



BSCCo
Business Plan
2015/16

Welcome to the Balancing and Settlement Code Company (BSCCo) Business Strategy and Annual Budget for 2015/16. Part One is our Business Strategy describing our priorities and major activities, while Part Two is our Annual Budget.

01

Foreword

By Mark Bygraves, Chief Executive

ELEXON had a productive and successful 2014. We committed to a Business Plan that focussed on consistent, reliable delivery of the core BSC services, and I believe we achieved that. Delivering

the day job means keeping Settlement up and running 24 hours a day, 7 days a week, 365 days a year and should not be underestimated. Over the past 12 months we have processed 18 Modifications to the Code, 72 new Trading Disputes, and worked with 16 new BSC Parties to enable them to become signatories to the BSC. We have delivered training and education to BSC Parties, foreign delegates and representatives from government and Ofgem through methods as diverse as our introduction seminar, tailored one-to-one training sessions and online video.

In addition to our core role of delivering the BSC, we have been applying our skills and expertise to an area above and beyond our traditional scope through our appointment by the Department of Energy & Climate Change (DECC) as Electricity Market Reform (EMR) Settlement Services Provider for the Contract for Difference and Capacity Market. EMR is a high-profile programme at the heart of government and we're proud that DECC has chosen us to undertake these roles. As well as the benefits



to BSC Parties financially, and through synergies of knowledge and service gained from ELEXON's involvement in this additional settlement activity, this piece of work will provide new, interesting opportunities for our staff. ELEXON's subsidiary company, EMR Settlement Limited, is undertaking the EMR work. All costs and liabilities associated with this work are ring-fenced so as to be kept separate from ELEXON's activities and budget. The budget process for EMR Settlement Limited is being carried out as a separate exercise, so BSC Parties will not be surprised to see that there is no detail on EMR within this document.

Looking beyond ELEXON, I am acutely aware that BSC Parties have been operating, and will continue to do so, under the strain of ever increasing political flux, media attention and significant change to the market arrangements. With this in mind, ELEXON has more responsibility than ever to assist BSC Parties – both present and future – in their navigation of the BSC. The BSC arrangements are, by necessity, complex. However, I and all of my colleagues across the business are committed to making the complex simple and using our expertise to make BSC Parties' experience of the BSC and ELEXON as clear, straightforward and uncomplicated as possible.

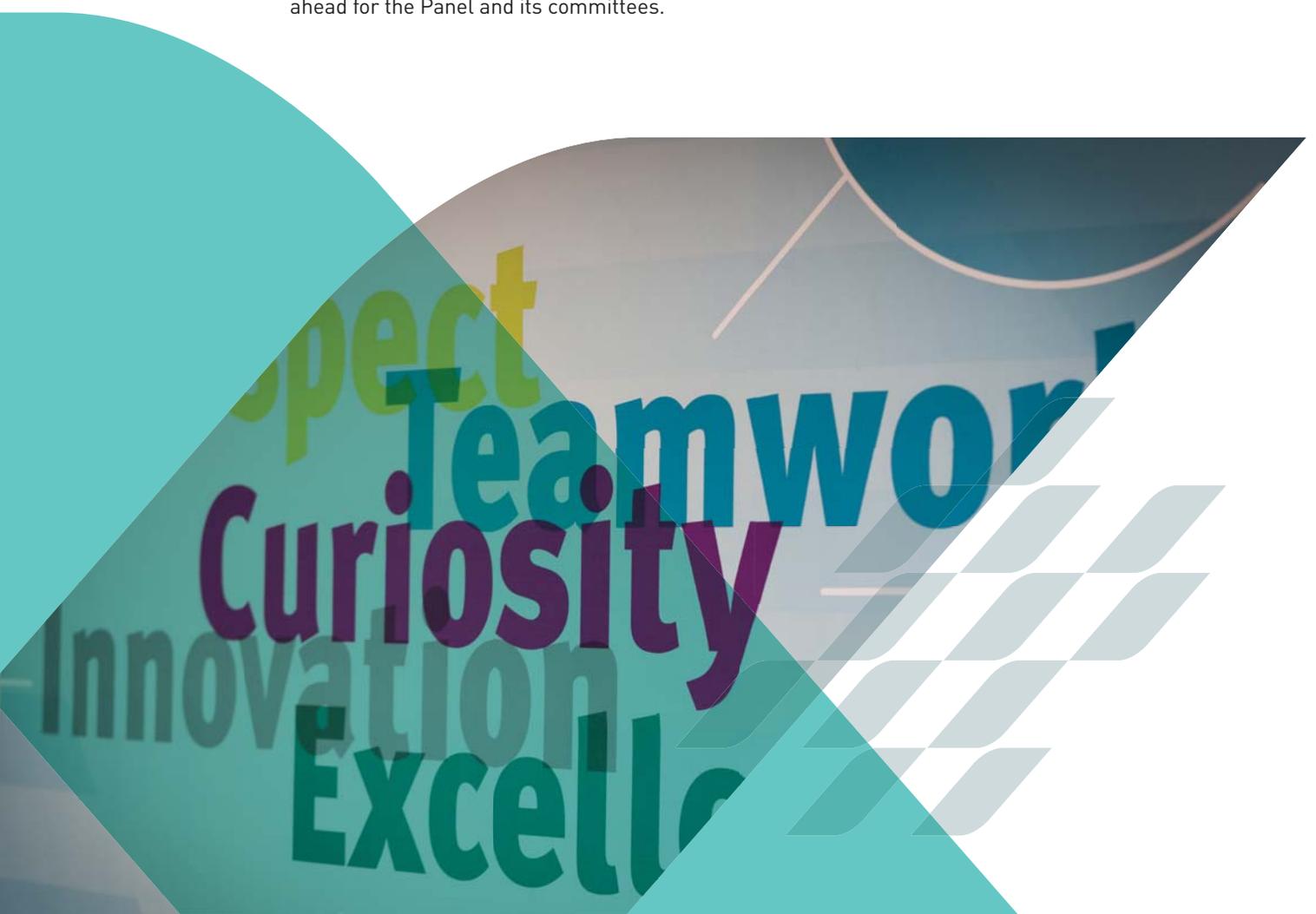
Michael Gibbons OBE, Chairman

There are several aspects of this BSCCo Business Strategy that I hope stand out to the reader. Firstly, at its heart, is a promise to keep delivery of BSC services at the very core of our plan for the year ahead. Intentionally, there is similarity between this year's plan and that which we delivered in 2014/15. It is founded on the same mission, vision and strategic priorities.



Secondly, while the document sets out a plan for ELEXON over the forthcoming year, we must not forget that one of ELEXON's prime roles is to provide support for the BSC Panel in delivering its obligations. So, in many ways, this business plan, by definition, also reflects the busy year that lies ahead for the Panel and its committees.

Another key feature of this plan is that, while focussing on consistent, seamless delivery of the core, it also paves the way for investment in our systems, processes and services to stand them in good stead for future industry change and developments. This is particularly evident in the continuation of our programme to transform the aging BSC systems' architecture and data provision. So, this year's plan reflects the fact that whilst system and data integrity will always be paramount, the current arrangements need to evolve to meet user needs and to address the changing market arrangements.



02

Review of 2014/15 Business Strategy

Our 2014/15 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 whilst horizon scanning for issues beyond the BSC that may have an impact on (or require changes to) the settlement processes. It was based on our mission and vision, and firmly grounded in maintaining our expert delivery of the core BSC Services.

Maintain and build upon our previous achievements to fulfil

OUR MISSION

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

Support the best strategic outcomes for the evolving industry by pursuing

OUR VISION

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

Throughout 2014/15, our activities focused around our five strategic priorities.

PRIORITY 1

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

PRIORITY 2

Drive efficiencies and savings in our operation of the BSC.

PRIORITY 3

Improve the customer experience and develop richer customer relationships.

PRIORITY 4

Develop BSC services to address industry challenges.

PRIORITY 5

Invest in our people for the benefit of the industry.

These priorities are still appropriate and relevant, so the 2015/16 Business plan will continue to be based on the same strategic priorities that BSC Parties will be familiar with.

A summary of some of our 2014/15 activities is set out below. For more detail on our operation, implementation and administration of the BSC throughout the year please refer to our **quarterly reports**.

Managing and continually improving BSC services

In last year's Business Plan we highlighted the need to transform the set of applications that we run internally to provide reports to BSC Parties, the BSC Panel and its Panel Committees. This year we have explored our customers' needs and aspirations, and relevant technologies. The message from our customers is clear: the current reporting does not meet their needs and requires manipulation of both content and format to make them useful. Our consistent aim has been to deliver a coherent and secure reporting suite that is: easier to use and more accessible; adaptable to evolving user needs; and easier and less costly to change and less reliant on manual intervention. Following a competitive procurement, we appointed Hitachi Consulting UK Ltd as the delivery organisation. Hitachi brings considerable expertise in the effective design and delivery of data warehouse/business intelligence tools and is aligned to our belief that this solution should not just focus on the technology but should focus on our customers' requirements and use. This is a significant piece of work that will continue into this year's scope of work and budget.

Another key aspect of our management of the BSC comes in the form of support provided to the BSC Panel. Existing Panel Members' terms of office came to an end on 30 September 2014, so we administered the BSC Panel Elections – engaging with the industry in the lead up to the election and putting in place the mechanisms to help BSC Parties take part in the process.

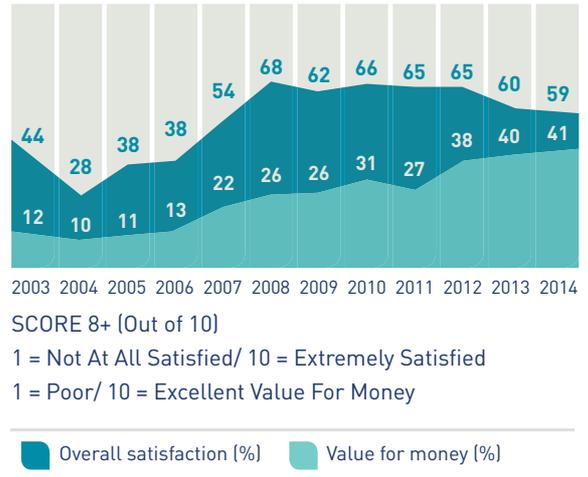
Driving efficiencies and savings in our operation of the BSC

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 commercial relationships. Our most-recent customer survey shows that our customers’ perception of our value for money is higher than ever before. We want to maintain and improve on this performance over the next 12 months and beyond.

A significant proportion of the cost of delivering the BSC arrangements comes from contracted expenditure on the BSC Agents. We’ve spent time this year evaluating how best to deliver two of our main BSC Agent services: the BSC Application Management and Development (AMD) Agreement and the BSC Central Services contract. The ELEXON Board approved an extension to the AMD Agreement with Cognizant, securing cost savings for our customers and ensuring the ongoing support for BSC central systems through delivery of some major BSC changes. Meanwhile, we’ve been investigating the best way of structuring the commercial arrangements for the central services contract to secure the operational service into the future whilst delivering best value for money for BSC Parties. This work will continue into and beyond the next financial year, with procurement and transition of the new BSC Central Services contract scheduled for 31 March 2017.



OVERALL SATISFACTION AND VALUE FOR MONEY



Improving customer experience

We have a diverse customer base, including large vertically integrated companies, small suppliers and generators, National Grid, distribution network operators, government agencies and consumer bodies. Our 2013 survey results told us that we needed to improve our empathy for the individual needs of our customers and be more aware of the impact of the BSC on their systems, processes and businesses. In response to this we increased our attention on managing stakeholder relationships, with a focus on improving our engagement on strategic issues. In particular, we recognised the benefit of our senior team engaging more frequently with our customers and delivered this through a programme of senior-level stakeholder engagement.

We continued to make our experts available to the industry through introduction seminars and tailored education sessions and responded to feedback from customers that they value the role we play in facilitating industry debate. At the 2014 Annual BSC Meeting we wanted to try something different. For the first time the event was followed immediately by a seminar – ‘Changing times: the future of energy settlement’. We welcomed 62 people to our offices and, based on the feedback we received, plan to hold a seminar again next year.



It's all about how we work together
with our suppliers, our customers and
ELEXON a great place to work.

Developing BSC services to address industry challenges

Last year, the increasing pressures on BSC Parties of industry change became more apparent than ever. In the context of smart metering, European developments and market reforms, ELEXON had (and continues to have) a responsibility to be fully aware of these changes and their impact on the BSC. Over the past 12 months we focused on anticipating the likely impacts of industry developments, reviews and technological advances. We assessed the impacts on the BSC arising from industry change whilst contributing to the development of solutions and changes arising from industry transformation. We have also continued our work on the Profiling and Settlement Review to lead on improvements to the BSC. Other areas of work included ongoing support to Ofgem's Future Trading Arrangements Work, significant expert input to Ofgem's Smarter Markets Programme and a focus on European developments and the potential impacts on the BSC arising from development of the European Network Codes.

Investing in our people for the benefit of industry

We understand that the service we provide to our customers and stakeholders is defined by the expertise and knowledge of our people. We are aware how highly our customers rate our people so last year we remained committed to investing in them, developing their skills and maintaining our position as an expert in our field. We continued to promote learning and development through a mix of externally delivered performance training, knowledge transfer, colleague mentoring and secondments. Our first intake of graduates has flourished and secured permanent roles across the company, and we've launched a second graduate programme to help maintain a continuous flow of high-calibre talent into the organisation.

03

Our Strategic Priorities for 2015/16

Our Business Plan for 2015/16 will continue to be based on our mission and vision. The plan is designed to focus on delivering the core BSC services, whilst being ready to respond in an appropriate way to additional challenges that are beyond our control. As in previous years, we've split our activities into five strategic priorities.

- Actively manage, and continually improve, BSC services to ensure that we deliver in an efficient, effective and economic way
- Drive efficiencies and savings in the operation of the BSC
- Improve the customer experience and develop richer customer relationships
- Develop Balancing and Settlement services to address industry changes
- Invest in our people for the benefit of our industry

Developing our business plan

The BSC Panel has an objective to give full and prompt effect to the BSC so as to achieve the Applicable BSC Objectives in a transparent, economic, efficient and non-discriminatory way. It also has a general responsibility to keep informed of issues that fall outside the direct governance of the BSC and assess (and take steps to address) any impact in a coordinated way.

With these obligations in mind, ELEXON has worked with the BSC Panel and Panel Committees to develop a work programme of issues that the Panel and its committees will base their work on over the next three years. This work programme has been used as the starting point for the BSCCo Business Plan.



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

Delivering BSC Services that our customers trust, can rely on and have confidence in is at the core of what we do. We remain absolutely committed to delivering the BSC and to working with the BSC Panel and its committees to provide them with the support and analysis they need to fulfil their responsibilities on behalf of BSC Parties.

How we'll achieve priority 1.

ASSESSING SETTLEMENT RISKS AND ISSUES

Risk mitigation	Reviewing source data for PARMS	Using Data Transfer Network (DTN) data as a source of information may reduce the reporting burden on Parties and result in more consistent information. An extension to this piece of work would enable top Settlement Risks to be quantified by Party Agent.
	Impacts on the Performance Assurance Framework (PAF) from EMR and smart metering	Changes will need to be made to the BSC to accommodate smart meters and the introduction of EMR. ELEXON will support the Performance Assurance Board (PAB) in considering how this affects Settlement Risks and whether any changes to the PAF will be required.
	Control frameworks in the BSC Audit	We will work with the PAB to establish the requirements for Party and Party Agents to have a control framework in place and increase the focus of the BSC Audit on the constituent elements of these frameworks.
Issue resolution	Amendments to credit rules	ELEXON is progressing a number of Modifications to the BSC to amend the Credit Default, Credit Assessment and Credit Cover mechanisms. Implementation of these changes will continue into 2015/16.
	PAF focus in response to the 2013/14 BSC Audit	The 2013/14 BSC Audit identified several areas requiring renewed focus, including: <ul style="list-style-type: none"> ■ Commissioning ■ CT ratios ■ Proving tests ■ Change of measurement class We will work with the PAB to focus its assurance activities on these particular areas of the BSC arrangements.
	Energisation and disconnection	We will continue our work to review the processes in place across National Grid and LDSOs in order to ensure that energisation and disconnections operate smoothly and effectively.
	BM Unit configuration	We will work with the Imbalance Settlement Group (ISG) to review whether the current configuration of BM Units remains fit for purpose.
	Dispensations	In conjunction with the ISG and SVG, we will review the processes in place relating to dispensations in order to ensure that they operate effectively and are appropriately focused on material issues.

BSC SERVICES & INFRASTRUCTURE

Transformation of data and reporting improvement programme

By employing data warehouse and business intelligence tools we plan to deliver a coherent and secure reporting suite that will allow BSC Parties and the BSC Panel and committees to have direct and timely access to their own and market-wide public data. This will include added-value services such as trend-based reporting and a secure online interface. This piece of work, which will continue into 2016/17, will transform the way that ELEXON provides data and reports to industry, and how we support the PAB in delivering the PAF.

BSC process transformation

The current BSC systems' architecture is old, difficult and expensive to maintain and develop, with an increasing risk of failure. In the context of rapidly evolving industry arrangements, transformation is required to ensure that the BSC processes do not hinder market developments.

This strand of work, which we envisage completing by 2020, will initially impact BMRS and funds transfer and payments. We have been and will continue to work closely with industry, the BSC Panel and Panel Committees to ensure that we get their views and, where necessary, approvals, for further developments.

We are finalising a business case on the BSC process transformation work to present to the ELEXON Board in early 2015. Depending on the conclusions of the business case, we may need to seek further funding to deliver our transformation objectives in 2015/16 and beyond. Alternatively, we may be in a position to reduce our budgeted costs. We will provide the BSC Panel and industry with updated information when we have completed our work on the business case.

Governance

In light of the findings of the Knight Report, the BSCCo Board and BSC Panel have been considering improvements to BSCCo governance. The Panel and Board will agree a joint view, with any improvements progressed in consultation with the industry. This work will continue into 2015/16.

In conjunction, the BSC Panel is considering improvements to BSC Panel governance. Any changes in this area identified by the Panel will also be progressed in consultation with the industry.

Vires

In line with Ofgem's October 2014 consultation, we intend to continue working with Ofgem and National Grid to progress a licence change relating to BSCCo's vires. A Modification to the Code would be required.

Transformation of data and reporting improvement programme – delivery in three phases

In our 2014 customer survey, 76% of respondents felt that our current reporting fails to provide everything they need. The main criticism was that content and format require manipulation to make them useful. Our existing data and reporting transformation programme is targeted specifically at making improvements in this area. It will be delivered in three phases.

- First phase: accessed directly by ELEXON operations staff, it will focus on EAC/AA reporting and OSM performance reports. Planned to complete in winter 2014/15.
- Second phase: will deliver a suite of report and data views that can be directly accessed by BSC Parties using central systems data in parallel with data received directly from customers. The suite will provide secure access and allow data analysis and manipulation.
- Third phase: will transform the remaining reports, adding functionality for use by BSC Parties to support complex 'what if' analysis around the Trading Arrangements.

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

Our aim is always to create additional value for our customers by improving and enhancing BSCCo services and driving down costs where sensible and appropriate.

Our 2014 customer survey results show that our customers' perception of the value for money we offer is higher than ever. To maintain this, we must carry on striving to deliver value through a customer-focused service that is best in class. While we maintain our commitment to continuously improve our services, we are mindful of the need for a robust financial business case to justify each potential development.

Our contracted expenditure on the BSC Agents, and other contracted service providers, form a significant proportion of the costs of delivering the BSC arrangements, usually in the form of fixed costs. We will continue to regularly review all our contracts to ensure that we're achieving maximum value from contractual relationships, procuring the right services, and identifying and implementing potential service improvements.

How we'll achieve priority 2.

BSC Agent Services reprocurement

We will be working on reprocurring the BSC Agent contract covering BMRA, CDCA, CRA, ECVA, FAA, SAA and SVAA this financial year in time for the 31 March 2017 contract expiry date.

We have been investigating, and will continue to do so, how best to structure our commercial arrangements to secure the best value and most appropriate service for BSC Parties.

The BSC Panel will be invited to approve the tender framework statement as part of this reprocurement.

Profile administration: Data Collection and Metering Service (DCMS) reprocurement

The contract for the DCMS service must either be extended or reprocured in 2015/16. We will continue to assess the right approach to this piece of work to ensure best value for money for BSC Parties whilst maintaining the accuracy of the settlement profiles.

The BSC Panel will be invited to approve the tender framework statement as part of this reprocurement.

Reprocurement of other contracts

In light of the findings of the Knight Report, the BSCCo Board and BSC Panel have been considering improvements to BSCCo governance. The Panel and Board will agree a joint view, with any improvements progressed in consultation with the industry. This work will continue into 2015/16.

Less-strategic contracts (eg office maintenance) will also be reviewed, extended or reprocured in the normal course of events.

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

We want to deliver a service that meets all of our customers' expectations and makes their interactions with the BSC, its systems and processes as simple as possible – more so than ever in the context of an industry that is busy and stretched for resource. We recognise how complex the BSC is: it's our job to help customers navigate this complexity and make interactions with the BSC as straightforward as possible.

We want to carry on meeting our customers' needs and fulfilling their requirements of us while, in parallel, acting as an independent critical friend: a role which our customer survey results identified as being particularly valued by BSC Parties. We will continue to assess how we're doing by measuring customer satisfaction through our annual customer survey.

How we'll achieve priority 3.

Code Administration Code of Practice (CACOP) review and BSC Modification processes review

We anticipate that the CACOP review may result in changes to the BSC arising from Ofgem's concerns regarding the co-ordination of change across the industry Codes. We see this as an opportunity to align Code processes, making it easier and simpler for BSC Parties to be involved in industry change.

A specific review of the BSC Modification processes will enable us to ensure that the BSC defines, and ELEXON delivers, good working practices in all aspects of the Modification procedures.

Improved customer support provisions

We know that BSC Parties value our Operational Support Manager (OSMs) and we are keen that we continue to provide an OSM service that is best in class. In order to do this, it's vital that we invest in the skills (both technical and 'soft') of our OSMs.

OSM-level engagement with our stakeholders will be complemented by a continued programme of senior-level engagement.

BSC website review and improvements

In this year's customer survey, our customers told us that they rated our website as best in class. However, there is still room for improvement. Recognising that our website is one of the main conduits for us delivering our data provision obligations, and in response to feedback from customers, we have begun work on improving its search facility and review the home page content and structure to make navigation more intuitive.

Supporting new entrants

We will continue to provide support to new entrants into the market. As part of this role, we will consider the needs and requirements of different types of participants as market models evolve and adapt our services accordingly.

Priority 4 – Develop balancing and settlement services to address industry changes

Our industry continues to develop rapidly, with no let-up in the pace of change. In this context, it is crucial that we understand developments within the market – both those that directly, and those that indirectly, impact the BSC arrangements. This will enable us to support the BSC Panel in fulfilling its responsibility to keep informed of issues that fall outside the direct governance of the BSC, enable us to contribute to the thinking behind them (where appropriate) and enable us to ensure the BSC reflects change, is robust to change and doesn't obstruct industry change. It will also ensure that where required, we are able to support the government and regulatory bodies in achieving their policy objectives.

How we'll achieve priority 4.



Cashout and balancing

Electricity Balancing Significant Code Review (EBSCR)

We have been supporting Ofgem's EBSCR since its launch in August 2012 and will continue to do so over the next year. This will include implementation of the conclusions of the review through Modifications P305 and P305.

Support of Ofgem's Future Trading Arrangements work

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

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

Smart	Co-ordination with smart metering roll out	<p>We will continue to liaise with DECC and Ofgem to ensure that ELEXON is appropriately co-ordinated with the smart metering roll out and the work being progressed by the Data Communications Company and the Smart Energy Code Administration Service.</p> <p>In addition, we are mindful of comments from Ofgem about the need for changes to be better co-ordinated when they impact multiple codes. We anticipate looking further into this in 2015/16.</p>
	Improvements to Settlement in view of the smart roll out	<p>ELEXON, through the Profiling and Settlement Review Group (PSRG), is focusing on short- to medium-term reform of the Supplier Volume Allocation arrangements, focusing on three areas: profile enhancements; reducing Settlement timescales; and settlement of dynamically switched smart meters. ELEXON will continue to drive this work with the PSRG during 2015/16, as solutions are formally assessed and implemented through the Modification process.</p>
	Smarter Markets	<p>Ofgem's Smarter Markets programme incorporates Electricity Settlement Reform, Demand Side Response and change of Supplier.</p> <p>ELEXON will continue to provide expert support to all aspects of the programme. We will continue to lead the work on reducing Settlement timescales for Ofgem and maintain momentum on the benefits of Half Hourly Settlement. We will support industry the development, assessment and implementation of any final proposals for change in 2015/16.</p>
	Data quality and change of Supplier	<p>Ofgem has requested that Code Panels and Code Administrators work together to review the data quality arrangements that support the consumer switching process. Findings will be reported to Ofgem at the end of 2014, with implementation of any changes taking place in 2015/16 and beyond.</p>
	Impact of smart and advanced metering on Supplier charges	<p>Working with the PAB, we will carry out a review of the Supplier Charges provisions to address any changes required to reflect the introduction of smart metering (and P272).</p>
	Smart grids	<p>Discussion on smart grids continues to gain increasing prominence as the industry considers the challenges that will be placed on the distribution networks through increased use of electricity (eg through electric vehicles and heat pumps) and the need to accommodate distributed and intermittent generation (eg photovoltaic arrays and wind turbines).</p> <p>Deploying new smart grid technology and solutions will potentially require new markets and involve a new set of participants. There could be significant consequential impacts on the BSC arrangements and BSC Parties.</p> <p>We will continue to support Ofgem in its work on smart grids, and ensure that we assist the BSC Panel in understanding developments in this area of the market arrangements.</p>

Europe	EU developments	<p>European Codes take precedence over our national codes and arrangements, with the potential for significant impact on the current trading arrangements. European Network Codes will be further developed and the GB market will need to assess what their implementation will mean for our arrangements. The Balancing Network Code may go live as early as 2015, with the implementation phase over the following six years.</p> <p>In addition to relatively minor changes, the Network Code for Capacity Allocation and Congestion Management (CACM) could lead to changes as significant as the introduction of amended geographical boundaries of Bidding Zones. This could mean the splitting of Great Britain into multiple Bidding Zones. This would have a significant impact on the BSC and BSC Systems.</p> <p>We will continue assessing the impact of European developments on our national codes and arrangements and anticipating any possible impacts on the BSC. And we will continue providing regular updates to the BSC Panel.</p>
CMA	Competition and Markets Authority (CMA) investigation	<p>We will continue to provide support to the CMA investigation. We anticipate that industry wide actions may be required as a result of the CMA findings, and will ensure that we are prepared should there be any resultant changes that impact the BSC or that require ELEXON input or implementation.</p>

ELEXON and the PSRG: working to improve Settlement

ELEXON, with the direction of the PSRG's work on improving Settlement in a smart world, is focussing on three key areas:

Profiling enhancements: identifying improvements to the existing profiling and Settlement processes, so as to maintain Settlement accuracy in a smart metered world with increasing amounts of micro-generation.

Reducing Settlement timescales: this project is investigating reductions in the Settlement processes to allocate energy more quickly and accurately. The approach includes identification of the potential options for reducing Settlement timescales, consultation with industry, impact assessment and cost-benefit analysis.

Dynamic switching for smart meters: this project has identified options for process and system changes to ensure accurate Settlement of any loads that are dynamically switched by smart or advanced meters.

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

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

We want to continue to be viewed as an expert in our field and to do this we must maintain the right balance of skills, capability and knowledge to deliver the standards of service our customers expect.

We'll achieve this through a balance of retaining our existing expertise while recruiting and training talented new colleagues. We'll invest in our colleagues and develop their skills through individual, job-specific training, coaching and mentoring as well as corporate training initiatives and technical training sessions provided by subject matter experts. We'll also continue to foster and encourage staff engagement through our Corporate and Social Responsibility (CSR) programme.



We'll continue to ask our customers' view of the service our people provide – and respond to what they tell us; and we'll ask our people what they think through our annual staff survey. It provides us with valuable feedback and suggestions that we use to develop our approach to staff engagement and to retain our position as an employer of choice. We also will assess staff policies to ensure they remain relevant and effective and regularly assess salary reviews to ensure that our remuneration packages are comparable with the rest of the industry.

We're committed to investing sufficient time and resources in our people to ensure that their expertise and knowledge continues to benefit the industry.

This section details the budgeted costs for 2015/16 in support of our strategy. Please note that the budget is for BSC activity only, excluding any EMR work, relating to CfD and CM, both of which are covered by a DECC grant.

04

Budget section

Overview

This section details the budgeted costs for 2015/16 in support of our strategy, as laid out in Section A of this Business Plan. We believe this budget enables us to deliver the five strategic priorities identified in our Business Plan.

This year, 2015/16, will be the first year ELEXON, in its role as Settlement Services Provider for the Electricity Market Reform (EMR), delivers its services via its subsidiary EMR Settlement Limited (EMRS) to Low Carbon Contracts Company Limited (LCCC) and Electricity Settlements Company Limited (ESC). ELEXON will provide the human resource and office facilities to perform the functions of the EMR Settlement Service Provider.

The change to the BSC has ensured there will not be cross-subsidies between BSC and EMR. All EMR-related costs are fully funded by LCCC and ESC and the total costs of LCCC and ESC (which include those of EMRS) are consulted on separately by the Department of Energy and Climate Change (DECC). Therefore, there is no breakdown of EMR costs in this section but the impact to ELEXON's budget via reimbursement for providing human resources and office facilities is further explained in this section.

TABLE 1: BUDGET SUMMARY

Item	Year to March 2015 Forecast £m	Year to March 2015 Budget £m	Year to March 2016 Budget £m	Variance to 2015 Budget £m	Variance to 2015 Budget %	Year to March 2017 Projection £m	Year to March 2018 Projection £m
ELEXON operational	17.3	16.7	19.9	(3.2)	(19.7)	19.2	19.6
EMR contribution	(1.8)	-	(2.3)	2.3	-	(2.3)	(2.3)
Subtotal	15.5	16.7	17.6	(0.9)	(5.9)	16.9	17.3
Contracted costs	11.1	11.1	13.7	(2.6)	(22.7)	14.6	15.3
Demand led costs	1.7	2.5	1.8	0.7	24.6	1.9	1.8
Total regular activity	28.3	30.3	33.1	(2.8)	(9.6)	33.4	34.4
Reprocurement & Transformation	3.2	4.0	2.7	1.3	33.4	3.0	3.0
Market development	0.9	2.0	2.0	-	-	2.0	2.0
Overall total	32.4	36.3	37.8	(1.5)	(4.3)	38.4	39.4

The budget to deliver regular BSC activity will be £33.1m, an increase of £4.8m (17.0%) against the forecast for 2014/15, and an increase of £2.8m (9.6%) against the 2014/15 budget. We started the budget process in October 2014, so the comparison for the full-year outturn for 2014/15 is based on the October 2014's forecast.

A significant proportion of our costs of delivering the BSC arrangements come from contracted expenditure on the BSC Agents. The current outsourced contracts are scheduled to end in March 2017. Over the next few years, we are committed to procure/transform/transition (Transformation Programme) the current aging BSC Central Systems to a platform using modern technologies, which will be easier to maintain, mitigate the risks of failure and deliver better value for money to BSC Parties, as well as greater flexibility. We have included a budget of £2.7m for provision of the Transformation Programme.

As in previous years, we have also included a provision of £2m for market development to support our continuous efforts to better understand developments within the market so that we are able to support the Panel in keeping informed of issues that fall outside of the direct governance of, but may impact, the BSC.

ELEXON is a not-for-profit entity, funded by electricity market participants. We are cost-neutral; we do not carry any reserves or retained capital, and any underspend against budget is always returned to Parties. In light of this, budgeting for uncertainties in advance of any new financial year, with no other access to working capital, requires careful consideration. We need to address contingencies mindful of this constraint, while also endeavouring to set challenging financial targets for the business, which ensure we deliver the best possible value for money to the industry.

CHART 1: COSTS OF ELEXON REGULAR ACTIVITY SINCE NETA GO-LIVE (EXCLUDING NETA COSTS)

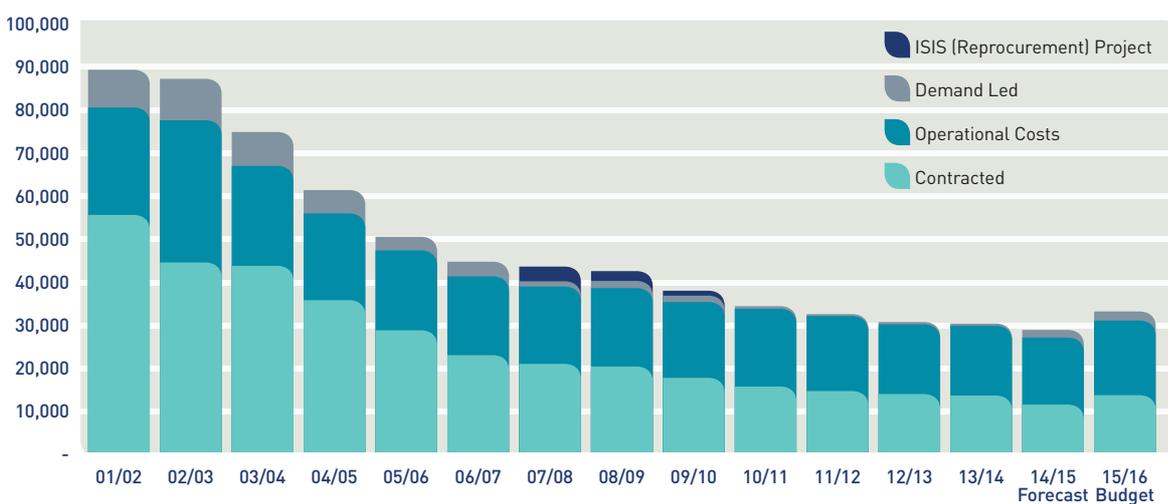


Chart 1 above details the total costs of ELEXON's regular activity since NETA go-live in 2001/02 in real terms (in 2015/16 money after applying April Retail Price Index (RPI) of each year) and shows our continued success in driving efficiencies throughout the business year-on-year. The increase anticipated in the coming years is driven by our need to transform the central systems.

Elexon operational

The costs for ELEXON operational are further detailed in Table 2:

TABLE 2: ELEXON OPERATIONAL

Item	Year to March 2015 Forecast £'000	Year to March 2015 Budget £'000	Year to March 2016 Budget £'000	Variance to March 2015 Budget £'000	Variance to March 2015 Budget %	Year to March 2017 Projection £'000	Year to March 2018 Projection £'000
People costs	11,361	10,309	13,062	(2,753)	(26.7)	12,595	12,927
Other operational overheads	5,932	6,348	6,871	(523)	(8.2)	6,618	6,679
EMR contribution	(1,793)	-	(2,299)	2,299	-	(2,299)	(2,299)
Operational total	15,500	16,657	17,634	(977)	(5.9)	16,914	17,307

People (employee and contractor) costs

TABLE 3: ELEXON PEOPLE COSTS AND HEADCOUNT

Item	Year to March 2015 Forecast £'000	Year to March 2015 Budget £'000	Year to March 2016 Budget £'000	Variance to March 2015 Budget £'000	Variance to March 2015 Budget %	Year to March 2017 Projection £'000	Year to March 2018 Projection £'000
Employee costs	10,200	10,222	11,849	(1,627)	(15.9)	12,237	12,574
Contractors	1,161	87	1,213	(1,126)	(1,292.2)	357	353
Total people costs	11,361	10,309	13,062	(2,753)	(26.7)	12,595	12,927
Average employee headcount	130.6	127.8	167.7	(39.9)	(31.2)	165.2	159.2
Average contractor headcount	8.6	1.0	8.8	(7.8)	(783.2)	2.5	2.5
Operational total	15,500	16,657	17,634	(977)	(5.9)	16,914	17,307

The budget for our operational costs for 2015/16 is £17.6m, an increase of 5.9% (£1m) compared to the 2014/15 budget. This has taken account of the contribution of EMR income. The increase in people costs and overheads is mainly driven by the increase in headcount to deliver EMR and the Transformation Programme, and the increase in office overheads and employee benefits to support those additional people, ie the incremental overheads such as IT and telephony, staff welfare and business travel, albeit that EMR-related costs are fully funded through income from LCCC and ESC.

To fulfil our role as the EMR Settlement Service Provider, via ELEXON's 100%-owned subsidiary EMRS, we have contracted with LCCC and ESC to provide the services on day rates that fully recover our management overheads, office overheads and occupancy costs on a not-for-profit basis in respect of those personnel working on EMR. We have budgeted 21.7 FTEs to deliver the services. The people costs and the incremental office overheads have been included in People costs and Other operational overheads respectively. The £2.3m EMR contribution represents the income from LCCC and ESC to pay for the additional people resources and office overheads and the share of the fixed overheads taken by the EMR team. The latter defrays the fixed overheads that BSC Parties are currently paying, for example occupancy and the IT infrastructure.

To deliver our Transformation Programme over the next few years, particularly during the procurement phase, we have increased headcount by 13.3 FTEs in the next financial year compared to that of the current year.

Table 4 breaks down the total headcount by the activities they perform. The increase in delivering BSC business as usual (BAU) activity is attributable to the six graduates that we brought in through our second Graduate Scheme to help maintain a continuous flow of talent into the organisation.

TABLE 4: ELEXON HEADCOUNT BREAKDOWN

Item	Year to March 2015 Forecast (FTEs)	Year to March 2015 Budget (FTEs)	Year to March 2016 Budget (FTEs)	Variance to March 2015 Budget (FTEs)	Variance to March 2015 Budget %	Year to March 2017 Projection (FTEs)	Year to March 2018 Projection (FTEs)
BSC BAU	114.3	128.8	131.8	(3.0)	(2.3)	139.0	133.0
EMR	15.2	-	21.7	(21.7)	-	21.7	21.7
Reprocurement & Transformation	9.7	-	23.0	(23.0)	-	7.0	7.0
Average total headcount	139.2	128.8	176.5	(47.7)	(37.0)	167.7	161.7

Contracted costs

TABLE 5: CONTRACTED COSTS

Item	Year to March 2015 Forecast £'000	Year to March 2015 Budget £'000	Year to March 2016 Budget £'000	Variance to March 2015 Budget £'000	Variance to March 2015 Budget %	Year to March 2017 Projection £'000	Year to March 2018 Projection £'000
Total contracted costs	11,183	11,149	13,681	(2,532)	(22.7)	14,617	15,303

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

The majority of our contracted costs for 2015/16 are in line with that of the 2014/15 forecast and budget. The £2.5m increase, in comparison to the 2014/15 budget, is categorised as:

- Balancing Mechanism and Reporting Service (BMRS) (£1.4m) – the licence fees, hosting and depreciation of the capital expenditure of the BMRS project incurred in 2014/15.
- Business Processes Reporting (BPR) (£0.6m) – the annual hosting, maintenance and support of phase 1 of the BPR project and the depreciation of the capital expenditure incurred in 2014/15.
- BSC Central System technical upgrade (£0.6m) – costs to keep all the applications on supported versions. There has been no technical upgrade scheduled for 2014/15.



Demand led

TABLE 6: DEMAND LED

Item	Year to March 2015 Forecast £'000	Year to March 2015 Budget £'000	Year to March 2016 Budget £'000	Variance to March 2015 Budget £'000	Variance to March 2015 Budget %	Year to March 2017 Projection £'000	Year to March 2018 Projection £'000
Impact assessment	205	202	249	(47)	(22.6)	254	208
Panel Committee projects	135	100	100	-	-	100	100
BSC Systems release	1,348	1,650	1,500	150	11.1	1,500	1,500
BSC Systems strategic development	-	500	-	500	-	-	-
Total demand led	1,687	2,452	1,849	603	35.8	1,854	1,808

Our budget is based on the following assumptions:

- The budget for BSC systems releases has been set at £1.5m, a £150k decrease compared to the 2014/15 budget. The costs of the current potential scope of the three releases in 2014/15 stand at circa £1.35m.
- As part of our commitment to continue our strategic thinking around how we deliver services, in previous years we have been exploring the possibility of delivering our BPO services using more modern, leaner system architecture. We believed that this would allow us to significantly reduce the risk of system failure, and deliver change in a more flexible and cost effective way, as well as future-proofing BPO systems by replacing aging technology. However, the work relating to this has been, and will be, funded from the Transformation budget. Therefore, we have not set a BSC Systems strategic development budget.
- We've set the budget for impact assessments of modification proposals and change proposals at £249k, an increase of £46k to reflect the trend of the higher number of proposals we have seen recently.
- In line with 2014/15, we have budgeted £100k to cover additions to our cost base resulting from actions requested by Panel Committees. This is to ensure that the approach we take is in line with other demand-driven activity and to enable an agile approach to this demand.



Reprocurement and Transformation

TABLE 7: TRANSFORMATION PROGRAMME

Item	Year to March 2015 Forecast £m	Year to March 2015 Budget £m	Year to March 2016 Budget £m	Variance to March 2015 Budget £m	Variance to March 2015 Budget %	Year to March 2017 Projection £m	Year to March 2018 Projection £m
Reprocurement & Transformation	3.1	4.0	2.7	1.3	33.4	3.0	3.0

In response to customer feedback on our work preparing the Central Systems for future change, ELEXON has developed a strategic initiative, the BPO Transformation Programme. The programme includes business processes and technology, to address a number of current risks and issues that will potentially impede the ability of the Central Systems to meet future needs of the industry. The strategic initiative has the benefit of paving the way for a more competitive procurement for the BPO systems which is due to start in 2015.

We recently reached a version of the IS Strategy and initial transformation roadmap that has been endorsed by the Board. We are in the elaboration phase of the programme where we aim to:

- develop the detail behind the potential 'future state' of ELEXON
- engage with industry to seek our customers' views
- ensure we are set up and organised correctly to manage a large scale transformation programme and to engage with our stakeholders
- explore what tools and packages are out in the market place that could support transformation
- refine our requirements.

The findings of the elaboration phase, which is due to complete in January 2015, will define the work packages for the next few years ahead and drive our central system procurement strategy which will be presented to the Board and the Panel in February 2015.

The uncertainty at this stage makes it difficult to budget for 2015/16. The level of costs will vary depending on the model to be implemented. However, based on information available to us, we have estimated costs associated with procurement and system implementation to be at £2.7m. The £2.7m will be treated in a similar manner to demand led, and we will follow the same robust governance that we employed in the market development budget. This will ensure that there is appropriate scrutiny of expenditure of these sums, that they will be ring-fenced and reviewed periodically, and any surplus arising from reforecast will be returned to industry at the appropriate time.



Market development

TABLE 8: MARKET DEVELOPMENT

Item	Year to March 2015 Forecast £m	Year to March 2015 Budget £m	Year to March 2016 Budget £m	Variance to March 2015 Budget £m	Variance to March 2015 Budget %	Year to March 2017 Projection £m	Year to March 2018 Projection £m
Market development	0.9	2.0	2.0	-	-	2.0	2.0

Our well-established market development function is critical to ensuring the settlement arrangements remain fit for purpose. We will continue to monitor and assess the developments from European and GB policy, regulatory changes and the emergence of new technology and solutions. We will engage with the relevant bodies at home and in Europe to provide GB Settlements a voice when considering new market arrangements. We will respond to consultations and develop proposed solutions to shared industry problems.

As the smart market rollout approaches, attention turns more closely to ensuring settlement arrangements are flexed to accommodate smart solutions. We will work with Ofgem, in leading industry discussions on elements of the Settlement Reform work. In parallel, we continue to respond to requests from Parties and government to advise and support innovations around smart grid solutions and ensure settlement accounts for changes in the way energy is generated and managed.

We also recognise the potential for impacts arising from the intense debate about GB energy policy. We have followed the debate and recognise the potential for change arising from a new government in 2015. In addition we have already been supporting the inquiry that the Competition and Markets Authority (CMA) is undertaking and will continue to support this work and respond promptly to requests. We will be ready to provide advice, guidance and to work with industry and other bodies in the event of any proposals for major changes.

We are aware there is the potential for changes to the market environment to arise following the government election. We will engage and respond to requests for information, and provide support to understand the impacts of potential market changes.

We have allocated our activities to the same headings as in previous years, comprising of:

- smart metering
- smarter markets
- smart grids
- European developments
- other regulatory and policy developments.

As in previous years, we have proposed a budget of £2million which should be sufficient to deal with any resources deployed on market development activities be they internal including backfill for existing resources or external including for studies and impact assessments and other non-BSC expert advice (eg legal advice for Board/Panel).

A list of known initiatives that could impact upon the BSC is set out below. In addition there will be further initiatives, not yet known, that could also potentially impact the BSC and will require monitoring and assessment. In keeping with our approach for previous years, an indicative cost has been attributed to each but is not to be interpreted as an authorisation to spend or as individual sub-budgets.

Area	Budget
Smart Meter Programme – consequential amendments	£50k
Smarter Markets: Settlement Reform	£300k–£350k
Smarter Markets: Change of Supplier (CoS)	£100k–£200k
Smarter Markets: Demand Side Response (DSR)	£100k–£150k
Ofgem Future Trading Arrangements (FTA) work	£100k
Smart grids and smart energy futures	£300k–£400k
Governance review and vires changes	£400k
Europe: European Balancing Network Code, Emergency and Restoration Network Code, Capacity Allocation and Congestion Management Guideline and REMIT.	£100k–£200k
Support to Competition and Markets Authority (CMA)	£50k
Changes arising from the general election	£100k

Note: Further information relating to the above activity can be found in the Strategy section of this Business Plan.

Comparison of 2015/16 annual budget with 2014/15 annual budget

TABLE 9: COMPARISON OF 2015/16 BUDGET WITH 2014/15 BUDGET

Item	Year to March 2015 Budget £m	Year to March 2016 Budget £m	Variance £m	Variance %
ELEXON operational	16.7	17.6	(0.9)	(5.9)
Contracted costs	11.1	13.7	(2.6)	(22.7)
Demand led	2.5	1.8	0.7	24.6
Total regular activity	30.3	33.1	(2.8)	(9.6)
Transformation programme	4.0	2.7	1.3	33.4
Market development	2.0	2.0	-	-
Overall total	36.3	37.8	(1.5)	(4.3)

(Unfavourable variances are in brackets)

Comparison of 2015/16 annual budget against estimate of 2014/15 outturn

TABLE 10: COMPARISON OF 2015/16 BUDGET AGAINST ESTIMATE OF 2014/15 OUTTURN

Item	Year to March 2015 Budget £m	Year to March 2016 Budget £m	Variance £m	Variance %
ELEXON operational	15.5	17.6	(2.1)	(13.8)
Contracted costs	11.1	13.7	(2.6)	(23.1)
Demand led	1.7	1.8	(0.1)	(9.6)
Total regular activity	28.3	33.1	(4.8)	(17.0)
System strategy	3.2	2.7	0.5	15.5
Market development	0.9	2.0	(1.1)	(131.9)
Overall total	32.4	37.8	(5.5)	(16.9)

(Unfavourable variances are in brackets)

Charging analysis

This section outlines how we expect to charge the budget to BSC Parties. Table 11 contains charging proposals from Section D of the BSC. All of the charges presented in Table 11 exclude value added tax (VAT).

TABLE 11: 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)
- For communication line and TIBCO charges, please refer to the ELEXON website
- Notified Volume Charge per Gross Contract MWh at a rate of £0.0006/MWh
- For all Base SVA BM Units a charge of £100 per month
- SVA costs split:
 - 50 per cent of costs are paid by generators on basis of metered energy volumes
 - a fixed fee of £0.7 per SVA Half Hourly Metering System per month
 - remainder allocated on Suppliers Non Half Hourly MWh market share.
- All remaining costs split on basis of metered energy volumes.

* These are based on the current charges and are consistent with 2014/2015's budget. They are subject to change following a periodic review approved by the Panel. Please refer to the BSC website for current rates.

Based on the information in Table 11 examples of charges to BSC Parties are provided.

First, the 2015/16 Annual Budget is set out in Table 12 below.

TABLE 12: SPLIT OF COSTS

Assumed split of costs			
	2014/15 Forecast	2014/15 Budget	2015/16 Budget
SVA costs	4.1	4.1	4.1
Other costs	28.3	32.3	33.7
Total	32.4	36.3	37.8

Second, various assumptions about the size of the market are made. These are presented in Table 13.

TABLE 13: MARKET ASSUMPTIONS

Market assumptions	2014/15 Forecast	2014/15 Budget	2015/16 Budget
Budget	281	221	289
Sales – Notified Contract Volumes (TWh)	763	804	786
Purchases – Notified Contract Volumes (TWh)	763	804	786
Generation (TWh)	280	309	272
Supply (TWh)	271	303	263
NHH Supply (TWh)	155	179	150
HH Supply (TWh)	116	135	113
CVA BM Units	640	606	659
SVA Base BM Units	94	75	97
SVA Additional BM Units	2	3	2
Data Line	79	68	81
Comms Software (5 users)	26	27	27
CVA Metering Systems (MSIDs)	826	818	835
HH Supply (MSIDs)	132,355	124,139	136,326
PRS Supply (MSIDs)	31,765,200	29,793,360	32,718,156

Third, the charging regime from Section D of the BSC in Table 10 is then applied to costs in Table 12 based on the assumptions in Table 13. This gives the estimated charges (either specified charges or £/MWh fees) in Table 14.

TABLE 14: EXPECTED CHARGES

Charge item	2014/15 Forecast	2014/15 Budget	2015/16 Budget
Specified charges			
CVA BM Units (£/month)	100	100	100
SVA Base BM Units (£/month)	100	100	100
SVA Additional BM Units (£/month)	100	100	100
Data line – estimated average (£/month)	700	700	700
Comms software – average quad2 processor (£/month)	1,080	1,080	1,080
Comms software {additional user} (£/month)	22	22	22
Contract Traded (£/MWh)	0.0006	0.0006	0.0006
CVA Metering Systems (£/month)	50	50	50
Base Monthly Charge (£/month)	250	250	250
SVA			
HH SVA Ops (£/msid/month)	0.70	0.70	0.70
NHH SVA Ops (£/NHH MWh)	0.006	0.008	0.006
Gen Energy SVA (£/MWh)	0.007	0.008	0.008
Main charges			
Energy fee (£/MWh)	0.04457	0.04630	0.05509



TABLE 15: COST RECOVERY BY ITEM

Charge item	2014/15 Forecast		Forecast		2015/16 Budget	
	(£m)	% of total	(£m)	% of total	(£m)	% of total
Specified charges						
CVA BM Units	0.8	2.4%	0.7	2.0%	0.8	2.1%
SVA Base BM Units	0.1	0.4%	0.1	0.2%	0.1	0.3%
SVA Additional BM Units	0.0	0.1%	0.0	0.0%	0.0	0.0%
Data line	0.5	1.7%	0.6	1.6%	0.7	1.8%
Comms software (total)	0.1	0.2%	0.3	1.0%	0.3	0.9%
Contract Traded	0.9	2.9%	1.0	2.7%	0.9	2.5%
CVA Metering Systems	0.5	1.6%	0.5	1.4%	0.5	1.3%
Membership fee	0.8	2.6%	0.7	1.8%	0.9	2.3%
SVA						
HH SVA Ops (£/msid/month)	1.1	3.5%	1.0	2.9%	1.1	3.1%
NHH SVA Ops (£/NHH MWh)	1.0	2.9%	1.0	2.7%	0.9	2.4%
Gen Energy SVA (£/MWh)	2.0	6.4%	2.1	5.6%	2.1	5.4%
Main charges						
Energy fee (£/MWh)	24.7	75.3%	28.4	78.1%	29.5	77.9%
Total	32.4	100.0%	36.3	100.0%	37.8	100.0%

04

Feedback

We want your feedback: how to respond

We want your feedback on the aims and initiatives described in this plan. The BSC Panel and ELEXON Board will take account of our stakeholders' views in the final Business Plan which will be agreed and issued before 1 April 2015.

Please provide your comments on the Business Plan to victoria.moxham@elexon.co.uk by 16 January 2015. If you have any questions please contact Victoria at victoria.moxham@elexon.co.uk or 020 7380 4166.

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

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





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