



Mid-Year Business Update 2012

This update has been written to provide a review of ELEXON's activities over the past 6 months. It includes highlights of our operational activities, a summary of performance against this year's Business Plan and Budget and details of cost savings we've made this financial year.

Delivering and improving BSC services Delivering the BSC is at the heart of what we do. Read about some of our key operational achievements this year, and how we've been delivering our mission and working towards our vision.

Supporting industry evolution This year we've continued to prove ourselves as trusted expert advisors to industry, the government and regulator. Read about the work we're doing to make the BSC arrangements robust and fit for purpose in a world of smart metering, European-driven developments and Electricity Market Reform.

Seeing things through our customers' eyes We're constantly trying to improve our understanding of our customers and their needs. Read about how we're doing this, and see some highlights from one of our best sets of customer survey results ever.

Budget update: Costs reduced by £2.4 million Mid-way through the financial year we've been able to reassess the assumptions and cost estimates that we use to construct our budget. This year, through reductions in Demand Led activities and continual efficiencies and contractor savings, our full year outturn is being forecast at £2.4million below our original budget. The result: a reduction in costs for BSC Parties.



November 2012

This year's mid-year update marks my third as Chief Executive of ELEXON. When I joined ELEXON in November 2009, my observation was that I found a competent organisation, particularly in managing core business, but one that tended to be a little passive around the more strategic issues facing the industry, and therefore not fully achieving its potential. So much has changed since then. ELEXON is now an organisation that focuses on ensuring operational excellence in delivering the Balancing and Settlement arrangements, whilst also exhibiting a healthy level of curiosity for what's going on in the world around us. And we're curious for very good reason: so that we understand the changes going on in our industry, so we can support our customers through those changes and so we can develop our BSC Services to ensure that they're robust for the future.

This is a formula that was put in place in our 2010/11 Business Strategy. And it's a formula that works. For the past three years we've been doing more for less, we've been achieving our best customer survey results ever, and we're recognised as a resource for guidance, advice and expertise.

ELEXON is on the cusp of being able to deliver value to the industry on an unprecedented scale. Whilst this update reflects on some of our operational achievements, I also hope that it will whet the appetite by serving as a reminder of the type of service improvements we'll be even better positioned to deliver in years to come for the benefit of the industry, the government, the regulator and, ultimately, the consumer.

Delivering and improving BSC services

ELEXON's mission firmly places the BSC at the core of everything we do: 'To deliver the BSC effectively, efficiently and economically, to the benefit of our customers'. We strive to continually improve BSC services whilst driving efficiencies and savings, and ensuring that our customers' experience is the best it can be. The examples below are a small sample of our successes in delivering BSC Services and improvements introduced so far this year:

- We've continued to ensure the safe operation of the BSC by reviewing and updating key parameters and managing operational issues to reflect both current and future market conditions.
- We've actively managed defaulting Parties to minimise financial impacts on the rest of the industry.
- Our regular analysis of transmission losses has identified and corrected metering errors worth over £750k.

ELEXON's mission:

To deliver the BSC effectively, efficiently and economically, to the benefit of our customers.

ELEXON's vision:

To be a leader in the efficient transformation of energy markets by providing shared solutions to common industry problems.



- The November 2011, February 2012 and June 2012 Releases were issued to time and budget with no material defects.
- We've helped ensure the accuracy of Settlement by creating over 700 Unmetered Supplies (UMS) Charge Codes.
- We've reviewed our quality management and information security policies. We've passed the initial phase of ISO27001 certification and are working towards full certification over the coming months.
- We have listened to feedback from customers and taken steps to improve their experience of Settlement Risks and compliance. We've made it easier for customers to understand the impact of their performance by publishing a new set of criteria for calculating Settlement Risk Ratings and improved the guidance material and advice on our website.
- In conjunction with Logica, we've reviewed our Service Desk service level agreements (SLAs). As a result, we've introduced housekeeping changes that will further align the BSC Service Desk with ITIL best practice, with more emphasis on the customer experience and improving the first line fix rate.
- We're reviewing and improving our guidance notes and creating more in response to customer requests for help on 'hot topics'.
- In the first half of this year, our team of Operational Support Managers made over 50 customer visits, helping us to improve relationships with our customers and understand the challenges they face. We've carried out over 15 tailored training sessions and provided introductory sessions to over 180 industry new-starters via our Introduction Seminars. We typically provide advice on over 50 external queries a week on all aspects of BSC Operations.
- We constantly work hard to ensure that we're achieving maximum value from all our contracts. Our commitment in this area has been formally acknowledged this year through achievement of CIPS (Chartered Institute of Purchasing & Supply) accreditation, and also recognised by our recent award of the prize for BPO (business process outsourcing) Contract of the Year at the National Outsourcing Association Awards.



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Supporting industry evolution

The pace of change in our industry is progressing at an increasing rate. We recognise the strain this places on our customers and want to use our expertise to support them through these changes. We take seriously our responsibility to ensure that the BSC arrangements are robust and fit for purpose, acting as an enabler of new technologies and ways of working. This year, we've continued to prove ourselves as trusted expert advisors to industry, the government and regulator whilst facilitating debate amongst key industry groups. We're proud of the 'impartial expert' label attributed to us by DECC.

Smart metering and Smarter markets

We've provided support to DECC's 'solutions centre' for its Smart Metering Implementation programme (SMIP), and supported cross-code work groups considering consequential changes to the BSC arising from the SMIP. We're supporting DECC and the SMIP on their Smart Metering business process modelling.

We're working with the BSC Panel to support Ofgem's Smarter Markets Electricity Settlement Reform Scoping Work.

We've been championing short and medium term Settlement issues through the Profiling and Settlement Review Group. Key achievements include developing a roadmap for the dynamic switching of smart meters and proposals for profile accuracy maintenance.

EMR

We've been encouraged by the government's statement in the draft proposals for EMR that 'CfD payments from suppliers to generators and vice versa will be facilitated by an agent settling payments...The government is minded that ELEXON, which is a well-established and trusted organisation that manages payments under the BSC, would be able to perform this role'. While we recognise that the government is assessing an alternative central counterparty model, we continue to believe that we can add value to whatever EMR settlement model is chosen.

European developments

In a busy period for European developments, we've been scanning the horizon for impacts on the BSC and assisting the industry by offering support, e.g. by identifying impacts on the BSC for our stakeholders (particularly from the European Network Codes), and offering a potential transparency platform for GB electricity reporting under REMIT.



For more information about our work on supporting market development and industry evolution, please contact any of our Strategy & Development Team

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Seeing things through our customers' eyes

We are always keen to engage more with our customers so that we can try to better understand their needs and priorities, and how we can provide BSC services they really value. As well as our regular face to face meetings with customers, committee members and new industry participants from across the industry, we seek formal feedback on our performance each year through an annual customer survey.

We're delighted with the results of this year's survey. We've maintained the high standards of feedback that we've received over the past two years, and – in some areas – made some significant improvements. Our customers' perception is that we understand them better; we're offering the right level of support and providing better value for money than ever before – this measure is now three times higher than when we conducted our first customer survey in 2003.

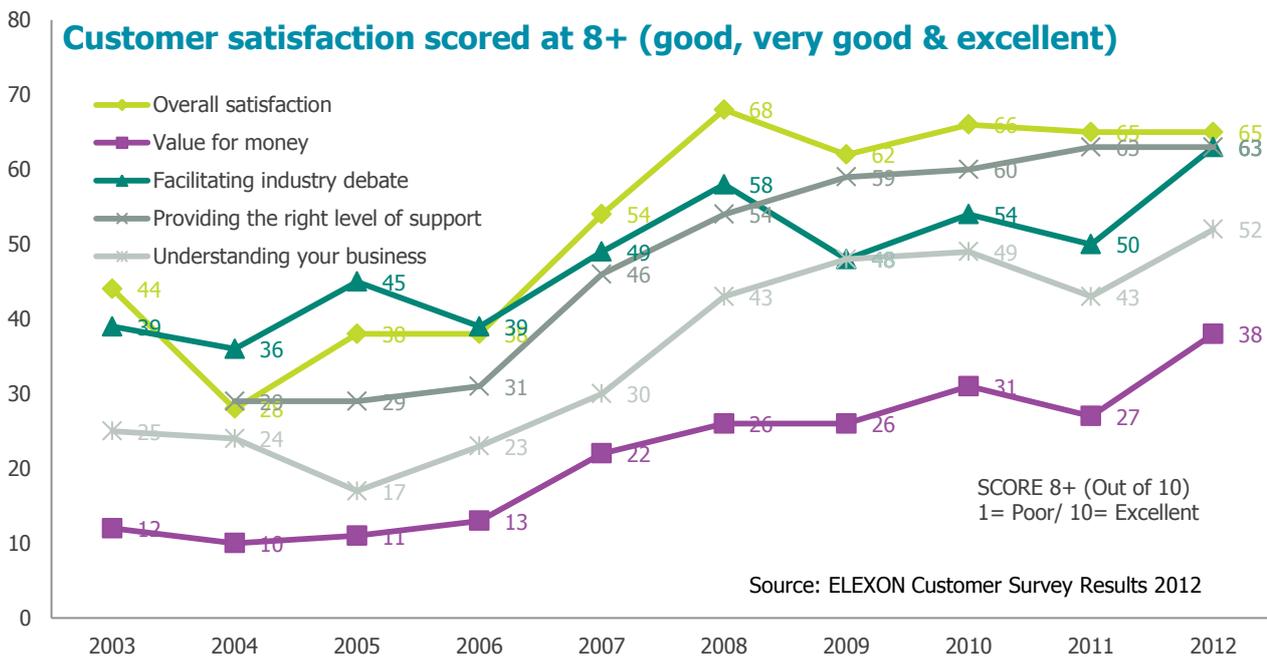


For more information about our services to customers, please contact:

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Customer Relationship & Insight Manager

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This is a fantastic set of results, but we recognise that there is always scope for improvement, particularly in areas where our customers have told us we're falling short:

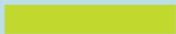
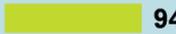
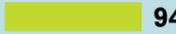
- There's still room to improve our website navigation and search facilities – we're working on this.
- We're taking steps to tighten the quality of our written documents and guidance notes.



Our people: Our most important asset

Since joining the company, I've been a firm believer that ELEXON's key asset is its people. Feedback in this year's customer survey confirmed how much our customers value their expertise and knowledge. Their core skills and experience make ELEXON a key source of industry advice, training and education – whether through the BSC Service Desk, the Operational Support Managers, Introduction Seminars or tailored training sessions.

Impressions of ELEXON's people: Universal recognition of their quality

They genuinely want to talk to me		95%
They know what they are talking about		95%
They always follow up on my queries		94%
Meeting them is always worthwhile		94%

It's vital that we sustain and develop this expertise for the benefit of our customers, so we'll continue to invest in our staff to ensure that we maintain our position as expert advisor in the BSC and the wider energy market through the right balance of skills, knowledge and capability.

Budget update: Costs reduced by £2.4 million

ELEXON is committed to delivering the BSC efficiently, effectively and economically. Throughout the year, we closely monitor our expenditure and, where appropriate, revise our budget to ensure that any savings are fed directly back to BSC Parties through reduced monthly billing.

Now we're mid-way through the budget year, we're in a position to have a critical look at our assumptions and cost estimates, particularly around the variable and demand-driven elements of our 2012/13 budget.

Through a combination of refined budget assumptions and our continued efforts to drive cost savings and efficiencies across the business, our full year outturn is being forecast at around £2.4m (6.9%) below our original budget of £35.2m. As a consequence, BSC Parties will see a reduction in their costs for the remainder of the year.



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Chief Financial Officer

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Savings against budget have come from across a range of management decisions and changes in circumstance:

- A reduction in headcount for the first half of the year has driven savings of £412k in people costs.
- We've been actively controlling our overheads and driving savings in areas such as telephony, IT, insurance, legal and consultancy. Savings in these areas total £370k.
- Mid-way through the year, we've been able to evaluate potential modifications and changes in the pipeline and reduced our Demand Led full year forecast by £200k.
- We have an on-going obligation to manage the BSC Agents effectively and to maximise the value from our contractual relationships with BSC Agents. As a result of extending the BPO and BSC Audit contracts we've saved £369k.
- As more information has become available over the year, we've been able to refine our assumptions and reassess our budget and plans for Market Development and Governance & Vires work. This has allowed us to save £1m worth of costs in these areas.

Looking ahead

I'm excited to be part of an industry that's operating in an era of such momentous change, and I know this sentiment is shared by colleagues across the organisation. More than ever before, we're working towards our vision: 'To be a leader in the efficient transformation of energy markets by providing shared solutions to address common industry problems'. Just over a decade since its inception, ELEXON is on the cusp of a new stage in its life. While we remain committed, as ever, to delivering our core BSC work, we're poised to add more value, find more solutions and help our customers and the wider industry in more ways than ever before. This is a truly exciting prospect.

Peter Haigh, Chief Executive

November 2012



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Chief Executive

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