



Department of Trade and Industry

**10 August 2000**

**ELEXON's Business Plan  
(Go Active to March 2003)  
V1.1**

**BSCCo's Business Strategy  
and Annual Budget**

This document has been produced in accordance with the terms set out in paper DISG 05/010 dated March 1 1999 and which is available from the Programme Director's Office.

FURTHER CAVEAT: The FAA costs are equivalent to those within the Pool Business Plan for provision of the PFA role. The actual costs will be included once the contractual negotiations with EPFAL are concluded.

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## Document Control and Acceptance Record

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A review schedule is provided in Appendix B.

## **ELEXON Business Plan (Go Active – 31 March 2000)**

### **1. Introduction**

This document presents the Business Strategy and Annual Budget for ELEXON from Go Active (date currently 14 August 2000) until March 2003 i.e. 8 months up to 31 March 2001 and for the following two financial years. An Executive Summary of the ELEXON Business Plan is contained in a separate paper. This final version of this document will be presented to the ELEXON Board for formal budget signoff soon after Go Active. The budgetary figures within this document will be used by ELEXON as the basis for operating the company<sup>1</sup>.

Chapter 2 outlines the ELEXON requirements captured within the Balancing and Settlement Code (BSC)<sup>2</sup>. Chapter 3 captures ELEXON's strategy in relation to delivering services to its clients. This chapter will be presented formally to the Panel soon after Go Active for official signoff. Within Chapter 4, the expected costs are described and further supporting information presented outlining the cost by activity. This chapter will be presented formally to the ELEXON Board soon after Go Active for official signoff.

Chapter 5 analyses these costs and then Chapter 6 outlines the charging mechanism used to recover costs from Trading Parties. Finally, Chapter 7 presents certain recommendations to the ELEXON Board followed by a number of Appendices providing supporting information.

This is the first company Business Strategy and Annual Budget and has not been produced by ELEXON directly; it has been prepared by the BtFO project – part of the NETA Programme - with significant input from the future ELEXON management team. In future years ELEXON, as part of its usual operation, will prepare the Business Strategy and Annual Budget document. Whilst the BSC specifies the key milestones for production of the ELEXON Business Strategy and Annual Budget, an outline of how this is expected to operate is set out in Appendix A for information.

The basis for charging the costs presented in this document and how ELEXON will control expenditure is set out in Section C and Section D of the BSC.

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<sup>1</sup> Under Section M4 of the BSC, ELEXON may pay amounts to certain Trading Parties in relation to services provided by service agents. Any such sums are treated outside the budgeted expenditure and will be reported separately.

<sup>2</sup> Within the BSC, ELEXON is referred to as BSCCo.

## **2. Background**

This chapter contains two sections. The first provides an overview of ELEXON's environment and the second considers ELEXON objectives.

### **2.1 Overview**

The overall purpose of ELEXON is to enable delivery of the requirements specified in the BSC to Ofgem, the BSC Panel, BSC Parties and the system operator (NGC). In essence ELEXON undertakes those tasks prescribed for it by the BSC and by the BSC Panel. Due to the decision-making structure for ELEXON and the BSC Panel, ELEXON operates with a relatively limited set of objectives; for example, it cannot branch out into new fields unless required to do so by a BSC modification or a BSC Panel decision. Similarly, it cannot decide not to do something that the BSC or BSC Panel says that it needs to do.

### **2.2 ELEXON Objectives**

To see the objectives of ELEXON in a correct context, it is necessary to consider them as part of a hierarchy of objectives flowing from the overall purposes of the BSC. This section is therefore structured to reflect this, beginning with the objectives of the BSC, as enshrined in NGC's licence and going on to consider subordinate objectives for ELEXON that are consistent with those higher level objectives and which are included in the BSC. Finally it presents objectives for ELEXON that would not be appropriate for inclusion in the BSC itself, but which are sensible for ELEXON.

The Business Strategy and Annual Budget presented in this document are consistent with these objectives, and are compliant with the BSC.

#### **2.2.1 ELEXON Objectives in NGC's Licence**

NGC's licence contains some substantial changes that are designed to aid the implementation of the new trading arrangements. Firstly, NGC is required to establish a BSC. The BSC has the following high level objectives:

- to enable NGC to discharge its relevant licence obligations in relation to balancing and settlement;
- to ensure the efficient, economic and co-ordinated operation of the transmission system;
- to promote competition in the generation, supply, sale and purchase of electricity; and
- to promote efficiency in the balancing and settlement arrangements prescribed in the BSC.

## 2.2.2 BSC Requirements on ELEXON

Section C of the BSC places a number of objectives on ELEXON. Below is a short summary of these objectives:

- to fulfil the provisions of the BSC insofar as they apply;
- to do so in such a way that no participant is caused to infringe the terms of its licence or any term of the Act;
- to do so economically and efficiently;
- to seek always to improve efficiency and cost effectiveness;
- to do so without undue discrimination; and
- to ensure transparency and openness in the conduct of its business.

The above objectives are felt to be appropriate at a high level and are in the public domain. Furthermore, the BSC modification process provides a mechanism to allow necessary changes to be made.

## 2.2.3 ELEXON's Objectives

In addition to the BSC requirements on ELEXON, ELEXON's management will apply the following operational objectives:

- to meet the objectives laid out in the BSC;
- to be seen as objective, impartial and authoritative by all interested parties;
- to deliver necessary change effectively and efficiently;
- to create an environment where all staff are able to achieve their potential; and
- to meet the performance requirements for the company specified in the Code and thereby avoid intervention by NGC.

### 3. Business Strategy

This chapter presents an outline of ELEXON's intended Business Strategy for consideration by the Panel. Section C of the BSC prescribes that the approval of an appropriate Business Strategy is a matter for the Panel. The Business Strategy is presented within this document so that an understanding of "*what ELEXON is doing*" can be compared with "*what ELEXON will spend*".

#### 3.1 Background

ELEXON is incorporated as a subsidiary of NGC. At Go Active (currently intended on or about 14 August 2000) the BSC will come into force. From Go Active, NGC relinquishes control of ELEXON as prescribed by the BSC and ELEXON assumes responsibility, both in relation to the run off of current operation of the present Pooling & Settlement Agreement (P&SA), and the introduction of the new trading arrangements. The responsibilities in relation to the P&SA will progressively cease from Go Live, the first day of real trading under the new arrangements, which is presently planned for 21 November 2000.

#### 3.2 Clients

There are a number of organisations that can be seen as clients (or stakeholders) of ELEXON - these include:

- **customers**, who have created much of the pressure to reform the wholesale electricity market;
- **Ofgem**, which has an important role relating to modifications and which generally oversees the new arrangements; initially Ofgem's role will also be to support the NETA Programme during implementation;
- **the BSC Panel**, which relies on ELEXON for a range of services;
- **BSC Trading Parties**, who pay the costs of ELEXON and who receive a range of services, some from ELEXON itself and others from ELEXON service providers;
- **prospective trading parties**, in terms of ELEXON providing information where requested on the operation of the trading arrangements and ensuring that no material barriers to entry exist;
- **NGC**, which provides a considerable volume of data to ELEXON, or more precisely to particular service providers, which owns the BSC, and is responsible for other related documents, such as the Grid Code; and
- **other system participants**, who may not be BSC Trading Parties, such as exempt generators.

ELEXON needs to have in place explicit arrangements to support its objectives to provide an open and transparent service to the interested parties highlighted above; this plan makes provision accordingly.

### 3.3 Key Drivers

ELEXON has a number of key drivers in relation to its overall strategy. These are discussed in more depth in the following sub-sections:

- Making the New Market Arrangements Work (Section 3.3.1);
- Delivering an Effective Modifications Process (Section 3.3.2);
- Ensuring the Successful Migration of Stage 2 to SVA (Section 3.3.3);
- Achieving Efficiency (Section 3.3.4); and
- Building a Successful Organisation (Section 3.3.5).

Additionally, Section 3.3.6 covers a number of issues likely to impact on ELEXON's activities within the initial period of its operation.

#### 3.3.1 Making the New Market Arrangements Work

The most important objective in the period prior to Go Live and during the early period of active trading is to make the market work. This plan recognises and accommodates this over-riding objective.

ELEXON will need to:

- provide support to Ofgem for the various trialling and testing procedures, such that Ofgem can decide that the new environment is ***“fit for purpose and meets specification”***;
- ensure that there is a clear plan, describing what ELEXON is expecting to do in the period from Go Active in relation to the implementation of the new arrangements (as well as support to the operation and decommissioning of Pool-based trading up to Go Live and beyond);
- implement schemes for the effective monitoring of the new trading arrangements, such that any early faults are identified and resolved as soon as possible. These schemes should include liaison with BSC Trading Parties to understand any specific or general problems that they face; and
- ensure that all tasks described by the Code are achieved efficiently.

#### 3.3.2 Delivering an Effective Modifications Process

A key element of the new arrangements will be a new modification process, with procedures established in the BSC, and a power of determination resting with the Regulator. The BSC Panel will be responsible for the modification process, but ELEXON will provide a range of services to ensure that the process works effectively. Given the BSC provision for the Regulator to require NGC to step in and progress a modification proposal that is not being processed satisfactorily, ELEXON will clearly need to ensure that this does not happen and that appropriate progress is always made on modifications.



In supporting the modification process, ELEXON is facing a “demand led” situation, in the sense that it has only limited control over the flow of modification proposals (limited rather than none, because ELEXON is able to bring to the BSC Panel's attention the need for modifications dealing with efficiency matters).

ELEXON will need both to plan for a particular level of modification activity, and to have in place arrangements, such as call off contracts with relevant consultants, if the actual level of activity is significantly different from that planned. In addition, ELEXON will also need to have effective reporting and control systems, so that it can track the status of any modification proposal and identify if and when any remedial action is necessary.

One difficulty is to determine the level of modification activity for planning purposes. In the early stages of live trading it is possible that there will be a significant volume of modification proposals to deal with, including:

- changes foreseen by the Programme but not implemented by Go Live due to time pressures;
- changes necessary to deal with problems identified in market testing and trialling, but not felt to need application of the emergency change procedures that apply between Go Active and Go Live;
- changes necessary to deal with problems experienced in the early days of live trading; and
- changes that participants feel would better achieve the objectives of the BSC.

This plan assumes that there will be a considerable amount of modification activity arising from such sources in the period after Go Live, and provides estimated resource accordingly. It should be noted that the total cost of modifications is driven not only by the volume of modifications raised, but also their nature as well as the interaction between approved modifications. Estimating an appropriate level of resource required is especially difficult for the first Business Plan, as although there are a number of likely modifications, there are no known modifications which will definitely be approved.

### **3.3.3 Ensuring the Successful Migration of Stage 2 to SVA**

A key part of making the new arrangements work will be the successful achievement of the migration of the Stage 2 processes to the new SVA environment. The steps necessary to ensure successful migration to SVA are already in hand. Migration to the SVA requires some material changes (e.g. introduction of BMUs, expansion of meter splitting etc.). Such changes will require careful monitoring until such time as they are bedded down.

Given the complexity of those processes, ELEXON will need to monitor their application, even if they appear to have been migrated successfully. To accommodate the NETA changes, all non-essential changes have been postponed. Once the market has re-stabilised it is likely that some of these deferred changes (particularly operational efficiency improvements) will and should be pursued.

### 3.3.4 Achieving Efficiency

As discussed elsewhere in this plan, it has to be recognised that ELEXON has only limited control in the short to medium term over the total costs paid by participants, because:

- most modifications costs are demand led, in that they will arise from proposals by participants;
- most contract costs will have been determined in negotiations with service providers, either for the new contracts that result from the replacement of the present Pool Stage 1 arrangements, or for those P&SA contracts with existing service providers, such as those for the SVA arrangements, that will be transferred to ELEXON; and
- there are a number of pre-determined administered costs relating to items such as those included within Schedule 22 of the P&SA (1998 Programme costs).

A key obligation for ELEXON, specified in the BSC, is to meet Ofgem, DTI and participants' requirements for an effective, efficient company, and to clearly demonstrate that their requirements are being met. It is suggested that this should be an ongoing goal for its Board and management. In the first year of operation, however, the prime emphasis must be (as discussed earlier) on getting the new arrangements working properly. Once the arrangements are working, the emphasis will shift to making sure they work as efficiently as possible. This plan assumes efficiency gains in future years.

Subject to the prime objective for ELEXON to make the market work, one of the key tasks for the ELEXON Board during the early period of operation will be to set challenging cost efficiency targets for:

- the "control total" budget (the operational costs of running ELEXON);
- the cost of implementing change; and
- the variable cost elements of service provider costs (usually service provider support additional the contracts).

The setting of appropriate cost efficiency targets, which is a key medium term activity, is a matter for the ELEXON Board. ELEXON will seek to demonstrate its commitment to minimising charges to Trading Parties by assessing and setting appropriate future cost efficiency targets by the end of the financial year 2000/1.

### 3.3.5 Building a Successful Organisation

A key element in determining the success of ELEXON will be its ability to attract and retain staff of the right calibre. Consequently, ELEXON has to manage itself as a 'people' business, treating its staff as assets that must be developed. The plan assumes that providing appropriate training, development and benefits to enable this to happen will be a key aim of ELEXON's management. Accordingly, the costs presented in Chapter 4 assume that there will be a level of personal development activity, consistent with ELEXON's aims. This will encourage staff to engage in appropriate training and ensure that the range of employee benefits

is consistent with the marketplace for staff of the calibre that ELEXON wishes to attract and retain.

### **3.3.6 The New Electricity Trading Arrangements (NETA)**

The change in electricity trading arrangements, due for implementation at Go Live, is a significant departure from the pre-existing arrangements under the Pool. The introduction of the new trading arrangements replaces the gross mandatory Pool with a system of direct bilateral deals between trading parties and a balancing mechanism to allow the system operator (NGC) to balance the physical electricity system.

One of the important tasks for ELEXON is to explain the new trading arrangements to:

- Trading Parties;
- potential Trading Parties; and
- any other interested parties, not necessarily with intentions to trade electricity.

This should not be considered to be a fundamental duty of ELEXON, however the effective communication of the nature of the new trading arrangements, especially to prospective new Trading Parties, should ensure that there is no barrier to entry as a result of lack of understanding. Additionally, effective communication will help the smooth introduction of the arrangements across the many industry bodies.

## 4. Costs

This chapter of the document provides an overview of ELEXON's costs that make up its Annual Budget. At this stage, the figures presented are the current best estimate, referred to as the "Base Case", and will be used as the basis for ELEXON invoicing to Trading Parties in advance. Additionally, Chapter 6 provides an example outlining how these charges will be allocated across Trading Parties.

Table 1 presents the overall budget for ELEXON, broken down across key cost areas, with further detail provided in separate sections. Given the transitional nature of some of the costs that ELEXON will incur during the early period of operation under the BSC, the costs are grouped by the degree of direct control by ELEXON. Figure 1 on the following page gives a graphical representation of where the costs and charging arrangements are likely to fall.

**Table 1 – Overall Annual Budget {Base Case}**

Section Ref	Item	Go Active to Go Live: £m	Go Live to 31 Mar 2001 £m	Go Active to 31 Mar 2001 £m	1 Apr 2001 to 31 Mar 2002 £m	1 Apr 2002 to 31 Mar 2003 £m
4.6	Pool Business Plan	21.13	-	21.13	-	-
4.1	ELEXON Operational	-	7.22	7.22	15.21	12.02
4.2	Demand Led	-	5.00	5.00	6.00	6.00
4.3	Contracted	-	16.98	16.98	34.45	30.97
4.4	NETA Funding	-	3.22	3.22	6.43	6.43
	<b>OVERALL TOTAL</b>	<b>21.13</b>	<b>32.42</b>	<b>53.54</b>	<b>62.09</b>	<b>55.42</b>
4.5	Administered	-	8.45	8.45	17.77	17.77

The costs detailed in Section 4.1, 4.2 and 4.3 are those that will be enduring, over which ELEXON will have differing levels of control. Section 4.1 covers the "ELEXON Operational" costs i.e. those over which ELEXON's management are able to exert significant control, such as salaries and consultancy costs. Costs in this area will vary depending on the decisions made by ELEXON and are those in which ELEXON should be able to make efficiency improvements. Section 4.2 covers the "Demand Led" costs i.e. those relating to the BSC Modification process. ELEXON's management will be able to exert little control over what modifications arise. However, ELEXON will have a clear obligation to minimise the costs of modifications by efficient management of projects and associated contracts. Section 4.3 covers the "Contracted" costs i.e. of a more certain and predictable nature based on various operational contracts that exist between ELEXON and its agents. ELEXON's management will have little control over some of these costs on a day to day basis but should be able to improve efficiency via contract re-negotiation and careful use of variable services from its agents. However, it should be noted that these contracts have been competitively procured in the first instance.

Section 4.4 covers the costs between Go Active and Go Live which will be in addition to those included in the 2001-3 Pool Business Plan. These costs are associated with the transition to the new trading arrangements and are charged to trading parties for 4½ years from Go Live onwards.

Section 4.5 includes the "Administered" costs that are collected by ELEXON as a central agent on behalf of the industry. These are not included within the

ELEXON Budget and will not appear in the ELEXON accounts as income and expenditure.

Finally, Section 4.6 includes the period between Go Active and Go Live, in which the costs are essentially those of running the Pool. This section outlines the appropriate costs currently presented in the 2001-3 Pool Business Plan for the relevant period, and will not appear within the Annual Budget for future years.

The cost division described within this chapter forms the basis for ELEXON's management accounting, with ELEXON reporting formally against these budgetary items to the Board and Trading Parties.

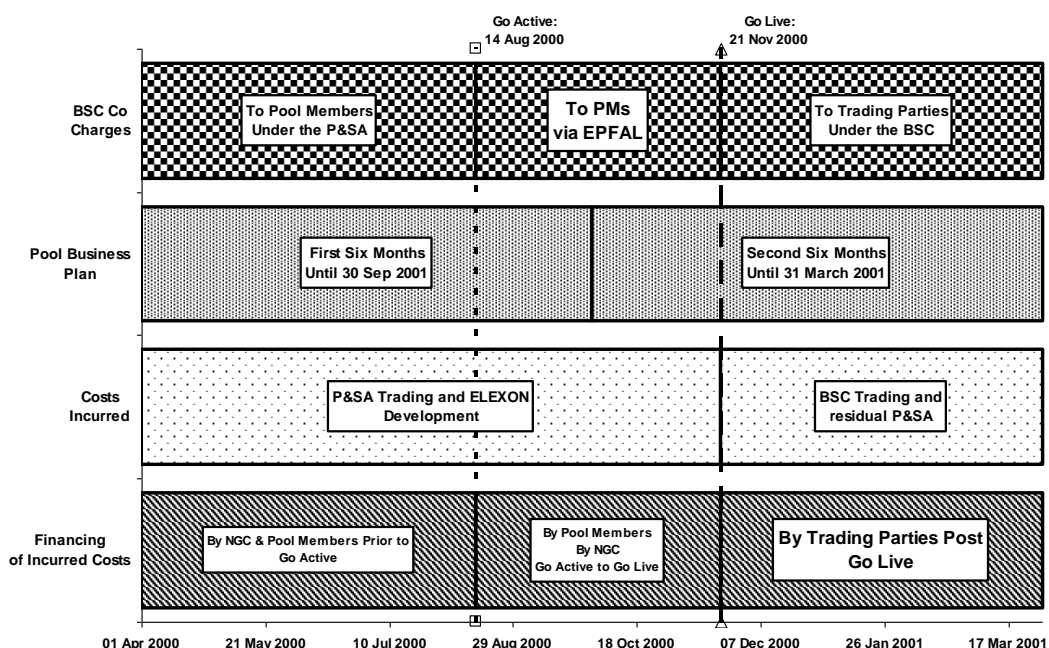
Within each section, there is an allowance made for contingency to be held by the ELEXON Board. Contingency will be released to individual ELEXON managers if such extra expenditure is justified to the ELEXON Board.

Throughout the rest of this chapter, figures are presented for the 3 periods covered by the business plan:

- (a) Go Live and 31 March 2001;
- (b) 1 April 2001 and 31 March 2002; and
- (c) 1 April 2002 and 31 March 2003.

The treatment of costs varies over time. These are displayed graphically in Figure 1, which shows how the charges for ELEXON to BSC Trading Parties will commence from Go Live. It shows how costs prior to Go Active are financed by Pool Members and NGC, and additional financing between Go Active and Go Live.

**Figure 1 – Treatment of Costs**



Figures presented are totals for each period and are the “base case” which is the best reasonable forecast of overall expenditure. The detailed monthly budget will

be updated following board approval of the Business Strategy and Annual Budget.

## 4.1 ELEXON Operational

This section covers the central ELEXON costs over which the ELEXON Board and Management Team will be able exert significant control. The costs presented within the section should be viewed as a “**control total**” against which one could measure the performance of ELEXON’s management.

Whilst it is envisaged that ELEXON should be able to make efficiency gains within this area, any such improvements are subject to two constraints:

- ELEXON management’s primary objective must be to make the new market arrangements work (as per Section 3.3.1); and
- the majority of ELEXON’s operational costs are fixed in the medium term and do not vary greatly with demand, for example the marginal cost relating to an additional BSC Trading Party is very low.

**Table 2 – ELEXON Operational Budget {Base Case}**

Section Ref	Item	Go Live to 31 Mar 2001 £m	1 Apr 2001 to 31 Mar 2002 £m	1 Apr 2002 to 31 Mar 2003 £m
4.1.1	ELEXON FTE Staff	1.72	4.63	5.25
4.1.2	ELEXON Overheads	0.90	3.27	3.49
4.1.3	Consultancy			
4.1.3.1	<i>ELEXON FTE Contract Staff</i>	1.04	0.96	-
4.1.3.2	<i>General Consultancy</i>	0.32	0.87	0.87
4.1.3.3	<i>SVA Transitional Support</i>	0.62	0.94	-
4.1.3.4	<i>NETA Transitional Support</i>	0.80	1.20	-
4.1.4	Legal Support	0.44	0.25	0.25
4.1.5	Procurement	-	0.50	-
4.1.6	ELEXON Statutory Audit	0.10	0.05	0.05
4.1.7	Tax	0.02	0.05	0.05
4.1.8	Income	(0.03)	(0.10)	(0.10)
4.1.9	Financing	0.97	1.60	1.16
4.1.10	Contingency	0.33	1.00	1.00
	<b>OVERALL TOTAL</b>	<b>7.22</b>	<b>15.21</b>	<b>12.02</b>

### 4.1.1 ELEXON FTE Staff

These costs are those relating to the employment of the permanent staff within ELEXON. The vast majority of these staff will have transferred from the CEO’s office at Go Active. The expected total FTE roles for the current period (Go Active to 31 March 2001) is 112, with budget for 86 employees included in the FTE Staff amount and a further 26 full-time contractors whose costs appear in section 4.1.3.1. These provide the core ELEXON services such as management of market activities, contract management and modification support as well as those relating the operation of a company such as accounting and human resources.

#### **4.1.2 ELEXON Overheads**

These costs are the general overheads for the company. Examples include property leases, insurance and telecommunications. A significant proportion of these costs are fixed.

#### **4.1.3 Consultancy & Contract Staff**

ELEXON's permanent staff are supported by a significant number of contract staff and consultants. These consultants are utilised across four key areas: each of these are outlined in the sub-sections below.

##### **4.1.3.1 ELEXON Full Time Contract Staff**

These costs are those relating to the potentially long-term employment of contract staff within ELEXON in lieu of employing permanent staff, due to resource shortfalls. These contract staff will provide core ELEXON services such as contract management and modification support as well as those relating to the operation of a company such as accounting and human resources.

For the current period (Go Active to 31 March 2001), provision is made for 26 full-time contract staff. It has historically been difficult to fill certain posts within the CEO with permanent staff who have the appropriate skills, hence 8 full-time contract staff are assumed for 2001/2.

##### **4.1.3.2 General Consultancy**

These consultants provide expert advice in key areas where the skills do not lay in house or are not required on a full time basis such as IT support or PR.

It is envisaged that ELEXON will continue to utilise consultancy depending on its needs.

##### **4.1.3.3 SVA Transitional Support**

ELEXON will continue to retain those consultants currently supporting the SVA environment. The plan provides for 18 consultants for the period up to Go Live, reducing to 9 in 2001/2. Actual requirements will be dependent on the volume and nature of issues, which are not always under direct ELEXON control. Issues can arise at any point in the complex market, such as with supplier agents.

##### **4.1.3.4 NETA Transitional Support**

These costs will be incurred as it is envisaged that ELEXON will retain certain consultants currently working on the NETA Programme to support the initial period of trading under the new environment. The exact requirements are unknown at present, however, the reliance on consultancy in this area is expected to fall away by October 2001.

#### **4.1.4 Legal**

This allows for the legal costs expected by ELEXON.

#### **4.1.5 Procurement**

This cost is related to the external support required to procure CDA (Central Design Authority) and Supplier Entry services from third party providers.

#### **4.1.6 ELEXON's Statutory Audit**

ELEXON will procure the services of a professional firm to provide a statutory audit of both ELEXON and its subsidiaries ELEXON Clear. The scope of this audit may extend beyond that usual for a company of ELEXON's size due to the unique nature of the BSC. Any such requirements are likely to increase the costs in this area.

#### **4.1.7 Tax**

Whilst ELEXON will be a "not-for-profit" company, it may accrue certain tax liabilities, for example due to the tax treatment of asset depreciation. At this stage it is prudent to make a provision for this cost.

#### **4.1.8 Income**

ELEXON expects to receive income in relation to the provision of services to those that are not BSC Parties. This income is netted off ELEXON's costs and participants' charges are set so as to recover the overall costs net of any income. Typical services are listed below:

- seminars;
- publications;
- training; and
- interest.

The BSC obliges ELEXON to provide these services to Trading Parties and other interested parties and to charge "relevant costs" i.e. those costs (excluding direct costs) incurred in providing the service. However, the majority of income relates to interest earned on cash balances.

#### **4.1.9 Financing**

From Go Active, ELEXON will be partly funded by NGC, and this funding will result in financing costs until the funding is repaid, which is expected to be 4½ years after Go Live. ELEXON will consider the procurement of commercial financing if it improves overall economic efficiency, i.e. reduces overall costs.

#### **4.1.10 ELEXON Operational Contingency**

The uncertain nature of these operational costs is such that ELEXON's Board will hold £1.0m contingency per annum in this area.



## 4.2 Demand Led

This section covers the costs of assessing and implementing modifications. As the volume and scope of proposed modifications is externally determined, ELEXON will focus on ensuring that the assessment and implementation of modifications is undertaken efficiently and cost effectively. ELEXON will provide services on demand to meet the requirements of stakeholders, in particular Ofgem and the BSC Panel. At one extreme, these costs could be close to zero if no modifications were considered or progressed by the BSC Panel. It is expected that a number of modifications will be proposed by participants post-Go Live. The BSC obliges ELEXON to manage an efficient modifications process. To this end, it would appear appropriate to include an estimate of the costs of assessing and implementing these modifications. This will avoid the requirement for ELEXON to continually submit revised budgets to the Panel and Trading Parties for consultation, and for the Board to approve supplementary budgets on a project by project basis.

**Table 3 – Demand Led Budget {Base Case}**

Ref	Item	Go Live to 31 Mar 2001 £m	1 Apr 2001 to 31 Mar 2002 £m	1 Apr 2002 to 31 Mar 2003 £m
4.2.1	BSC Panel Modification Service			
4.2.1.1	(A) Approved	-	-	-
4.2.1.2	(B) Anticipated	-	-	-
4.2.1.3	(C) Potential	5.00	6.00	6.00
4.2.2	Contingency	-	-	-
	<b>OVERALL TOTAL</b>	<b>5.00</b>	<b>6.00</b>	<b>6.00</b>

### 4.2.1 BSC Panel Modification Service

Whilst there is some overhead in providing this activity it is, in the main, demand led. An allowance is made in Section 4.1 for the core staff needed to support this function. The overall cost of this service falls into three areas, each of these is discussed in the subsections below. At this stage the figures are speculative as the extent of modifications is unknown prior to Go Active. The amounts are included partly to assist Trading Parties for internal budgeting purposes. Each sub section contains the full cost of a project and therefore in subsequent years a project in category B is likely to move into category A as it gains formal approval.

For reporting purposes, ELEXON intends to report against the budgetary figures quoted here, and will also report against individual projects. This will allow all stakeholders to recognise the overall cost of modifications as well as quantify the costs for a specific change.

#### 4.2.1.1 Part A – Approved Modifications

This will be the cost of approved changes that are progressing through to implementation. It will also cover maintenance changes and minor software “house keeping” changes required. Given the transitional nature of the first ELEXON business plan approaching the introduction of NETA, there are no modifications approved for implementation. However, future ELEXON Business Strategy and Annual Budget documents should budget for approved modifications that are being implemented within the relevant period.

#### 4.2.1.2 Part B – Anticipated Modifications

This is the cost of modifications currently in the process of being reviewed but which are not formally approved. At present there are no modifications in this category.

#### 4.2.1.3 Part C – Potential Modifications

Given that future modifications can be raised by any stakeholder at any time, it is prudent for ELEXON to make any allowance in this area. At this stage estimating this figure is difficult. In the future, the accuracy of ELEXON's estimates should improve as a result of experience. It should be noted that the costs presented as part of the Annual Budget are merely an estimate at this stage, as the future volume and nature of modifications proposed by participants is unknown.

#### 4.2.2 Demand Led Contingency

The holding of additional contingency is not felt appropriate given that the costs quoted in this section (4.2) cover uncertainty.

#### 4.3 Contracted

This section covers the costs charged to ELEXON by the various operational service providers. The costs are governed by the contractual relationships that exist and the ELEXON Board and Management Team in the main will only be able to exert control via contractual re-negotiation, service variation, efficient procurement and good management of time and materials elements. ELEXON could also make other efficiency gains within this area, however, some improvements may be conditional on BSC Trading Parties accepting changes in business practises and the majority of these costs are fixed in the medium term. Additionally, some of these costs are demand led in that costs are incurred as a result of issue identification. Such issues impact activities such as audit, certification and performance assurance.

**Table 4 – Contracted Budget {Base Case}**

Section Ref	Item	Go Live to 31 Mar 2001 £m	1 Apr 2001 to 31 Mar 2002 £m	1 Apr 2002 to 31 Mar 2003 £m
4.3.1	Central Volume Allocation (CVA)	6.23	14.80	14.80
4.3.2	Supplier Volume Allocation (SVA)	3.57	10.99	10.84
4.3.3	Funds Administration Agent	0.76	2.29	2.29
4.3.4	Operational Audit	1.09	2.04	2.04
4.3.5	Pool Run Off	2.10	1.91	-
4.3.6	Design Authority	0.13	0.41	0.42
4.3.7	ERS	2.90	1.43	-
4.3.8	Arbitration Service	0.03	0.08	0.08
4.3.9	Contingency	0.17	0.50	0.50
	<b>OVERALL TOTAL</b>	<b>16.98</b>	<b>34.45</b>	<b>30.97</b>

#### 4.3.1 Central Volume Allocation (CVA)

These operational costs arise from activities outsourced to Logica, governed under a service contract between Logica and ELEXON. This contract includes

the testing, design, production, operation and maintenance of systems to deal with trading under the new arrangements as well the costs of providing communications facilities for trading participants. Table 5 below gives a summary of the costs relating to the Logica Contract. In addition, there may be some ad hoc dispute costs, which are not expected to be significant.

**Table 5 – Logica Contract Costs**

Item	Go Live to:	1 Apr 2001 to:	1 Apr 2002 to:
	31 Mar 2001	31 Mar 2002	31 Mar 2003
	£m:	£m:	£m
Contract Costs (Design & Build)	3.43	6.63	6.63
Contract Costs (Operate & Maintain)	2.12	5.54	5.54
Contract Costs (Variable Charges)	0.16	0.43	0.43
Communications (for 60 participants)	0.52	2.20	2.20
<b>OVERALL TOTAL</b>	<b>6.23</b>	<b>14.80</b>	<b>14.80</b>

#### 4.3.2 Supplier Volume Allocation (SVA)

These Supplier Volume Allocation costs arise from operational activities outsourced to a variety of major service providers, and are broken into functional areas in Table 6.

**Table 6 – Breakdown of SVA Costs**

Item	Go Live to	1 Apr 2001 to	1 Apr 2002 to
	31 March 2001	31 Mar 2002	31 Mar 2003
	(£m)	(£m)	(£m)
Supplier Volume Allocation Agent (SVAA)	1.61	4.82	4.82
Data Transfer Service (DTS)	0.60	1.75	1.75
Profiling	0.27	0.82	0.82
Teleswitch	0.01	0.04	0.04
Software Support	0.17	0.51	0.51
Performance Assurance	0.52	1.53	1.53
Certification	0.08	0.45	0.30
SVA Disputes	0.03	0.08	0.08
Entry Process	0.27	1.00	1.00
<b>SVA Operational</b>	<b>3.57</b>	<b>10.99</b>	<b>10.84</b>

Due to changes required to accommodate the impact of NETA on SVA, such as multiple BM units, both SVAA and DTS amounts included have been increased compared to current costs.

#### 4.3.3 Funds Administration Agent (FAA)

These operational costs arise from activities outsourced to EPFAL as FAA and covers the cost of financial settlement of balance and imbalance amounts as defined by the balancing mechanism, based on the bids into the balancing mechanism by Trading Parties.

**OUTSTANDING:** *FAA contractual negotiations are on-going, and final FAA figures will be included once the contractual negotiations are concluded.*

*At this stage a figure of £2.29m per annum has been included which is based on the P&SA costs of providing a similar role.*

#### 4.3.4 Operational Audit

These costs relate to the audit of balance and imbalance settlement performed by PWC. It is assumed that two audits are needed in first period to cover both the P&SA trading and BSC trading.

**Table 7 – Audit Costs**

	Go Live to 31 March 2001 (£m)	1 Apr 2001 to 31 Mar 2002 (£m)	1 Apr 2002 to 31 Mar 2003 (£m)
CVA Audit	0.62	0.60	0.60
SVA Audit	0.48	1.44	1.44
<b>TOTAL</b>	<b>1.09</b>	<b>2.04</b>	<b>2.04</b>

#### 4.3.5 Pool Run off

These operational costs arise from the 14 month run off of settlement under the Pool rules relating to trading prior to Go Live. These activities are outsourced to ESIS and EPFAL. The costs taper off over time as the various settlement and reconciliation runs are performed over a 14 month period.

#### 4.3.6 Design Authority

These costs relate to external consultancy required to ensure consistency and control of key trading systems (e.g. CVA, SVA and crucial in-house systems) as a result of ongoing systems development. Additional Design Authority costs may be incurred to undertake impact analysis as required by the modification process. Such costs fall in the Demand Led budget as set out in Section 4.2.

#### 4.3.7 ERS (Electronic Registration System)

At this stage an allowance for ERS costs (a legacy system relating to 100kW customers) has been made, whilst recognising that these matters are currently being considered within the Pool forum. The contracted arrangement is currently being finalised and the costs included in this document are estimates. The cost of ERS data collection and related items are shown separately by the Pool, whereas they will be a direct ELEXON cost.

The following assumptions have been made:

- The costs between October 2000 and September 2001 are £6.3m, with the migration profile from ERS to PRS as a straight line from April 2000 to zero by September 2001; and
- no further costs arising from September 2001 onwards.

Clearly the actual migration profile will be different to this and the final amounts could vary significantly from the assumptions made in this document.

#### **4.3.8 Arbitration**

Under the BSC, ELEXON is required to contract for an Arbitration Service. The total cost is £90k pa and ELEXON receives a 10% contribution from NGC making the net cost to ELEXON £81k pa. This is as per the current P&SA arrangements.

#### **4.3.9 Contracted Contingency**

The nature of the costs in Section 4.3 is such that ELEXON's Board will hold a contingency of £0.5m per annum in this area.

### **4.4 NETA Funding**

Between Go Active and Go Live, ELEXON will be performing the role of the current CEO (administering the operation of the Pool) as well as preparing to administer the new trading arrangements under the BSC. ELEXON's costs during the period between Go Active and Go Live fall into three areas:

- the costs of running the Pool (between Go Active and Go Live, ELEXON will administer the Pool, a responsibility currently discharged by the Chief Executive's Office (CEO));
- the costs of assisting the NETA Programme to put in place the new trading arrangements prior to Go Live; and
- the costs of getting ELEXON ready to fulfil its obligations from Go Live.

The costs of running the Pool were agreed in April by Pool Members as part of the Pool Business Plan (and are discussed in Section 4.6). The costs of ELEXON included in this plan for running the Pool on behalf of current participants (Pool Members) is equal to that in the Pool Business Plan. However, the costs incurred by ELEXON will exceed this amount due to the extra costs of the transition to the new trading arrangements. It has been agreed that these additional costs will be recovered from trading participants over 4½ years post-Go Live.

The total estimated additional cost to be incurred is £28.3m between Go Active and Go Live. This translates into a charge to trading participants of £1,608k per quarter (£6.43m p.a.). This sum has three components:

- £14.3m between Go Active and Go Live to cover Logica costs such as testing and trialing and installation of comms lines;
- £1.0m of ELEXON costs including additional resources required to set up the modification process; and
- £13.0m of NGC funding of the NETA programme, which has been provided in consultation with the Programme. This cost is made up of £9.4m of previously agreed NETA funding and £3.6m of contingency for

some potential costs of funding the NETA Programme between Go Active and Go Live.

These costs are being funded by NGC through ELEXON so as to facilitate charging to Trading Parties post-Go Live, and the repayment of funds to NGC. The BSC Panel's formal sanction is required to allow ELEXON to borrow the £28.3m to fund this arrangement.

**Table 8 –NETA Funding**

Item	ELEXON Costs (£m)
Logica Contract Costs (Go Active to Go Live)	
<i>Change Notes (inc Testing &amp; Trialling)</i>	6.2
<i>Pending Change Notes (Exclusions)</i>	6.6
<i>Communications Costs</i>	1.5
Additional ELEXON Costs	1.0
NETA Costs funded by NGC	9.4
NETA Contingency	3.6
<b>TOTAL NETA FUNDING</b>	<b>28.3</b>

## 4.5 Administered

The costs discussed in this section are not related to ELEXON activities. They cover certain arrangements where ELEXON acts as a central agent on behalf of the industry facilitating the collection of funds from certain groups of parties for repayment to others. These are not included within the ELEXON Budget and will not appear in the ELEXON accounts as income or expenditure.

**Table 9 – Administered Budget {Base Case}**

Ref	Item	Go Live to: 31 Mar 2001 £m	1 Apr 2001 to 31 Mar 2002 £m	1 Apr 2002 to 31 Mar 2003 £m
4.5.1	1998 Programme Costs	8.02	16.03	16.03
4.5.2	Pool Member NETA Funding	0.44	1.74	1.74
4.5.3	Contingency	-	-	-
	<b>OVERALL TOTAL</b>	<b>8.45</b>	<b>17.77</b>	<b>17.77</b>

### 4.5.1 1998 Programme Costs

These costs were agreed as part of the Pool's 1998 Development Programme. The PESs collectively funded the various Pool developments that facilitated the introduction of full retail competition. These costs are currently being charged to suppliers of below 100kW customers, and refunded to the PESs, on a quarterly basis. This equates to £4.01m per quarter. This arrangement stops at 31 March 2003.

Whilst, the capital amounts have been determined and will not change, amounts charged to participants over each quarter may change to reflect interest rate fluctuations.

#### 4.5.2 Pool Member NETA Funding

The total costs of the Pool Member NETA Funding to be charged to BSC Trading Parties post Go Live is estimated at £6m. Pool Members have approved funding for up to £9.7m. but the current spending forecast is £6.0m. ELEXON will collect amounts quarterly from BSC Trading Parties on the basis of Main Funding Share and make repayments to those financing these costs. Currently, it is expected that the first quarterly repayment will begin on 31 March 2001 and these costs will be fully repaid by 31 March 2005, which gives a quarterly repayment of £0.44m (£1.74m p.a.), assuming an interest rate of 7%.

#### 4.5.3 Administered Contingency

The nature of the costs in Section 4.5 is such that ELEXON's Board will hold no contingency in this area.

#### 4.6 Pool Business Plan (Go Active to Go Live)

As discussed in Section 4.4, a major activity of ELEXON during the period between Go Active and Go Live is administering the Pool. Associated costs are contained in the Pool Business Plan 2001-3, which was agreed by Pool Members in March 2000. The total cost of running the Pool between Go Active and Go Live, based on the 2001-3 Pool Business Plan is £19.1m as per Table 10.

**Table 10 – Pool Business Plan (Go Active to Go Live)**

Item	Go Active To Go Live (£m)
Stage 1 Operations	5.50
Stage 2 Operations	4.40
Development	1.95
Support Services	3.81
Transitional Support	0.61
RETA Impact on the Pool (RIP) Project	2.86
<b>TOTAL</b>	<b>19.12</b>

Additionally, certain ERS arrangements (as described in Section 4.3.6) may commence as ELEXON costs pre Go Live and these will be treated as Pool cost between Go Active and Go Live. These costs amount to £2.0m, giving a total Pool cost of £21.1m. These arrangements may change such that ELEXON will not incur these costs directly. Under such circumstances, the current P&SA arrangements of the service provider charging Suppliers directly would then continue.

## 5. Analysis

This chapter analyses the “base case” presented within Chapter 4. Although this Business Plan covers the period from Go Active to 31 March 2001 and for the following two financial years, it focuses on the early transitional period during which some one-off costs will be incurred. Before Go Active, when the P&SA will be in force and the BSC will not yet be in place, the CEO will have responsibility to administer electricity trading in the Pool. Therefore the costs for the period covering 1 April 2000 and Go Active do not fall to ELEXON, although this Business Plan does cover ELEXON's administration of the Pool between Go Active and Go Live and shutting down the Pool and P&SA post-Go Live. For information, the current estimate of total 2000/1 costs is £78.9m, £25.4m of which are Pool costs (administered by the CEO) for the period between 1 April 2000 and Go Active and £53.5m are ELEXON's costs between Go Active and 31 March 2001. This compares to £42.9m in the 2000/1 Business Plan for the period. It should be noted, however, that a significant amount of these costs are of a transitional nature, incurred as part of implementing the New Electricity Trading Arrangements (NETA). In addition, the figures quoted above include an element of double counting, as the Pool Business Plan includes a provision of £9.7m which is initially charged to Pool Members, then charged to Trading Parties post-Go Live, and repaid to Pool Members.

### 5.1 Assumptions

To allow some simplifications within the budgeting process, it is assumed that the minimum time period is one month and that the key events occur at the start of a month i.e. Go Active is 1 August 2000 and Go Live is 1 December 2000.

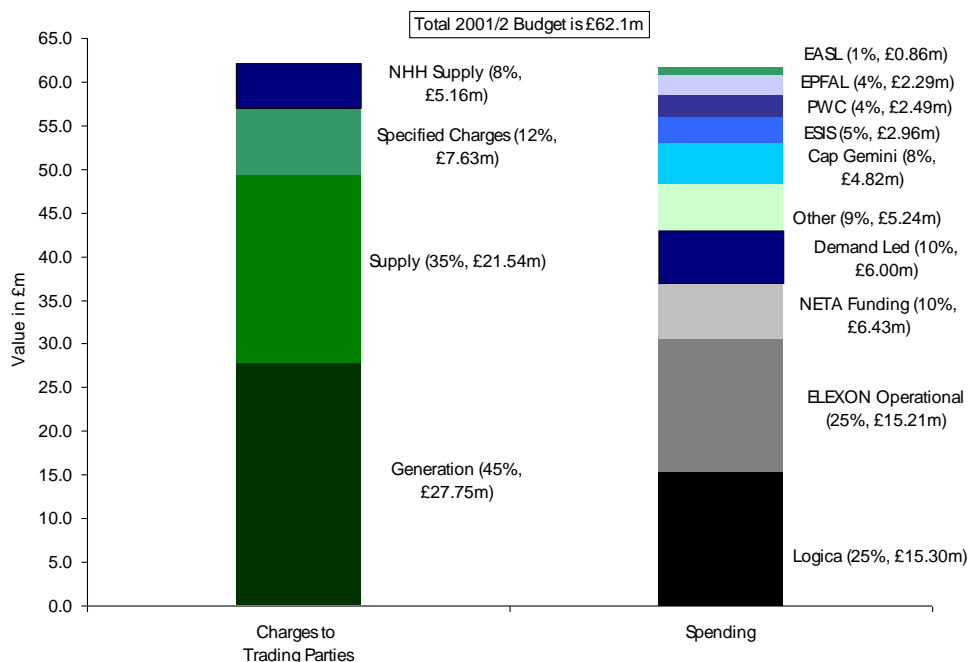
A number of general assumptions about market size have been made and are captured in Table 16, as part of Section 6, to support the charging examples.

### 5.2 Costs and Charges

One important area of analysis is to identify the sources of spending for ELEXON along with the categories of participants which will, through charges detailed in Chapter 6, fund these costs once the transitional period is completed.



**Figure 2 – Costs and Charges to Trading Parties**



The presence of ELEXON Operational costs in the spending category acknowledges the costs that ELEXON incur in discharging its duties under the BSC, including staff and accommodation costs. The category “Other” includes:

- contractual costs with smaller service providers (Data Transfer Service, Disputes and Entry Process);
- Pool Run-Off costs; and
- contingency for the Contracted Budget.

### 5.3 Variance in “Base Case”

Within this section we have considered potential variances from the “Base Case” budget<sup>3</sup> as presented in Table 1. At this stage, there are various matters that could lead to deviations from the “Base Case” and the data presented in Table 11 shows that the best estimate of total costs of £53.04m (individual budgets excluding contingency) falls within the range £43.54m and £60.54m.

<sup>3</sup> Potential increases to the ELEXON budget would need formal sign off by the ELEXON Board following consultation with stakeholders.

**Table 11 – Range of Costs**

Ref	Item	Go Active - 31 Mar 2001 { Base Case } £m	Potential Decreases £m	Potential Increases £m	Range £m	
4.6	Pool Business Plan	21.13	(2.00)	2.00	19.13	23.13
4.1	ELEXON Operational	6.89	(2.00)	2.00	4.89	8.89
4.2	Demand Led	5.00	(4.00)	2.00	1.00	7.00
4.3	Contracted	16.81	(1.00)	1.00	15.81	17.81
4.4	NETA Funding	3.22	(0.50)	0.50	2.72	3.72
	<b>Overall Total</b>	<b>53.04</b>	<b>(9.50)</b>	<b>7.50</b>	<b>43.54</b>	<b>60.54</b>
	<b>% of Total</b>	<b>100.0%</b>	<b>(17.9%)</b>	<b>14.1%</b>	<b>82.1%</b>	<b>114.1%</b>

Table 11 does not account for additional costs that would arise if Go Live is delayed significantly. Whilst no delay to Go Live is expected, considering such a scenario leads to an assumption that costs increase (assuming the delay was not caused by a service provider). In the case of a delay, ELEXON would start to pay its operational service providers, whilst Pool Members continue to pay Pool operational service providers to administer trading under the P&SA. These extra P&SA costs are estimated at around £1.1m per month.

If the approved budget is anticipated to be exceeded, the following actions will be taken in accordance with Section C of the BSC:

- additional costs will be identified by ELEXON;
- consultation with the Panel will confirm (or otherwise) the necessity to incur additional costs; and
- participants will be informed of a revised budget by ELEXON.

## 5.4 Contingency

A level of contingency is included within each section of the overall budget presented in Table 1. The level of contingency suggested varies by section. It is not allocated to individual projects / managers, rather it is controlled by the ELEXON Board and released if needed.

The overall amount of contingency is £0.5m for the period between Go Live and 31 March 2001, which is 0.9% of the total budget (excluding Pool Business Plan costs). The contingency held from 1 April 2001 to 31 March 2002 is £1.5m (2.4%) and is £1.5m (2.7%) for the period ending 31 March 2003.

## 5.5 Comparisons

This sub-section seeks to compare the costs incurred by Pool Members in 1999/2000 against those proposed in the ELEXON plan. It is not an ideal or exact comparison. For example, no adjustments have been made to reflect the time value of money or the volume of activity within a particular cost category. Additionally, the budget comparison is for a regime which has been operating for 10 years against one in its infancy. This analysis is provided in order to give

existing participants further insight into the cost within the ELEXON annual budget.

Table 12 provides a comparison of those Pool Business Plan costs under the P&SA for which ELEXON will have equivalent activities under NETA, and shows those additional costs which arise as a result of the transition to NETA. The key points for these "comparable" costs are:

- reducing operational costs (mostly agents' fees); and
- increases in expected modification activity (as development costs for 1999/2000 were comparably lower than other years due to the industry focussing on NETA).

**Table 12 – Comparisons of Pool Costs and ELEXON Budget 2001/2**

Description	Item	Pool Costs Incurred 1999/2000 £m	ELEXON 2001/2 £m	Difference £m
<b>Comparable Activities</b>	CVA Operations	15.2	12.3	<b>(2.9)</b>
	SVA Operations	12.0	11.6	<b>(0.4)</b>
	Development : Modifications	3.6	6.0	<b>2.4</b>
	ELEXON Operational (exc financing)	12.0	12.6	<b>0.6</b>
	Arbitration	0.1	0.1	-
<b>Comparable Activities Sub-Total</b>		<b>42.9</b>	<b>42.6</b>	<b>(0.4)</b>
<b>Additional Activities</b>	NETA Development : Design & Build	-	6.6	<b>6.6</b>
	NETA Funding	-	6.4	<b>6.4</b>
	NETA Financing	-	1.6	<b>1.6</b>
	Pool Run Off	-	1.9	<b>1.9</b>
	ERS (Legacy 100kW system)	-	1.4	<b>1.4</b>
Contingency	-	1.5	<b>1.5</b>	
<b>Additional Activities Sub-Total</b>		-	<b>19.5</b>	<b>19.5</b>
<b>OVERALL TOTAL</b>		<b>42.9</b>	<b>62.1</b>	<b>19.2</b>

Table 12 shows a reduction in the costs for comparable activities. However, ELEXON's costs incurred related to preparing for the NETA environment are significant, but are of a transitional nature. The key items are:

- Logica and EPFAL development costs, spreading the full cost over 5 years from Go Live (it should be noted that the existing settlements system would have been replaced if the decision to implement NETA, requiring new systems, had not been made);
- additional costs as a result of ELEXON preparing for the new arrangements, and assisting the NETA Programme delivering the new trading arrangements prior to Go Live. These costs are to be spread over 4½ years from Go Live;
- ERS costs incurred until September 2001 as part of the run-off of P&SA operations; and
- repayment of the costs of financing key activities incurred as part of the introduction of the new trading arrangements between Go Active and Go Live.

It should also be noted that ELEXON Operational costs are higher, the key drivers being:

- NETA transitional consultancy funded through ELEXON; and
- Increased accommodation costs as the existing charges are below current market prices.

**Table 13 – Comparisons of Pool Costs and ELEXON Budget 2002/3**

Description	Item	Pool Costs Incurred 1999/2000 £m	ELEXON 2002/3 £m	Difference £m
<b>Comparable Activities</b>	CVA Operations	15.2	12.3	(2.9)
	SVA Operations	12.0	11.4	(0.6)
	Development : Modifications	3.6	6.0	2.4
	ELEXON Operational (exc financing)	12.0	9.9	(2.2)
	Arbitration	0.1	0.1	-
<b>Comparable Activities Sub-Total</b>		<b>42.9</b>	<b>39.7</b>	<b>(3.2)</b>
<b>Additional Activities</b>	NETA Development : Design & Build	-	6.6	6.6
	NETA Funding	-	6.4	6.4
	NETA Financing	-	1.2	1.2
	Pool Run Off	-	-	-
	ERS (Legacy 100kW system)	-	-	-
	Contingency	-	1.5	1.5
<b>Additional Activities Sub-Total</b>		<b>-</b>	<b>15.7</b>	<b>15.7</b>
<b>OVERALL TOTAL</b>		<b>42.9</b>	<b>55.4</b>	<b>12.5</b>

Additionally, TABLE 13 shows a comparison between the 1999/2000 costs incurred and the forecast ELEXON budget for 2002/3. This comparison demonstrates that:

- the costs are more representative of a steady state due to some transitional costs having fallen away;
- ELEXON's Operational Costs have fallen, due in part to no requirement for further NETA transitional consultancy and increased cost efficiency as a result of replacing full-time contract staff with full-time employees; and
- Some transitional costs (such as ERS and Pool run-off) have fallen away.

## 6. Charges

### 6.1 Charging Analysis

This section outlines how the "Base Case" budget is expected to be charged to BSC Trading Parties. Table 14 contains charging proposals extracted from Section D of the BSC. All of the charges presented in Table 14 exclude value added tax (VAT), which is currently 17.5%.

**Table 14 – Section D Charging**

- £500 Application Fee.
- 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).
- a dedicated data communications line charge of £2,000 per month.
- TIBCO Software Support Charge of £200 per month for up to 5 users, plus £10k one-off fixed fee (not factored into this analysis).
- Additional TIBCO Software Support Charge of £15 per month for each user in excess of 5 users, plus £1k one-off fixed fee (not factored into this analysis).
- Notified Volume Charge per Gross Contract MWh at a rate of £0.0025/MWh.
- for all Base SVA BM Units a charge of £100 per month.
- for each Additional SVA BM Unit £100 per month.
- SVA costs split:
  - *50% of costs are paid by generators on basis of metered energy volumes.*
  - *a fixed fee of £15 per SVA half hourly metering system.*
  - *Remainder allocated on suppliers non half hourly MWh market share.*
- All remaining costs split on basis of metered energy volumes.

Based on the information in Table 14, examples of charges to participants are provided and these are compared against the P&SA regime.

First, the first full year costs from Table 1 (in Chapter 4) are split as set out in Table 15.

**Table 15 – Split of Costs**

Assumed Split of Costs for 1 Apr 2001 to 31 Mar 2002	
SVA Costs	£12.43m
Other Costs	£49.66m
<b>Total</b>	<b>£62.09m</b>

Second, various assumptions about the size of the market are made. These are presented in Table 16 and include assumptions about the overall market as well as for 5 “typical” participants:

- **Generator** – a portfolio generator without any supplier business;
- **Domestic Supplier** – only supplying domestic customers;
- **I&C Supplier** – only supplying industrial and commercial customers;
- **Vertical Player** – owning both generating plant and a supply business; and
- **Trader** – only a wholesale trader.

**Table 16 – Market Assumptions**

Assumptions	Number of Trading Parties	Sales - Notified Contract Volumes (TWh)	Purchases - Notified Contract Volumes (TWh)	Generation (TWh)	Supply (TWh)	<100kW Supply (TWh)	NHH Supply (TWh)	HH Supply (TWh)	CVA BM Units	SVA Base BM Units	SVA Additional BM Units	Data Line	Comms Software (5 users)	Comms Software (additional user)	CVA Metering Systems (MSIDs)	HH Supply (MSIDs)	PRS Supply (MSIDs)
Total	100	600	600	300	300	150	147	153	350	50	10	60	60	25	2,000	70,000	23,000,000
Check tot	94	390	410	240	240	120	117	123	289	48	9	55	55	13	1,944	58,000	20,000,000
Generator	1	40	20	20	0	0	0	0	30	0	0	1	1	5	25	0	0
Domestic Supplier	1	20	40	0	20	20	20	0	0	1	0	1	1	0	0	0	2,000,000
I & C Supplier	1	20	40	0	20	0	0	20	0	1	1	1	1	0	1	10,000	0
Vertical Player	2	80	40	40	20	10	10	10	30	0	0	1	1	5	30	2,000	1,000,000
Trader	1	50	50	0	0	0	0	0	1	0	0	1	1	2	0	0	0

Third, the charging regime from Section D of the BSC in Table 14 is then applied to costs in Table 15 based on the assumptions in Table 16. This gives the estimated charges (either specified charges or £/MWh fees) in Table 17, which also contains information for the P&SA charging regime as a comparison.

**Table 17 – Expected Charges**

Charge Item	BSC	P&SA
<b>Specified Charges</b>		
CVA BM Units (£/month)	100	42
SVA Base BM Units (£/month)	100	-
SVA Additional BM Units (£/month)	100	-
Data Line (£/month)	2,000	-
Comms Software {5 users} (£/month)	200	-
Comms Software {additional user} (£/month)	15	-
Contract Traded (£/MWh)	0.0025	-
CVA Metering Systems (£/month)	50	63
Base Monthly Charge (£/month)	250	800
<b>SVA</b>		
HH SVA Ops (£/msid/month)	1.25	1.25
NHH SVA Ops (£/NHH MWh)	0.03512	0.03512
Gen Energy SVA (£/MWh)	0.02071	0.02071
<b>Main Charges</b>		
Energy fee (£/MWh)	0.07180	0.07838

Finally, Table 18 compares the total charges for the “typical” participants against the P&SA charging regime and Table 19 provides a breakdown of cost recovery against each charge. Table 18 shows the charges that, using the ELEXON budget between Go Active and 31 March 2001, groups of participants would have paid under the P&SA charging arrangements compared to the charges that would result post-Go Live under the BSC.

**Table 18 – Charging Comparisons**

Trading Party	Total Charges (£m)		Change against P&SA
	BSC	P&SA	
<b>Total</b>	£62.09m	£62.09m	(£0.00m)
<b>Check tot</b>	£49.73m	£50.08m	(£0.34m)
<b>Generator</b>	£2.08m	£2.03m	£0.06m
<b>Domestic Supplier</b>	£2.32m	£2.28m	£0.04m
<b>I &amp; C Supplier</b>	£1.77m	£1.73m	£0.04m
<b>Vertical Player</b>	£5.91m	£5.97m	(£0.06m)
<b>Trader</b>	£0.28m	£0.01m	£0.27m

Table 19 – Cost Recovery by Item

Charge Item	BSC		P&SA	
	(£m)	% of Total	(£m)	% of Total
<b>Specified Charges</b>				
CVA BM Units	0.42	0.7%	0.18	0.3%
SVA Base BM Units	0.06	0.1%	-	-
SVA Additional BM Units	0.01	0.0%	-	-
Data Line	1.44	2.3%	-	-
Comms Software {5 users}	0.14	0.2%	-	-
Comms Software {additional user}	0.00	0.0%	-	-
Contract Traded	3.00	4.8%	-	-
CVA Metering Systems	1.20	1.9%	1.50	2.4%
Membership Fee	0.30	0.5%	0.96	1.5%
<b>SVA</b>				
HH SVA Ops (£/msid/month)	1.05	1.7%	1.05	1.7%
NHH SVA Ops (£/NHH MWh)	5.16	8.3%	5.16	8.3%
Gen Energy SVA (£/MWh)	6.21	10.0%	6.21	10.0%
<b>Main Charges</b>				
Energy fee (£/MWh)	43.08	69.4%	47.03	75.7%
<b>Total</b>	<b>62.09</b>	<b>100.0%</b>	<b>62.09</b>	<b>100.0%</b>

## 6.2 Charging Profile

Section D4 of the BSC permits uneven recovery of costs from Trading Parties to allow ELEXON to satisfy its cash flow requirements. However, ELEXON does not propose to utilise this arrangement, rather it will charge Trading Parties the total costs identified in the Annual Budget, split equally across the months from Go Live.



## 7. Recommendations

The ELEXON Chief Executive recommends that the Panel<sup>4</sup>:

- Recommendation 1:** **NOTES** that this document presents an ELEXON Business Plan which complies with the BSC (discussed in Chapter 2); and
- Recommendation 2:** **ACCEPTS** the Business Strategy for ELEXON's operation as presented in Chapter 3.
- Recommendation 3:** **APPROVES** borrowing of up to £28.3m by ELEXON as required under C3.4.4(a) of the BSC (discussed in Section 4.4).

The ELEXON Chief Executive recommends that the ELEXON Board<sup>5</sup>:

- Recommendation 4:** **NOTES** that this document presents an ELEXON Business Plan which complies with the BSC (discussed in Chapter 2);
- Recommendation 5:** **AGREES** to set an overall Annual Budget of £53,543,000 for the period between Go Active and 31 March 2001 (as per Chapter 4) which will be used for invoicing purposes;
- Recommendation 6:** **ACTIONS** the Head of Finance to present detailed monthly budgets based on information presented in Chapter 4 to the ELEXON Board;
- Recommendation 7:** **NOTES** the analysis presented in Chapter 5; and
- Recommendation 8:** **NOTES** the even invoicing profile outlined in Section 6.2;
- Recommendation 9:** **ACTIONS** the Head of Finance to present the first draft of the 2001-2004 Business Plan to the Board Meeting in November 2000.

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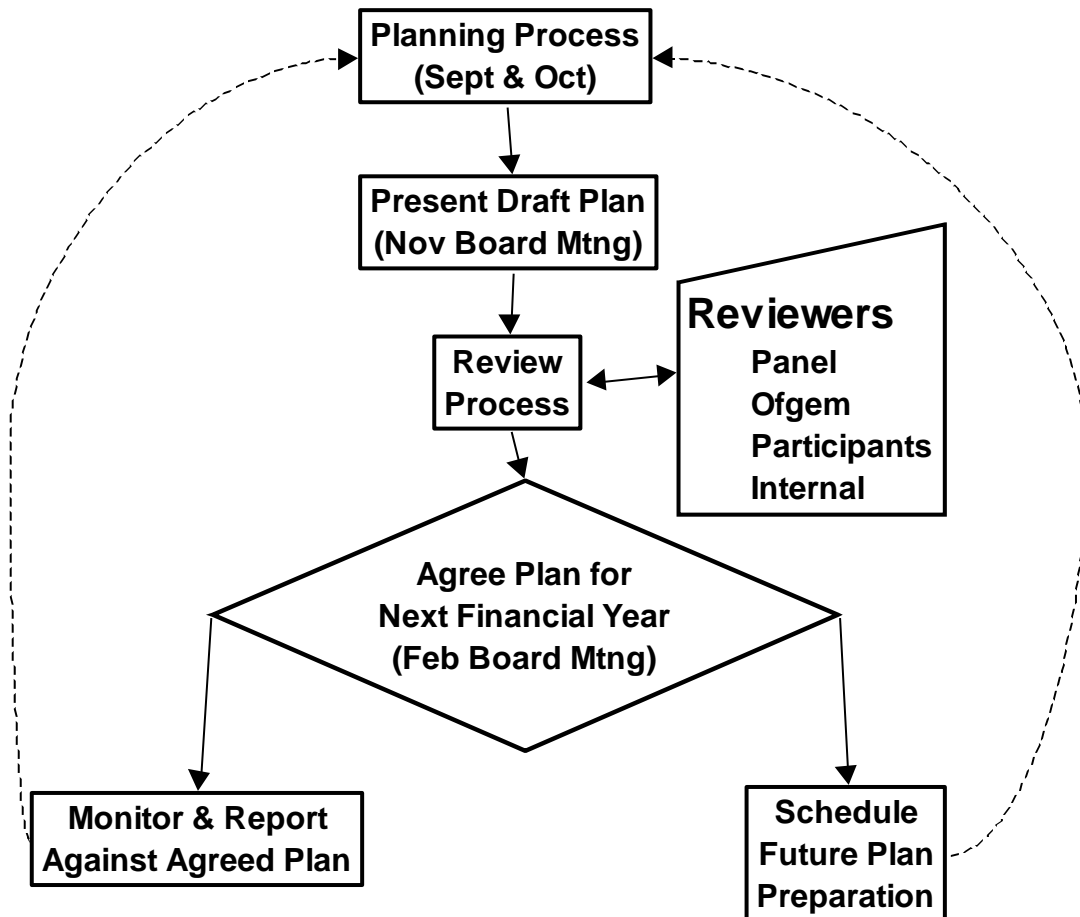
<sup>4</sup> This recommendation will be considered formally by the Panel at Go Active (or shortly thereafter).

<sup>5</sup> These recommendations will be considered formally by the ELEXON Board at Go Active (or shortly thereafter).

## Appendix A Expected Future Process

Whilst it is rightly a matter for the ELEXON Board to formally agree, subject to the requirements in the BSC, Figure 3 below sets out the expected process for producing the Business Strategy and Annual Budget in the future.

**Figure 3 – Expected Business Plan Development Process**



Therefore it is expected that the first draft of the next business plan (April 2001 – March 2004) will be presented to ELEXON's board meeting in November 2000. Following a review process, formal agreement to the document will be at the February 2001 meeting of ELEXON's board.

## Appendix B Review Schedule

There has been a comprehensive review of the ELEXON Business Plan by Ofgem, the BtFO Project Board and the future ELEXON Management Team, to identify where costs have needed to be updated.

Version	Date	Reviewer
v0.1	4 May 2000	Nicholas Durlacher (Chairman Elect BSCCo)
v0.1	4 May 2000	Brian Saunders (Programme Director & Chief Executive Elect BSCCo)
v0.1	4 May 2000	Liz Parminter (BtFO Project Board Chair)
v0.1	4 May 2000	Dorcas Batstone (Assistant Programme Director)
v0.1	4 May 2000	Linda Coe (Initial Company Secretary BSCCo)
v0.1	4 May 2000	Jane Eccles (Performance Management)
v0.1	4 May 2000	Peter Davies (SVA)
v0.1	4 May 2000	Denis Worth (Chief Executives Office)
v0.1	4 May 2000	Alan Bender (Chief Executives Office)
v0.1	4 May 2000	Ian Smyth (BtFO Project Manager)
v0.1	4 May 2000	Richard King-Scott (TM Project Manager)
v0.1	4 May 2000	Charles Wood (Denton Wilde Sapte)
v0.1	4 May 2000	Neil Cohen (BraRT Project Manager)
v0.1	4 May 2000	Gareth Forrester (LRCA Project Manager)
v0.1	4 May 2000	Stewart Gardiner (CaSM Project Manager)
v0.1	4 May 2000	Adrian Musto (CaSM)
v0.1	4 May 2000	Keith Messenger (CDA Project Manager)
v0.1	4 May 2000	Liz Rhodes (PMO)
v0.1	4 May 2000	Dawn Astbury (Communications)
v0.1	4 May 2000	Eric Tracy (Deloitte & Touche)
v0.1	4 May 2000	Julian Bagwell (BtFO Project Advisor)
v0.1	4 May 2000	Mike Bishop (BtFO Team Member)
v0.1	4 May 2000	Ed Everson (BtFO Team Member)
v0.1	4 May 2000	Donna Webster (BtFO Team Member)
v0.2	7 July 2000	Liz Parminter (BtFO Project Board Chair)
v0.2	7 July 2000	Nicholas Durlacher (ELEXON Chairman Elect)
v0.2	7 July 2000	Simon Skillings (Project Board)
v0.2	7 July 2000	John Over (Project Board)
v0.2	7 July 2000	Terry Brookshaw (Project Board)
v0.2	7 July 2000	Alan Moore (Project Board)
v0.2	7 July 2000	Helen Charlton (Project Board)
v0.2	7 July 2000	On website with comments on Chapter 3 invited.