



BSCCo
Business Plan
2014/15

Welcome to the Balancing and Settlement Code Company (BSCCo) Business Strategy and Annual Budget for 2014/15. Part One is our Business Strategy describing our priorities and major activities, while Part Two is our Annual Budget.

01

Foreword

By Peter Haigh, Chief Executive

2013 was a significant year for us, characterised by change.

Against this backdrop, we delivered on a Business Plan that, once again, focused on robustly delivering Balancing and Settlement Code (BSC) services while ensuring that the BSC and the BSCCo can respond to emerging market developments. Alongside the day-to-day BSC operation, we've been proud of our role in providing our skills and expertise to the industry, Ofgem and the Department of Energy & Climate Change (DECC).

Our position as a trusted and independent organisation has been reinforced by DECC's appointment of us as the Settlement Agent for the Contract for Difference (CfD) and Capacity Market (CM) regimes under its Electricity Market Reform (EMR) programme. This offers us a great opportunity to add value to the industry by applying our existing skills and expertise to areas above and beyond our traditional scope.

Internally, several senior Board level appointments have strengthened our capacities. As well as welcoming Michael Gibbons OBE as our new Chairman, we also have four new non-executive directors. Together they bring to our Board an excellent balance of industry and non-industry experience, combined with extensive commercial expertise. Meanwhile, positive changes at Executive level have seen Mark Couldrick appointed as Director of Operations and Chris Rowell as Director of Transformation Delivery.



So we're now looking forward to the challenges of the year ahead with great confidence. With the right people in place to ensure we deliver the core BSC services that our customers rely on, we also have renewed motivation and drive to make improvements, seek efficiencies and – wherever appropriate, and in consultation with our stakeholders – challenge the status quo.

While the industry around us continues to change at an unprecedented pace, we'll continue to work towards a BSC strategy that our customers will be familiar with. Our plan for the next 12 months remains focussed on delivering the core BSC services while also making the most of our expertise. Our unique position as a source of independent expertise at the centre of the energy market means we can help develop solutions to common industry problems.

And we're constantly looking ahead. That's why we've kept a close eye on European policy, while working with the industry to assess how our current settlement arrangements should evolve to meet future needs.

Our core mission remains to deliver the BSC effectively, efficiently and economically, to the benefit of our customers. And our vision remains: To be a leader in the efficient transformation of energy markets – by providing shared solutions to address common industry problems.

Of course, none of this would be possible without the specialist technical knowledge and know-how of my colleagues who continue to impress me with their expertise and aptitude. They bring clarity to our work, for the benefit of our users, the wider industry, government, the regulator and, ultimately, the consumer.

Michael Gibbons OBE, Chairman

Although still relatively new to my role as BSCCo and BSC Panel Chairman, it's abundantly clear to me that the next few years are going to be a period of significant change in the electricity industry, and there will be a need for us all to respond to these changes. It's also clear to me that I've joined an organisation that is capable, competent and one whose expertise the industry, quite rightly, values.



There's a lot to do, and I, my Board and ELEXON are excited by the prospect of what lies ahead.

Despite this, I hope that BSC Parties will be reassured by our promise to continue keeping delivery of the core BSC services at the very heart of our plan for the year ahead. Intentionally, the 2014/15 BSCCo Business Plan should have a relatively familiar feel to it.

I am very pleased to have been appointed to this role and look forward to meeting the people involved and helping to take up the challenges facing the Panel and the Board.



02

Review of 2013/14 Business Strategy

Our 2013/14 Business Strategy was largely a continuation of the previous year’s progress. We aimed to maintain our expert delivery of the core BSC Services, while ensuring we fully understood the impacts of market developments on the BSC and played an active part in industry debate around future changes. This enabled us to update our medium/long-term plans for the future of settlement, help contribute solutions to system and process changes, and ensure the BSC remains fit for purpose during wider market changes.

For the past 12 months, we’ve continued to focus activities around our five strategic priorities:

- Actively managing and continually improving BSC services to ensure efficient, effective and economic delivery
- Driving efficiencies and savings in our operational business
- Improving the customer experience and developing better customer relationships
- Developing our services and adapting our business to address industry challenges
- Investing in our people for the benefit of the industry

We consistently strive to achieve these priorities which have supported our mission to deliver the BSC effectively, efficiently and economically, to the benefit of our customers. And we’ll continue to do so in the year ahead.

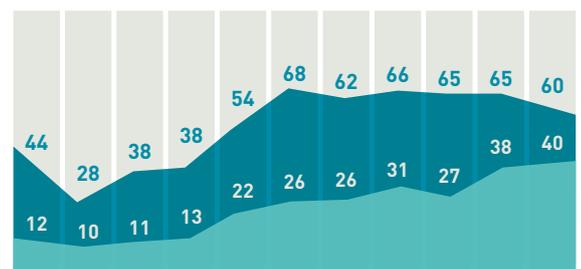
Driving efficiencies and savings in our operation of the BSC

We’re always aware that all our BSC activities are funded by BSC Parties. That’s why we’re committed to ensuring we achieve maximum value from all our contracts. This year, we’ve made some substantial savings to our contracted costs through a mix of regular review of services provided and on-going challenge to our service providers to more significant overhauls during contract renewals and re-procurements. For example, the re-procurement of the Operational Audit and Supplier Volume Allocation (SVA) Qualification service has resulted in 13.75% savings compared to the previous contract cost. The re-negotiated service will also bring additional benefits to our customers through numerous innovative service improvements and a new focus on highlighting the root cause of failures.

Throughout the year, we’ve closely monitored our expenditure and, where appropriate, revised our forecast to ensure that savings are directly fed back to BSC Parties through reduced monthly billing. At the time of going to press (December 2013), our full annual out-turn for 2013/14 is forecast at £6.9m (18.6%) below our anticipated budget. That means forthcoming reduced costs for BSC Parties.

We take our responsibility to operate ‘efficiently, effectively and economically’ very seriously. So we continually strive to deliver more, for less money. Those efforts have been rewarded by recognition from our customers. In fact, this year’s annual survey results (below) show that **more customers than ever before perceive us as offering excellent value for money**. We’ll do our utmost to maintain this impressive rating over the next 12 months.

OVERALL SATISFACTION AND VALUE FOR MONEY RATING



2003 2004 2005 2006 2007 2008 2009 2010 2011 2012 2013
 Percentage of customers scoring 8–10 out of 10 (where 1 = poor; 10 = excellent)

Overall satisfaction (%) Value for money (%)

Source: ELEXON customer survey, 2013

Actively managing and continually improving BSC services to ensure efficient, effective and economic delivery

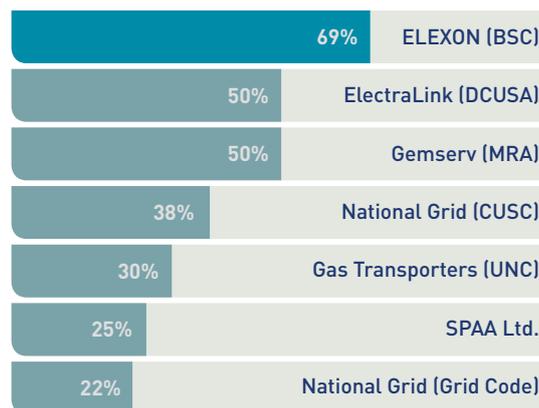
Delivering the BSC and its core services and maintaining a set of arrangements that are fit for purpose drives all our activities. After all, it’s vital that our customers have confidence in the core BSC systems, the BSC services we provide and those that BSC agents provide on our behalf.

Working closely with the industry, we’ve undertaken a number of reviews and implemented subsequent improvements. For example, the Profiling and Settlement Review Group made a series of recommendations to address and improve the accuracy of settlement as we manage the transition to a smart metered world.

Several significant Trading Disputes put the disputes process under the spotlight this year. Responding to feedback from customers, we reviewed the disputes process and other related processes (such as the mechanisms for escalating parties to the Performance Assurance Board). This important review led to several key improvements, particularly around our approach to communicating the details and financial impact of trading disputes to affected parties.

We constantly review our processes and monitor performance against comprehensive key performance indicators by publishing monthly reports to the Panel. In addition, we assess our performance formally through our annual customer survey. This year’s results clearly demonstrate the strength of customer perception in our services. In fact, it is significantly greater than perceptions of services provided by other code/agreement administrators.

COMPARATIVE RATING OF CODE AND AGREEMENT MANAGEMENT



Percentage of customers rating service as 8–10 out of 10 (where 1 = poor; 10 = excellent)

Source: ELEXON customer survey, 2013

Improving the customer experience and developing richer customer relationships

We continually strive to understand what our customers expect from us – and to deliver a service that exceeds those expectations. That’s why we’ve taken steps to do more of the things our customers really value. For example, we’ve increased the number of Introductory Seminars held each year, in response to sell-out sessions and consistently positive feedback.

With customers equally positive about our Operational Support Manager (OSM) service, we’ve recruited additional team members (with existing industry experience) to ensure all customers have access to an informed, knowledgeable OSM.

We’ve also actively engaged with our customers at a more senior level. Mark Couldrick, our Director of Operations, has met with several senior customer contacts to discuss our operational strategy, as has Mark Bygraves, Director of Strategy and Development, to discuss the impact of the Significant Code Review, Electricity Market Reform (EMR) and smart metering. We plan to continue with this programme of engagement over the next 12 months, and beyond.

Our annual customer survey offers a formal assessment of our customers' perceptions of our performance. We're proud to report that the results of this year's survey show that we've maintained the high standards of customer feedback achieved last year. Nevertheless, we're always looking to improve further. Customers have told us that whilst they have seen improvements made to the ELEXON website, further improvements are needed, particularly search capability and general navigation. So we're gathering usage data to identify what improvements we need to make to the website over the next 12 months. It's one of our main priorities for the forthcoming year.

Developing our services and adapting our business to address industry challenges

Last year, we made a commitment to remain vigilant regarding industry change. We applied our knowledge and expertise to several areas to provide advice and guidance, while developing a deep and informed understanding of issues impacting the BSC.

It's increasingly apparent that developments in Europe will impact the BSC, particularly as finalisation of European Network Codes draw closer. These European Network Codes (especially the Capacity Allocation and Congestion Management (CACM) and the Electricity Balancing Network Codes (EBNC)) take precedence over national codes and arrangements and have the potential for significant impact on our services. Over the past 12 months, we've actively monitored and responded to consultations in Europe to fully understand potential impacts on the BSC, providing feedback based on our experience of administering the BSC arrangements. We've also worked with the industry to use existing BSC data and processes to develop a workable solution to the Regulation on Wholesale Energy Markets Integrity and Transparency (REMIT) reporting requirements. Not to mention becoming associate members of Energy UK to ensure we take part in debates on European developments more effectively and efficiently.



Smart metering has continued to be a key issue for the wider industry, and ourselves specifically. Although the bid for the Data Communications Company (DCC) licensing competition had to be withdrawn, we firmly believe that our participation in the bid process enhanced the quality and competitiveness of the process – by contributing to early discussions which shaped the DCC role and ultimately providing DECC with a benchmark of technical solutions and pricing, all of which has benefitted both the industry and consumers. We learned much from our participation and are utilising this resulting knowledge and expertise.

We've also started making the changes needed to the BSC and its systems and processes to implement aspects of the Government's EMR programme, where we are to become the Settlement Agent for CfD and Capacity Market. We've acted as an independent, expert advisor to DECC, and provided guidance to BSC Parties on how the payments under the CfD and CM schemes will operate. However, BSC Parties should be aware that all costs associated with implementing these arrangements are funded initially by a grant from DECC and ultimately by Suppliers under the enduring EMR regime.



Investing in our people for the benefit of the industry

Our people are at the absolute heart of the service we provide to our customers and stakeholders, who repeatedly tell us how much they value the expertise and knowledge our colleagues bring. Their core skills as experts in settlement and the BSC arrangements make them a key source of independent industry advice, training and education. This includes regular engagement with OSMs, the BSC Service Desk, our written guidance notes, introductory seminars and tailored training sessions.

It's important that we maintain and develop this level of expertise among colleagues. So investing in our people remains a key priority for us. This includes continuing to promote learning and development, with activities ranging from lunchtime, expert-led workshops on specific areas of the industry to externally-delivered mentoring and management training. We've also launched a graduate programme to keep a continuous flow of high calibre talent entering our organisation. Adopting this dual approach means we get the best of both worlds: motivated graduates that want to learn and individuals with wider commercial experience.

PERCEPTIONS OF ELEXON'S PEOPLE



Source: ELEXON customer survey, 2013

03

Our Strategic Priorities for 2014/15

Since 2011/12, our Business Strategy has been founded on our mission and vision. We've made good progress against both the mission and vision, but there's still more to achieve to ensure they remain fit for purpose. During 2014/15, we'll continue working towards the mission and vision – so the overall strategy will be consistency:



Most important, we must ensure that we deliver excellence in the governance and operation of the Balancing and Settlement arrangements.

To fulfil our mission, we'll:

- 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 operation of the BSC
- Improve the customer experience and develop richer customer relationships

To pursue our vision, we'll:

- Develop BSC services to address industry challenges

To support both the mission and vision, we'll:

- Invest in our people for the benefit of our industry

Looking ahead: Achieving our key objectives

Let us explain more about our five strategic priorities – and the ways we'll proactively pursue and achieve them.

PRIORITY 1

Actively manage, and continually improve, BSC services to ensure that we deliver in an efficient, effective and economic way.

PRIORITY 2

Drive efficiencies and savings in our operation of the BSC.

PRIORITY 3

Improve the customer experience and develop richer customer relationships.

PRIORITY 4

Develop BSC services to address industry challenges.

PRIORITY 5

Invest in our people for the benefit of the industry.

Priority 1 – Actively manage, and continually improve, BSC services to ensure that we deliver in an efficient, effective and economic way

Our overall focus and main priority continues to be the delivery of robust, effective BSC services. As custodian of the BSC, we also have a duty to support the Panel and Panel Committees in delivering their obligations on behalf of the wider industry. So we'll continue to work with them providing assistance and analysis to fulfil their responsibilities.

HOW WE'LL DO IT

By ensuring the ongoing integrity of the BSC.

By identifying and implementing improvements to the end-to-end operational delivery of the BSC.

By seeking appropriate opportunities to in-/out-source or retire functions to ensure we provide the right levels of service at the right cost.

Our aim is to deliver a service that exceeds our customers' expectations and makes their interactions with the BSC as straightforward as possible. Alongside this, we want to provide value for money by continually looking for innovative ways of delivering our obligations and the BSC systems and processes at a lower cost.

Perhaps most important, we want to continue our commitment to identify opportunities that improve our delivery of the BSC, its systems, processes and services to make our customers' interactions with the BSC easier.

BSC Systems Strategy – Business Process Reporting

In addition to managing the out-sourced delivery of the core settlement service, we directly provide a range of data analysis, reporting and performance assurance services to the industry. These services are currently supported by a series of discrete internal applications, which were developed over time as needs were identified.

Data from these applications supports ELEXON, BSC Parties and the BSC Panel and Committees in discharging various BSC obligations.

In the 2013/14 Business Plan we set out a proposal to replace these ageing and diverse applications with a modern coherent application suite. By this means we sought to negate the growing concerns around robustness of the current arrangements, whilst delivering more flexible reporting arrangements and achieving lower operational costs.

We committed to listening to the needs of our users and during 2013/14 we have worked closely with BSC Parties to more fully understand their needs, whilst internally we have further assessed the status of the existing applications, the available technologies and how best to deliver the desired improvements. This work has allowed us to identify which applications should be prioritised and has concluded in the adoption of a phased approach.

As we write this strategy we have launched a procurement for a partner organisation, with the intention of starting our redevelopment work in early 2014. The initial phase will be a pilot focused on a set of the key business processes. While the net effect of reviewing our approach has been to defer work and hence costs, it has ensured that going forward we are targeting the areas that are most valued by BSC Parties and of most concern to BSCCo operators.

We continue to seek replacement of the entire existing suite of applications and intend to integrate this with the changes to the BSC central systems, which we are scoping as part of our wider Transformation Programme (see priority 2 below). Progression through the various phases will be supported by on-going assessment of the need, benefits and cost and dependent on on-going support from the BSCCo Board.



Improving data services to BSC Parties

We'll continue looking for opportunities where our data services can be improved and innovated. We recognise that we're the custodians of large tranches of BSC Parties' data, so we'll continue to work with them to explore how to make their data more comprehensible and accessible. Where a common need is identified we will work with BSC Parties to understand their needs and identify cost-effective delivery options.

We'll also continue to prepare our data for new obligations that arise from market developments – for example European changes and developments that arise from the roll-out of smart metering. We've already identified an approach for using BSC data platforms in a solution to meet the transparency regulations introduced under REMIT, and anticipate there may be additional opportunities to use our existing data reporting functions as a more holistic 'data hub' or to act as a reporting agent to the Agency for the Cooperation of Energy Regulators (ACER). This is something on which we would like to engage with BSC Parties during the next 12 months.

Similarly, we recognise that smart metering will introduce a host of opportunities for improving the accuracy of settlement and the speed of processes. Through the Profiling and Settlement Review Group, we've been working with the industry to grapple with these issues and identify a longer term plan for improvements to settlement. This work has already been well received by BSC Parties, so we intend to progress this further in the coming year.

Support to Ofgem's Significant Code Review

In 2012, Ofgem launched a Significant Code Review looking at 'Electricity Balancing'. Throughout the review we provided support and guidance to Ofgem. At the time of writing, Ofgem is consulting with the industry on its recommended changes arising from the review. That means there'll inevitably be impact on the BSC, and a need to develop, assess and implement changes in line with Ofgem's recommendations. During 2014/15 we'll continue providing support to Ofgem and maintain a focus on implementing final solutions that are efficient, effective and economical.

BSC Panel election

The BSC requires that Panel Members are appointed for a term of two years and that Industry Panel Members are elected under rules set out in the BSC. Existing Panel Members' terms of office come to an end on 30 September 2014. We'll administer the BSC Panel Elections (April-October 2014) and engage with the industry in the lead up to the election and put in place mechanisms to help BSC Parties take part in this important process, to determine the industry Panel Members for the next two years.

Priority 2 – Drive efficiencies and savings in the operation of the BSC

We want to create additional value for our customers by driving down costs whilst also improving and enhancing the services we provide. Our most recent customer survey shows that our customers' perception of our value for money is higher than ever. Over the next 12 months and beyond we want to maintain and improve on this performance. So we're committed to continuously seeking ways of improving services, and implementing improvements or developments that can be justified by a robust business case.

HOW WE'LL DO IT

By promoting controlled financial management.

By delivering innovation through partnership with our service providers.

By securing best value from our commercial relationships.

Our contracted expenditure on the BSC agents and other contracted service providers form a significant bulk of the costs of delivering the BSC arrangements. These are usually fixed costs, but since New Electricity Trading Arrangements (NETA) Go-Live we have consistently driven costs down each year; achieving savings through renegotiation of contracts and active agent management. This year, we've included £12m in our budget for contracted costs – that's £1.5m less than we projected in the 2013/14 budget, and £16.5m less than 2005/06. We'll continue the practice of regularly reviewing all our contracts to ensure that we're achieving maximum value from contractual relationships, procuring the right services, and identifying and implementing potential service improvements.

BSC Systems Strategy – Business Process Outsourcing (BPO)

Our 2013/14 strategy outlined how we would start to evolve the BSC Central Systems to address current issues and establish capability to meet ever evolving industry needs. While the current systems have served the industry well, their architecture is rooted in the last century and they are becoming increasingly difficult and expensive to maintain and develop, and the risk of failure is increasing. When this is coupled with processes that frequently reflect historic paper-based exchanges and authorisations, and reporting that offers limited insight into participant's data and market position, we believe that transformation is required.

This belief is reinforced when we consider the high level of change which may be required of the central settlement systems in light of the rapidly evolving industry arrangements. The current systems are complex and bespoke and have limited ability to respond to anything other than incremental changes. Transformation offers the opportunity to make the systems and their architecture responsive and capable of meeting the continually evolving nature of energy markets.

Mirroring the work we have done in Business Process Reporting (see Priority 1) we have used 2013/14 to explore the exact status of the current arrangements, to investigate different operating models and delivery technologies and to gain more insight into the needs of BSC Parties. We shall be presenting these findings to the ELEXON Board in early 2014 and thereafter seeking any required changes to the agent services prescribed in the BSC and initiating the required procurements.

Our preliminary assessment has enabled the early identification of the priority areas. Prime of these is the Balancing Mechanism and Reporting Service (BMRS) which, whilst challenged to support growing data demands, is increasingly seen as a viable central industry data platform. Faced with substantial investment to support some new reports in 2014, we have explored how these changes could be delivered and concluded that we should implement a new platform via our existing agent structure. During 2014/15 we similarly intend to investigate the systems and operating model for the funds transfer and payments arrangements.

We plan to procure providers to transform and operate the central settlement systems. We have established provisions in the budget and will seek ELEXON Board agreement for release of these funds when required.

We remain committed to ensuring that the BSC processes are aligned to the services that the BSC Parties require and will continue to work with BSC Parties to ensure that any changes we make are grounded in their specific needs.

Priority 3 – Improve the customer experience and develop richer customer relationships

Our customer base is diverse, including large vertically-integrated companies, small suppliers and generators, traders, National Grid, distribution network operators, regulatory and government agencies and consumer bodies. This year's customer survey told us that we need to improve our empathy for the individual needs of our customers and be more aware of the impact of the BSC on their systems, processes and businesses. To maintain our role as a trusted independent body, we recognise that we must make improvements to our customer interactions, particularly at a more strategic level.

HOW WE'LL DO IT

By actively managing stakeholder relationships, with a focus on improving our engagement on strategic issues.

By taking steps to better understand our individual customers' needs, expectations and requirements.

By responding to specific feedback received in the 2013 customer survey.

Customer relationships and the OSM service

Our customers repeatedly tell us how much they value the OSM service. That's why we'll continue to invest in our OSM service to ensure that its quality is maintained, and to ensure consistency of knowledge throughout the entire OSM team.



While the OSM service is a well-regarded method for engaging on a day-to-day basis with our operational contacts, our customers have told us that it doesn't enable meaningful interaction at a more strategic level. So we recognise the benefit of our senior team engaging more frequently with their counterparts in our customers' businesses – and we'll ensure a managed programme of senior level stakeholder engagement takes place throughout the year.

Sharing our knowledge and expertise

We're proud that our customers regard us as a key source of independent industry advice, training and education – whether through the BSC Service Desk, introduction seminars or tailored education sessions. So we'll continue to provide these events throughout 2014/15: advertising the events widely and, wherever possible, travelling further afield and providing virtual alternatives such as webinars and teleconferencing. By doing this, we want to reach the broadest range of BSC Parties possible to take advantage of our training and education services.

Facilitating debate

Our customers have told us that they value the role we play in facilitating industry debate. Over the 2014/15 period we'll continue providing opportunities for strategic engagement and inclusive debate with our customers and stakeholders, including BSC Parties, Government and regulatory bodies. Our aim is to get a better understanding of common industry problems, contribute to solving them, and gain more focussed feedback on our plans and strategy.

We'll also continue to host and participate in industry events, giving stakeholders the opportunity to share views and ideas on what's important to the industry, as well as contributing to the debate with our own knowledge. This will allow us to remain at the forefront of industry change, both supporting its development and evolution, and helping implement solutions in areas that directly impact or interact with the BSC. We'll also investigate the feasibility and demand for making Panel meetings more accessible using technology solutions such as webcasting.

Website improvements

We recognise that for many of our customers, our websites are one of the main ways of interacting with us. Customers use the websites to access key documents and guidance notes, sign up for training and events and keep track of industry meetings. That's why we've made some key improvements (for example, enhancing the quality of guidance notes and the clarity of information on vital subject areas such as releases). However, the 2013 survey gave us a clear message that there is still more to be done. So we'll focus on improving the search facility and review the home page content and structure to make navigation more intuitive.

Priority 4 – Develop BSC services to address industry challenges

We find ourselves, once again, in an industry characterised by unprecedented levels of change. Smart metering, European developments, market reforms and the glare of the political spotlight mean that our industry is rapidly changing and developing. So we must ensure we're fully aware of these changes, that we can contribute to the thinking behind them (where appropriate) and, most important, we must ensure the BSC reflects change, is robust to change and doesn't obstruct industry change.

We've supported the BSC Panel and wider industry in anticipating potential change and responding where we identify issues that are relevant to the BSC, or may affect the smooth operation of the BSC arrangements. Our customers have told us they value this proactive approach - so we'll continue to undertake it. We're proud of our role as a trusted and impartial industry advisor so we'll recognise the need to focus on the interests of the industry, facilitate debate and ensure absolute transparency in our reasons, arguments and recommendations.

HOW WE'LL DO IT

By continuing to engage with industry, the government and regulatory bodies.

By anticipating likely impacts of industry developments, reviews and technological advances.

By assessing the impacts on the BSC arising from industry change, both near and long term.

By contributing to the development of solutions and changes arising from industry transformation.

By ensuring we maintain and develop a roadmap of changes to the BSC from current and future market developments.

Support to Ofgem's Future Trading Arrangements work

Following Ofgem's consultation with industry in February 2013, it has established a Future Trading Arrangements Forum. The group is considering the principles underpinning the GB trading arrangements to support the transition of the GB market to a secure, low carbon, affordable market integrated with the wider European market.

That will create significant interaction and impact on the BSC arrangements as work progresses to address some of the challenges that the trading arrangements will face to remain fit for purpose and adapt to the changes triggered by Government policy, EU reforms and market trends. So we expect to play a key role in this - by supporting the group, contributing to industry-wide discussions, providing support during the development of solutions and implementing subsequent changes.

Smart meters

As the smart programme moves into its implementation phase, we'll continue to ensure we understand the impact of the smart arrangements on the BSC, and make any necessary changes to the BSC systems and processes to accommodate smart metering. We've already developed several changes, but we anticipate further changes will emerge as the programme progresses.

Smarter markets

Smarter markets is a significant project, incorporating settlement reform, change of supplier and demand-side response. We'll need to contribute to all three of these work areas. As we wait for Ofgem's consultations and conclusions on all three workstreams, we anticipate they'll all require changes to the BSC to be developed, assessed and, ultimately, implemented.

Smart grids

As the industry considers the impact on the distribution networks through increased use of electricity and the need to accommodate distributed and intermittent generation, discussion on smart grids remains a key area of interest. As innovative smart grid technology and solutions are introduced, there could be significant consequential impacts on the BSC arrangements and BSC Parties.

Over the next 12 months, we'll keep updated on changes in this field and assess potential impacts on the BSC arrangements. We'll also monitor forums, review their outputs and offer appropriate and relevant guidance.

European developments

European developments with the potential for significant impact on the current trading arrangements continue. In 2014, the European Network Codes (especially the CACM and EBNC Codes) will be further developed and the GB market will need to assess what their implementation will mean for our arrangements, as these European Codes take precedence over our national codes and arrangements.

We'll continue to anticipate any possible impacts on the BSC. And we plan to continue providing regular updates to the BSC Panel on the implications of European developments.

In addition, we'll consult closely with GB stakeholders to ensure that impacts and issues associated with the CACM and EBNC are fully understood. Implementation will begin in 2015, so we'll ensure that we're aware of any potential changes, costs and impacts on the BSC.

BSC governance review

Discussions on our governance model have been taking place in various forums since 2010. Most recently, the BSCCo Board and BSC Panel jointly commissioned an independent review of BSC governance. This review (the Knight Report, published in July 2013) assessed our current governance with regard to the confines of the BSC, particularly in the light of discussions over recent years in relation to changes to BSCCo's vires. It was set up to identify how the BSCCo Board, ELEXON and Panel processes and working practices align with principles of good governance in a period of rapid evolution in the industry and whether they can deal effectively with any conflicts or divergence of stakeholder interest such that the industry, regulator, consumers and other stakeholders have confidence in the operation and conduct of the Panel, the BSCCo Board and ELEXON. The report has been presented to the BSC Panel and BSCCo Board, who considered its findings and agreed that it should be made available to BSC Parties. It has also been shared with Ofgem. Since then, Ofgem has responded via an open letter urging the BSCCo Board to work with the industry to develop options to address the report's recommendations and signalling that our governance should change.

While acknowledging the significant amount of time that the industry has spent since 2010 debating our governance model, we believe the Knight Report identifies several areas where our governance could be improved. That's why we intend to facilitate discussion between the BSC Panel, BSCCo Board and wider industry, building on the issues raised, to consider the Knight Report recommendations.

Electricity Market Reform (EMR) programme

Throughout 2014/15, we'll prepare for our roles as the Settlement Agent for the CfD and CM regimes under DECC's EMR programme. This will involve drafting and implementing changes to the BSC documentation and processes, as well as engaging with BSC Parties so that they understand how they'll be affected. All these costs will be covered by the DECC grant.

Priority 5 – Invest in our people for the benefit of the industry

Our most important asset is our people. It's a belief not only acknowledged by our management team – but also by our customers. Our customer survey results consistently show that we're regarded as expert and professional. We're proud that both DECC and Ofgem regularly request our advice on the detailed workings of the market arrangements and place great store in our 'independent expert' status. In addition, many overseas regulatory bodies also seek our guidance.

HOW WE'LL DO IT

By retaining existing staff

By recruiting new talent

By helping staff to develop their skills

We want to maintain our leading position as an expert in our field. So we must maintain the right balance of skills, capability and knowledge to deliver the standards of service our customers expect. To achieve this, our robust strategy will help us retain our existing expertise while recruiting and training talented new colleagues.

We'll invest in our colleagues and develop their skills through individual, job-specific training, coaching and mentoring as well as corporate training initiatives and regular lunchtime training sessions provided by subject matter experts. We'll also continue to foster and encourage staff engagement, largely through our Corporate and Social Responsibility programme.

Last year, we used some new and innovative methods to recruit more talent into our organisation – which is a process we'll build on during 2014/15. By combining traditional recruitment techniques with social media messaging and our new 'people' pages on our website, we've recruited more efficiently and cost-effectively.

Of course, we'll also continue with our annual staff survey. It provides us with valuable feedback and suggestions that we use to develop our approach to staff engagement and to retain our position as an employer of choice. We'll also assess staff policies to ensure they remain relevant and effective. Not to mention assessing salary reviews to ensure that our remuneration packages are comparable with the rest of the industry.

Above all, we're committed to investing sufficient time and resources in our people to ensure that our expertise and knowledge continues to benefit the industry. It's at the heart of everything we do.

Tracking our own progress

We recognise the importance of measuring and reporting on our performance. So we use performance indicators to focus on the following aspects:

- Customer perception of our value for money (customer survey)
- Customer satisfaction across a wide range of service attributes (customer survey)
- Contracted costs
- Operational costs
- Cost and speed of change to BSC systems
- Comparison with other industry organisations

We publish this data in different formats, including monthly reports to the BSC Panel, our quarterly and annual reports and specific publications around our customer survey results.

Key performance indicators to support the Code Administrators' Code of Practice requirements are published in the monthly Change Report submitted to the BSC Panel.

This section details the budgeted costs for 2014/15 in support of our strategy. Please note that the budget is for BSC activity only, excluding any EMR work, relating to CfD and CM, both of which are covered by a DECC grant.

04

The Budget

ELEXON is a not for profit entity, funded by electricity market participants. We are cost neutral; we do not carry any reserves or retained capital, and any underspend against budget is always returned to Parties. In light of this, budgeting for uncertainties in advance of any new financial

year, with no other access to working capital, requires careful consideration. We need to address contingencies mindful of this constraint, while also endeavouring to set challenging financial targets for the business, which ensure we deliver the best possible value for money to the industry.

TABLE 1: BUDGET SUMMARY*

Item	Year to March 2014 Forecast £m	Year to March 2014 Budget £m	Year to March 2015 Budget £m	Variance to 2014 Budget £m	Variance to 2014 Budget %	Year to March 2016 Projection £m	Year to March 2017 Projection £m
ELEXON Operational	15.4	16.2	16.7	(0.5)	(3.1)	17.1	17.6
Contracted Costs	12.9	13.5	11.9	1.6	11.9	12.3	13.4
Subtotal	28.3	29.7	28.6	1.1	3.7	29.3	31.0
Demand Led Costs	0.6	2.8	2.5	0.3	10.7	1.6	1.6
Total Regular Activity	28.9	32.4	31.1	1.3	4.0	30.9	32.6
System Strategy	0.3	2.4	3.2	(0.8)	(33.3)	3.2	2.0
Market Development	0.8	2.0	2.0	-	-	2.0	2.0
OVERALL TOTAL	30.0	36.8	36.3	0.5	1.4	36.1	36.6

* It should be noted that we started the budget process in October, so the comparison for the full year outturn for 2013/14 is based on the September 2013 forecast.

We have sub-totalled operational and contracted costs in Table 1 opposite, as these are the areas of spend where management has the most discretion. When compared with the 2013/14 forecast, next year's budget shows a modest increase of £0.3m (1.1%). However, we accept that when looking at operational costs alone, and ignoring the savings we have successfully driven out of our contracted services, we are proposing an increase of £1.3m (8.4%). Of this increase, £0.4m (4.2%) relates to employment costs as a result of two main cost drivers, which have had equal impact in monetary terms. Firstly, in 2013/14 we have been operating at below our budgeted headcount for parts of the year, which we have found is not sustainable, and we are therefore resourcing the business to the appropriate level in advance of the coming year. We therefore expect next year's average headcount to be higher. Secondly, in advance of the outcome of the latest actuarial valuation of the defined benefit pension scheme, we have made a prudent estimate of the potential increase this may bring. The remaining £0.9m increase in operational costs covers business overheads; some of this relating to contingent items, the rest to known increases or business changes that are planned for the coming year. All of these, along with changes to our employee assumptions are explained further in this document.

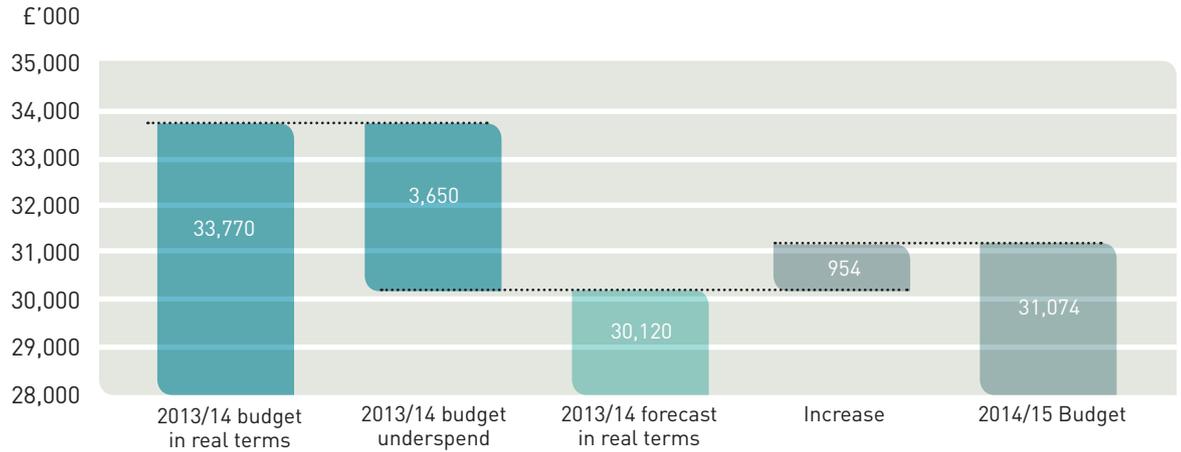
Demand-Led costs are, by their very nature, driven by industry. The control we have is in ensuring that change is delivered in the most cost-effective and efficient manner. These costs are therefore an estimate of the expected cost of change to the BSC for the coming year with some contingency for the, as yet, unknown. The variability of this area of our budget means that current year activity and spend is not a meaningful indicator for future costs.



Finally, below what we have termed 'Regular Activity', we have included budgets for the provision of System Strategy and Market Development work. As with Demand-Led activity, we have recognised the uncertainty that exists in these areas and made prudent estimates for the coming year, which are also ring-fenced. The rationale and specifics relating to these are also explained further in this document.

The budget for total regular ELEXON activity shows an increase of £2.2m (7.6%) against the forecast for 2013/14, and a reduction of £1.3m (4.0%) against the current year's budget. If we apply 4.1% RPI to the regular activity in the forecast and budget for 2013/14, an increase of £1m (3.3%) against the 2013/14 forecast and real terms savings of £2.7m (8.0%) against the 2013/14 budget can be seen. This is demonstrated in chart 1.

CHART 1: COSTS OF ELEXON REGULAR ACTIVITY: 2013/14 BUDGET AND FORECAST (IN 2014/15 MONEY) VS 2014/15 BUDGET



Furthermore, Chart 2 below details the total costs of ELEXON regular activity since NETA Go-live in 2001/02 in real terms (in 2014/15 money after

applying April RPI of each year) and shows our continued success in driving efficiencies throughout the business year-on-year.

CHART 2: COSTS OF ELEXON REGULAR ACTIVITY SINCE NETA GO-LIVE (EXCLUDING NETA COSTS)



ELEXON operational

The costs for ELEXON Operational are further detailed in Table 2.

TABLE 2: ELEXON OPERATIONAL

Item	Year to March 2014 Forecast £'000	Year to March 2014 Budget £'000	Year to March 2015 Budget £'000	Variance to 2014 Budget £'000	Variance to 2014 Budget %	Year to March 2016 Projection £'000	Year to March 2017 Projection £'000
People Costs	9,895	9,911	10,309	(397)	(4.0)	10,620	11,018
Other Operational Overheads	5,499	6,239	6,348	(109)	(1.7)	6,464	6,621
Operational Total	15,394	16,150	16,657	(507)	(3.1)	17,084	17,639

People (Employee and Contractor) Costs

TABLE 3: ELEXON PEOPLE COSTS AND HEADCOUNT

Item	Year to March 2014 Forecast £'000	Year to March 2014 Budget £'000	Year to March 2015 Budget £'000	Variance to 2014 Budget £'000	Variance to 2014 Budget %	Year to March 2016 Projection £'000	Year to March 2017 Projection £'000
Employee Costs	9,092	9,448	10,222	(774)	(8.5)	10,605	11,003
Contractors	803	463	87	376	46.9	15	15
Total People Costs	9,895	9,911	10,309	(397)	(4.0)	10,620	11,018
Average Employee Headcount	111.9	121.6	128.4	(6.8)	(6.1)	126.6	124.5
Average Contractor Headcount	6.8	4.3	1.0	3.3	48.5	0.5	0.5
Average Total Headcount	118.7	125.9	129.4	(3.5)	(2.9)	127.1	125.0
Employee Costs per Head	81	78	80	(2)	(2.4)	84	88
Contractor Costs per Head	118	108	87	21	17.5	30	30
People Costs per Head	83	79	80	(1)	(1.1)	84	88

Over the past four years we've sought to transform the organisation, to ensure that it is fit for purpose and best positioned to deliver on our mission and vision. As a consequence we've reduced headcount from around 145 in 2009/10. This has been achieved through actively restructuring areas of the business, as well as challenging the immediate need to recruit when vacancies arise.

In the past two years our sector has been particularly buoyant, and as a consequence, similar to that in 2012/13, we experienced an increase in staff turnover at the end of the last and the beginning of this financial year. To address the challenge of attracting talent to the organisation, the Executive approved the introduction of a Graduate Scheme to recruit four graduates for an initial term of two years from October 2013.

Excluding the four graduate roles, the budget for 2014/15 of 125.4, again based on FTEs, is at the same level as the budget set for the current year, and significantly below the levels seen prior to 2009/10. We believe this to be the optimum size, in order to ensure the efficient and effective delivery of our obligations and strategy, in the most cost-effective way.

Taking the above material changes into consideration it can be seen that compared to the enduring costs of £9,911k identified in the 2013/14 budget, the 2014/15 budget has increased marginally by £185k, or 1.9%. The 2013/14 forecast outturn is currently expected to be £9,895k. The increase in cost for 2014/15 is only 2.0%, or £201k, above the 2013/14 forecast.

We actively manage resources within the organisation so that we are able to continue to meet our obligations. We do this through continuously benchmarking and assessing the appropriateness of our reward strategy. We are mindful of our need to manage and mitigate, where possible, operational risk whilst continuing to deliver value for money to our customers. We have budgeted based on known headcount and salaries by function, all of which have been kept static for the entire year.



We conduct an annual review each July, and if considered appropriate, and following agreement of our Board, uplift salaries from that date. Full consideration is taken of indexation as well as conditions and trends in our sector, as well as the wider economy before any proposal is made. We also periodically incentivise employees by recognising a number of significant contributions in the year through the award of ex-gratia bonuses. To allow for all of these potential costs, and in recognition that recruiting staff to fill vacancies created through natural turnover, will sometimes require a modest uplift in salary, we have included an amount of £325k in the 2014/15 budget.

We only use contractors where we have a short-term need, or it is considered more cost-effective for the organisation. We endeavour to replace contractors with permanent employees once we have identified that the requirement is an enduring one. We continue to take this approach, and as a consequence the budget demonstrates a reduction of £715k on contractors against the 2013/14 forecast.

The material changes in the remainder of our operational costs (our overheads) can be categorised as follows:

■ **Contingent items (£300k)**

To meet the unexpected costs related to ad-hoc legal or consultancy advice, as well as maternity cover.

■ Business changes (£500k)

- Staff welfare – in last year's staff survey and the follow-up focus group discussions, it was identified that our staff value highly our employee related health benefits. We therefore conducted an exercise to explore the appropriateness of the benefits we offer in this area, looking at our sector as well as the wider business environment. We looked specifically at two areas identified by the focus group: gym membership subsidy, which we currently offer but has not been uplifted in over 5 years, and an employee dental plan, which is not currently part of the benefits package. As a result of this exercise, we have increased the former and introduced the later. We now believe our employee benefits package to not only be appropriate, but also an important contributor in attracting and retaining talent. This, coupled with an increase in headcount and a higher participation rate, has given rise to the increase in next year's welfare budget.
- We've identified a number of innovation initiatives which we feel will drive further efficiencies in the business. In support of these, we've included a project budget of £350k, which is consistent with the current year's budget. The capital expenditure requirement related to each initiative and the replacement of our Building Management System, the air conditioning units in the server and communications room equates to £250k (the depreciation of which is included in our operational overheads section). We continue to ensure that all initiatives are supported by robust business cases, which need to demonstrate economic and/or efficiency benefits, before any funding is released.

■ Inflationary increases (£100k)

- The current Rating list from Camden Council is effective from 1 April 2010 until 31 March 2015. An inflation uplift on our base liability has given rise to an increase of £36k.
- Last August we successfully negotiated to keep the rent at the current level for the next five years until August 2017.
- Our electricity contract is negotiated by our landlord on behalf of all tenants. The current fixed price contract comes to an end in September 2014. We anticipate the price of the new contract will go up but our energy saving initiatives should off-set the price increase. Therefore, we've budgeted a similar level as that of current year.
- We have been informed by the site management team that the worst case increase for next year will be 20% (£75k) as they seek to make provision for the replacement of the fire alarm panel, the replacement of heating system boilers and a 7 year sinking fund for the refurbishment of the lifts.

Contracted costs

TABLE 4: CONTRACTED COSTS

Item	Year to March 2014 Forecast £m	Year to March 2014 Budget £m	Year to March 2015 Budget £m	Variance to 2014 Budget £m	Variance to 2014 Budget %	Year to March 2016 Projection £m	Year to March 2017 Projection £m
Contracted Costs	12.9	13.5	11.9	1.6	11.9	12.3	13.4

Contracted expenditure relates to the cost of our BSC Agents (e.g. Central Registration Agent (CRA), Funds Administration Agent (FAA), etc.) and contracted service providers (e.g. for Profiling, Qualification Services etc.). These are the main costs we incur in delivering the BSC arrangements and are predominantly fixed costs. Our procurement strategy seeks to deliver better terms and lower costs as contracts fall due for re-procurement.

The successful negotiation to bring costs down through the re-procurement of Operational Audit and SVA Qualifications in 2013/14 is one good example. Where there is a contractual obligation, we have increased Contracted costs in line with relevant indices.

The budget for contracted costs demonstrates further year-on-year savings, particularly in relation to the BPO contract and the application management element of the Application Management and Development (AMD) contract.

Following is the detailed analysis of major variances

- The BPO contract includes an amortisation of the transition costs incurred by the service provider over the original five year term. This charge has come to an end in 2013/14. In the two-year extension period from April 2014 to March 2016, we won't incur this charge, which has given rise to a saving of £970k in the 2014/15 budget compared to the 2013/14 budget and forecast.
- We have seen a saving of £43k in the fixed element of the AMD contract in comparison to the current year forecast.
- No major technical upgrade is required for 2014/15, we have therefore only budgeted £100k, a substantial reduction of £373k from the 2013/14 forecast.
- The cost of Data Transfer Service (DTS) is driven by two variable elements; namely volume and unit price. The unit price will come down by 10% in January 2014 when the service provider passes on the savings from their re-procurement. However, we anticipate the volume will increase by 10% due to the number of new entrants to the market. We've therefore set the budget at a similar level to the 2013/14 forecast.
- Similarly, Qualification is a variable cost and is driven by the number of suppliers entering the market. Based on our knowledge of organisations who are in the process of applying to enter the market, as well as those who've expressed interest in participating, we expect this demand to be 10% higher than the current year forecast but a lower level than that was budgeted for 2013/14.
- As a result of our successful re-procurement of the contract in 2013/14, we will see a saving of £211k on the Operational Audit next year compared to the 2013/14 forecast, or about £400k saving compared to our normal annual costs of £1.5m under the old contract.
- The Performance Assurance Board has requested an increase in the Technical Assurance sample size of the Central Volume Allocation (CVA) metering systems in the next four years. This has given rise to an annual increase of £25k.

- The Application Management and Development contract of the BSC central systems will expire in March 2015 while the Business Process Operation contract of the BSC central systems will expire in March 2016. For budgeting purposes, we have assumed re-procurement costs of £816k for contractor backfill, external specialist advice and due diligence support. Compared to the re-procurement costs incurred in 2013/14 for Operational Audit and SVA Qualification, the net increase on total contract re-procurement costs is £674k against the 2013/14 forecast.

Demand-led

Our budget is based on the following assumptions:

- The budget for BSC systems releases has been set at £1,650k, a £900k increase compared to the 2013/14 budget. The costs of the current potential scope of the three Releases in 2014/15 stand at circa £1.1m. Whilst we do not expect any further changes to be added to the scope of these releases, we have added a modest contingency of £50k. We have also included a provision of £0.5m for potential impact of the Significant Code Review on the BSC System, particularly the impact around unspecified reporting changes (e.g. BMRS etc).



- As part of our commitment to continue our strategic thinking around how we deliver services, we have been exploring the possibility of delivering our BPO services using more modern, leaner system architecture. We believe that this would allow us to significantly reduce the risk of system failure, and deliver change in a more flexible and cost-effective way, as well as future proofing BPO systems by replacing aging technology. We therefore have set the BSC Systems Strategic Development budget at the same level as current year budget.
- We've set the budget for impact assessment of modification proposals and change proposals at £202k, similar to current year.
- In line with current year, we have budgeted £100k to cover additions to our cost base resulting from actions requested by Panel Committees. This is to ensure that the approach we take is in line with other demand-driven activity and to enable an agile approach to demand.

TABLE 5: DEMAND-LED

Item	Year to March 2014 Forecast £m	Year to March 2014 Budget £m	Year to March 2015 Budget £m	Variance to 2014 Budget £m	Variance to 2014 Budget %	Year to March 2016 Projection £m	Year to March 2017 Projection £m
Demand Led Costs	0.6	2.8	2.5	0.3	10.7	1.6	1.6

System strategy

TABLE 6: SYSTEM STRATEGY

Item	Year to March 2014 Forecast £m	Year to March 2014 Budget £m	Year to March 2015 Budget £m	Variance to 2014 Budget £m	Variance to 2014 Budget %	Year to March 2016 Projection £m	Year to March 2017 Projection £m
System Strategy	0.3	2.4	3.2	(0.8)	(33.3)	3.2	2.0

Business Process and Reporting

Strategic Priority 1 of the 2013/14 Business Plan included replacing the set of bespoke internal applications that we have developed over time to support reporting and market analysis. These applications are operated by ELEXON and are used to support BSC Parties, the BSC Panel and ELEXON in delivering their BSC obligations and understanding market trends.

The objective for the project was to deliver a reporting suite that is:

- easier to use and more accessible to BSC Parties;
- adaptable to evolving user needs
- easier and less costly to change
- more robust – with less manual interventions required and employing a modern platform.

Recognising the size of the investment required, we committed to reviewing the business case as the project progresses. As part of this work we have done further analysis to assess the 'health' of the individual reporting elements, evaluate different implementation options and confirm the needs of the system users, including the BSC Parties.

As a result of this work we have concluded that 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 that will look at specific key business processes. It will establish the chosen solution, and deliver early benefits of new reporting services in key areas that have limited functional scope. The initial implementation will also enable us to understand the technical and data management challenges that we need to overcome.

The second phase of this work will deliver enhanced reporting capabilities for customers, giving them secure access to and the ability to analyse their data. Two subsequent stages are planned and will result in the transformation of the entire suite and are targeted to provide a reporting template that can be extended to address reporting from the central BSC systems. Adopting a phased approach is a change to the implementation approach rather than a change to the overall project objective. We have commenced procuring the right partner organisation and intend to make this appointment in Q4 2013/14, thereafter we will start implementation.

In 2013/14, a budget of £2m was set aside for the delivery of the application strategy: the procurement and implementation of an entirely new reporting suite. As a result of changing to a phased approach and deferring the procurement whilst we reviewed the business drivers, the monies will not be spent in 2013/14. Instead the majority of this was returned in November 2013, as only limited amounts had been spent in scoping the work and running the procurement. £1.8m is now set aside in the 2014/15 budget to complete Phases one to three of the project. These costs will be refined during the course of the procurement and evolved as we progress the phases.

BPO Transformation

Strategic Priority 2 of the 2013/14 Business Plan outlined our strategic initiative, the BPO Transformation Programme. This was developed in response to customer feedback on our work preparing the Central Systems for future change. This initiative focuses on business processes and technology, to address a number of current risks and issues that will potentially impede the ability of the Central Systems to meet future needs of the industry. The strategic initiative also has the benefit of supporting the competitive procurement for the BPO systems which is due to commence in 2014/15.

During 2013/14, we have progressed solutions and options for meeting the objectives of the BPO Transformation Programme. Our aim is to deliver efficient, effective and economical customer-centric services which will enable our customers to operate under the BSC in a simple and cost-effective manner using a paperless, fully web-enabled and tailored environment.



The first phase of this programme is expected to address key areas of BMRS and FAA and we will consult on these before the end of 2013/14. The projected investment will be £1.4m in 2014/15, £2.7m in 2015/16 and £2m in 2016/17, with total investment cost, as previously stated, budgeted at £20m.

As described in last year's business plan, the business case endorsed by the Board indicated a positive Net Present Value over the new contract life with operational and contract savings outweighing the total investment costs. This Business Plan does not include details of the business case or projected savings, to not to prejudice our commercial position prior to commencing the procurement. Our belief is that this programme will impact the cash flow position for BSC Parties in a favourable way.

A 'stage gate' governance approach has been adopted, whereby the Board's approval is required before any investment is undertaken. We further intend to engage and consult with stakeholders on priority areas and solutions before any investment recommendation, to ensure we take into account stakeholder's concerns and dependencies.

Market developments

TABLE 7: MARKET DEVELOPMENT

Item	Year to March 2014 Forecast £m	Year to March 2014 Budget £m	Year to March 2015 Budget £m	Variance to 2014 Budget £m	Variance to 2014 Budget %	Year to March 2016 Projection £m	Year to March 2017 Projection £m
Market Development	0.8	2.0	2.0	-	-	2.0	2.0



The energy industry continues to be subject to substantial change, driven by improvements in technology and European and GB policy. ELEXON needs to ensure the BSC arrangements and our services meet the future needs of the wholesale and retail energy markets and act as an enabler to new technologies, processes and ways of working.

Market Development continues to assess major European and GB policy for settlement impact, as well as scanning the horizon for emerging changes. Our work comprises the Smart agenda of Smart Metering, Smarter Markets and Smart Grids, as well as other initiatives and impacts arising from GB policy, industry reviews and Europe (EMR is addressed separately in the Business Plan). These activities are necessary but are a draw on our existing highly experienced personnel who are budgeted for in Operational Costs.

We have set a budget of £2m which should deal with any requirement for backfill of existing resources deployed on Market Development activities. In addition, funds may be required for undertaking impact assessments or other non-BSC expert advice (e.g. legal advice for Board/Panel).

One of the major areas is the post Knight Report governance review activity. In 2013, 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 looked at ELEXON's governance with regard to the confines of the BSC, particularly in the light of discussions over recent years in relation to changes to BSCCo's vires. The report, setting out Bill Knight's findings and making recommendations for change, was published in July 2013. The Board and Panel have acknowledged that the report proposes some areas of radical change. During 2014/15 the Board and the Panel will continue to assess the implications of the proposals, and work with Ofgem, National Grid and BSC Parties to ensure that the governance structures of ELEXON, the BSCCo Board and Panel continue to be workable and fit for purpose. It is likely that any resulting changes to ELEXON's constitution, its governance or vires that are founded on this work will be taken forward during 2014/15. We have therefore made a provision of about £600k in the budget for external legal support and/or consultancy that the Board or Panel may seek in both assessing potential changes and implementing amendments to ELEXON's constitution, its governance or vires.

A list of other known initiatives that could impact upon the BSC is set out below. In addition there will inevitably be further initiatives, not yet known, that will also potentially impact the BSC and will require monitoring and assessment. In keeping with our approach for previous years, an indicative cost has been attributed to each but is not to be interpreted as an authorisation to spend nor as individual sub-budgets.

Area	Description and Activity	Budget
Smart Meter Programme – consequential amendments	<p>The Smart programme is moving into implementation phase. We have identified and progressed change to align existing processes with the Smart arrangements but we anticipate further changes to emerge as the finer details are developed.</p> <p>We will continue to work with industry and DECC to identify and progress change. This includes participation with DECC working groups.</p>	£200-£300k
Smarter Markets: Settlement Reform	<p>In Q4 2013, Ofgem will consult on those areas it believes are suitable for Settlement Reform.</p> <p>It is expected that we will need to progress further work on assessing or implementing potential changes during 2014/15. We may even be asked to lead on this work with industry.</p> <p>We previously budgeted for undertaking Settlement Reform during 2013/14, we are therefore making a similar provision for progressing and delivering reform.</p>	£300-£400k
Smarter Markets: Change of Supplier (CoS)	<p>Ofgem will consult in Q1 2014 on potential areas for reform arising from its work with industry on CoS. We have supported Ofgem in this work and have identified potential impacts for Settlement.</p> <p>Changes may need to be assessed and progressed during 2014/15 for which we have made a small provision.</p>	£50-100k
Smarter Markets: Demand Side Response	<p>Ofgem will shortly publish its conclusions as to whether it will undertake further work to enable a Demand Side Response market. We have noted in our response that we will need to account for Demand Side actions in Settlement. ELEXON may be required to assist in the development of any market solution to ensure the arrangements are robust.</p> <p>(This work may fall under Smarter Market or it the remit of one of the workstreams evaluating smart grid/demand side solutions).</p>	£50-100k
Ofgem Electricity Balancing Significant Code Review (SCR) implementation	<p>Ofgem is consulting on its recommended changes arising from its SCR.</p> <p>We will need to progress, assess and implement changes arising from SCR.</p>	Demand-Led
Ofgem Future Trading Arrangements work	<p>Ofgem is proposing to establish a number of workstreams in support of the FTA work, a number of which will need ELEXON to support discussions and solution development.</p>	Demand-Led
Smart Grids	<p>Innovative projects continue to drive the Smart Grid debate in GB. We find ourselves being canvassed for our views on the impacts for Settlement, Metering and Market arrangements.</p> <p>On occasion we are invited to contribute to smart grid innovation competitions. Subject to the Governance Review work, such activity may require a Modification to allow our participation.</p>	£100-200k

Area	Description and Activity	Budget
Europe: European Network Balancing Code (ENBC) & CACM Network Code	In 2014 the ENBC will be developed further and GB will need to continue to assess what its implementation will mean for our arrangements. In addition we will need to continue to monitor whether the CACM drafting on market splitting changes before the final version enters into force. ELEXON will engage in GB discussions to ensure impacts and issues are understood. Implementation will commence from 2015 and any potential changes and costs should become clearer during 2014/15 and following years.	£100- 200k
Europe: Requirement to report trades	Under REMIT obligations trades will need to be reported to ACER in the future. This will include Bid-Offers. ELEXON has not been requested to provide such reporting but a Modification may be raised, which would require us to be a reporting agent to ACER.	£50- 100k

Budget comparisons

Comparison of 2014/15 Annual Budget with 2013/14 Annual Budget

TABLE 8: COMPARISON OF 2014/15 BUDGET WITH 2013/14 BUDGET

Item	Year to Mar 2014 Budget £m	Year to Mar 2015 Budget £m	Difference £m	%
ELEXON Operational	16.2	16.7	(0.5)	(3.1)
Contracted costs	13.5	11.9	1.6	11.9
Subtotal	29.7	28.6	1.1	3.7
Demand-Led	2.8	2.5	0.3	28.6
Total Regular Activity	32.4	31.1	1.3	5.9
System Strategy	2.4	3.2	(0.8)	(33.3)
Market Development	2.0	2.0	-	-
Overall Total	36.8	36.3	0.5	1.4

Comparison of 2014/15 Annual Budget against estimate of 2013/14 outturn

TABLE 9: COMPARISON OF 2014/15 BUDGET AGAINST 2013/14 ESTIMATE OF OUTTURN

Item	Year to Mar 2014 Projection £m	Year to Mar 2015 Budget £m	Difference £m	%
ELEXON Operational	15.4	16.7	(1.3)	(8.4)
Contracted Costs	12.9	11.9	1.0	7.8
Subtotal	28.3	28.6	(0.3)	(1.1)
Demand-Led	0.6	2.5	(1.9)	(316.7)
Total Regular Activities	28.9	31.1	(2.2)	(7.6)
System Strategy	0.3	3.2	(2.9)	(966.7)
Market Development	0.8	2.0	(1.2)	(150.0)
Overall Total	30.0	36.3	(6.3)	(21.0)

Charging analysis

This section outlines how we expect to charge the budget to BSC Trading Parties. Table 10 contains charging proposals from Section D of the BSC. All of the charges presented in Table 10 exclude value added tax (VAT).

TABLE 10: SECTION D – CHARGING *

- Application fee of £500
- Membership fee of £250 per month
- CVA Metering System Monthly Charge of £50 per month. CVA BM Unit Monthly Charge (other than for Supplier BM Unit) of £100 per month (this charge is levied on each pair of BM units in the case of an exempt generator)
- For communication line and TIBCO charges, please refer to the ELEXON website
- Notified Volume Charge per Gross Contract MWh at a rate of £0.0006/MWh;
- For all Base SVA BM Units a charge of £100 per month
- SVA costs split:
 - 50% of costs are paid by generators on basis of metered energy volumes;
 - a fixed fee of £0.7 per SVA Half-Hourly (HH) Metering System per month;
 - remainder allocated on Suppliers Non-Half-Hourly (NHH) MWh market share.
- All remaining costs split on basis of metered energy volumes.

* These are based on the current charges and are consistent with last year's budget. They are subject to change following a periodic review approved by the Panel. Please refer to the BSC website for current rates.

Based on the information in Table 10 examples of charges to BSC Parties are provided.

First, the 2014/15 Annual Budget is set out in Table 11 below.

TABLE 11: SPLIT OF COSTS

Assumed Split of Costs			
	2013/14 Forecast	2013/14 Budget	2014/15 Budget
SVA Costs	4.0	4.8	4.1
Other Costs	26.0	32.0	32.2
Total	30.0	36.8	36.3

Second, various assumptions about the size of the market are made. These are presented in Table 12.

TABLE 12: MARKET ASSUMPTIONS

Market Assumptions	2013/14 Forecast	2013/14 Budget	2014/15 Budget
Number of Trading Parties	250	244	221
Sales - Notified Contract Volumes (TWh)	717	876	804
Purchases - Notified Contract Volumes (TWh)	717	876	804
Generation (TWh)	305	310	309
Supply (TWh)	298	305	303
NHH Supply (TWh)	175	179	179
HH Supply (TWh)	131	114	135
CVA BM Units	611	551	606
SVA Base BM Units	83	70	75
SVA Additional BM Units	2	5	3
Data Line	61	67	68
Comms Software (5 users)	24	26	27
CVA Metering Systems (MSIDs)	818	800	818
HH Supply (MSIDs)	127,644	119,560	124,139
PRS Supply (MSIDs)	30,634,560	29,684,921	29,749,578

Third, the charging regime from Section D of the BSC in Table 10 is then applied to costs in Table 11 based on the assumptions in Table 12. This gives the estimated charges (either specified charges or €/MWh fees) in Table 13.

TABLE 13: EXPECTED CHARGES

Market Assumptions	2013/14 Forecast	2013/14 Budget	2014/15 Budget
Specified Charges			
CVA BM Units (£/month)	100	100	100
SVA Base BM Units (£/month)	100	100	100
SVA Additional BM Units (£/month)	100	100	100
Data Line - estimated average (£/month)	700	700	700
Comms Software - average quad2 processor (£/month)	1,080	1,080	1,080
Comms Software {additional user} (£/month)	22	22	22
Contract Traded (£/MWh)	0.0006	0.0006	0.0006
CVA Metering Systems (£/month)	50	50	50
Base Monthly Charge (£/month)	250	250	250
SVA			
HH SVA Ops (£/msid/month)	0.70	0.70	0.70
NHH SVA Ops (£/NHH MWh)	0.005	0.008	0.006
Gen Energy SVA (£/MWh)	0.005	0.008	0.007
Main Charges			
Energy fee (£/MWh)	0.03761	0.04562	0.04630

TABLE 14: COST RECOVERY BY ITEM

Charge item	2013/14 Forecast		2013/14 Budget		2014/15 Budget	
	(£m)	% of total	(£m)	% of total	(£m)	% of total
Specified Charges						
CVA BM Units	0.7	2.3%	0.7	1.80%	0.7	2.0%
SVA Base BM Units	0.1	0.3%	0.1	0.20%	0.1	0.2%
SVA Additional BM Units	0.0	0.1%	-	0.00%	0.0	0.0%
Data Line	0.5	1.6%	0.6	1.50%	0.6	1.6%
Comms Software (total)	0.1	0.2%	0.4	1.10%	0.3	1.0%
Contract Traded	0.8	2.7%	1.1	2.90%	1.0	2.7%
CVA Metering Systems	0.5	1.5%	0.5	1.30%	0.5	1.4%
Membership Fee	0.7	2.3%	0.7	2.00%	0.7	1.8%
SVA						
HH SVA Ops (£/msid/month)	1.0	3.4%	1.0	2.70%	1.0	2.9%
NHH SVA Ops (£/NHH MWh)	1.0	3.3%	1.4	3.80%	1.0	2.7%
Gen Energy SVA (£/MWh)	2.0	6.7%	2.4	6.60%	2.0	5.6%
Main Charges						
Energy fee (£/MWh)	22.7	75.6%	28.1	76.10%	28.3	78.1%
Total	30.0	100.0%	36.8	100.00%	36.3	100.0%

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Questions

If you have any questions please contact Victoria at victoria.moxham@elexon.co.uk or 020 7380 4166.

Want to know more about or how to get involved with the BSC?

Visit us at www.elexon.co.uk or contact your Operational Support Manager.





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