for example services to encourage demand side solutions);
- an obligation to have due regard for the environment, to the extent that this is not already captured by the first two objectives;
- an obligation to facilitate successful rollout of smart metering in accordance with Government policy;
- an obligation relating to security in the provision of DCC Services; and
- a data privacy objective related to, or part of, the security objective.

1.9 These are standard forms of objectives which will be matched by a series of SEC Applicable Objectives. Sometimes these are expressed in terms of a requirement for the DCC to 'promote' the activity whereas we believe it is more realistic to require the DCC to 'facilitate' them.

1.10 The consultation also suggests that an initially dormant obligation be included that requires the DCC to provide a centralised registration service (an activity scheduled for 2-3 years post Go Live). We welcome the clarity that this establishes, especially since it is proposed to place similar obligations on other market participants.

1.11 The Licence will also specify what services the DCC must procure (i.e. communications and data) and identify the approach for procuring others. We believe that the DCC should be permitted to source these other services using best commercial practices, which could include providing the service 'in house'. We have pointed to the issues that can arise from imposing a 'restrictive' rather than 'permissive' (but controlled) approach in the Code.

1.12 The consultation also proposes that the DCC establishes a procurement approach and that this is periodically reviewed with changes authorised by the Secretary of State or the Authority. Whilst we agree that publishing procurement principles could promote confidence in the service provider community, we are cautious about the depth of this document and believe that it is more proportionate if ongoing changes should be authorised by the SEC Panel. We have pointed to the success of the lighter approach employed under the BSC.

- 1.13 The proposals assert the need for the DCC to be independent of its users and service providers and seek to establish thresholds (e.g. less than 20% shareholding to be held by any company providing energy services). We endorse the principle but believe that a distinction needs to be drawn between influence and ownership.
- 1.14 The possibility of a DCC failure is recognised. The SMIP proposes that finances be lodged by the DCC which could be drawn on to support appointing a replacement (i.e. a re-procurement exercise) and that in the interim period (which is indicated could be up to 18 months) that an interim be rapidly appointed. ELEXON and the industry has a clear need for meter data to continue to be retrieved and this is why we are focused on making the DCC a success.

### Revenue Requirements

- 1.15 The consultation establishes some clarity around the revenue arrangements for both the DCC and its Service Providers. It proposes that the:
- **DCC** should be able to begin recovering its internal costs from the award of its licence as it will be delivering essential services to users. The costs during rollout will be charged to suppliers based on their market share of domestic metering points.
  - **DCC service providers** will be expected to fund any investment associated with establishing the data services and installing/ upgrading the communications infrastructure and to recover these costs through amortised service charges over the term of their contracts from 'go-live'.
- 1.16 Communication service providers' amortised fixed costs will be profiled during rollout based on the cumulative aggregate rollout plan, whereas data service provider's amortised fixed costs will be recovered evenly over its contract based on market share. Linkage to the aggregate roll out plan creates a significant dependency and the need for coordination between suppliers, and the communications service providers. This activity will need to be driven by the DCC and points to a central role in facilitating the roll out. Deviations from the aggregated plan are likely to drive costs and the DCC will thus have the powers to charge suppliers that are driving these costs. The DCC thus has financial instruments to 'trim' the roll out, whereas Ofgem driving compliance with the roll out plans through the licensing route is a much cruder instrument.
- 1.17 The DCC licence will set out DCC's internal allowed revenue over the duration of its licence. The proposal is that the allowed revenue stream for DCC internal costs will reflect the DCC licensee's costs as they are estimated to be incurred. The DCC licence revenue restriction will set out the 'pass-through' conditions for the recovery of DCC's service providers' contracted costs. The DCC will recover its own allowed revenue and service providers contracted costs through its charges to users. The revenue required to fund the activities of bodies needed to manage the SEC, for example the SEC Panel and the Secretariat, will be treated as a pass-through cost.

- 1.18 The consultation recognised that costs may vary and seeks views on the reopening of DCC costs and whether there is an appropriate threshold. We support this model as a pragmatic approach that avoids undue volatility. We believe that reopeners should be based on cumulative changes in costs and that the suggested level of a 10% change is acceptable. In adopting such an approach the process will need to be expeditious to ensure the DCC's financial viability is not compromised

### Charging Methodology

- 1.19 Charges will comprise standing and volume charges. It is proposed that volume charges will be over recovered and then reconciled. The core service charges will be uniform across the country (referred to as being on a 'postage stamp' basis). This charge will vary with time and will need to reflect the underlying contracts (notably the communications contracts) and may need to reflect the roll out plans especially if different demographics and technologies drive costs. Establishing this charge will be a key activity for the DCC and emphasises the need to have a comprehensive cost / charging model. We anticipate that the charge will need to be revised across the course of the roll-out and our response proposes that this should not be undertaken more frequently than every 6 months.
- 1.20 Standard charging principles (e.g. that charges will be non discriminatory) will be established under the SEC. These are likely to include mechanism for the DCC to charge those who make enquiries about providing new services and to recharge elements of the set up costs should these proposals be adopted. This emphasises the need for strong cost accounting, if only to avoid a cost challenge from a new applicant. However we do not believe that the DCC should have to publish the costs it charges for developing or operating these non-core services as this is commercial information.

### Performance Incentives

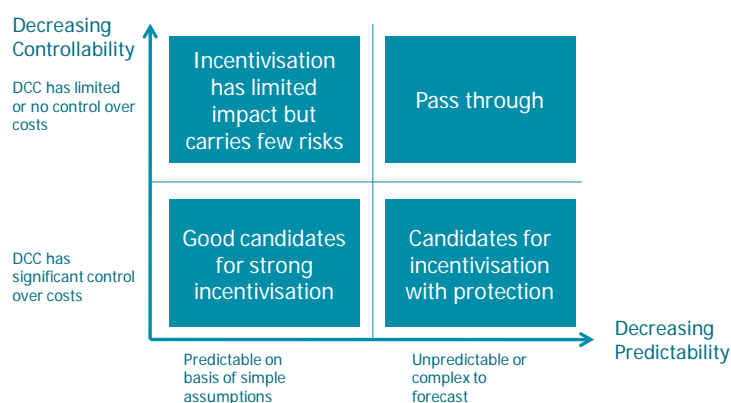
- 1.21 The DCC consultation proposes that DCC applicants should be incentivised. In responding to this proposal we have pointed out that ELEXON has successfully delivered the electricity trading arrangements for over 10 years without a contract or explicit incentives. We recognise however that it has sometimes proved challenging to demonstrate to BSC Parties how we are focused on managing costs and improving services in the absence of these instruments. Instead we have been wholly transparent in our activities and costs and employed vehicles such as our Business Plan and monthly reports to demonstrate our value.
- 1.22 Dependent on who is the eventual DCC, introducing an incentive regime may or may not of itself drive the right behaviours and outcomes. If well designed it could valuably distinguish the responsibilities of the DCC from those of its service providers, and help in monitoring and demonstrating the effectiveness and efficiency of the DCC.
- 1.23 The consultation discusses a wide range of tools that may form part of an incentive regime. From our experience of delivering key central services to the industry, techniques should not be considered in isolation, rather as part of an integrated incentive framework. We have therefore urged that the model should not be overly complex. An unduly complex model dilutes messages and risks driving perverse

behaviours. It can also become a significant and disproportionate burden to deploy, monitor and manage for both those subjected to it and those applying it.

1.24 In setting the incentive regime we believe candidate areas should be assessed on two prime aspects:

- the extent to which the DCC can influence the successful outcomes from the activity; and
- the extent to which the DCC can predict the external inputs to the activity.

How this approach could be applied is illustrated in the diagram below.



1.25 The challenges faced by the DCC across the first licence period are largely unique. We therefore believe that this needs to be recognised within any incentive regime and have recommended that the incentive model should distinguish between the distinct phases of implementation, rollout and service optimisation.

1.26 We have also suggested that the Programme uses the feedback from the consultation and provides further definition around the desired incentive regime prior to the start of the DCC award process. The alternative of allowing DCC Licence applicants a totally free rein to propose their own incentive regimes will pose a substantial issue for the Programme in evaluating different offerings and could risk challenge on award.

### Adoption of Foundation Stage Communication Contracts

1.27 Suppliers are already installing smart meters and retrieving consumption data. These metering systems and in home equipment are being installed at risk, since the specification of this equipment has not been finalised.

1.28 The data retrieval and processing for these meters is either conducted by the Supplier directly or delivered through a prime organisation such as Logica. In all cases the communications aspects are being delivered through a series of communications contracts. This range of communications companies that are being used arises from the wide range of possible technologies that are available and the selected trial areas.

1.29 The SMIP has confirmed that the DCC should be required to adopt communication contracts associated with compliant smart meters installed before DCC's services are available, subject to those contracts meeting pre-

defined criteria. It has further stated that there should be a limit on the number of contracts that DCC would guarantee to accept, subject to the adoption criteria being met, but that it would have the discretion to adopt contracts in excess of this number where it was satisfied this was consistent with the procurement strategy objectives set out in its licence. The consultation seeks views on possible criteria governing adoption; the volumes associated with the foundation contracts that the DCC should be obliged to adopt; and the timescales over which adoption will occur.

- 1.30 We have pressed that DCC should only be obliged to adopt contracts where a net benefit can be demonstrated and the methodology for assessing the benefit should be established and published as part of the Programme. Whilst we understand that many of the contracts have a common form we believe that an 18 month window should be established for the adoption process.

### Competitive licence application process

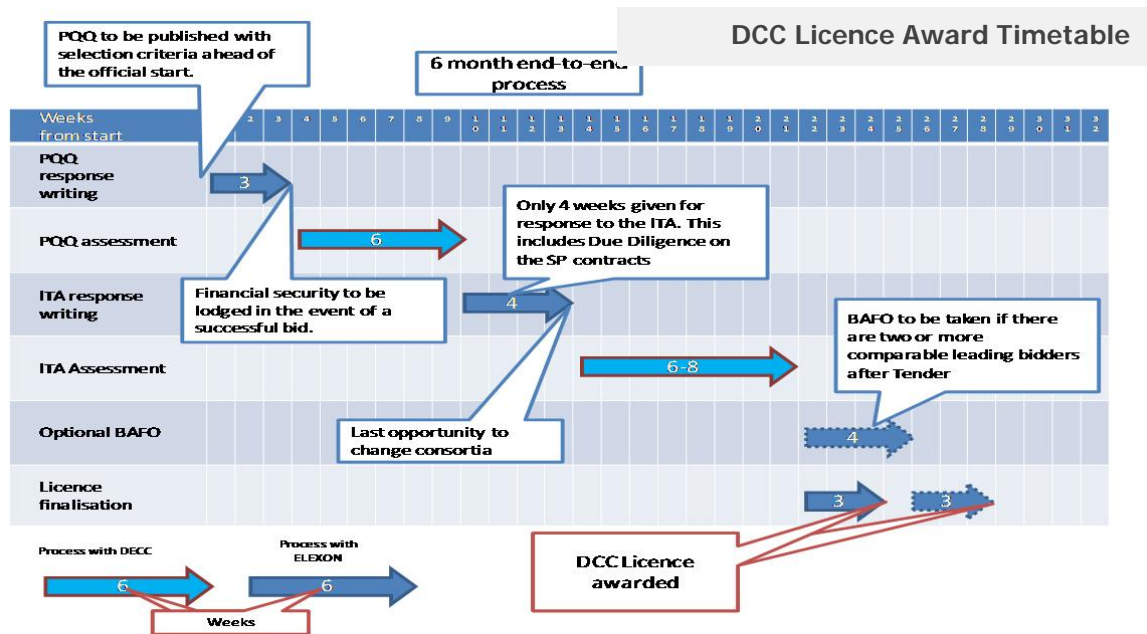
- 1.31 The proposed DCC licence application process has built on Ofgem's tender process for offshore transmission licences which has developed and been refined over several years and itself built on precedents including the Government's Private Finance Initiative, Ofcom's experience in spectrum auctions and the Department of Transport's rail franchising model.

- 1.32 The model is built around four stages:

- **pre-qualification (PQ):** with hurdles based on responses to a pre-qualification questionnaire (PQQ) to enable the selection of applicants who are able to fulfil the role of DCC licensee.
- **invitation to apply (ITA):** during which qualified applicants would put forward detailed proposals of how they would establish and run DCC and their expected costs with selection to the next stage via weighted evaluation criteria.
- **an optional best and final offer (BAFO) stage:** in the event that there are two or more similar applications and giving the opportunity for further competitive tension.
- **finalisation and licence grant:** a stage to finalise the details with one or more preferred applicants, including finalising the incentive mechanisms and the terms of the revenue restriction under the licence, culminating in DCC licence award to a preferred applicant.

- 1.33 The SMIP continues to assert that the award process will commence in Q2 2012 and the indicative timings in the consultation confirm the intention of completing the process in 6 months. We have urged the SMIP to state the likely start date of the award process. The current Q2 milestone for starting the award process is too broad and suggests either a 4 or 6 month lead time from now: such planning assumptions are key to allowing bidders to understand when to commence mobilisation, provides confidence in the process and drives the costs.

1.34 The proposed process may be summarised as follows:



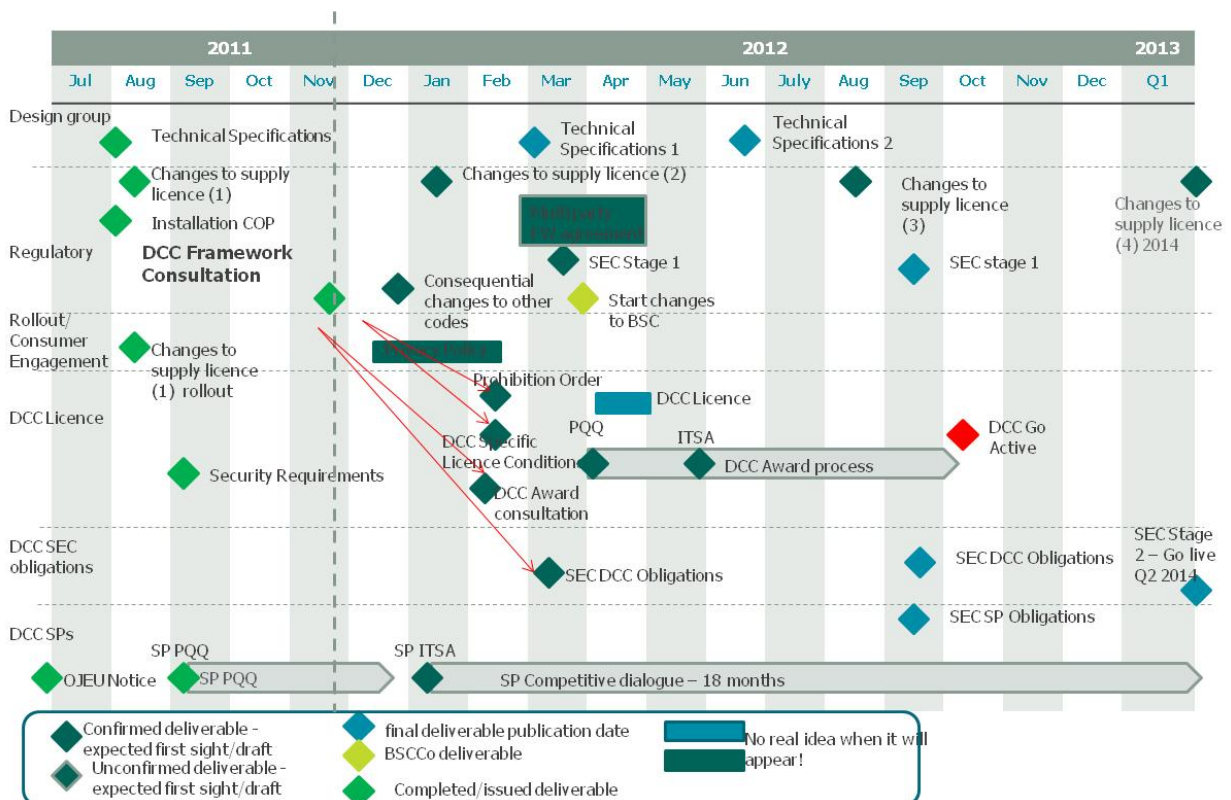
1.35 Whilst we recognise the need to establish the DCC in a timely fashion, the indicative timings of some of the stages are very tight and leave neither DECC nor bidders much flexibility. We are particularly concerned about the limited opportunity to assess the service provider contracts during the ITA stage. Dependent on the number of parties still in negotiation and the firmness of the contracts at this stage, this exercise could prove a significant burden and hence cost for applicants and the Programme. It may indeed serve only to prompt the introduction of reopeners which will drive subsequent variations and escalating costs.

1.36 The consultation also proposes that potential DCC's should provide financial guarantees as part of a bid. It is not clear how these can be calculated and established given the lack of definition that surrounds the service. We believe the SMIP should explain the risk that it is trying to address and seek proposals from applicants rather than prematurely opt for a particular solution. This view is also supported by other interested parties we have spoken to.

1.37 Finally we continue to press for early sight of the detailed DCC requirements in order to resolve the speculation and uncertainty that currently exists. This includes establishing clarity on the boundaries of responsibility between the DCC, its users, service providers and other bodies for all aspects of the end to end smart solution (e.g. security) and establishing the DCC service (e.g. the differing responsibilities of the SMIP, DCC and Service Providers during the key implementation phase). We believe that this could be achieved through the draft SEC. Taking such steps would greatly assist potential bidders and allow them to more fully assess and cost the opportunity and its inherent risks. We see this as essential to delivering a strong competition for the DCC Award and thereby securing the best outcome.

**How the framework will be progressed by DECC**

- 1.38 Following the previous consultations on both Communications and Data, the SMIP issued a PowerPoint summary of the responses and their conclusions within two weeks. This was then promptly followed by issuing of the Pre Qualification Questionnaires and the start of the procurement process.
- 1.39 We have questioned the SMIP on how they intend to proceed and have been told that the next communication will be the issuing of the draft regulatory instruments (i.e. the draft Prohibition Order, the draft DCC Licence and the draft Licence Award Process). These will be issued for consultation and this will need to be concluded before starting the DCC Award Process. The timing of this is not confirmed but the consultation is expected to be issued in Q1 2012.
- 1.40 In the meantime the SMIP will continue to develop the supporting documentation using the various industry working groups that it has established (and from which potential bidders, including ELEXON, are precluded). The key deliverable from this work will be a narrative (plain English) draft of the SEC. Again it will be issued for consultation and this is expected to occur in early 2012. This document will be important as it should provide further detail on the DCC: its obligations and duties; relationship with its service providers and users; the DCC charging arrangements.
- 1.41 The overall sequence of events is illustrated below:



## Other Respondents to the consultation

- 1.42 The individual responses are now being considered by the SMIP; they do not intend to publish individual responses at this time.

## 2. Supporting the SMIP

- 2.1 We have agreed to a request from the DECC Smart Programme to extend our support to the Business Process workstream until the end of February 2012. We have also been requested to participate in the Programme workstream that relates to consequential changes to the existing Codes and agreements resulting from the introduction of smart metering.
- 2.2 DECC has additionally written to the existing Code Administrators requesting individual discussions on the Smart Energy Code. Whilst we are all excluded from the related working group DECC has recognised the valuable knowledge and experience we each have and is keen to tap into it.
- 2.3 We have confirmed with senior members of the SMIP that no additional areas of support are currently envisaged and reiterate the need for adequate notice should any be identified.

## 3. The use of Half Hourly Data for Settlement

- 3.1 We have concluded the work on the cost benefit analysis for mandating HH settlement in Profile Classes 1-4 (domestic and smaller commercial customers). We have been unable to quantify the industry costs and benefits as respondents to our consultation were unable to quantify them on the grounds that the GB smart metering solution is not yet defined. There was however overall support for the principle of HH settlement as it would allow more accurate allocation of costs and would enable the wider benefits of smart to be realised.
- 3.2 The profiling and settlement review has importantly established a consensus on the need to amend Half Hourly DUoS charges and identified series of improvements across the 'meter to bank' process. We will undertake further work on how to maintain the accuracy of the existing profiling and settlement processes through the smart transition and to identify whether any changes will be required to accommodate the new smart arrangements and deliver the intended consumer benefits.

## 4. Smart Grids

- 4.1 Smart Grids continues to attract interest from across the worldwide energy community and this is matched by a burgeoning number of conferences and groups. Smart Grids have been described as the real prize to come from smart metering, and Charles Hendry, Minister of State for the Department of Energy and Climate, recently said "making smart grid a reality is absolutely essential for the UK and a top priority for government". The evolution of smart grids is hugely important for our industry.
- 4.2 Given this, and in order to ensure that we can provide our expert input into the debate we have recently joined SmartGrid GB and the GB Electricity Demand Project. Our interest is centred on how the settlement

arrangements will need to evolve to accommodate an active demand side, along with intermittent / distributed / small scale generation.

- 4.3 Our role in the two groups is focused on providing critical review of the emerging proposals and in depth knowledge of the market data. The commitment is limited to supporting quarterly meetings. The two groups encompass a wide range of stakeholders drawn from across the supply and distribution companies, academia, and DECC and Ofgem. Further information on both groups can be found at <http://smartgridgb.org> and [www.sustainabilityfirst.org.uk/gbelec.html](http://www.sustainabilityfirst.org.uk/gbelec.html).
- 4.4 Faced with the growing demands arising from the up-take of low carbon technologies such as electric vehicles, heat pumps and photo voltaic micro-generation, we need to maximise the usage of the distribution networks and thereby avoid unnecessary reinforcement. Applying monitoring to the networks and making connected plant and apparatus more intelligent will be part of the solution.
- 4.5 As part of the electricity distribution price control arrangements that run from 1 April 2010 to 31 March 2015, Ofgem established the Low Carbon Networks (LCN) Fund. The Fund allows up to £500m support to projects sponsored by the distribution network operators (DNOs) to try out new technology, operating and commercial arrangements. The objective of the projects is to help all DNOs understand what they need to do to provide security of supply at value for money as Great Britain (GB) moves to a low carbon economy. Project funding has to be competed for and results shared. This is a novel initiative and which is stimulating collaborative activity and promoting much interest from across the world.
- 4.6 On 27 November, Ofgem announced the six new fund winning projects for 2011. This included Project Falcon which is being sponsored by Western Power Distribution. Currently DNOs have little access to real time network data and planning is largely based on indicators such as total demand and long standing engineering guidelines. The goal is to develop a planning tool that takes account of a number of network intervention techniques and helps DNOs to plan their 11kV networks in the most cost effective fashion. One of the areas under investigation is whether settlement data could be used to support this. ELEXON will be providing guidance on the available data and progressing any necessary changes under the BSC.

## 5. Smarter Markets

- 5.1 Ofgem Smarter Markets team continues its information gathering phase and plans to issue an industry consultation in December. We brief the Panel on the consultation when it is published.
- 5.2 We are currently drafting a thought piece on the value in code consolidation – an area that has been identified in the Ofgem work.

## 6. ELEXON Smart appearances

- 6.1 We attended the European Smart Grids Forum in London on 29 November. Chris Rowell presented at the Smart Metering Forum in London on 30 November; the presentation looked at the DCC's activities across its 10 year licence period.

## 7. Smart Budget

7.1 Our expenditure this year (2011/12) up to the end of November<sup>9</sup> is:

	Released Funds	Committed Funds
Smart Support <sup>10</sup>	£280k	£150k
Smart Opportunities <sup>11</sup>	£36k	£19k
Total	£316k	£145k

7.2 We continue to maximise the use of our internal resources and so limit external expenditure. Since previously reported, we have incurred additional spend in Smart Support. This is the result of securing some expert advice on security obligations in the smart world and the membership for the smart grid groups mentioned in section 4.

7.3 We reported last month that the ELEXON Board had released £350k from the smart support budget to cover backfill and external support to the end of the year. Of this £350k, £110k has been released to the Programme to date.

7.4 We will use these funds, as reported last month to the Panel, to fund some external support in the form of specialist advisors and operational backfill - the latter being to free up experienced internal resource to support this work. This will enable us to remain focused on ensuring that the DCC and its associated services are successful as an inefficient or ineffective arrangement could severely compromise the data quality of the SVA arrangements, thereby impacting settlement and the associated data feeds to DUoS and TUoS billing. We will continue to communicate key findings with the SMIP and the smart community. All spend will be subject to the existing smart expenditure controls.

## Appendix 2: ELEXON Monthly KPIs

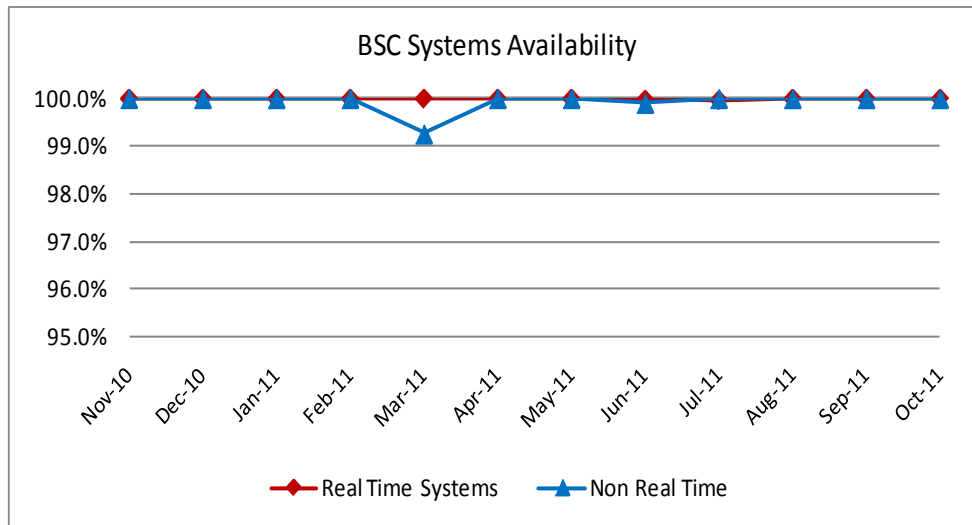
<sup>9</sup> This includes negotiated payments for Conferences extending through to March 2012 and backfill to the end of the year

<sup>10</sup> Comprising Smart 1 – Evolving the BSC Arrangements & Smart 2 - Supporting the SMIP

<sup>11</sup> Comprising Smart 3 – Progressing the new Smart Opportunities

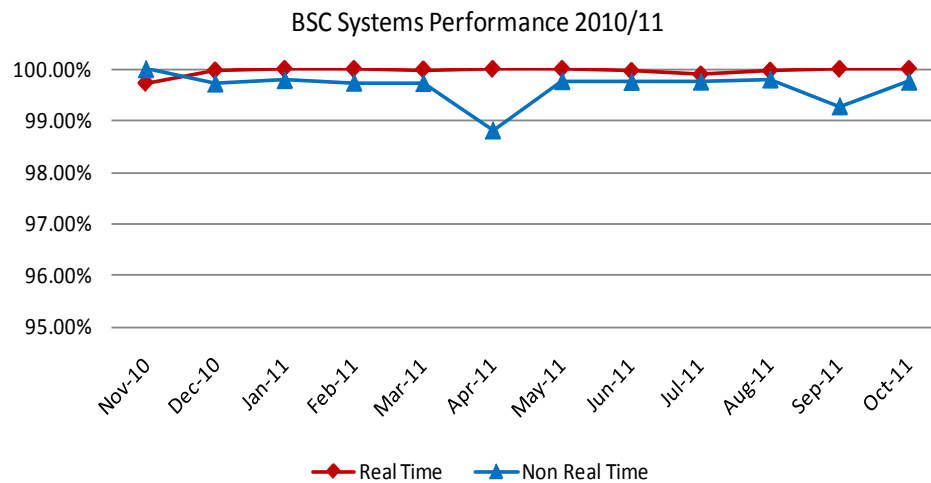
# ELEXON Key Performance Indicators

October 2011



## BSC Systems Availability

During October 2011 there were no service breaches affecting the BSC system availability.



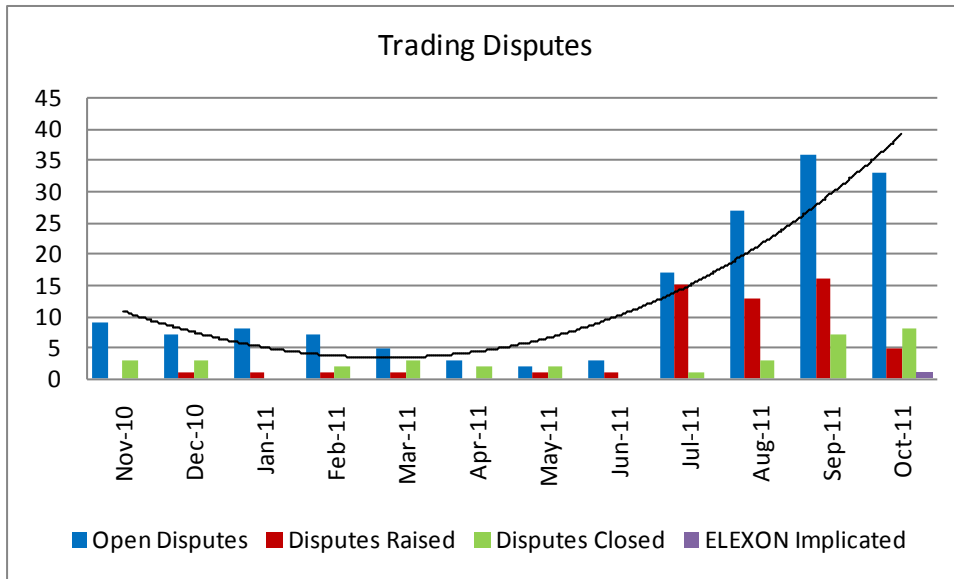
## BSC Systems Performance

During October 2011 there were no service breaches affecting the BSC Systems performance.

For Board and External Publication.

# ELEXON Key Performance Indicators

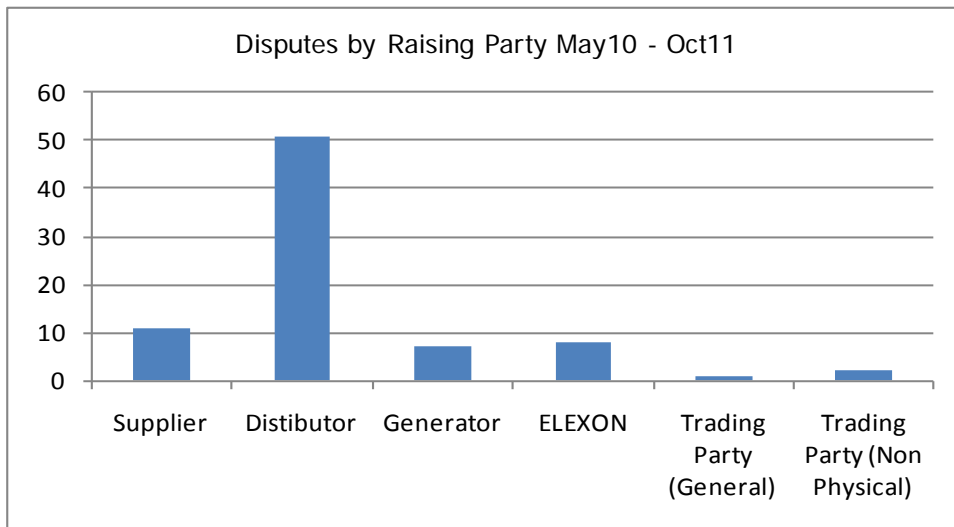
October 2011



## Trading Disputes

Trading Disputes can be raised by any BSC Party, including ELEXON, and are assessed by the Trading Disputes Committee (TDC).

There were 5 new disputes opened and 8 closed in October. For the 2011/12 financial year, 51 new disputes have been raised and 23 closed leaving 33 open.

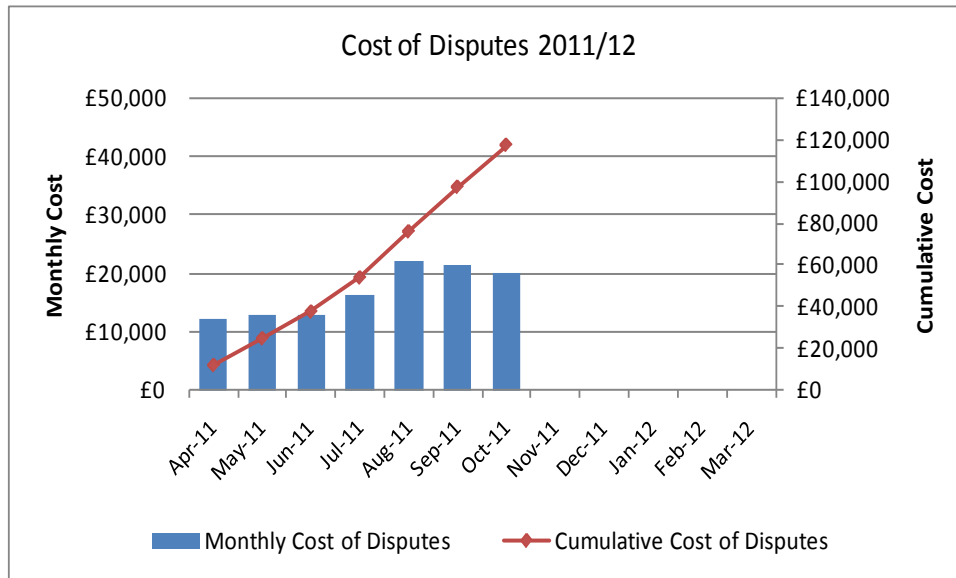


## Disputes by Raising Party Type

This KPI shows all Disputes since May 2010 by the type of participant who raised the Dispute. A Distribution Business had indicated that approximately 60 Trading Disputes will be raised as a consequence of site visits. Only 43 Disputes have been received (July – 15, August – 13, September 15), we have not received any Disputes from this source during October, although 7 have been received in early November.

For Board and External Publication.

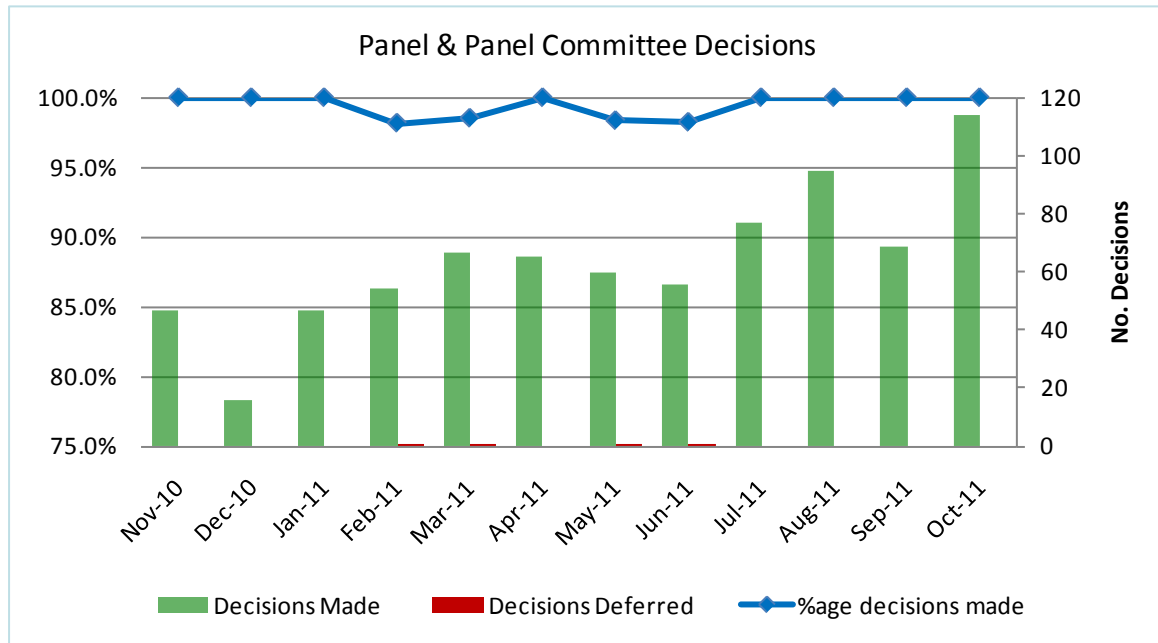
## Service Quality/Processes



**Cost of Processing Disputes**

Within the Metering and Disputes team there are two dedicated resources dealing with Trading Disputes with, going forward, some flexibility for others to help out. We have utilised the resource pool when required to deal with high volumes of Trading Disputes.

The costs for October 2011 represent 35.5 man days of dedicated resource. There is an additional 2.5 man days for the ongoing Erroneous EAC/AA Trading Dispute plus 2 man days covering the administration around the monthly TDC meeting. A total of 40 man days expended for October. Using a day rate of £500 gives a monthly cost of £20,000.

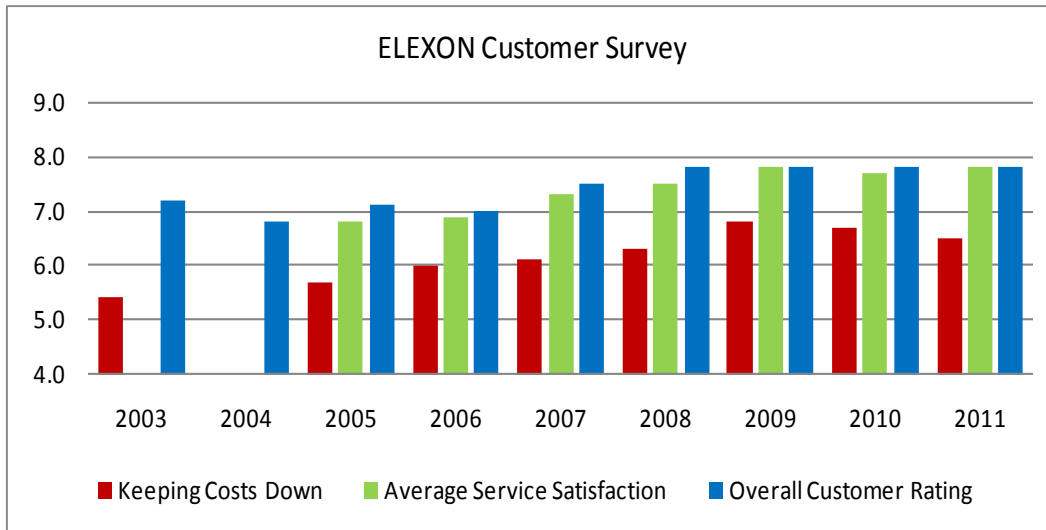


**Panel & Panel Committee Decisions**

For the month of October all 114 decisions submitted to the Panel and its committees were made.

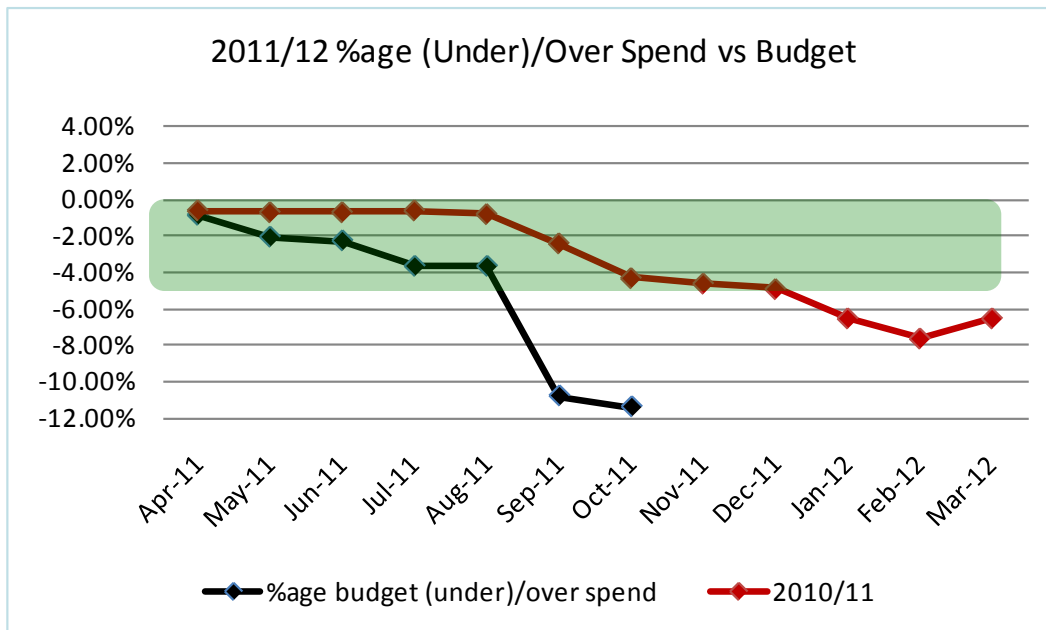
# ELEXON Key Performance Indicators

October 2011



## ELEXON Customer Survey

This graph has been updated to include the 2011 Customer Survey. ELEXON's scores for 2011 are overall 7.8 (unchanged), average service satisfaction 7.8 (+0.1), and keeping costs down 6.5 (-0.2).



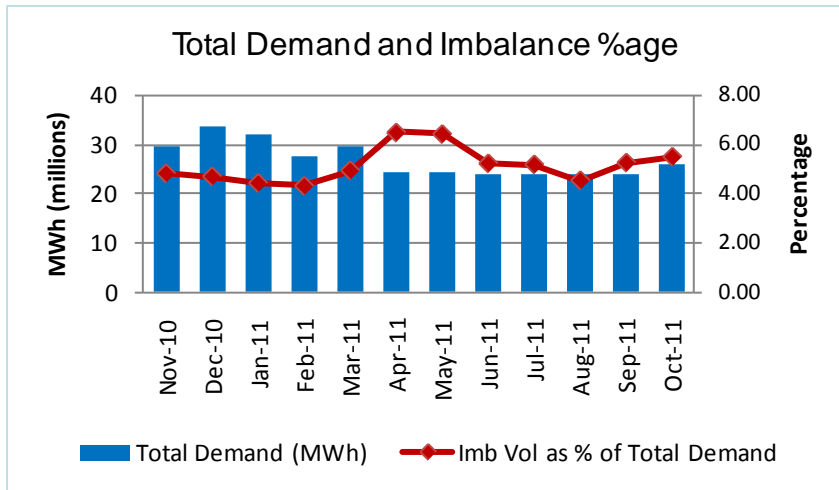
## Spend against Budget 2011/12

The budget under spend for the financial year was 11.4%. 1.1% of under spend relates to a reduction in demand led work which is driven by industry. The operational under-spend for the year was 3.4% (1.7% relates to lower than expected NGC pension deficit repair and employer contribution) and contracted costs for the year were 1.3% below budget (0.7% relates to releasing the provision for TAA contract re-procurement & transition) and SMART costs for the year were 5.6% below budget.

## Staff Capability & Financial

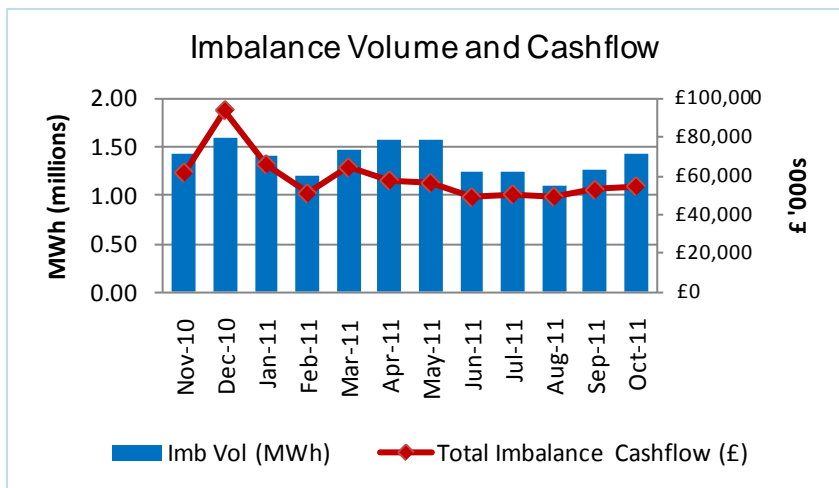
# ELEXON Key Performance Indicators

October 2011



## Value of Imbalance Settlement

These graphs are for information only to put ELEXON's role in context. The graph below is also reported in the Trading Operations Report.



## Service Quality /Processes