

***BSC Auditor's
report***
For the year
ended 31 March
2011

June 2011



ELEXON Limited
Fourth Floor
350 Euston Road
London
NW1 3AW

9 June 2011

Dear Sirs

Subject: BSC Auditor's Independent Assurance Report for the year ended 31 March 2011

This report sets out the results of the BSC Audit for the year ended 31 March 2011 and is produced in accordance with the terms of the agreement between PricewaterhouseCoopers LLP ('PwC') and ELEXON Limited ('ELEXON'), acting for itself and on behalf of the BSC Parties and dated 20 June 2007. Terms defined in the agreement have the same meaning in this report.

The report is addressed to ELEXON and is intended solely for the use of Trading Parties to the Balancing and Settlement Code (the 'Code'), the Transmission Company, the BSC Panel (the 'Panel') and ELEXON.

Scope and respective responsibilities

We are responsible for performing a reasonable assurance engagement in accordance with International Standard on Assurance Engagements 3000 (Revised) – 'Assurance Engagements other than Audits and Reviews of Historical Financial Information' ("ISAE 3000") issued by the International Auditing and Assurance Standards Board.

The expression 'audit' used in connection with this engagement is determined to mean a reasonable assurance engagement performed under ISAE 3000. The detailed scope of our assurance work is set out in our document entitled 'BSC Auditor's Audit Approach for the year ending 31 March 2011' (the 'Approach') which is available on the ELEXON website.

This document sets out the Settlement activities which are subject to assurance (the subject matter) and the relevant provisions of the Code and the Code Subsidiary Documents to which these activities must comply (the criteria used to evaluate the subject matter).

The Approach document also specifies that the BSC Auditor will judge whether any issue will give rise to a qualification of the audit, taking account of the level of materiality, the nature of the issue and whether it has been, or will be, corrected in the normal course of operation of Settlement. The agreed materiality threshold for the period is 1,650,000MWh. Our opinion is designed to give reasonable, but not absolute, assurance.

The parties (included but not limited to BSC Parties, Party Agents, BSCCo and BSC Agents) are responsible for the operation of the Settlement activities as described in the Code.

This report incorporates the findings of the Balancing Mechanism Audit. The requirement for a Balancing Mechanism Audit and its objectives are set out in Section H5.1.6 of the Code.

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Data coverage for this audit

The BSC Audit for the year ended 31 March 2011 encompasses all Reconciliation Runs processed in that year regardless of the audit period in which the relevant Settlement Days sit. Hence all Settlement Days from 16 February 2009 to 31 March 2011 will be considered, as at least one Reconciliation Run for each of these Settlement Days (SF, R1, R2, R3 or RF) will have occurred in the audit period. This means that any errors identified may have arisen from Settlement Days spanning a 26 month period (approximately).

Key deliverables

The key deliverables from the BSC Audit for the year ended 31 March 2011 are set out below:

- BSC Auditor's Report (this document) which includes our audit opinion for the year ended 31 March 2011;
- Statement of significant matters (the 'Statement'), which should be read in conjunction with the BSC Auditor's Report as it contains details of those issues that we judge as not being sufficiently material to warrant inclusion in the BSC Auditor's Report but which, nevertheless, we believe it appropriate to bring to the attention of the recipients of this report. The Statement is appended to this letter; and
- BSC Auditor's issue documents, which will be distributed by ELEXON to the relevant organisations and which include details of other control issues identified in our work together with their implications and any relevant recommendations.

Opinion

On the basis of the scope of work set out on page 1 above, in our opinion in all material respects:

- a. the calculations and allocations performed in relation to Settlement for the year ended 31 March 2011 have, within the tolerance of the audit materiality set out in page 1 above, been performed in accordance with the relevant provisions of the Code and the Code Subsidiary Documents, taking into account the effective date of any revision or amendment made to the Code and Code Subsidiary Documents; and
- b. the amounts shown on the quarterly extracts of the ledger accounts, or the daily Advice Notes for those days not yet covered by the extracts (excluding the daily charge for Transmission Services Charging payments), are in accordance with the amounts calculated in relation to Settlement.

No significant matters have arisen from the findings of the Balancing Mechanism Audit.

The Statement, which is appended to this document, should be read in conjunction with the BSC Auditor's Report as it contains details of those issues that we believe it appropriate to bring to the attention of the recipients of this report; our report is not qualified in respect of any of these issues.

Use of this report

This report is confidential and is intended solely for the use of ELEXON, Trading Parties to the Code, the Transmission Company and the Panel. While we acknowledge that this report will be published on the ELEXON website, this is for information purposes only and we do not intend that it should be relied upon by anyone other than the parties mentioned above. To the fullest extent permitted by law, we do not accept or assume responsibility or liability to anyone other than the intended recipients of our work or this report, save where terms are expressly agreed in writing. It may not be copied or disclosed to anyone else without our prior written consent, which we may grant, withhold, or grant with conditions.

Yours faithfully

A handwritten signature in dark ink that reads "PricewaterhouseCoopers LLP". The signature is written in a cursive, slightly slanted style.

PricewaterhouseCoopers LLP
Chartered Accountants
Birmingham, UK

Statement of significant matters

BSC Auditor's Statement of significant matters for the year ended 31 March 2011

June 2011

Statement of significant matters

BSC Auditor's Statement of significant matters for the year ended 31 March 2011

The Statement of significant matters (the 'Statement') should be read in conjunction with the BSC Auditor's Report as it contains details of those issues that we judge as not being sufficiently material to warrant inclusion in the BSC Auditor's Report but which, nevertheless, we believe it appropriate to bring to the attention of the recipients of the BSC Auditor's Report.

Overview of findings

The volume associated with erroneous values of EACs and AAs has continued to fall which we believe is as a result of the focus placed on this issue, and related Settlement processes, by Suppliers and their NHHDC Agents. PAB and ELEXON have also increased their focus on this issue with the ongoing aim of deepening the understanding of root causes, assessing whether the Code and/or BSCP requirements could be improved and developing further guidance for NHHDC Agents and Suppliers.

Overall Settlement performance in the Non Half Hourly market has improved during the year with the majority of Suppliers now achieving the target of 97% actual metered data at RF. However data quality issues remain, as is reflected in the number of exceptions reported and the backlogs in data processing.

These data quality issues may not individually have a significant impact on overall Settlement performance but will be leading to additional resources being allocated by Suppliers and their Agents to investigate and resolve the underlying problems. Skilled and experienced people may be needed to review the information and often a number of organisations have to work together to fully understand and resolve an exception.

In our last Statement we highlighted that the Meter Operator area of the market was one where focus needed to be maintained as the market continues to evolve over the coming years. Advances in technology and the continued introduction of 'Smart Metering' will lead to a change in the balance of risk to Settlement and ensuring that there are robust processes in place for Meter Operation will be important. This remains our view.

Our audit work this year has shown an improvement in some of the activities of HHMOs. But our work and that of the TAA continues to identify issues in key areas such as the installation and commissioning of Metering Systems and the performance of half hourly proving tests.

NHHMOs continue to face challenges in consistently meeting the BSC requirements.

In advance of any significant market change we would recommend that Suppliers and their Agents place increased focus on the issues raised in this Statement. The Panel, PAB and ELEXON should continue to monitor, support and provide guidance to the industry.

The following issue was included in our last Statement but is no longer considered to be sufficiently material to bring to the attention of the recipients of the BSC Auditor's Report:

- SSM 36: Errors in the classification of complex metering in the half hourly market.

The same SSM references have been used in this report as have been applied in previous reports.

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A: Erroneous values of EACs and AAs

SSM 28: Erroneous values of EACs and AAs

A number of Metering Systems have again been identified with values of EACs and AAs that are in excess of reasonable or expected levels.

Year ended 31 March 2011		
Gross error	SEAE	Unlikely to be corrected
600,000MWh	301,000MWh	162,000MWh
Year ended 31 March 2010		
Gross error	SEAE	Unlikely to be corrected
893,000MWh	407,000MWh	188,000MWh

The continued creation of erroneous EAC and AA values indicates that Suppliers and their Agents need to continue to focus on the root causes of the anomalies. The clearance of erroneous EACs and AAs, including the required update of the related standing data for the Metering Systems concerned, continues to remain a priority.

There are significant variations in the level of error identified at individual Suppliers and their Agents and the impacted Metering Systems will also vary over time.

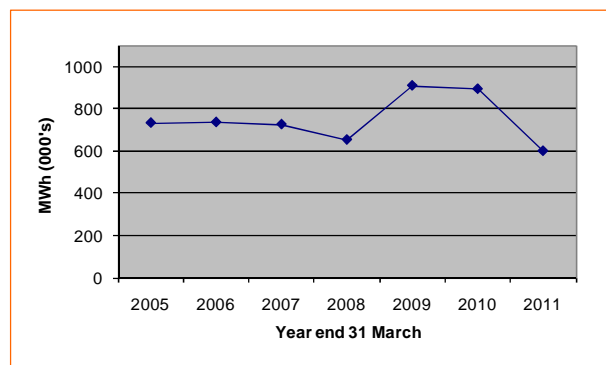
As part of the EAC/AA market error monitoring process Suppliers are requested to exclude those instances for which the consumption is considered to be genuine based on the nature of the individual site. Although the consumption is valid this may indicate an underlying problem with the classification of these sites (for example with respect to either their Measurement Class or Profile Class).

Although there has been continued improvement, this issue has been reported since 31 March 1999 and has yet to be fully rectified or reduced to a business as usual level.

A number of Agents and Suppliers have developed relatively sophisticated processes to review consumption data, including EACs and AAs, but there continues to be reliance placed on the Material Error Monitoring process and reporting carried out by ELEXON. This reporting was devised to monitor the extent of error and to support the Trading Disputes Committee. However over time this reporting has potentially become perceived by some as an integral part of the Settlement processes.

PAB and ELEXON have increased their focus on this issue with the aim of deepening the understanding of root causes, assessing whether the BSC requirements could be improved and continuing to develop guidance for Agents and Suppliers.

Historic movement of gross error



SSM 6: Follow up of EAC/AA exception reports

Our work continues to highlight issues relating to the incomplete review and resolution of the standard exception reports generated by the EAC/AA calculator. There has been an improvement from the prior year but all exceptions arising on all error categories should be resolved in a timely manner.

Impact	Date first reported
3 (11*) out of 17 (17) NHHDCs	31 March 1999

*Comparative in brackets indicates number of impacted Agents as at 31 March 2010.

B. Data quality issues in the non half hourly market

We have grouped together the following indicators as reflected on key exceptions reports or levels of backlogs in processing. Whilst not all will be having a direct impact on Settlement they are illustrative of data items which are inconsistent across Settlement processes and as such will inevitably lead to additional resources being allocated by Suppliers and their Agents to investigate. This in itself may only serve to detract from day to day processing.

Standing Issue 41, entitled 'Improving the quality and accuracy of data flows', has been raised to investigate how best to improve the quality of certain SVA data flows and to mitigate the issues that poor quality of such data flows cause. This is currently being considered by the Volume Allocation Standing Modification Group (VASMG) which is due to report back to the September 2011 Panel meeting.

SSM 23: NHHDA D0095 exception report

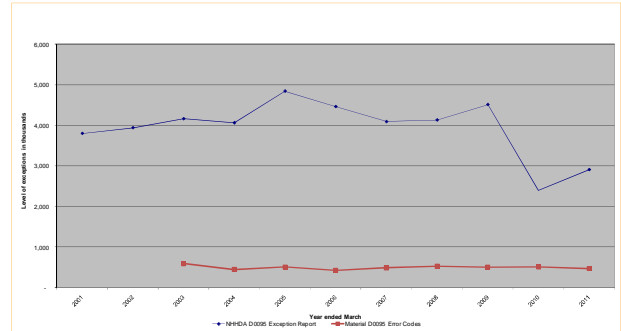
The NHHDA D0095 exception report provides Suppliers with details of anomalies in data provided to NHHDA Agents by NHHDC and SMRS Agents. The report will identify irregularities in consumption data provided by NHHDC Agents and any inconsistencies in Metering System attributes. The D0095 exception report was designed to be a key control over the accuracy of data in Settlement.

Although Suppliers do have processes and procedures in place to review the reports, the majority have either a backlog of exceptions awaiting review or they do not review all exception codes on the report.

To assist the market as to what constitutes a 'material' anomaly ELEXON have provided guidance to both Suppliers and NHHDC Agents on how to resolve D0095 exceptions and have highlighted which exception codes are most likely to result in exceptions that have an impact on Settlement.

Historic levels of D0095 exceptions

The historic levels of exceptions, including the 'material' exceptions as identified by the guidance, have been illustrated below.

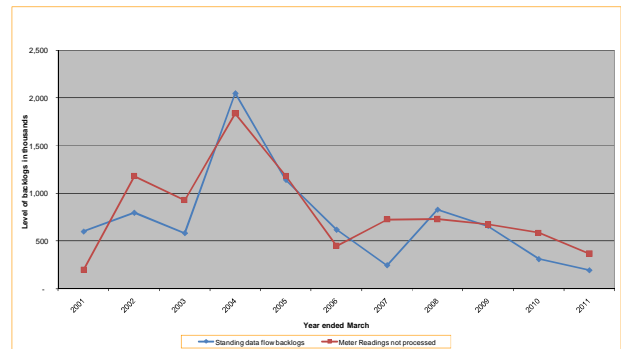


SSM 24: Non half hourly standing data flow and meter reading backlog

Our audit work has again identified that a number of NHHDC Agents continue to experience problems, over and above what could be considered work in progress levels, in processing data flows, meter readings and other information as a result of issues with the accuracy of data in the non half hourly market.

These exceptions may not, in themselves, constitute a contravention of the Code. However, the nature and volume, albeit continuing a reducing trend, of the exceptions reported indicates that the accuracy of some data entering Settlement is impaired.

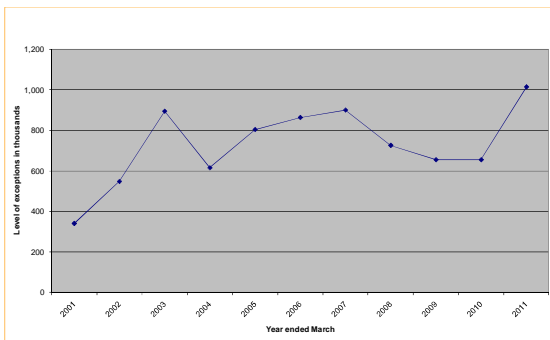
Historic levels of backlogs



SSM 25: D0023 exception report

The D0023 exception report records the rejection of data flows received by the NHHDA Agents from NHHDC and SMRS Agents. This issue relates to the backlog in the clearance of the exceptions by the NHHDC Agents. The graph below illustrates that the number of exceptions as reported by NHHDCs as 'unsuperceded' has fluctuated historically but continues to remain above what could be considered a business as usual level.

Historic levels of D0023 exceptions



However, our audit work this year has continued to identify that there is a considerable, and growing, disparity between the D0023s reported by NHHDA Agents and those D0023s that NHHDC Agents believe they can action. This appears to be impacted by change of NHHDC Agent and/or change of NHHDA Agent activity.

During the Audit Year ELEXON commenced some work to assist NHHDC Agents in understanding the common issues underlying the disparity in D0023 exceptions and provide guidance as to how to prioritise the review and action of D0023s.

ELEXON has developed a specification for a script to more accurately report material exceptions and separately report on those considered to be lower risk. We understand that ELEXON plans to progress the implementation of this script via the change management process.

C. Issues relating to Meter Operation

We have grouped together the following issues as they either manifest themselves at or relate to Meter Operator Agents. In advance of significant market change in this area we would recommend that Suppliers and their Agents place increased focus on these issues.

The TAA has also again identified issues relating to half hourly metering and potential weaknesses in the processes relating to the installation and commissioning of Metering Systems (areas which are outside the scope of the BSC Audit).

SSM 11: Energisation status not confirmed to data collectors

We have again identified that the energisation status of Metering Systems is either not processed in a timely manner or not confirmed to data collectors in all required circumstances. This may lead to inappropriate estimation or consumption may be missing from Settlement.

This aspect has shown improvement in relation to the activities at HHMOs with the majority of the problems now found only at NHHMOs.

Impact	Date first reported
2 (7) out of 10 (11) HHMOs; and 11 (10) out of 20 (18) NHHMOs	31 March 2002

SSM 12: Metering System faults not resolved in a timely manner (non half hourly)

We have continued to identify that not all SVA NHHMOs are resolving Metering System faults or sending the correct flows to the related parties on a timely basis and/or there continues to be a backlog in resolving outstanding faults.

Unresolved faults will lead to an increased level of estimation and the recording of inaccurate consumption data in Settlement.

Impact	Date first reported
Faults not investigated or resolved 16 (8) out of 20 (18) NHHMOs Timeliness of resolution and communication of results 10 (9) out of 20 (18) NHHMOs	31 March 2002

SSM 14: Proving tests not performed or not performed on a timely basis

The performance of a proving test for a half hourly Metering System ensures that actual consumption data can be collected (avoiding the need to rely on estimation) and is key to confirming the accuracy of Meter Technical Details held by the HHDCs.

Our audit work has continued to identify problems in the scheduling and performance of these tests and/or communication of results.

Impact	Date first reported
Test not requested 2 (4) out of 10 (11) HHMOs Delayed performance or notification of results 4 (3) out of 10 (11) HHMOs	31 March 2002

SSM 35: Incomplete or delayed provision of meter reads and Meter Technical Details

We have identified that in a number of cases Meter Operators do not provide meter reads and/or Meter Technical Details to Data Collectors within the required Settlement timescales or the data flows are incomplete or inaccurate.

In some cases these problems can be linked to other issues highlighted in this section of the Statement or are as a result of incomplete information having been provided to the Meter Operator by the Supplier, LDSO or another Agent.

Our findings indicate that the actual provision of the electronic data flows is relatively straight forward once any underlying faults or mismatched data issues are resolved. For the Meter Operator delays will also occur where manual paperwork or downloaded information taken in the field is not returned for central processing on a timely basis.

There has been improvement in relation to the activities at HHMOs with the majority of the problems now found at NHHMOs.

Impact	Date first reported
2 (9) out of 10 (11) HHMOs; and 13 (13) out of 20 (18) NHHMOs	31 March 2010

D. Other matters

SSM 17: LDSO disconnection and de-energisation processes

We again identified a number of issues with respect to the disconnection and de-energisation processes in operation at the LDSOs impacting on their ability to pass complete and timely information into Settlement.

There are two specific aspects which cause LDSOs further practical challenge in adhering to the BSC requirements and can add to the general levels of processing or exception management required at Suppliers and LDSOs.

Firstly, LDSOs should only simultaneously de-energise and disconnect a Metering System as part of an emergency procedure. In all other circumstances BSC procedures require two site visits to be performed one to de-energise and a second to disconnect. In practice the majority of LDSOs will disconnect without receiving a request to de-energise first as this is considered the most practical approach.

Secondly, where a temporary de-energisation of a meter is required, perhaps for maintenance purposes, the processing of flows for such an event is not defined sufficiently to ensure the flows are processed in the correct order and/or responded to appropriately. This can have an adverse impact on the number of flows sent between Suppliers and LDSOs and can lead to delays in processing flows.

We understand the MRA Issues Resolution Group is currently looking at the second of these points.

Impact	Date first reported
Incomplete or delayed processing of the de-energisation data flows 9 (5) out of 15 (14) LDSOs	31 March 2006
Incomplete or delayed disconnection process 7 (7) out of 15 (14) LDSOs	

SSM 34: Treatment of Revenue Protection reads/adjustments

The activities of the Revenue Protection Business Units (RPBU) are outside the scope of the BSC Audit.

Code requirements with respect to the activities of the RPBU are limited. BSCP504 Section 3.6.1 requires NHHDC Agents to record an adjustment to the meter advance based on the unrecorded units estimated by the RPBU, calculate a new EAC and AA based on this adjusted advance and send the new EAC and AA to the relevant NHHDA Agent. There are no further requirements with respect to the source of this information or how the RPBU should calculate the estimate. A number of Agents and Suppliers have again noted to the BSC Auditor that these processes remain unclear and require review.

We would recommend that further consideration is given to how the RPBUs interact with Settlement and there should be a further guidance as to how RPBU reads and adjustments are captured and processed in Settlement.

We understand that linked to a review being undertaken by DCUSA (Distribution Connection and Use of Systems Agreement organisation), DCP 054, Standing Issue 39 has been raised to explore different options under the BSC Code to resolve the existing issues and optimise the processes with respect to the outcome of DCP 054.

The Standing Issue 39 Group has developed, impact assessed and considered three options for improving the processes for entering unrecorded units into Settlement. Papers have been taken to both SVG (October 2010) and Panel (February 2011) to outline progress although work relating to Standing Issue 39 and DCP 054 continues.

BSC Auditor's Issue Documents

In addition to this Statement we will be reporting to ELEXON, through individual BSC Auditor's Issue Documents ('BSCAIDs'), further control issues identified through our work, together with their implications and any relevant recommendations. BSCAIDs will be distributed by ELEXON to the organisations to which they relate. The table below summarises the number of BSCAIDs arising from our work performed for the year ended 31 March 2011.

Summary of BSC Auditor's Issue Documents outstanding as at 31 March 2011

	31 March 2010	New	Rectified in period	Closed	31 March 2011
Central Settlement Systems (including MIDPs)	8	5	-	2	11
Suppliers	33	5	2	12	24
NHHDC Supplier Agents	56	20	1	30	45
NHHDA Supplier Agents	2	1	-	1	2
SMRA	1	3	-	-	4
HHDC Supplier Agents	12	9	-	9	12
HHDA Supplier Agents	2	-	-	2	-
CVA and SVA Meter Operator Agents	48	29	2	27	48
LDSO	12	2	-	4	10
UMSO	10	4	1	3	10
Market issues	17	2	-	6	13
ELEXON issues	1	-	-	1	-
Meter Administrator	9	4	-	4	9
Total	211	84	6	101	188

Appendix I: Glossary of terms

Acronyms used in this document have the following meanings (as defined in the Balancing & Settlement Code), unless otherwise stated.

Acronym	Definition	Acronym	Definition
AA	Annualised Advance	MTD	Meter Technical Details
Approach	BSC Auditor's Audit Approach for the year ending 31 March 2011	MOA	Meter Operator Agent
Audit period	Year ending 31 March 2011	NHH	Non half hourly
BM	Balancing Mechanism	NHHDA	Non Half Hourly Data Aggregation
BMU	Balancing Mechanism Unit	NHHDC	Non Half Hourly Data Collection
BSC	Balancing & Settlement Code	NHHMO	Non Half Hourly Meter Operator
BSCCo	Balancing & Settlement Code Company	PECU	Photo Electric Cell Unit
BSCP	Balancing & Settlement Code Procedure	PAB	Performance Assurance Board
Code	Balancing & Settlement Code	Panel	BSC Panel
CoP	Code of Practice	PSL	Party Service Line
CVA	Central Volume Allocation	RPBU	Revenue Protection Business Unit
EAC	Estimated Annual Consumption	RF	Final Reconciliation Settlement Run
ELEXON	ELEXON Limited	SSM	Statement of significant matters
FAA	Funds Administration Agent	SEAE	Suppliers Energy Allocation Error
GSP	Grid Supply Point	Statement	Statement of significant matters
HHDA	Half Hourly Data Aggregation	SMRS	Supplier Meter Registration Service
HHDC	Half Hourly Data Collection	SVA	Supplier Volume Allocation
HHMO	Half Hourly Meter Operator	SVAA	Supplier Volume Allocation Agent
LDSO	Local Distribution System Operator	TAA	Technical Assurance Agent
MA	Meter Administrator	TDC	Trading Disputes Committee
MSID	Meter System Identifier	UMS	Unmetered Supplies
MDD	Market Domain Data	UMSO	Unmetered Supplies Operator

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