

ELEXON Quarterly Report

BSCCo Review

The ELEXON Quarterly Report for Q2 2013/14 provides information on the operation, implementation and administration of the BSC, in accordance with section C3.9.1 of the BSC.

The Quarterly Report is divided into four sections:

1. BSCCo Review
2. Operation of the Balancing and Settlement Arrangements
3. Governance and Change
4. Review against the Annual Budget

This report summarises the operation of the Balancing and Settlement Code (BSC) for the second quarter of the Financial Year 2013/14 and describes the activities of the BSC Panel and its Committees. The report also reviews ELEXON's performance against the BSCCo Business Strategy and Budget for 2013/14.

Our strategy this year is to maintain and build upon our previous achievements to fulfil our mission – “To deliver the BSC effectively, efficiently and economically, to the benefit of our customers”, and to support the best strategic outcomes for the evolving industry by pursuing our vision – “to be a leader in the efficient transformation of energy markets by providing shared solutions to address common industry problems.”

We aim to achieve our strategy by fulfilling five strategic priorities designed to improve our service to our customers and stakeholders. These are to:

- Actively manage, and continually improve, BSC services to ensure that we deliver in an efficient, effective and economic way
- Drive efficiencies and savings in our operational business
- Improve the customer experience and develop richer customer relationships
- Develop our services and adapt our business to address industry challenges
- Invest in our people for the benefit of our industry

To pursue our vision, we will develop our services and adapt our business to address industry challenges.



Q2 2013-14 (July – Sept 2013)

We've highlighted some of the key successes below, but you can get a fuller picture of our business activity from the reports presented at each BSC Panel meeting:

- [ELEXON REPORT 214 – 14 June to 5 July 2013](#)
- [ELEXON REPORT 215 – 12 July to 1 August 2013](#)
- [ELEXON REPORT 216 – 9 August to 5 September 2013](#)
- [ELEXON Report 217 – 13 September to 4 October 2013](#)

Managing and improving BSC Services

ELEXON launches graduate programme

We advertised for graduates with a talent for analysis, a flair for working with people and who are looking to forge a career within the electricity industry. In September 2013 we welcomed four graduates for two years, who will rotate around different teams to get an all round view of ELEXON operations.

Technical Assurance Agent Annual Report published

The Technical Assurance Agent (TAA) presented its Annual Report for the 2012/13 audit year to the BSC Panel on **13 June 2013**, and the report was published on the [Performance Assurance Reports](#) page of the ELEXON website.

Key messages this year were:

- The health of the Half-Hourly Metering System population is not improving and key problems stem from:
 - A lack of or incomplete commissioning procedures.
 - A lack of information available to assess compliance (certificates etc.).
 - More recently installed Metering Systems have similar non-compliances to older Metering Systems; things do not seem to be improving.
 - There has been a significant increase in the number of timing errors from last year.
- There has been really good improvement in the time taken to rectify Category 1 non-compliances.
- Meter Technical Detail (MTD) non-compliances continue to remain low, where a key field is incorrect.

BSC Audit and SVA Qualification Contract Awarded to KPMG

The contracts for the [BSC Audit](#) and [Supplier Volume Allocation \(SVA\) Qualification Service](#) expired on **30 September 2013**. Last year, to meet BSC obligations, we started a re-procurement to ensure continuation of both services was guaranteed, and we undertook a full review of the service requirements.

A new, five year, combined contract covering both services was awarded to KPMG on **15 July 2013** and the new contract went live on **1 October 2013**.

KPMG offered an impressive technical and commercial solution. Technically, KPMG will implement a number of innovative service improvements. In particular, a new focus on Settlement Risk will:

- highlight the root cause of failures and identify control weakness
- enable closer working with audited entities to understand and record controls

The combined BSC Audit and Qualification services will provide 13.75% savings against the previous contract cost.

Throughout the period of the contract we will move towards a more risk-based approach to the BSC Audit, with greater emphasis on taking assurance from the effectiveness of controls used to manage Settlement Risks. For the BSC Audit 2013/14 KPMG has been asked to provide assurance on the controls used to manage two of the top Settlement Risks (SR0022 & SR0072). The BSC Audit scope for 2013/14 has been agreed for the first year of the contract. In the second year, the objective is to identify the root causes of the top Settlement Risks, and provide solutions.

ELEXON Governance Review published

Earlier this year, the BSCCo Board and BSC Panel jointly commissioned an independent review of BSC governance. They appointed former Council of Lloyd's deputy Chairman [Bill Knight](#) to undertake the review. The review, published in **July 2013**, looks at ELEXON's current governance with regard to the confines of the BSC, particularly in light of discussions over recent years in relation to changes to BSCCo's vires.

[Click here to view the report.](#)

New Chairman appointed to the BSC Panel and BSCCo Board

[Michael Gibbons OBE](#) was appointed as Chairman of the BSC Panel and BSCCo Board. Michael has a wide range of relevant experience in the energy industry.

The appointment was approved in July 2013 by [Ofgem](#) and follows a rigorous six-month recruitment process that produced a strong field of candidates. Michael is the third person to hold this post and takes over from [Andrew Pinder](#), who stepped down in September at the end of his three-year term.



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Profiling Expert Group Profiling Data to default to Market Domain Data

The Profiling Expert Group (PEG) is an expert group appointed by the Supplier Volume Allocation Group (SVG). The PEG reviews data and looks at issues related to profiling to ensure that all profiling data is suitable for Settlement. If not, the SVG agreed that the fall-back process is to default to the existing data in Market Domain Data (MDD).

At the SVG meeting on **30 July**, the Profiling Expert Group (PEG) considered a number of issues with the current data and recommended to SVG that the profiling data should default to the existing MDD, which the SVG approved.

[Click here to read the 'PEG's recommendation to use default profiling data from September 2013'](#) paper which provided an overview on the issues and recommendations discussed at the SVG meeting.

Credit Assessment Price increased to £57/MWh from 12 September 2013

The Credit Committee determined that the Credit Assessment Price (CAP) would be increased to **£57/MWh**, effective from **12 September 2013**.

CAP is used to calculate Trading Parties' Credit Cover Percentage. Parties may notice a change in their Credit Cover Percentage as a result of the CAP change from the current value of £51/MWh.

2013 Review of GSP Group Correction Scaling Weights Consultation published

This consultation asked respondents' views on revised Grid Supply Point (GSP) Group Correction Scaling Weights based on updated analysis of errors in the Non-Half-hourly and Half-Hourly markets.

GSP Group Correction is the mechanism that adjusts Suppliers' Metered Volumes in each GSP Group so that they, in aggregate, match the GSP Group Take.

It is proposed that the revised GSP Group Correction Scaling Weights be implemented on **1 April 2014**. Parties were invited to review the analysis and its findings and provide comments.

Risk Evaluation Register 2014/15 published

The Risk Evaluation Register (RER) 2014/15 was presented to the Performance Assurance Board (PAB) on **29 August** following responses we received to the industry consultation. PAB reviewed and approved the RER which will take effect from **1 April 2014**.

Full details of the RER documents are published on the [Performance Assurance Processes](#) page of our website along with the RER ledger.

Annual Performance Assurance Report published

We presented the Annual Performance Assurance Report (APAR) to the Performance Assurance Board (PAB) on **29 August 2013** where the PAB approved the document. The APAR summarises the outcome of the application of the Performance Assurance Techniques during 2012/13.

[Click here to read the APAR.](#)

Risk Operating Plan 2014/15 Consultation published

The Performance Assurance Board (PAB) endorsed the Risk Operating Plan (ROP) 2014/15 for industry consultation on **26 September 2013**, and we published it for consultation on **27 September 2013**.

We sought respondents' views on the deployment and scope of Performance Assurance Techniques (PATs), and suggestions for areas of the Performance Assurance Framework or specific PATs that could be reviewed to improve efficiency and effectiveness.

Improving the customer experience

Lessons learned from a recent Trading Dispute in North West Grid Supply Point

Two Trading Disputes were upheld by the Trading Disputes Committee (TDC) relating to the connection of an offshore wind farm which was not being reflected in the Aggregation Rule of a Grid Supply Point.

We conducted a "lessons learned" exercise, identifying the following actions to prevent a recurrence:

Our communications could have been improved in respect of the timing and content. In addition, the TDC agreed that an estimate of the financial impact will be notified to any affected Party where its materiality is greater than £3,000. We have set materiality thresholds that will trigger our Chief Executive and Director of Operations to personally contact the affected Parties.

We will raise a Change Proposal for revising the [BSCP25](#) and [BSCP15](#) forms.

We will also:

- Update internal Local Working Instructions relating to the checks we do for Meter Registration.
- Review the roles and responsibilities of the Central Data Collection Agent (CDCA), Central Registration Agent (CRA) and ELEXON around the validation of Aggregation Rules and Balancing Mechanism Unit (BMU) Registrations. Meetings are underway with the CDCA, CRA and ELEXON to clarify roles.
- Prioritising Trading Disputes by estimating the materiality at an early stage.

We are also working with the Transmission Operator and the Licensed Distribution Network Operator (LDNO) to review the process controls.

Risk Evaluation Register (RER) Forum

We held a RER Forum on **22 July 2013**, providing the opportunity for the consultation responses to be discussed informally in an open session.

Technical Assurance of Metering Education Day

We held a [Technical Assurance of Metering Education day](#) on **12 September 2013** where users of the Technical Assurance Agent Management Tool (TAAMT) and the Technical Assurance of Metering technique could learn more about the technique and how to get the best use out of the TAAMT. This helped customers to understand the changes to the service and system, but also helped anyone new to Technical Assurance of Metering who wanted to better understand the technique and what responsibilities they have.

New Interconnectors webpage

An Interconnector is the apparatus used to transfer electricity to or from the GB Total System from or to an external system (ie an electricity network outside of Great Britain operated in another country). The Total System is made up of the Transmission and Distribution Systems that are covered by the BSC.

We have published a new [Interconnectors page](#) on our website to provide details of each of the four Interconnectors that connect the UK to Europe:

1. The Anglo/French Interconnector
2. The Moyle Interconnector
3. The BritNed Interconnector
4. The East/West Interconnector

Social media icons on our website

We have added social media icons to the ELEXON website so that you can easily access our three social channels. The icons, for Twitter, You Tube and LinkedIn, are at the top of every page on the site and link directly to extra ELEXON content on these sites.

The ELEXON [Twitter](#) account provides a summary of all of the latest ELEXON news and updates.

Our [You Tube](#) page contains a range of videos that describe what ELEXON does, the role we play in the industry and what it is like to work here.

The ELEXON [LinkedIn](#) page provides updates of ELEXON vacancies, a chance to apply for these vacancies as well as a link to our [careers site](#).

"Introducing ELEXON" Seminar

Our "Introducing ELEXON" Seminar on **19 September** was a great success. Some of the very positive feedback from our audience of the Big Six, smaller Suppliers and other attendees included:

"I found the knowledge of the speakers really came through in their enthusiasm and discussions during their presentations. They were all extremely engaging and were able to discuss their individual topics by bringing them to life with real time examples."

"The ELEXON presentations outlining ELEXON's role and the function of the BSC were extremely helpful. Having it explained in person really cemented my understanding."

"It was an excellent seminar; the experts clearly were experts in their fields and keen to share their knowledge."

Developing our services

European Developments

The main BSC-related European event in this quarter was the ENTSO-E consultation on the draft European [Electricity Balancing Network Code](#). ELEXON responded, and wrote to Ofgem on the possible implications for the BSC and its governance, which we also presented to the BSC Panel at its October meeting. Our response and letter are published on the [Industry Insights](#) page of the ELEXON website.

However, this draft Code has several more stages to go through before it becomes law, probably in early 2015, so the drafting may change considerably before then. The latest post-consultation version of this Network Code was published by ENTSO-E on **16 October**.

Modification Proposals [P291 'REMIT Inside Information Reporting Platform for GB Electricity'](#) and [P295 'Submission and publication of Transparency regulation data via the BMRS'](#) also relate to European Developments (REMIT and the Transparency Regulation respectively). P291, setting up a REMIT inside information reporting platform for GB electricity was approved by the Authority in mid-August, for implementation at the end of 2014.

Also in August, ELEXON joined Energy UK as an Associate Member specifically to allow for more engagement with European debates on BSC-related matters such as the Electricity Balancing Network Code. We found that ENTSO-E was less willing to engage with national companies, such as ELEXON, than with the European trade associations. We would like to express our thanks to Energy UK for offering to assist with this by offering Associate Membership.

Electricity Market Reform (EMR)

In April 2013, the Department of Energy and Climate Change (DECC) confirmed its intention to appoint ELEXON as the Settlement Agent for both the Contracts for Difference (CfD) and Capacity Market (CM) schemes using powers that will be given to the Secretary of State as part of the Energy Bill. Since then we have been working closely with DECC to understand the role of the Settlement Agent and its relationship with BSC Parties and with DECC and the Counterparty and of course, the new EMR parties (suppliers and generators).



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In preparation for procurement, we have also been developing a specification for the IT systems and associated services that we will need to calculate the payments that are due to CfD generators and the supplier funding arrangements. We anticipate launching the procurement for the operation and implementation of the systems and services in Q3 2013.

Our other main achievement during this period, and one that will be of particular interest to the Parties who fund the BSC arrangements, is that we have secured Grants from DECC to cover all of the EMR activities that we are engaged in.

We have been updating the BSC Panel and Panel Committees monthly on what we have been up to and you can view the relevant papers on the [Additional Information on EMR](#) page of the ELEXON website.

Smart Metering and Smarter Markets

We continued to engage closely with the DECC and Ofgem's Smart Metering and Smarter Markets teams across this period.

We provided our experts to the Ofgem Smarter Markets working group looking at improvements to the Change of Supplier process and continued to meet with the Settlement Reform team. We have responded to the [consultation on Demand Side response](#). In addition we seconded a staff member to the Ofgem Smarter markets team to help with the Settlement Reform and Change of Supplier work.

We have progressed consequential changes in support of the smart metering rollout. Ofgem approved Modification [P292: Amending Supplier & Meter Operator Agent responsibilities for smart Meter Technical Details](#) which confirmed in the BSC the responsibility for Meter Technical Details from Smart Metering. We progressed discussion with DECC and industry and a number of other consequential changes which will be brought forward later.

Industry consultations

We responded to a number of industry consultations over the quarter, including an Ofgem consultation on tackling electricity theft, a National Grid consultation on Demand Side Balancing Reserve and Supplemental Balancing Reserve and a European Network of Transmission System Operators for Electricity (ENTSO-E) consultation on the draft Network Code on Electricity Balancing.

All our responses are published on the Industry Insights page of [ELEXON website](#).

Operation of the Balancing and Settlement code Arrangements

You can find further details about our operational performance, including performance against our key performance indicators in the ELEXON reports presented to the BSC Panel every month:

- [ELEXON REPORT 214 – 14 June to 5 July 2013](#)
- [ELEXON REPORT 215 – 12 July to 1 August 2013](#)
- [ELEXON REPORT 216 – 9 August to 5 September 2013](#)
- [ELEXON Report 217 – 13 September to 4 October 2013](#)

We report operational issues that affect customers in ELEXON circulars. [You can read past circulars here.](#)

Governance and Change

Modifications:

3 new Modification Proposals were raised:

- [P295](#) 'Submission and publication of Transparency regulation data via the BMRS'
- [P296](#) 'Introduction of a 'Fast Track' Modification Process following the outcomes of the Code Governance Review (Phase 2)'
- [P297](#) 'Receipt and Publication of New and Revised Dynamic Data items'

0 Modification Proposals were withdrawn.

1 Modification Proposal was submitted to the Authority for decision:

- [P296](#) 'Introduction of a 'Fast Track' Modification Process following the outcomes of the Code Governance Review (Phase 2)'

2 Modification Proposals were approved by the Authority:

- [P291](#) 'REMIT Inside Information Reporting Platform for GB Electricity'
- [P283](#) 'Reinforcing the Commissioning of Metering Equipment Processes'

3 Modification Proposals were pending Authority decision at **30 September 2013**:

- [P272](#) 'Mandatory Half Hourly Settlement for Profile Classes 5-8'
- [P286](#) 'Revised treatment of RCRC for generation BM Units'
- [P296](#) 'Introduction of a 'Fast Track' Modification Process following the outcomes of the Code Governance Review (Phase 2)'

1 Modification Proposal was approved by the BSC Panel as a Self-Governance:

- [P293](#) 'Changes to BSC Section H 'Audit' and BSC Service Description for BSC Audit to reflect current Practice'



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1 Modification was implemented:

- [P293](#) 'Changes to BSC Section H 'Audit' and BSC Service Description for BSC Audit to reflect current Practice'

Change Proposals:

10 Change Proposals were raised:

- [CP1392](#) 'BSCP18 Bid-Offer Acceptance Related Data Corrections to the SAA system via Electronic File Transfer method, instead of manual Email method'
- [CP1393](#) 'Changes to BSCP27 to align with the current process carried out by the TAA for the Consumption Data Comparison Check'
- [CP1394](#) 'Use of SMETS compliant Meters for Profiling'
- [CP1395](#) 'Distribution of Configuration Details for Smart Meters'
- [CP1396](#) 'Clarifications and Formalising scenarios for the BSCP509 Market Domain Data Changes Request Process'
- [CP1397](#) 'Improvements to the Balancing Mechanism Reporting System (BMRS) Electricity Summary Page – Indicative Triad Demand Information tables'
- [CP1398](#) 'Clarifications to BSCP520 'Unmetered Supplies registered in SMRS'
- [CP1399](#) 'Business Process Operations (BPO) Service Rebranding'
- [CP1400](#) 'Amendment of the System Operator flag via BSCP18'
- [CP1401](#) 'Replace residual negative EACs for pre-RF Settlement Days without affecting post-RF data'

0 Change Proposals were implemented.

BSCP40 issues:

0 BSCP40 issues were raised or remain open during this period.

Standing Issues:

0 Standing Issues were raised.

0 Standing Issues were closed.



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BSC Panel and Committee Activity:

As well as considering the Modifications in the section above, the Panel:

- Established, jointly with other energy Code Panels, a coordination body for the application of the European Network Codes to the GB framework and appointed a BSC Panel member to the European Code Coordination Application Forum (ECCAF)
- Amended the Terms of Reference for the Imbalance Settlement Group (ISG), Supplier Volume Allocation Group (SVG) and Performance Assurance Board (PAB)
- Approved changes in membership for SVG, ISG, PAB and Trading Disputes Committee (TDC)
- Appointed a new Chair of the TDC, Q8 Committee and Warm Homes Discount Reconciliation Dispute Committee
- Approved the [2014 BSC Panel meeting dates](#)
- Noted the findings of the Funding Shares Audit completed by the BSC Auditor
- Endorsed the BSCCo Board's appointment of a new BSC Auditor and Qualification Service Provider
- Considered the 2012/13 BSC Review performed by ELEXON
- Reviewed actions proposed to address issues associated with the installation and commissioning of Metering Systems
- Considered the findings of a review conducted following the conclusion of Trading Dispute DA505
- Considered Data Transfer costs incurred under the BSC and options for development of the ELEXON Portal to deliver Data Transfer Service (DTS) Flows to reduce these costs.
- Considered ELEXON's regular monthly update on its appointment as the Settlement Agent (SA) for both Contracts for Difference (CfDs) and for the Capacity Market (CM)
- Received and discussed the Review of ELEXON Governance performed by William Knight OBE, the independent reviewer appointed by the BSCCo Board and the BSC Panel
- Noted that the Panel Chairman's term of office came to an end on **30 September 2013** and thanked him for his hard work and support

Annual BSC Meeting 2013

The Annual BSC Meeting was held in July in accordance with the BSC. It was noted that four Directors ([Alison Chappell](#), [David Rigney](#), [Nigel Cornwall](#) and [Volker Beckers](#)) had been appointed or re-appointed to the Board of ELEXON Ltd since the last Annual BSC Meeting. The meeting is an opportunity for BSC Parties to raise questions about the previous year's annual report and financial statements and this year's [Business Strategy and Annual Budget](#). This year there were no questions.

Imbalance Settlement Group (ISG):

The ISG continues to oversee and contribute to the development of the Central Volume Allocation (CVA) arrangements. Decisions included:

- Approved 10 Metering Dispensations across the July, August and September meetings
- Noted information papers on change progression and the accuracy of the credit calculation
- Approved two non-standard configurations for four Balancing Mechanism (BM) Units
- Approved Line Loss Factor calculation methodologies for Licensed Distribution System Operators
- Approved consultation questions following a review of the Market Index Definition Statement
- Approved changes to the material doubt guidance
- Approved [CP1399 'Business Process Operations \(BPO\) service rebranding'](#)
- Approved the rejection of CP1351 'Improving half hourly metering equipment commissioning and storage of associated commissioning data'
- Approved [CP1392 'BSCP18 Bid Offer Acceptance Related Data Corrections to the Settlement Administration Agent \(SAA\) system via Electronic File Transfer method \(BMRA-I002\) instead of manual email method'](#)
- Approved [CP1393 'Technical Assurance – Consumption Data Comparison \(CDC\) check'](#)
- Reviewed Market Index Definition Statement review consultation responses and recommended to the BSC Panel that no changes are made

Supplier Volume Allocation Group (SVG):

The SVG continues to oversee and contribute to the development of the Supplier Volume Allocation (SVA) arrangements. Decisions included:

- Oversaw around 50 changes to Market Domain Data (MDD) Versions 205-207, including Line Loss Factor Classes for three Distributors
- Allocated new Grid Supply Points (GSPs) to GSP Groups as follows:
 - GSP_BERB to North Scotland (_P);
 - GSP_FETT to North Scotland (_P);
 - GSP_SASA to Merseyside & North Wales (_D);
 - GSP_SBAR to East Midlands (_B); and
 - GSP_TYNE_2 to North Eastern (_F);



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- Rejected an application by Openreach for 14 specific Unmetered Supplies Charge Codes
- Agreed to default the Profiling Technical Product Deliverables from September 2013 to the existing MDD dataset, following a number of issues identified with the data
- Agreed to consult on ELEXON's proposed revisions to GSP Group Correction Scaling Weights, proposed for use from April 2014
- Approved the annual Line Loss Factor methodology statements from Distributors for 2014/15
- Rejected [CP1378 v2.0 'Facilitating appointment of Multiple HHMOAs for Third Party Access on Licence Exempt Distribution Network'](#), as the solution has evolved and is now being discussed under [Issue 51 'Multiple MOAs and Third Party Access'](#)

Trading Disputes Committee (TDC):

The TDC:

- Approved Post-Final Settlement Runs to address Large Erroneous EAC/AAs for Settlement Days from **1 April - 30 June 2011**
- Heard 20 Trading Disputes and upheld 19 of them
- Determined that GSP Groups _E and _F were eligible for Dispute Exit and set a date of **1 August 2011**
- Determined that GSP Groups _J and _L were eligible for Dispute Exit and set a date of **1 September 2011**
- Reviewed the materiality threshold at which ELEXON would provide 'detailed notifications' to affected BSC Parties, and set the threshold level at £3,000. This new procedure was put in place for disputes raised from **3 October 2013**
- Endorsed a lessons learnt exercise from ELEXON relating to improvements to the Disputes

Performance Assurance Board (PAB):

Apart from its normal work, the PAB:

- Approved the following Supplier Qualifications:-
 - Lorimer Power Limited
 - Marble Power Limited
 - EPG Energy Limited



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- Barbican Power Limited
- Paddington Power Limited
- Regent Power Limited
- Update on a Supplier's Settlement Risk performance, and approved a change to its performance milestones. Enduring 97% achieved by **31 December 2013**.
- Noted an update from PricewaterhouseCoopers (PwC) on Meter Technical Details.
- Approved Authorisation of Technical Assurance of Performance Assurance Parties (TAPAP) Checks on a Non-Half-Hourly Data Collector (NHHDC) ID in Support of Large Estimated Annual Consumption (EAC)/Annualised Advances (AA) Dispute Exit Decision in GSP Group _K
- Approved the [Annual Performance Assurance Report \(APAR\) 2012/13](#)
- Approved the [Risk Evaluation Register \(RER\) 2014/15](#)
- Approved the Risk Operating Plan (ROP) 2014/15 for industry consultation
- Approved the revised BSC Audit Scope
- Noted an update on TAPAP findings for two NHHDC IDs
- Agreed an approach for:
 - Dispute Exit Checks Outcome Reports
 - CoP123 MSIDs
 - Unauthorised Data Change Post-RF by GSP Group
 - Control points around excessively large EAC/AA values entering Settlement
 - Request a Specific set of Data from Suppliers
 - Options for Further Supplier Assurance



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Review against the Annual Budget

Expenditure for the first six months of 2013/14 (year-to-date) stands at £13.6m, £1.0m (7.0%) under budget. The forecast outturn for the full financial year 2013/14 currently stands at £30.0m, £6.9m (18.6%) below budget, due to a number of exceptional contingent items being released.

The position against budget for the year-to-date (YTD) and the forecast for the full year (FY) is summarised below.

Expenditure by Type

£m	YTD	Var.	Full Year	Var.
Operational	6.7	0.7	15.4	0.8
Demand Led	0.2	-	0.6	2.1
Contracted	6.3	0.3	12.9	0.7
System Strategy	0.3	-	0.3	2.1
Market Development	0.1	-	0.8	1.2
TOTAL	13.6	1.0	30.0	6.9

Operational Expenditure

Operational expenditure for the first half of 2013/14 is £0.7m under budget. This is attributed to the following:

- £0.4m saving achieved by not automatically filling vacancies when people left and recruitment time lag, partially offset by backfill contractors and maternity covers.
- £0.3m underspend on occupancy and overheads

The forecast for the full year is £0.8m under budget due to the full year impact of the above mentioned savings on people costs and overheads, as well as the release of project related costs based on known projects in the pipeline.

Demand Led Expenditure

Demand Led expenditure for the first six months is on budget. The full year forecast is expected to be £2.1m under budget. The reduced number of Modification Proposals and small number of known Release projects in the pipeline has driven this variance, along with the release of funds associated with the Settlement Review originally requested by Ofgem.

Contracted Expenditure

The first six months shows a £0.3m underspend against budget. This is mainly driven by the lower than budgeted exit and implementation costs of the re-procurement of the Operational Audit & Qualification contract, and the savings this re-procurement has generated.

We anticipate the forecast to be £0.7m under budget full year as the new Operational Audit and Qualification contract continues to deliver savings against budget.



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System strategy

Expenditure for the half of the year is on budget while the full year forecast is £2.1m under budget.

Recognising the size of the investment required for this piece of work, we committed to reviewing the business case as the project progresses. As part of this work we have assessed the 'health' of the individual reporting elements, evaluated different implementation options and confirmed the needs of the system users, including BSC Parties. As a result, rather than progress a simultaneous change to all reporting elements (a big bang approach) we should adopt a phased approach, with the first phase being a pilot looking at specific key business processes.

The re-phasing of the Programme has led to a different cost profile for 2013/14 and we can absorb the costs for the second half of the year through contracted costs service improvement innovation funds.

Market Development

Expenditure for the quarter is on budget and the full year forecast is £1.2m under budget.

The 2013/14 budget included £2m for Market Developments which sought to set out a range of potential costs for various areas. Some of those areas are progressing to plan (eg Smart Grids, and the work to assess the impact of new information technologies on BSC arrangements) whereas others have been delayed (eg Ofgem's Smarter Markets work on Change of Supplier and Demand Side Response (DSR)).

One significant area of activity that was foreseen for 2013/14 was EMR. However whilst the activity is even greater than anticipated, we have successfully negotiated funding from DECC by way of a Grant for each of the CfD and Capacity Market work, and therefore avoided incurring costs against this Market Development budget which would have had to be borne by BSC Parties. These Grants include not only costs incurred in setting up settlement systems for CfD and CM, but also cover the costs of changing the BSC systems to facilitate CfD and CM settlement.