ELEXON

Responding to feedback on the 2021/22 Elexon Business Plan

BSC Panel

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Summary — **This paper summarises the feedback from stakeholders and the discussion and decisions of Elexon's Board on addressing the feedback**

1. Feedback on the business plan and engagement with stakeholders

1.1 Since publishing the Business Plan on 18 December 2020, Elexon has engaged and received feedback in a number of ways.

a) Elexon held a webinar on 12 January 2021 attended by 23 external stakeholders, the highest number of participants since we have conducted these webinars. Three questions were raised and these and Elexon's responses are captured in Appendix 1.

b) Mark Bygraves and Peter Stanley met with Centrica following the webinar. Peter Stanley offered to talk to E.on following receipt of an emailed question (see below), but E.on did not take this opportunity.

1.2 Written comments were received from the following:

- The BSC Panel;
- Centrica (Andy Manning Head of Network Regulation & Governance); and
- E.on (Michael Lain, Industry Development and Wholesale Regulation Manager).

2. BSC Panel's feedback

2.1 The BSC Panel will be familiar with its own letter.

2.2 Two key points in that letter were:

- To ensure that significant progress on delivery of Elexon Kinnect is made in 2021/22 so as not to risk 'functional delivery of MHHS as well as compliance with many operational KPIs'; and
- A request that Elexon considers whether there is an alternative to returning unused budget to BSC Parties.

3. Centrica's feedback

3.1 Centrica provided feedback via a letter to Elexon the contents of which are consistent with the topics discussed in the meeting referred to above. The feedback provided in the letter was:

3.2 **A request that Elexon sets out the business case for upgrading to Kinnect, including a cost benefit analysis which considers the 'do nothing' option:**

'We recognise the importance of reliable systems capable of supporting the development of the industry, but we are unable to assess the merits of this investment from the information supplied in the Business Plan. This assessment would require the well justified business case, with cost-benefit analysis of all options considered

(including doing nothing). The analysis should consider a range of different scenarios for how the industry could develop placing different requirements on central systems. This analysis should be provided to all stakeholders to allow for effective engagement'.

3.3 **A request for steps to be taken to spread the cost of large investment programmes over a number of years:**

'However, we do not believe it is right that these significant costs that could serve the industry for many years to come are borne by market participants active within a single budget year. We therefore encourage Elexon to be more innovative when contracting out these services to ensure potential one off costs are, where possible, smeared over a number of years.'

3.4 **A request that Elexon commissions an audit of operational costs to demonstrate efficiency on spending:**

'We also note that Elexon has included an amount of £21.3m for operational costs which covers a proposed cost for 177.3 FTE staff. Although we have no specific concerns, we are unable to assess the efficiency of this spend as the Business Plan does not provide direct evidence, Potentially, Elexon could commission an independent audit of its operational costs with a view to giving parties the assurance that Elexon is operating efficiently.'

4. E.on's feedback

4.1 E.on's feedback was provided in a short email by Michael Lain. He asked for justification for the increase in spending on delivering Kinnect as E.on 'has seen continual industry cost increases since price cap took effect, which, in our view, does not adequately capture these increases.'

5. Addressing the feedback

5.1 The Board met on 3 February 2021 where the feedback from the webinar and the written comments were considered at length and agreed to add additional text in the Business Plan in response to the feedback:

● Some additional paragraphs in the digital platform section will be added, which explain further the business case for Elexon Kinnect, much of which has already been discussed with the Panel in 2017/18. This will include further arguments as to why 'doing nothing' increases risk to Settlement in the future. The Board noted that even though information had been provided in the past to industry via updates, webpages and during webinars and that it was not appropriate to repeat the rationale for previous decisions in each year's Business Plan, Elexon should recognise that this information was still very relevant and should be more clearly signposted. The Board further agreed that the Kinnect webpages should contain this rationale as well as more up to date information. Lastly, given that people move roles within BSC Parties, it was important to ensure that such information and webpages were targeted at readers who are both new and those with a longer history of experience with Kinnect.

● Adding in a paragraph explaining that the timescales (and costs) for delivering BSC change are higher for current BSC systems, because even simple changes can take over a year to implement (where at least a third of that is taken up in testing and regression testing of the current systems). This is a further justification of the need to move to Kinnect.

● Adding text into the overview section of the plan stating that although the BSC requires Elexon to repay unused funds to Parties (and a Modification would be needed to change this) Elexon notes requests from the Panel and other Parties to investigate alternatives to this so as to smooth the funding requirements. Therefore Elexon will seek the views of Parties, noting that some may prefer the return of unused budget whilst others may not. This could be by way of publishing a discussion paper or an Issue group on options that could be considered for Elexon retaining unused balances from one year, to use the following year.

● On the point of auditing operational costs, the Board considered the steps it already takes to ensure value for money, the customer survey responses on this topic (the 2020 survey showed the highest ever scores for value for money) and the published costs of other central bodies (noting that it was difficult to isolate comparable costs in some of those bodies). The Board concluded that nothing could be achieved on this topic by the time of publishing the final budget in March, but it would give the issue further consideration.

6. Other changes to the business plan

6.1 We also plan to amend the plan in certain places to update stakeholders on progress, and to mention the latest developments since publishing the plan in December. These include:

● Noting that the Kinnect customer solution is now live (and mention feedback we have received from users);

- Mentioning that Ofgem has proposed that Elexon takes on the MHHS Programme Manager role and that additional funding will be needed to deliver this work. We will make clear that whichever organisation is chosen for the PM role, Ofgem has already indicated that BSC Parties will be funding the costs. This will therefore lead to an increase in the BSC budget to fund this new role and it is likely that this new element of the budget (once known) will be published for comment later this year;
- Explaining the state of play on Project TERRE and Project MARI. (The Brexit trading cooperation agreement does not allow for GB to participate in cross border balancing arrangements, i.e. TERRE and MARI. We are therefore working further with National Grid ESO to determine the way ahead and will communicate further once a determination has been made);
- Giving updates on the progress of any other significant Modifications we have mentioned since the plan was published;
- Explaining further progress on expansion of the Market Domain Data set;
- Updating the section about reforming the System Operator roles and energy codes to mention Ofgem's new proposal for a fully independent ESO; and
- Referring in the overview section to Elexon's new agreed Corporate Purpose of 'Serving at the heart of the energy industry, building a path to net zero'.

7. Formal reply letters to the Panel, Centrica and E.on

7.1 In addition to amending the Business Plan, the Board discussed and agreed that Elexon would reply formally to the Panel, Centrica and E.on.

8. Recommendations

8.1 We invite the Panel to:

a) **NOTE** the responses received to the 2021/22 Elexon Business Plan.

Appendices

Appendix 1 - Questions and Answers at the webinar

For more information, please contact:

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Appendix 1 – Questions and Answers at the webinar

Q1 – Vibrant World (consultancy) Where can people find more detail on the progress of key Modifications?

A - We provide updates in a variety of ways including directly through the website (podcasts/information on webpages), through Newscast, the monthly Modifications report to the Panel, and the monthly pre-Panel briefing call.

Q2 – Solar Media (journalist) There were delays to implementing Kinnect in 2020 partly due to diverting resources to Project TERRE. What factors resulted in these delays?

A - Industry changes have a regulatory imposed deadline, and therefore have to take priority. Under TERRE we delivered a significant portion of the underlying Kinnect platform at the same time. The functionality for incorporating VLPs into our customer solution was part of the TERRE solution. Overall we didn't make as much progress as we anticipated, so we returned money to BSC Parties,

Q3 Centrica: Can Elexon share the options explored to mitigate risks of Settlement systems not keeping up with the rate of industry changes, and why the Kinnect approach is the right and most effective one?

A - Current systems deliver what's expected of them, because when we implement industry change, we have a rigorous testing process.

As the energy system becomes more decentralised with greater flexibility and aggregation it challenges structural elements of the way Settlement applications were built.

As a result we have to extend periods and costs for testing. Some changes that appear straightforward take over a year to implement, where at least a third of that is taken up in testing and regression testing.

Kinnect addresses this by having discreet, unique and containerised algorithms. We can replace or modify them more easily, and any testing can take place discreetly within a certain part an algorithm. Overall this makes it much easier to institute change across the code. Changes can be made more quickly and at reduced costs. Happy to discuss directly in more detail.