



Annual  
BSC Report  
2015/16

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## 01

# Chairman's report

By Michael Gibbons CBE FEI

As I approach the conclusion of my third year as Balancing and Settlement Code (BSC) Panel and ELEXON Chairman, there continues to be significant change

across the electricity market, from both a regulatory and technical perspective.

The impending conclusions of the Competition and Markets Authority investigation, the imminent EU Referendum, changes originating from Europe and ongoing developments involving Electricity Market Reform (EMR) and smart metering are all shaping an ever-evolving environment in which ELEXON and BSC Parties are operating. ELEXON's aim over the past year has remained as it always has: to deliver a reliable, consistent BSC Service while ensuring that the BSC and we are able to evolve to meet the changing demands of the market.

This report summarises ELEXON's work during 2015/16 in delivering the Code, and sets out the activities of the BSC Panel and its committees. I hope it highlights the hard work and expertise of my colleagues within ELEXON, and the commitment and dedication of our colleagues from across the industry that play such a key role in the successful functioning of the BSC through their participation on the BSC Panel, Panel Committees and various expert working groups.

## Key activities

Our 2015/16 Business Strategy was a continuation of the one we've been following since 2011/12.

The plan focussed on seeking improvements in our management of the BSC, where I am pleased to report we met all of our service key performance indicators (KPIs), received no customer complaints and introduced new service offerings and reports to our customers.

We also undertook horizon scanning for issues beyond the BSC that may have an impact on (or require changes to) the settlement processes.



These activities have helped ELEXON maintain its respected, independent expert status.

The 2015/16 Business Plan was based on our mission and vision, firmly grounded in maintaining our expert delivery of the core BSC Services, whilst also including provision for us to investigate approaches to manage and, where appropriate, change or replace the BSC systems' architecture and data provision.

Our customer base is broad and varied, so we aim to flex the services we provide to suit the needs of all our customers. Throughout 2015, we placed a particular focus on extending our senior level executive engagement. Our executive team's aim was to engage in strategic conversations with our customers to gain a greater understanding of their requirements of the BSC and Balancing and Settlement Code Company (BSCCo), and how they might like to see our services develop. Each executive team member has also been assigned responsibility for a Panel Committee, which they regularly attend in order to increase their oversight of the issues affecting some of our key stakeholders – our Panel Committee members.

In 2015/16, we maintained our watching brief over the key areas of change to provide guidance to the BSC Panel and support to the industry. For example, we contributed to the Competition and Markets Authority (CMA) investigation; have supported Department of Energy and Climate Change (DECC) and Ofgem in the development and implementation of policy such as Ofgem's Smarter Markets. We have also kept abreast of EU issues via our presence on the Market European Stakeholder Committee and, at Ofgem's request, took on the role of chairing and leading on the cross-code working group, which was tasked with delivering a report to Ofgem on remedies to address data quality issues. ELEXON has developed thinking with industry to develop changes to encourage greater take up of elective Half Hourly (HH) Settlement. We will work with Ofgem and the industry to develop the long-term goal for mandated HH Settlement. All of these activities enhance ELEXON's reputation as independent industry trusted advisors.

In May 2015, DECC extended our existing contract to provide the Warm Homes Reconciliation Service by up to an additional two years. This is a real example of ELEXON using its skills and expertise more widely than the original constraints of the BSC for the benefit of BSC Parties and the wider industry. In addition, 2015/16 marked the first full year of operation of our EMR settlement activity. We've broadened our offering to industry through delivery of EMR activities, providing financial benefit to BSC Parties and increasing the breadth of opportunities available to our staff.

Other significant areas of work included the progression of a number of Modifications to the BSC to amend cash-out and to mandate Half Hourly Settlement for profile classes 5-8. We also worked with the Performance Assurance Board (PAB) to focus its assurance activities on areas identified by the BSC Auditor as requiring attention, including commissioning, current transformer (CT) ratios, proving tests and change of measurement class. In addition, we worked with the BSC Panel and BSCCo Board to progress improvements to the governance arrangements. The findings of the Knight Report initially prompted this work.

Over the past year, the BSC Panel has reviewed its own governance arrangements and worked with the BSCCo Board to identify an improved BSC Governance regime. Implementation of both of these pieces of work will continue into 2016/17.

We are always conscious of the fact that BSC Parties fund our activities, and that we have a responsibility to ensure value for money through controlled financial management, by delivering innovation in partnership with our service providers and by securing best value from our contracts and commercial relationships. Our 2015 customer survey results in terms of satisfaction, value for money and advocacy were higher than ever before. Although the need to stabilise central systems will put upwards pressure on our overall budget over the next 12 months and beyond, we still want to maintain and improve our delivery on value for money. A significant proportion of the cost of delivering the BSC arrangements comes from contracted expenditure on the BSC Agents. In 2015/16 year, we undertook a review of our sourcing options in respect of two of our key outsourced contracts. As part of the review, we refined our requirements and re-negotiated our contractual arrangements, extending the existing Business Process Operate and Host (BPO) contract with CGI and also transferring the Application Management and Development (AMD) services to CGI. This has enabled us to secure savings in excess of £2.7m over three years, which will be passed on directly to BSC Parties.

### Looking ahead

Undoubtedly, the year ahead will continue to be characterised by change for all Parties operating within the energy industry. We wait for the imminent publication of the CMA's findings, and will continue to work with Ofgem, the BSC Panel and colleagues across the industry on understanding and addressing the impacts on Settlement and the role of BSCCo. The same applies to the myriad of changes coming from Europe.

At the time of writing, the Authority has recently approved Modification P330, which enables ELEXON to extend its services and apply its existing skills and expertise into the gas assurance arena. This is an interesting opportunity for ELEXON, and we await information on the tender. Whatever we decide, we will engage with the industry on our position, at an appropriate time.

We have noted the direction of travel towards licensing for code bodies suggested by the CMA and advocated by Ofgem. We are cautious as to whether the introduction of licensing with its necessary compliance overheads and complexity is the proportionate remedy to the CMA's expressed concern regarding slowness of industry change, particularly given the existing BSC provisions enabling Ofgem oversight and intervention. We are also mindful that the services most valued by our customers and stakeholders, such as our Operational Support Manager (OSM) service, access to our experts, training and support of industry initiatives and policy changes, none of which are individually charged for, would be put at risk by the introduction of a commercial, for profit, licensed approach to our activities. Over the last decade, we have reduced our annual costs by over 60%, which has been immediately passed on to BSC Parties rather than them having to wait for the next reprocurement of our services. This reduction has been achieved, not through regulatory oversight, but through sound management and an ethos of service to industry.

### BSC Panel membership

The BSC Panel has experienced twelve months of relative stability, with limited change to BSC Panel membership. This year we welcomed Diane Dowdell as a new, Chair-appointed Panel member. Unfortunately, we said goodbye to Philip Baker and Chris Alexander who both stood down from the Panel. Richard Hall is covering Chris's departure on a temporary basis. I am very keen that the Panel meets its full complement of two consumer representatives, and I have asked my ELEXON colleagues to work with Citizens Advice to achieve this.

I would like to extend my personal thanks to all of the BSC Panel members (and their alternates) for their support, knowledge, challenge and robust debate throughout the year.

Looking forward, I should note that 2016 is an election year for the BSC Panel, so I anticipate the potential for changes around the Panel table. I would like to encourage all BSC Parties to take an active part in both nominating potential new Panel members and voting for their preferred candidates.

### ELEXON Board membership

This year we thanked and said goodbye to Nigel Cornwall, after many years of service to the ELEXON Board, and welcomed Clare Duffy who joined the Board in November as the third Industry Non-Executive Director.

### Michael Gibbons CBE FEI

BSC Panel and BSCCo Chairman

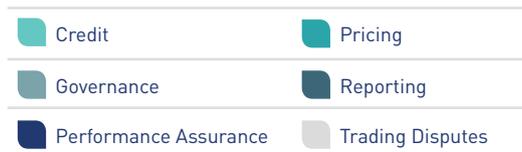
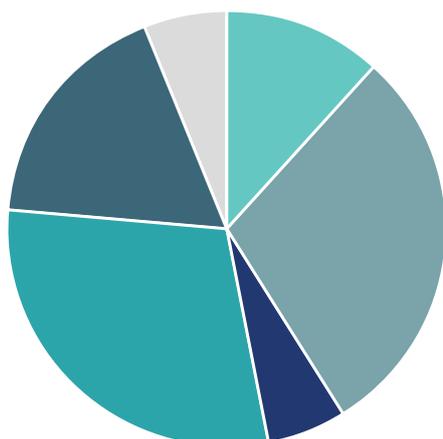
#### The year in brief

- 17 Modification Proposals were raised.
- 22 Change Proposals (CP1439-CP1460) were raised.
- 48 Trading Disputes were raised.
- Across three BSC Releases, ELEXON implemented 10 approved Modifications and 26 approved Change Proposals.
- A clean BSC Audit (not qualified).
- 1,820 Settlement Runs were carried out.
- Between £316m and £374m with an average of £339m of Credit was held.
- 45 new BSC Parties registered during the year.
- 2.5 million Energy Contract Volume Notifications (ECVNs) received.
- Actively reviewed 49 external consultations during the year and responded to 25.

# 02 Modifications and Change

Modification Status	2014-15	Modifications
Pending Authority determination at 31 March 2016	1	P329
Modifications raised	17	P321, P322, P323, P324, P325, P326, P327, P328, P329, P330, P331, P332, P333, P334, P335, P336, P337
Modifications withdrawn	1	P334
Submitted to the Authority	7	P302, P315, P320, P322, P323, P328, P329
Modifications with alternative solutions	6	P305, P315, P316, P322, P326, P329
Approved by the Authority	7	P302, P305, P315, P320, P322, P323, P328
Rejected by the Authority	0	N/A
Urgent Modifications rejected by the Authority	0	N/A
Self-Governance Modifications approved by the BSC Panel	6	P317, P318, P319, P321, P327, P331
Self-Governance Modifications rejected by the BSC Panel	0	N/A
Fast Track Self-Governance Modifications approved by the BSC Panel	2	P327, P328
Implemented	12	P300, P305, P307, P309, P310, P317, P318, P319, P322, P323, P327, P328

MODIFICATIONS RAISED BY AREA



## Modifications

Seventeen (17) Modifications were raised last year, in the following areas:

### Governance

#### **P324: Reviewing BSCCo's governance introduces improved accountability to BSC Parties.**

This addresses the issues identified in the Knight Review, an independent review of ELEXON's governance arrangements jointly commissioned by the BSCCo Board and BSC Panel. These issues broadly fall into three categories: accountability, Director's appointments, and setting the BSCCo Business Strategy.

#### **P325 proposes to amend the BSC to make BSCCo (ELEXON) accountable to its shareholders by issuing shares in BSCCo to BSC Parties, in proportion to their annual funding share(s).**

In addition, allow those parties to release or receive additional shares; and allow Distribution Network Operators (DNOs) and New Entrants to obtain shares. This in turn will allow BSCCo to operate a governance model entirely consistent with the UK Corporate Governance Code.

#### **P327 proposes minor changes to the approved legal text for P305 to correct some minor inconsistencies and improve the clarity of some new definitions.**

#### **P330 allows ELEXON to tender for the Uniform Network Code (UNC) Gas Performance Assurance Framework Administrator (PAFA) role.**

UNC Modification 506 seeks to introduce performance assurance arrangements into the gas market for the first time, and requires a competitive tender exercise to appoint an independent Gas Performance Assurance Framework Administrator (PAFA). This Modification therefore seeks to amend the BSC arrangements to allow ELEXON to bid for the Gas PAFA contract.

#### **P332 seeks to revise the Supplier Hub Principle.**

This addresses issues associated with customers choosing Party Agents, instead of Party Agents being appointed by Suppliers. It is envisaged that this will be done by making Party Agents signatories to the BSC.

## Pricing

**P323 enables inclusion and treatment of Supplemental Balancing Reserve (SBR) in the Imbalance Price.** This allows a Bid Offer acceptance (BOA) price that goes into the imbalance price calculation, to be different to the price(s) that go into the calculation of Balancing Mechanism (BM) cash flows.

#### **P328 amends the definitions of Supplemental Balancing Reserve (SBR) and SBR Action in the BSC as modified by P323 'Enabling inclusion and treatment of SBR in the Imbalance Price'.**

This aligns the definitions with the recent changes to the C16 Licence Statements: Balancing Services Adjustment Data (BSAD) and System Management Action Flagging (SMAF) Methodology Statements, which the Authority has approved.

#### **P333 enables inclusion of Demand Side Balancing Reserve (DSBR) volumes in the cash-out price in time for publication after the end of the Settlement Period.**

This addresses the contention that not including DSBR volumes in cash-out until the 11 Settlement Run, five days after the relevant Settlement Day, could result in misleading signals to market participants. P333 requires the Transmission Company to provide its best estimate of DSBR volumes as part of its initial submission of Balancing Services Adjustment Data.

#### **P334 enables inclusion of Non Balancing Mechanism (BM) Short Term Operating Reserve (STOR) costs and volumes into the cash-out price in time for publication after the end of the Settlement Period.**

Non Balancing Mechanism (BM) Short Term Operating Reserve (STOR) data is currently required to be included in the initial estimated Balancing Services Adjustment Data (BSAD) submitted by the Transmission Company and used to calculate cash-out prices following a Settlement Period. Individual items of BSAD are not currently identified in the BSC. P334 would specify in the BSC that Non-BM STOR data is included in the initial BSAD submission.

**P335 seeks to facilitate the submission of non-BM STOR costs and volumes such that they can be included in the indicative cash-out price.** The aim is to improve the incentivising signals provided by cash-out and facilitate optimal trading decisions by participants.

### Reporting

**P321 enables publishing information on the direction of delivery (delivering or offtaking) of Trading Units, particularly for each Grid Supply Point (GSP) Group, in each Settlement Period.**

This information can currently be obtained through Balancing Services Use of System (BSUoS) bills and Transmission Loss Multiplier (TLM) values.

**P329 aligns the BSC and Balancing Mechanism Reporting Service (BMRS) with the Regulation on Wholesale Energy Markets Integrity and Transparency (REMIT) common schemas for inside information web feeds, required by the Agency for the Cooperation of Energy Regulators (ACER).**

**P336 proposes to add 'biomass' as a specific fuel type category reported on the Balancing Mechanism Reporting Service (BMRS).** It also seeks to allow the Panel to approve further fuel types without needing to raise a Modification.

### Credit

**P326 introduces a method to account for reductions in Supplier demand on non-Working Days within the Credit Cover calculations.**

This would allow the calculation to better reflect actual demand and increase the accuracy of the level of Credit Cover that Parties are required to lodge.

**P337 extends the payment timescales for Quarter Date Advice Notes below the Advice Note Threshold Limit (ANTL) of £500 from three Business Days to 15 Business Days.**

### Performance Assurance

**P322 introduces new arrangements to migrate sites classes as Profile Class (PC) 5-8 with Advanced Meters installed to Half Hourly (HH) Settlement under the P272 obligations**

### Trading Disputes

**P331 extends the Dispute Deadline for Settlement Errors at the Post-Final Settlement Run** from one month to up to two months under exceptional circumstances and at the discretion of the Trading Disputes Committee or the Panel.

### Issues

During the past year, four Issues were raised for consideration by industry Workgroups. No issues are currently open.

**Issue 60: Interfaces between the Trans-European Replacement Reserves Exchange (Project TERRE) and the current GB market arrangements.**

TERRE aims to harmonise the Transmission System Operator (TSO) dispatch of Replacement Reserve (RR) across seven TSO areas from Great Britain (GB) to Greece. It will do this by introducing common TERRE Products, which would be akin to products such as Balancing and Settlement Code (BSC) Bid-Offers or Short Term Operating Reserve (STOR) submissions.

National Grid is expected to utilise TERRE Products for energy balancing in GB from TERRE go-live, which is currently scheduled for summer 2017. As all current GB balancing products feed into the BSC calculations of imbalance prices and volumes, the Proposer considers that the relevant TERRE Products should do so too, as soon as they start to be used as part of GB balancing. This will require changes to the GB market arrangements (BSC and/or Balancing Services arrangements). Issue 60 was closed because no firm conclusions could be reached. The expectation is that the Modification process will provide the structure for a Workgroup to complete the work. The Issue Group's conclusions were noted at the March 2016 BSC Panel meeting.

**Issue 61: Changes to Gate Closure for Energy Contract Volume Notifications.** The issue Group considered allowing Energy Contract Volume Notifications (ECVNs) and Metered Volume Reallocation Notifications (MVRNs) to be submitted after Gate Closure, up to a new notification submission deadline. The proposed solution would be to introduce the concept of a 'Final ECVN Submission Time'. This time would be decoupled from the current Gate Closure time and could be set to 30 minutes after the end of the relevant Settlement Period. This would permit energy trading to continue until the indicative imbalance price had been set. Subsequent to this, any references to Gate Closure across Core Industry Documents may be required to be amended to refer to 'Final ECVN Submission Time' if relevant to ECVNs as opposed to physical dispatch of plant. The Issue Group's conclusions were noted at the March 2016 BSC Panel meeting.

**Issue 62: Amending the BSC arrangements to allow ELEXON to tender for the Uniform Network Code Gas Performance Assurance Framework Administrator (PAFA) role.**

Under the gas Uniform Network Code (UNC), there are two Modifications, which are seeking to introduce performance assurance arrangements into the gas market for the first time:

- MOD506 seeks a competitive tender exercise run by the Gas Transporters (distribution companies) to appoint an independent administrator (Gas Performance Assurance Framework Administrator (PAFA))
- MOD506A seeks to give the performance assurance role to Xoserve

The Issue 62 Proposer believes that ELEXON has significant experience and understanding of performance assurance techniques in the energy industry and has transferable skills and knowledge that would potentially meet the criteria for the appointment of the PAFA, should Ofgem approve MOD506. The Proposer would therefore like to explore the potential for the BSC arrangements to be changed to allow ELEXON to bid for the gas PAFA contract.

The Workgroup by majority believed that P330 better facilitated **Applicable BSC Objective (d)** compared to the baseline and therefore recommends that P330 is approved. The Issue Group's conclusions were noted at the May 2016 BSC Panel meeting.

**Issue 63: Improved reporting of event history and profile availability during outage events on the BMRS REMIT pages.** The intention was to look at the way Regulation on Energy Market Integrity and Transparency (REMIT) information is submitted and published on the Balancing Mechanism Reporting Service (BMRS) where a reported outage consists of multiple availability levels during the course of the event. However, the proposer withdrew Issue 63 as the solution was adopted in to the P329 Proposed and Alternative Modifications.

### Implementation of Change

This year, ELEXON implemented 12 Approved Modifications and 27 approved Change Proposals – a significant increase over last year (two Modifications and 20 Change Proposals).

We implemented 10 Modifications and 26 Change Proposals across three planned BSC Releases. Two Modification Proposals and one CP were implemented outside of a planned BSC Release.

MODIFICATIONS AND CHANGE PROPOSALS IMPLEMENTED WITH RELEASE MONTH

June 2015	November 2015	February 2016	Standalone
P307	P300	P318	P322
P310	P305	CP1443	P328
P317	P309	CP1449	CP1445
CP1409	P319	CP1450	
CP1411	P323	CP1451	
CP1415	P327		
CP1416	CP1430		
CP1417	CP1431		
CP1424	CP1432		
CP1426	CP1436		
CP1428	CP1437		
CP1429	CP1438		
CP1433	CP1439		
CP1435	CP1440		
	CP1441		
	CP1442		
	CP1444		

**BSC Panel Committees**

The BSC Panel’s thanks go to all present and past members of BSC Panel Committees who have given their time and expertise to support the BSC Panel and the industry. To get a fuller picture of the Committees and their work over the past year, please see the [ELEXON Quarterly Reports](#) and the [Committee pages](#) on the ELEXON website.

A brief summary of the work of each committee is included in [Appendix 1](#) at the end of this report.

**BSC Panel summary**

The BSC Panel’s overall focus remained on the delivery of its BSC obligations and the ongoing provision of BSC Services while maintaining an overview of, and taking into account, key changes going on within the industry.

The Panel’s main priorities have continued to be the protection, maintenance and efficient management of the balancing and settlement arrangements as they exist today while looking ahead to the evolution of the market to see how the balancing and settlement arrangements must adapt.

Areas of particular interest for the Panel are developments originating from Europe and the output of the Competition and Markets Authority (CMA) investigation.

In addition, the BSC Panel has continued to discharge its non-Modification responsibilities during 2015/16, relating to:

- Assurance and Disputes
- Cash-out and Credit
- Panel Governance and change
- Impacts arising from new market structures in GB and Europe
- Improvements to Settlement processes
- Reporting and operations

Key non-Modification activities of the BSC Panel in 2015/16 have included:

#### Assurance & Disputes

As in previous years, the BSC Panel considered the annual reports of the Technical Assurance Agent, the Balancing Mechanism (BM) Auditor and the BSC Auditor (including the findings of the Funding Shares Audit). It set the scope for the BSC Audit for 2016/17 and the Funding Shares Audit for 2015/16 and appointed the BM Auditor for the period 1 October 2015 to 30 September 2016.

Ad-hoc work included making resolutions in relation to a number of Section H Defaults and endorsing the progression of recommendations to address issues identified in the course of considering a previous Trading Dispute. The Panel received an update on the sequence of events relating to a particularly materially significant Trading Dispute.

#### Cash-out and Credit

The BSC Panel considered and agreed with the Imbalance Settlement Group's (ISG's) recommendations that no change should be made to the Market Index Definition Statement (MIDS) and that an Issue Group should be formed to discuss the price to apply when the Net Imbalance Volume equals zero.

The Panel received several updates following meetings of the Credit Committee and noted the process for changing the parameters used in the CAP review process and a new notice period for implementing revised CAP values. The Credit Committee sought the Panel's approval to consult on proposals to improve the CAP review and implementation processes. The Panel noted the consultation responses received, approved changes to the CAP Review Guidance documentation and endorsed a series of amendments to the CAP Review process to be introduced via a Modification to the Code.

The Panel also received a summary of ELEXON's review of Credit Cover-related BSC Modifications (P306, P307 and P310) implemented in the November 2014 and June 2015 BSC Releases. P310 had the most positive impact, measured by a reduction in total credit lodged of £5.2m. The review also identified a further £7.6m in lodged credit that could be withdrawn.

On the recommendation of the Supplier Volume Allocation Group, the BSC Panel agreed that there should be no review of GSP Group Correction Scaling Weights in 2016.

### Panel Governance and change

In November 2015, the BSC Panel developed and approved a revised version of the BSC Panel Strategy and Strategic Work Programme of activities, which it reviewed and updated regularly throughout the year. This document was used to feed into the 2016/17 BSCCo Business Strategy, which was approved by the Panel in February 2016.

The Panel approved the appointment of a new Panel Secretary and noted the appointment of a new Modifications Secretary. The outgoing secretaries were thanked for their hard work and support to the BSC Panel. In addition, the BSC Panel appointed new members of the Trading Disputes Committee (TDC) and Suppliers Volume Allocation Group (SVG) and alternate members of the PAB, TDC, Q8 Committee and Warm Homes Discount Reconciliation Disputes Committee. The Panel also re-established the BSC Panel Chairman Nomination Committee as a sub-committee of the BSC Panel and approved a process for the recommendation to the Authority of the BSC Panel Chairman's reappointment when his current tenure expires in October 2016.

The Panel instructed ELEXON to work with other Code Administrators to introduce a new Code Administration Code of Practice (CACoP) Principle on cross-code coordination and consulted BSC Parties on the proposed revisions.

### Impacts arising from new market structures in GB and Europe

The Panel has continued to monitor developments both within the UK and those decreed from Europe that will have an impact on the BSC. The Panel received regular updates from Ofgem, National Grid and ELEXON on the application of European Network Codes, longer term Settlement Reform and the likely outcomes of the CMA Energy Market Investigation. The Panel has provided its own support to these areas of work and endorsed ELEXON's provision of resource and expertise to them.

Throughout the year, ELEXON provided regular updates to the Panel on the progress of work undertaken by ELEXON's subsidiary, EMR Settlement Limited (EMRS) in its role as the EMR Settlement Services Provider.

### Improvements to Settlement processes

The Panel established a new Panel advisory committee, the Settlement Reform Advisory Group (SRAG), in order to assist in developing solutions to address small-scale Settlement issues relating to the balancing arrangements. Once the SRAG had concluded its work on investigating improvements to Settlement processes, the Panel noted the group's recommendations and with Ofgem having initiated its settlement reform project into which the SRAG findings are being fed, the Panel agreed that the group could be stood down.

### Reporting and operations

The Panel received updates from ELEXON on its delivery of key strategic activities. In addition, an overview of lessons learnt, actions taken and fixes implemented was provided to the Panel on the failure of Modification P269, which was implemented in February 2012 but failed to have the correct impact when conditions for its activation were first met on 1 June 2015.

The Panel has also received monthly updates on issues relating to Modification P272 'Mandatory Half Hourly Settlement for Profile Classes 5-8', in particular on the progress of Suppliers against their P272 migration plans.

In addition, the BSC Panel agreed a reduction of the Suppliers Volume Allocation (SVA) Specified Charge from £0.60 per Metering System Identifier (MSID) per month to £0.35 per MSID per month and a reduction of the Notified Volume Charge from £0.0006 per MWh per month to £0.00053 per MWh per month.

### Panel election

The BSC Panel plays an important role in helping to ensure that the provisions of the BSC are given effect; it must do so promptly, fairly, economically, efficiently, transparently and in such a manner as will promote effective competition in the generation, supply, sale and purchase of electricity.

Panel Members are appointed by election (in the case of Industry Members) or by appointment by

the Panel Chairman (in the case of Independent Members), the Transmission Company and Citizens Advice/Citizens Advice Scotland as appropriate.

ELEXON facilitates the nomination, election and appointment of Industry BSC Panel Members. The current Industry Members' term of office expires in September 2016. The term of newly elected Panel Members will start on 1 October 2016. The election process will run through summer 2016.

#### DETAILS OF PANEL MEMBER ATTENDANCE AT MEETINGS HELD FROM OCTOBER 2014 TO JUNE 2016 ARE BELOW:

Number of BSC Panel meetings (Scheduled and ad-hoc)	Oct 2014 – Sept 2015	Oct 2015 – June 2016
<b>Name of Panel member</b>		
Michael Gibbons	14 (14)	9 (9)
Chris Alexander (resigned end Feb 2016)	10 (14)	3 (5)
Phil Baker (resigned end Dec 2015)	12 (14)	n/a
Peter Bolitho <sup>IA</sup>	11 (14)	7 (9)
Richard Brealey (resigned end March 2015)	6 (7)	n/a
Bob Brown <sup>IA</sup>	11 (14)	8 (9)
Derek Bunn (appointed April 2015)	6 (7)	6 (9)
Andy Colley <sup>IA</sup>	13 (14)	9 (9)
Stuart Cotten <sup>IA</sup>	14 (14)	7 (9)
Diane Dowdell (appointed Jan 2016)	n/a	5 (6)
Alex Haffner (appointed March 2016)	n/a	5 (5)
Richard Hall (appointed March 2016)	n/a	2 (4)
Phil Hare	14 (14)	8 (9)
Ian Pashley (resigned end Feb 2016)	12 (14)	4 (4)
Barbara Vest <sup>IA</sup>	6 (14)	4 (9)

<sup>IA</sup> Indicates Industry Appointed Panel Members

Bracketed figures show the number of meetings the member was eligible to attend.

## 03

# Business Review

This is a review of our core BSC activities during 2015/16.

## Progress on delivery of our Application Strategy (Business Process and Reporting (BPR))

We are progressing with establishing a revised reporting suite that brings together the diverse set of applications, which we use to provide our reports, analysis and assurance services to BSC Parties, the BSC Panel and its committees. During 2015/16, we began the process of internal business acceptance testing before we go live with the system. Once live, this new platform will help to focus on a number of key business processes (Estimated Annual Consumption (EAC)/Annualised Advances (AA) reporting and Operational Support Manager (OSM) performance reports). As well as the standard reporting, we will be able to combine data in the data warehouse to create new reports which will be insightful and beneficial for our customers.

## BSC Systems Strategy

This year we began the implementation of our approach to consolidate our central system services under a single provider. We are bringing both our Application Management and Development (AMD) and our Business Processing and operation (BPO) under one provider to ensure greater efficiency in delivering change and to bring costs savings to our customers. This work will be completed during 2016/17.

In parallel we developed our **BSC Systems Roadmap** which sets out a seven year view of the changes that will affect BSC (and BSC Party/wider industry) systems.

The roadmap is used by ELEXON to better coordinate the delivery of change, plan technology upgrades and identify potential future peaks in change. This tool will also help us understand when we may need to invest more in systems in the future. The roadmap includes the impacts arising from GB and European political and regulatory change programmes as well as the funnel of change brought forward through the BSC Modification and Change Proposal processes. We have shared the roadmap with BSC Parties who have warmly welcomed the information as it helps them manage their own system planning.

## Implementing the new Balancing Mechanism Reporting System (BMRS) platform

We delivered the second of our three phases for the new Balancing Mechanism Reporting Service (BMRS) in July 2015. Phase 2 allowed additional raw National Grid data to be accessed via the RESTful Application Programming Interfaces (APIs) and introduced an additional service, Data Push Service, allowing near real time data to be pushed to users via an internet connection.

During Phase 3, we have implemented the calculations engine on new BMRS, which will include derived data, such as system prices, and built a new website user interface (UI). When Phase 3 is delivered, users will have programmatic access to all BMRS data through the API and/or Data Push Service and the legacy BMRS website will be replaced with a brand new website.

We continued to engage with users during the course of the project and we are grateful for the feedback and learning we received after Phase 2. We are using the feedback to help us improve development for Phase 3.

Phase 3 will deliver the remaining functionality for all BMRS data, including imbalance prices, migration of the BMRS calculations and will finalise a new front-end web server and user interface for all BMRS published data. All data will be available through all channels, including TIBCO, RESTful API and the Push Data Service.

### Provision of information and support to the Competition and Markets Authority (CMA)

In 2014, Ofgem referred the energy markets to the CMA for a market investigation. In October of that year, ELEXON's Chairman and the BSC Panel Deputy Chairman spoke at a hearing of the CMA. The CMA sought information on industry codes, and the roles and governance of the Balancing and Settlement Code Panel and ELEXON. We have continued to provide data and information to the CMA throughout 2015/16.

We responded to the CMA's provisional findings and notice of possible remedies in July 2015, expressing concern in relation to a number of potential remedies and making a number of observations regarding the potential for greater cross-code coordination to assist in facilitating competition.

Representatives from ELEXON, including the Chairman and representatives from the BSC Panel subsequently participated in a range of meetings held with the CMA throughout 2015/16 to offer expert input on BSC governance, zonal transmission losses, half-hourly settlement and the extent to which existing provisions might support time of use tariffs.

In April 2016, we responded to the CMA's provisional decision on remedies. We emphasised that the overall outcome of the CMA's review should be to reduce complexity and costs to existing parties and new entrants, to facilitate competition and not to have the opposite effect. We expressed our continued support for the move towards half-hourly settlement and agreed there may be merit in a re-set of responsibilities with respect to industry code governance. We disagreed, however, with the proposed licencing regime for code bodies. We remain concerned that the implementation of a licencing regime may introduce additional cost and complexity into the regulatory landscape.

The advice notes we provided to the CMA, together with our responses to the CMA's consultations on its findings are available on the [Industry Insights](#) page of the ELEXON website.

### Ofgem's Third Review of Industry Code Governance (CGR3)

Ofgem launched its third review of industry code governance (CGR3) in 2015. ELEXON responded to Ofgem's October 2015 consultation and participated in its code administrator workshop in December 2015. Ofgem published its final proposals in March 2016.

As part of this review, we have worked with other code administrators to agree a joint approach to progressing cross-cutting change. **This approach is published** on the ELEXON website. We have also published Ofgem's agreed view of the key aspects of a code administrator 'critical friend' service.

Ofgem wrote to code administrators and code panels in May 2016 requesting that each provide Ofgem with their plans to implement the final CGR3 proposals by early June 2016. The BSC Panel considered and approved ELEXON's initial plan at its meeting in May 2016.

We will continue to work with Ofgem, the BSC Panel and other code panels and code administrators to implement the findings of Ofgem's review through the second half of 2016 and beyond.

### Settlement Reform Advisory Group

The BSC Panel established the **Settlement Reform Advisory Group (SRAG)** in July 2015 to investigate improvements to the Settlement process. This was building upon the previous work of the **Profiling and Settlement Reform Group (PSRG)**. The SRAG's main objective was to identify short-term Settlement changes to better facilitate elective Half Hourly (HH) Settlement for smaller energy usage customers. The SRAG were also requested to look at the impact of embedded generation on Settlement.

ELEXON presented its final report to BSC Panel (**SRAG249/13A**) in February 2016. The BSC Panel welcomed and agreed the report's findings, and thanked ELEXON and the SRAG for completing their work. The Panel also agreed that the SRAG be stood down and that Ofgem would take up any further work in their proposed work on Half Hourly Settlement.

The SRAG recommended changes to improve data transfer processes for smart meter data from Suppliers to their Agents. They also recommended removal of processes (such as proving and protocol testing) which are not necessary for smart meters. Furthermore, changes to reduce validation and estimation requirements and changes to address potential inaccuracies in the precision used in data flows that contain HH data for smart meters were also endorsed for progression.

ELEXON is currently progressing these changes. Ofgem sees this work as a key element to improve the elective half-hourly market and recognises the importance of ELEXON expertise and leadership in this area.

#### **BSC Audit**

KPMG completed its work for 2015/16 encompassing all Reconciliation Runs processed in the year, with its scope of work covering all Settlement Days from 14 February 2014 to 31 March 2016. KPMG presented its final report to the BSC Panel in June 2016.

The BSC audit opinion was unqualified, with the volume of error identified falling below the audit materiality threshold of 1.4TWh. However, the Auditor observed deterioration in comparison with the 2014/15 audit period in BSC compliance by Meter Operator Agents, IT system issues causing a drop in settlement performance and an increase in the magnitude of disputes relating to metering issues. The Auditor also reported that certain legacy audit issues have been closed or reduced in severity because of efforts by ELEXON, market participants and the PAB.

Key areas of concern remain unchanged from previous years, i.e.:

1. Issues relating to metering
2. Data quality issues in the Non Half Hourly Market

The Auditor's findings are a key information source for ELEXON's work on Settlement Risks, and the report is available on the Performance Assurance section of the ELEXON website. ELEXON's response to these findings will be included in the Annual Performance Assurance Report 2015/16, which will be published later this year.

Looking forward, ELEXON, the PAB and the BSC Auditor will continue to review and enhance the performance assurance techniques and to tackle the issues identified in the 2015/16 Audit using the corrective tools available within the Performance Assurance Framework (PAF) and with targeted support to organisations through our Operational Support Manager (OSM) network.

#### **Technical Assurance Agent (TAA)**

In its role as TAA, C&C Group, provide the Technical Assurance of Metering Service on behalf of ELEXON. This service involves visiting customer sites, ensuring that the meters installed meet ELEXON's requirements and provide accurate data for electricity settlement processes. In turn this gives ELEXON's stakeholders confidence that electricity Settlement operates efficiently and accurately.

In its Technical Assurance of Metering Systems Annual Report, presented to the Panel in June 2016, the TAA reported a reduction in the number of Category 1 non-compliances in the SVA market compared to the previous two years. This reduction can be attributed to a reduced number of major timing issues and a reduction in instances of malfunctioning Metering Equipment. However, the TAA did identify an increase in occurrences of incorrect Current Transformer Ratios. This was identified through targeted sampling to inspect metering systems commissioned after the introduction of Modification P283, 'Reinforcing the Commissioning of Metering Equipment Processes', in November 2014.

In the Central Volume Allocation (CVA) market, two Category 1 non-compliances were identified because of an Outstation time drift and an inappropriate Meter Registration. Both issues have since been rectified. The number of Category 2 non-compliances reduced from 354 in the 2014/15 period to less than 300 in 2015/16. Improvements have been attributed to reductions in commissioning and calibration certificate related non-compliances.

#### Trading Disputes referred to the BSC Panel

No Trading Disputes were referred to the BSC Panel during the 2015/16 reporting period. However, the Panel did receive an update on the lessons learnt exercise conducted following Trading Dispute DA686, which was referred to the Panel in January 2015.

Because of this exercise, the Panel endorsed the progression of changes to the disputes process to automate elements of the Post-Final Settlement Run process, automate validation of volume outputs during Settlement Runs and extend the Dispute Deadline for Settlement Errors at the Post-Final Settlement Run.

#### Performance Assurance Framework focus: Continued monitoring of Change of Measurement Class

Throughout 2015/16, the PAB has had an ongoing role in Modification P272, Mandatory Half Hourly Settlement for Profile Classes 5-8. The PAB has been, and will continue to, monitor migration plans from Suppliers, Data Collectors and Distribution Network Operators tracking their compliance with P272.

Modification P320, 'Reporting on Profile Classes 5-8 Metering Systems after the implementation of P272' was approved in September 2015 and is awaiting implementation. It will introduce a report to enable the PAB to monitor non-compliance against P272.

Modification P322, 'Revised Implementation Arrangements for Mandatory Half Hourly Settlement for Profile Classes 5-8', was raised in April 2015 and treated as an Urgent Modification. It proposed new arrangements to migrate sites, classed as Profile Class (PC) 5-8 with Advanced Meters installed, to Half Hourly (HH) Settlement under the P272 obligations.

With the support of ELEXON, the PAB will continue to focus on activities relating to P272 and Change of Measurement Class over the coming year.

#### Change to ELEXON's vires

On 15 May 2015, following statutory consultation by Ofgem, the Transmission Licence was amended to allow the consideration of BSC Modifications designed to allow ELEXON to undertake non-BSC work.

On its own, the amendment to the Transmission Licence does not permit ELEXON (as the BSCCo) to deliver non-BSC services. Nor does it compel National Grid or any other Party to raise a Modification to the BSC (a vires Modification) in relation to ELEXON's vires. The licence change simply enables the BSC to be changed by a Modification to permit ELEXON to undertake non-BSC activities, but always subject to Authority consent.

This is a significant step forward for ELEXON, and one that unlocks the potential for us to apply our skills to areas beyond the BSC where BSC Parties and we believe there is benefit in us doing so.

### Customer operations

ELEXON continues to offer customised operational support to customers entering, operating in or exiting the market, including guidance and training on many different aspects of the market, monitoring of performance and support in the resolution of their performance and Audit issues.

During 2015/16 ELEXON conducted 51 meetings with potential new entrants, 48 customers acceded to the Code and nine customers left the market. During this time, ELEXON also managed 24 qualification and two re-qualification applications. Our Operational Support Managers (OSMs) carried out 186 meetings with customers and conducted 34 training sessions on topics such as an introduction to Supplier Volume Allocation (SVA), Performance Assurance Reporting and Monitoring System (PARMS) and the Performance Assurance Framework. Our training has always been well received and valued by our customers. Therefore, in direct response to feedback, and to support our organised training days as well as the face-to-face training sessions with our OSMs, we rolled out some online training videos on our website and through our OSMs to make training on frequently queried areas more available.

We hosted five 'Introducing ELEXON' seminars during the year. The seminars are targeted for new entrants to the market, or anyone who has changed roles and wants to learn more about ELEXON's activities within the market.

It provides an overview of the balancing mechanism and imbalance settlement processes, and includes presentations from ELEXON and other key organisations from across the industry, such as National Grid, Ofgem and Nord Pool Spot. This year we introduced lunchtime workshops on topics such as Market Entry, Credit and Trading Disputes. We also had a new presentation from the ELEXON change team to encourage new BSC Parties to get involved in the process. The seminars are popular and are usually fully booked. Following the success of the seminars this year, there will be another five during 2016/17.

The Annual BSC Meeting and Seminar is another opportunity for us to interact with our key stakeholders. Following the success of the 2014 Annual BSC Meeting and Seminar, the 2015 Annual BSC Meeting was once again followed by a Seminar. The 'Challenges and Changes facing Settlement' seminar focused on the key issues impacting, and likely to impact Settlement and the operation of the BSC. We welcomed over 50 people to our offices and, based on the positive feedback we received, we are holding a similar event in 2016.

### Business Plan

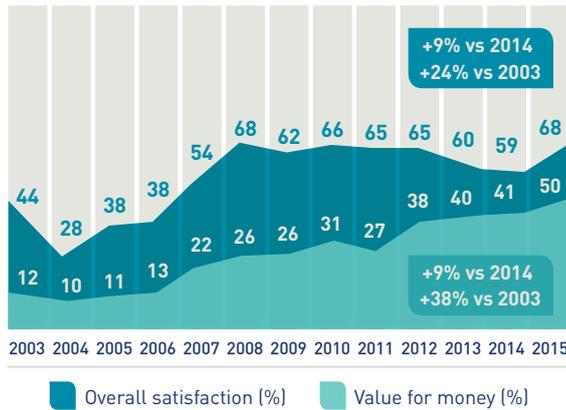
For the second year running, the **Panel's Strategic Work Programme** was used as one of the key starting points for the BSCCo Business Strategy. The strategic work plan collates the issues on which the BSC Panel and its committees will base their work over the next three years.

The Panel reviews it throughout the year, with revisions reflected in the final version of the **BSCCo Business Plan**.

**Customer survey**

The results for the 2015 ELEXON Customer Survey were our best ever and we achieved an all-time high in terms of both satisfaction and value of money. As the chart below shows overall satisfaction increased by 9% with 68% respondents scoring 8 or more out of 10. Our value for money scores also improved in 2015 by 9% with 50% of respondents scoring 8 or more, its highest recorded level. Our net recommendation score was also the highest ever.

**ELEXON CUSTOMER SURVEY 2015: CUSTOMER SATISFACTION AND VALUE FOR MONEY FOR SCORES OF 8+ OUT OF 10**



1 = Not at all Satisfied/ 10 = Extremely Satisfied  
 1 = Poor/ 10 = Excellent Value For Money

We always welcome our customers' views and the feedback ELEXON receives in the survey is used as input to the organisation's planning process. It is also used to identify areas for improvement. See [ELEXON Customer Survey update: you said, so we've been doing](#) article to look at what we have been doing following the feedback we received from our customers in 2015.

**Improving the ELEXON website**

After receiving feedback from our customers, in October 2015 we launched a new, more intuitive search function to help our users find information quickly and easily. We also began working with an experienced website service provider, who will work with us on a long-term project to redesign the ELEXON website.

**Electricity Market Reform (EMR)**

In addition to our core role of delivering the BSC, we continue to apply our skills and expertise to an area beyond our traditional scope. The Secretary of State directed changes to the BSC and EMR settlement services for the Contract for Difference (CFD) and Capacity Market (CM), which we provide, under contract, to the Low Carbon Contracts Company (LCCC)/Electricity Settlement Company (ESC).

EMR is at the heart of Government's energy policy and we're proud that DECC chose us to undertake these roles which started operation on 1 April 2015. As well as the financial benefits to BSC Parties via the defrayment of our overhead costs, and through synergies of knowledge and service gained from ELEXON's involvement in this additional settlement activity, this has provided, and will continue to provide, new and interesting opportunities for our staff.

EMR services are provided through ELEXON's wholly owned subsidiary company, EMR Settlement Limited (EMRS), under contract to the LCCC and ESC, the two companies that DECC has established to deliver the CFD and CM regulations. ELEXON provides the people and office facilities to EMRS to enable it to perform its EMR functions. All costs and liabilities associated with delivery of the service are ring fenced from ELEXON's activities and budget. Changes made to the BSC ensure that there is no cross-subsidy between BSC and EMR services.

The budget process for EMRS is carried out as a separate exercise from that conducted with BSC Parties. The LCCC and ESC fund EMRS' costs, and the total costs of LCCC and ESC (which include those of EMRS) are consulted on separately by DECC.

The charges that EMRS passes onto the LCCC and ESC for EMR services include people costs and a proportion of ELEXON's fixed overheads. This enables the fixed overheads that BSC Parties are currently paying, for example occupancy and the IT infrastructure, to be defrayed.

### Warm Homes Discount Reconciliation Scheme

In October 2011, ELEXON was awarded a four-year contract to implement and operate the Warm Home Discount reconciliation mechanism. DECC's Warm Home Discount Scheme Core Group requires participating electricity suppliers to provide rebates (the level of which is set by Government through regulation) to a targeted group of consumers that are in receipt of defined pension credits. The purpose of the reconciliation mechanism ensures that scheme costs are shared equitably between the scheme's electricity suppliers so that no supplier is disadvantaged because of having higher numbers of consumers eligible for the rebate.

ELEXON has operated the reconciliation mechanism for the past four years, after winning a competitive tender process. It uses market share information provided by Ofgem, along with consumer numbers provided by DECC, to calculate and process the reconciliation payments to be made or received by participating suppliers.

In May 2015, DECC announced that it wished to extend this contract by up to two years (with a break after one year). To comply with public procurement policy, it published a Voluntary Ex Ante Transparency (VEAT) notice on 20 May, with a 30-day objection window. The VEAT notice period concluded and the contract extension began.

### European-led developments

ELEXON continues to monitor and, where appropriate, engages with European developments to identify and assess potential impacts on BSC systems and processes. Where we have identified these, we have flagged them to Government, Ofgem and BSC Parties as appropriate and, as part of this, we have responded to several public consultations on European developments during the year.

The principal impact of European developments on the BSC will come from the legally-binding pan-European 'Guideline on Electricity Balancing' (GL EB), which includes balancing and imbalance settlement within its scope. In July 2015, ACER submitted its recommended draft to the European Commission.

As part of this recommendation, Agency for the Cooperation of Energy Regulators (ACER) suggested that the Imbalance Settlement Period (ISP) duration should be harmonised at 15 minutes across Europe. This was subject to a future cost-benefit analysis run by ENTSO-E, for which data gathering across Europe started in November 2015 and lasted until January 2016. A number of scenarios were assessed; those relevant to Great Britain (GB) were reducing from the current 30-minute ISP to 15 or 5 minutes. Because of the potential for significant impacts in GB, ELEXON, National Grid, Energy UK and Ofgem held a highly successful joint industry workshop for GB stakeholders in November 2015 at ELEXON offices, immediately after the data collection exercise started.

Our final response to the data gathering exercise was submitted in January 2016 and is available on the [Industry Insights](#) page of our website.

ENTSO-E submitted the final report to the Commission at the end April 2016, just after the end of the reporting period. There is probably up to another year of development to go, under the Commission, before the GL EB comes into force, possibly in mid-2017. This will then start a legally-binding process of European harmonisation, not complete it.

However, there are earlier European and regional harmonisation projects starting in preparation for the Guideline requirements. One of these earlier projects is Project TERRE, which appears will have significant impacts on the BSC.

The BSC Issue 60 Group was set up in summer 2015 to look at how the BSC and wider GB electricity market arrangements should interface with Project TERRE. The BSC issues that this has raised include impacts on imbalance price and volume calculations, settlement, credit and default, coordination and governance with Project TERRE. The Issue 60 Group developed a straw man proposal during the year and BSC Modification P344 has been raised to define and approve the BSC impacts.

Under the GL EB, ELEXON's role as administrator of balancing and imbalance settlement would fall to a TSO, unless we were assigned, or delegated, the role instead. In this context, we met with Ofgem, National Grid and DECC to discuss the various assignment and delegation options. This discussion will continue into the coming year, to enable ELEXON to continue in its BSCCo role once the GL EB comes into force with our intention of minimising disruption to our customers.

In April 2015, we responded to ACER's consultation on the draft European Emergency and Restoration Network Code, part of which covers market suspension and which would interact with the BSC Section G. ACER published its recommendation regarding this Network Code to the European Commission in June 2015. ACER published its requirements for web feeds from REMIT inside information platforms in early October. As ELEXON provides the GB electricity REMIT inside information platform, this required a BSC Modification to accommodate the new ACER requirements. This BSC Modification Proposal was raised by National Grid in November as P329 and was approved by the Authority for implementation in June 2017.

As part of our engagement strategy with those European bodies and stakeholders who either determine European market developments or influence them, ELEXON continues to be an associate member of Energy UK, which provides us with a useful source of information and means to comment on European proposals. As a number of European market operators/administrators in roles similar to ELEXON are already members of **Europex** (the Association of European Energy Exchanges), ELEXON became a member of Europex in May 2015.

During 2015, the first European Stakeholder Committee (ESC), the Market ESC, was set up with the aim of sharing information on the implementation of the Market Network Codes between ACER, ENTSO-E and European stakeholder groups. Steve Wilkin, from ELEXON, was nominated by Europex to sit on this Committee as one of its representatives.

## Smart metering, grids and markets work

### Settlement reform

ELEXON have been promoting the concept of Half Hourly Settlement since 2010. Some changes have already been implemented for some non-domestic sites under **BSC Modification P272**. ELEXON also contributed to the Settlement Reform area of Ofgem's **Smarter Markets Programme** during 2015. We provided settlement expertise and lead on investigations to shorten the settlement timescales.

In November 2015, the **Energy and Climate Change Secretary** outlined the government's vision for UK energy policy. In this, they stated that they had already agreed with Ofgem that by early 2017 they would remove the barriers to suppliers choosing half-hourly settlement for household customers.

The **Competitive Markets Authority** also called for a clear plan to move to HH Settlement. In December, Ofgem published an open letter on **HH Settlement and the way forward**. Responses to this consultation identified the key barriers to HH Settlement. ELEXON has been working with Ofgem to address these barriers and a number of changes will be brought forward to address these barriers.

### Faster and more reliable switching

In November 2015, Ofgem launched its Switching Programme and Significant Code Review with an objective of improving customers' experience of switching and encouraging greater engagement in the retail energy market. The new switching process will use a Centralised Registration Service (CRS), which the DCC will procure and run. The CRS may replace or supplement existing gas and electricity retail registration databases.

The Ofgem programme is currently in the first of five phases, the 'Blueprint' phase. This will run until the first quarter of 2017 and include an industry impact assessment. The third phase, Enactment (following Detailed Level Specification) will almost certainly include BSC Modifications and Change Proposals.

At Ofgem's request, ELEXON is providing expert support to the programme on two working teams (Business Process Design and Delivery Strategy) and two user groups (Regulatory Design and Delivery Strategy). ELEXON also advises on the External Design Advisory Group (EDAG) that sits above the user groups.

### Cross Code report on Address Data Quality

In June 2015, Ofgem published an open letter asking for a cross-code review of options to improve address data quality. At Ofgem's request, ELEXON chaired the Address Data Working Group (ADWG), consisting of suppliers, network operators and code administrators across the electricity and gas markets, with specialist support from Ordnance Survey, Citizens Advice, Electralink and the Data and Communications Company (DCC).

The ADWG considered the introduction of potential address data quality remedies to support the aspiration of faster and more reliable consumer switching. In particular, the group reviewed the harmonisation of electricity and gas address formats and options for adopting Unique Property Reference Numbers (UPRN). Following an industry consultation, ELEXON drafted the final report to Ofgem on behalf of the ADWG.

Ofgem thanked ELEXON for chairing the ADWG and delivering the report. They noted that they value the work that ELEXON does, not least in supporting Ofgem in its market reforms. They added that in many ways they consider ELEXON to be a model for how other industry parties should operate. Ofgem has subsequently used the report as an input to its Faster and More Reliable Switching programme.

### Demand Side Flexibility and Smart Grids

During 2015, Ofgem had been progressing work on Demand Side Flexibility and Smart Grids through the **Smart Grid Forum**. ELEXON provided expertise to Work Stream 6, which concentrated on commercial and regulatory issues. **Work Stream 6** published its final report in December 2015.

The recommendations have been fed into Ofgem's work on **Demand Side Flexibility**. ELEXON have been in discussions and contributed to stakeholder workshops on the role of the Distribution System Operator and on barriers to data Aggregators. A joint call for evidence from both DECC and Ofgem is expected in the spring of 2016.



### Corporate Social Responsibility (CSR)

ELEXON's Corporate Social Responsibility (CSR) Strategy is built around four spheres (Community, Marketplace, Workplace and Environment) and ensures that we behave in a sustainable and socially and environmentally responsible manner while supporting our ambition, values, brand and business objectives.

#### Environment

ELEXON's environmental policy provides its staff and visitors with clear responsibilities and guidelines on how we manage our impact on the environment in our day-to-day work activities. We aim to reduce our environmental impact through staff awareness campaigns and by monitoring our energy consumption.

We use smart metering technology to help us identify where we can make savings, in lighting controls, air-conditioning running times and by turning off IT equipment.

During the year, we have maintained our electricity consumption compared with the previous year despite an increase in employee numbers.

#### Community

Age UK and the University College London Hospital are our employee-nominated company charities. During 2015/16, employees raised over £1,000 for each charity through various fundraising activities.

As well as company activities, our employees are encouraged to continue to use volunteering days, or individually participate in fundraising activities. From running marathons, climbing mountains, growing moustaches and cycling counties, our employees are always willing to raise money for the company charities or a personal cause.

#### Workplace

As a business, we believe 'our people' are our greatest asset, and we depend on the skills and commitment that they bring to the organisation. We recognise that to provide a great place to work, we need to retain our focus on health, well-being, flexible-working, personal development and engagement initiatives with our people.

#### Marketplace

This year we have embedded CSR into the tender process as standard, with a weighting applied to suppliers' commitment to it. We have been working with new or potential suppliers and service providers to ensure they are providing CSR credentials compatible with our own. Also by working proactively with suppliers, we are improving our supply chain so we ensure we do the right thing by everyone.

## 04

## Operational updates

For information about operational performance, including each Supplier Meter Registration Service (SMRS) and Master Registration Agreement (MRA) arrangements, please see our [Trading Operations Report](#), [ELEXON Circulars](#), [Quarterly Reports](#) and the monthly [System Price Analysis Report](#) on the ELEXON website.

### PERFORMANCE OF KEY OPERATIONAL SERVICES

System availability	Target	Actual*
Balancing Mechanism Reporting Service (BMRS)	99.95%	99.97%
Energy Contract Volume Allocation Agent (ECVAA)	99.95%	100%
Service Desk	99%	99.32%

\* The actual performance does not include any downtime or interruption experienced during planned outages (such as those required to implement a BSC Release) or where inputs from third party providers have been the root cause of a degradation in performance.

## 05

# Review against the annual budget

The audited result for the 2015/16 financial year shows total BSC expenditure of £29.1m, which gave an under spend against the approved budget of £8.7m (19.2%).

The position against budget for the full year is summarised below.

## EXPENDITURE BY TYPE

	Budget (£m)	Actual (£m)	Var. (£m)
ELEXON Operational	17.6	14.7	2.9
Demand Led	1.8	1.3	0.5
Contracted	13.8	12.6	1.2
System Strategy	2.6	0.5	2.1
Market development	2.0	0.0	2.0
<b>Total</b>	<b>37.8</b>	<b>29.1</b>	<b>8.7</b>

The under spend was driven in the main by a change in approach regarding system strategy. Both employee and system strategy costs were significantly increased at the time we prepared the 2015/16 budget to enable a wholesale change in systems. Following a decision to change our approach, the majority of this increased budget was no longer needed.

### Operational expenditure

Operational expenditure was £2.9m under budget due to savings in People Costs of £1.2m. Overheads under spend of £1.4m was driven by less training, recruitment and legal advice, as well as additional revenue in relation to the Lustre licence to EMR. We have experienced an under spend of £0.1m on occupancy costs following the landlord's true up/down of the 2014/15 Annual Service Charge. We have also spent less against Projects and Contingency budgets of over £0.3m.

We received £0.3m more EMR income than budgeted with a total of EMR grant and Op-Levy Income of £2.6m from DECC to fully cover the cost of additional resources required for the EMR project. This includes overheads recovered relating to those people working on EMR.

### Demand Led expenditure

Demand led expenditure was £0.6m under budget for the full year. This is mainly due to a reduced number of modification proposals, smaller release projects and fewer Panel Committee projects.



### Contracted expenditure

Contracted expenditure was £1.2m under budget for the full year. Savings were mainly due to the under spend on BPR related costs of £0.4m, consisting of unused operation and maintenance costs and depreciation due to delays of going live. We did not use £0.5m tech refresh budget this year, as most upgrades on the central systems are included in the As-Is+ transition plan for 2016/17. Indexation on the BPO Contract was lower than budgeted and there were additional savings from fewer communications lines than budgeted.

### System strategy

Savings are due to change of scope relating to the transformation work.

### Market development

As per our 2014/15 Business Plan, a £2.0m Market Development budget was included to cover a number of potential activities. We delivered these 'horizon scanning' activities using existing BSC Operational resources and as such, none of these has given rise to additional external expenditure.

## 06

# Appendix 1: Committee summary

## Performance Assurance Board (PAB)

PAB works to provide assurance that all BSC participants are suitably qualified and that the relevant standards of performance, and compliance with the BSC, are maintained.

The PAB considered over 152 papers during 2015/16 (a 9% increase from the previous year) of which over 76% were decision papers, all of which were approved by the PAB with the exception of one paper where PAB requested more engagement was necessary with Distributors:

Included in these papers were:

- 32 Supplier Qualification requests
- Nine Meter Operator Agent requests
- One Supplier Meter Registration Agent request

Currently 44% of the Suppliers trading in the market are classified as being off-the-shelf Suppliers, supplying 2.8% of total energy.

## Performance Assurance Framework

The BSC Audit Report for 2015/16 identified 10 impacting audit issues. 'Provision of meter reads' was a legacy issue deemed to be no longer significant; 'Energisation status not being confirmed' was raised as a new issue. As has been the case for the previous two reporting periods, the broad areas of concern continue to be:

1. Issues relating to Metering
2. Data quality issues in the Non Half Hourly Market

This year, for the first time, the Auditor used data from the Data Transfer Network (DTN) elements of its audit testing. This provided much greater clarity over the extent of legacy audit issues.

The Auditor acknowledged in its findings that there is significant change across the industry, from both a regulatory and technical perspective, and that this change in itself contributes to the creation of new settlement risks.

Looking forward, and bearing in mind the findings of the 2015/16 Audit, the BSC Auditor, the PAB and ELEXON will work together to ensure that the Error and Failure Resolution (EFR) process focusses on the right issues and that the audit approach is adapted to deal appropriately with new and emerging settlement risks.

Other operational highlights included:

- Ongoing monitoring by the PAB of issues relating to Change of Measurement Class
- Annual Performance Assurance Report 2015/16
- Risk Evaluation Methodology 2016/17
- Risk Evaluation Register 2016/17
- Risk Operating Plan 2016/17

## Imbalance Settlement Group (ISG)

The ISG oversees and helps to develop the Central Volume Allocation (CVA) Arrangements.

Over the year, the ISG has achieved the following:

- Approved four BSC Change Proposals (CPs): CP1430, CP1435, CP1442, CP1453 and CP1454
- Approved 12 CVA Configurable Items for implementation as part of the June 2015 Release
- Approved 15 CVA Configurable Items for implementation as part of the November 2015 Release
- Approved one CVA Configurable Item for implementation as part of the February 2016 Release
- Considered ELEXON's post implementation review of Approved Modifications focused on improving the Credit Cover arrangements, in particular:
  - P306 'Expanding the definition of a 'Letter of Credit' to include regulated insurance companies'
  - P307 'Amendments to Credit Default arrangements'
  - P310 'Revised Credit Cover for Exporting Supplier BM Units'

- Approved changes to the Credit Assessment Load Factor (CALF) guidance document to include an approach for calculating SECALF and generic SECALF values
- Approved generic SECALF values
- Approved 12 temporary Metering Dispensations
- Approved three lifetime Metering Dispensations
- Approved one Trading Unit
- Approved one Non-Standard Balancing Mechanism Unit (BMU)
- Approved LLF calculation methodologies for Licensed Distribution System Operators
- Approved CVA Line Loss Factors (LLFs) for use during the 2016/17 BSC Year
- Approved Delivering and Offtaking Estimated Transmission Losses Adjustment (ETLMO) values for use during the 2016/17 BSC Year
- Reviewed and recommended to the BSC Panel no changes to the Market Index Definitions Statement (MIDS)
- Appointed a new Metering Dispensation Review Group Member.

### Supplier Volume Allocation Group (SVG)

The SVG oversees and helps to develop the Supplier Volume Allocation (SVA) arrangements. To assist it, the SVG also has some advisory subgroups in specific areas:

- Metering Dispensation Review Group (MDRG, a joint subgroup with the ISG)
- Profiling Expert Group (PEG)
- Software Technical Advisory Group (STAG)
- Unmetered Supplies User Group (UMSUG)

Over the year, the SVG:

- Made decisions on 18 Change Proposals
- Made a recommendation to the Panel on one Change Proposal
- Approved amended Configurable Items for the June 2015 Release, November 2015 Release and February 2016 Release
- Oversaw over 200 changes to Market Domain Data
- Approved new Annual Fraction of Yearly Consumption values, Default Estimated Annual Consumption (EAC) values (including new Half Hourly Default EACs) and two sets of new profiling Technical Product Deliverables
- Recommended to the Panel that no review of Grid Supply Point (GSP) Group Correction Scaling Weights is undertaken until after the implementation of Modification P272 in 2017
- Allocated a new GSP to a GSP Group
- Approved the SVA results of the annual Line Loss Factor (LLF) audit, including the corresponding new SVA LLFs and a Distributor's revised Methodology Statement
- Approved retrospective LLF changes for a Distributor, to correct a material Manifest Error
- Approved six applications for Metering Dispensations
- Approved three Unmetered Supplies Central Management Systems for use in Settlement
- Approved changes to the Unmetered Supplies Operational Information Document
- Appointed a new member of the MDRG
- Disbanded the Profiling and Settlement Review Group (PSRG) after it completed its Terms of Reference.

### Trading Disputes Committee (TDC)

During 2015/16, the TDC upheld 48 Trading Disputes. The total error corrected through the Trading Dispute process is approx. £20.7m.

An urgent TDC meeting was convened in November 2015 in which the TDC upheld Trading Dispute DA771 with an approximate Settlement error of £14m. The purpose of the urgent meeting was due to the material impact on BSC Parties.

### Credit Committee

The Credit Committee had a busy year in 2015/16. It held four meetings because of Credit Assessment Price (CAP) trigger breaches, all between November 2015 and March 2016. After these meetings, the following changes to the CAP were made:

- At the 26 November 2015 meeting, the CAP was decreased from £47/MWh to £42/MWh effective from 24 December 2015
- At the 12 January 2016 meeting, the CAP was decreased from £42/MWh to £38/MWh effective from 9 February 2016
- At its 7 March 2016 meeting, the Credit Committee decreased the CAP from £38/MWh to £33/MWh effective from 5 April 2016 which remains the current CAP

The CAP is used as a proxy for out-turn System Buy Price, and is based on forward market prices. A review of the CAP is triggered when the CAP reference price, calculated using forward market prices, varies from the CAP by more than a set threshold (trigger level). At the start of the 2015/16 BSC year, the CAP trigger level was set at £5/MWh.

The Credit Committee considered the value at its meeting on 26 November 2015 and determined that it should be changed from £5/MWh to £4/MWh. This change was implemented on 24 December 2015. There were no other changes to the trigger level.

The Credit Committee also held an ad-hoc meeting on 7 February 2016 to discuss changes to the CAP reference price calculation. Following this meeting, the Credit Committee recommended amending the reference period used to calculate the reference price. The BSC Panel approved the recommended changes at its March meeting, which were implemented on 1 April 2016.





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