

QUARTERLY REPORT Q2 2017/18: JULY TO SEPTEMBER 2017

The ELEXON Quarterly Report for Q2 2017/18 provides information on the operation, implementation and administration of the BSC, in accordance with section C3.9.1 of the BSC.

The Quarterly Report is divided into four sections:

1. BSCCo Review
2. Operation of the Balancing and Settlement Arrangements
3. Governance and Change
4. Review against the Annual Budget

BSCCO REVIEW

This report summarises the operation of the Balancing and Settlement Code (BSC) for the first quarter of the financial year 2017/18, and describes the activities of the BSC Panel and its Committees. The report also reviews ELEXON's performance against the BSCCo Business Strategy and Budget for 2017/18.

Our strategy this year is to maintain and build upon our previous achievements to fulfil our mission. Our mission is 'to deliver the BSC effectively, efficiently and economically, to the benefit of our customers', and to support the best strategic outcomes for the evolving industry by pursuing our vision. Our vision is 'to be a leader in the efficient transformation of energy markets – by providing shared solutions to address common industry problems.'

We aim to achieve our strategy by fulfilling four strategic priorities designed to improve our service to our customers and stakeholders. These are to:

- **Delivery:** Actively manage our services to ensure that we deliver in a reliable, economic and efficient way.
- **Engagement:** Improve the customer experience and develop richer customer relationships.
- **Improvement:** Enhance and evolve our services to support industry changes and the development of the energy market.
- **Capability:** Invest in our people for the benefit of the industry.

To pursue our vision, we will develop our services and adapt our business to address industry challenges.

We've highlighted some of the key successes below, but you can get a fuller picture of our business activity from the reports presented at each BSC Panel meeting:

- [ELEXON Report 269](#) – 10 August 2017
- [ELEXON Report 270](#) – 14 September 2017
- [ELEXON Report 271](#) – 12 October 2017

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Improving the customer experience

'Introducing ELEXON' seminars

We held one 'Introducing ELEXON' seminars during the second quarter. The September seminar were fully booked and well attended, and the feedback received was positive.

Developing our services

'Brexit'

The UK decision to leave the European Union (EU) has potentially significant impacts on the electricity sector in Britain.

We will continue to seek clarity on the extent to which the BSC must continue to change to meet European Regulations and projects.

However, in the absence of any further information, we are planning on the basis that we will be bound by European electricity Network Codes and Guidelines in the short term.

In July, the Government published the European Union (Withdrawal) Bill and the House of Lords EU Energy and Environment Sub-Committee launched an inquiry into the effect of Brexit on energy security.

In August, Ofgem invited ELEXON and the other GB code administrators to a series of meetings to discuss Brexit impacts on our respective codes. ELEXON analysed the BSC in line with Ofgem guidance and no "show stopper" issues were identified. The impacts appear to be common across most codes, mainly related to the possibility of changing references to European laws and institutions; and questions about transfers of data to European institutions.

The European Guideline on Electricity Balancing (EB GL)

The EB GL covers, amongst other things, settlement of balancing energy and imbalance settlement, so will have potentially significant, impacts on the BSC after it comes into force.

In March 2017, European Member States voted to approve the text of the EB GL. We now understand that the European Commission's aim is for EB GL to enter into force before mid-December. However, if it becomes obvious that this is not feasible, then they will avoid the Christmas/New Year period by aiming for entry into force in mid-January 2018 or later.

Just after the end of the Quarter, NGET organised GB industry-wide code-mapping meetings to identify the impacts of the EB GL on, and changes needed to, the various GB codes to comply with the EB GL and to identify the parties legally responsible for the various tasks.

As previously suggested to the BSC Panel, we anticipated that there might be more than ten EU-driven Modifications could be necessary to implement the EB GL, so these meetings allowed us to check our thinking with the wider stakeholder community on where Modifications might be required. Our cross-code European Network Code implementation plan is regularly updated and is available on our website: <https://www.elexon.co.uk/bsc-and-codes/europe/>

Harmonisation of Imbalance Settlement

The European Transmission System Operators' (TSOs') organisation, ENTSO-E, set up a subgroup last year to examine the European harmonisation of imbalance settlement. The EB GL requires that TSOs make proposals for harmonisation of the main features of imbalance settlement within one year of the date that the Guideline comes into force. ELEXON is not a TSO so cannot be a voting member of this group, but we continue to attend with NGET, the formal GB member.

ELEXON's Role

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We have continued to engage with Government to discuss the assignment option that is available under the EB GL. This is to enable ELEXON to continue in its BSCCo role after the EB GL comes into force.

Project TERRE (Trans European Replacement Reserves Exchange)

Project TERRE is a project currently involving NGET and a number of other European Transmission System Operators, which is intended to meet part of the EB GL requirements for pan-European energy balancing.

National Grid raised BSC Modification P344 in June 2016 to seek to align the BSC with the Project TERRE requirements and the P344 Working Group has continued to meet throughout the Quarter.

ELEXON hosted a pan-European TERRE Stakeholder event in July. ELEXON and NGET took advantage of the offer to stakeholders to present on their views and we stressed the need for close cooperation between local implementation projects (in the British case this will be BSC Modification P344 and Grid Code Modification GC0097) and the central TERRE Project as it is developed and implemented. This is also something we repeated in our response to the public Project TERRE consultation in August.

Imbalance Price changes

Article 55 of the EB GL appears to require changes to the BSC imbalance price calculation, potentially by December 2018. NGET raised BSC Modification Proposal P360 in September to assess this.

As this is potentially followed by further imbalance price changes in 2020 driven by Article 52 (harmonisation of imbalance settlement) a derogation from the requirements of Article 55 (two-year delay) would allow these changes to be combined, which would appear to be more efficient.

So in parallel with the progression of P360, ELEXON, NGET and Ofgem are in discussions regarding the potential for a derogation to be requested as soon as the EB GL comes into force.

The European Guideline on Capacity Allocation and Congestion Management (CACM)

The European intraday market, and the time at which it closes, are governed by CACM. NGET raised BSC Modification P356 in July to accommodate the time at which this market is likely to close and data for interconnectors becomes available.

The System Operation Guideline (SO GL) and other Network Codes

A further European Network Code, the SO GL, became law on 14 September. This leaves only the Network Code on Emergency and Restoration (NC ER); and the EB GL, from the initial suite of draft Network Codes, left to reach the statute book. Information on the European Network Codes can be accessed on, and via, our webpage: [EU Legislation Directly Impacting on the BSC - ELEXON](#).

The Clean Energy Package

In November 2016, the European Commission published its 'Clean Energy Package' of new energy legislation. ELEXON has continued to work with both trade associations of which it is a member (Energy UK and Europex), on their detailed responses to this as new drafts appear.

Electricity Market Reform (EMR)

EMR Settlement Services

The EMR Settlement Service continues to operate and meet its obligations. EMRS successfully issued its first Billing Statement for a Contracts for Difference (CFD) Generator in July 2016. Consequently, from July 2016 Suppliers started paying the Interim Ley rate. Refunds for excess CFD Operational Costs Levy and CM Settlement Costs Levy were issued in July 2016.

It was a busy period for credit cover processes, with Suppliers for the Capacity Market (CM) and CFD schemes as well as Applicants for the upcoming CM Auctions needing to lodge credit cover.

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From 1 September 2016, EMRS started providing metering assurance for the Low Carbon Contracts Company (LCCC) and Electricity Settlements Company (ESC) for the CFD and CM schemes respectively. EMRS will ensure that the metering installed by CFD Generators and Capacity Providers meets the appropriate standards. The first significant piece of work, supporting the Metering Tests and DSR Reports for Capacity Providers under this new contract, has concluded for the upcoming Delivery Year.

The first Delivery Year for the Capacity Market started on 1 October 2016. In preparation for this, EMRS held a webinar for Supplier CM payments on 7 September, which was attended 93 participants. EMRS continues to engage with and support EMR Parties in other areas, for example by publishing new guidance documents and hosting Supplier introduction events in collaboration with LCCC and ESC. From 31 August 2016, EMRS started publishing CFD Generator Market Reference Prices on the EMRS website.

EMRS issued a number of communications, which were shared in Newscast, where appropriate, covering other business as usual activities, such as document updates, DTC changes (for EMR backing data) and EMR Supplier Events. More information is available on the publications section of the [EMRS website](#).

Settlement Reform and support for Ofgem projects

Settlement Reform

In July, Ofgem launched the Significant Code Review (SCR) on Market Wide Half Hourly Settlement (HHS).

This is on the back of the work we have done on improving the settlement process in the advent of advanced and smart metering.

We successfully implemented our improvements to the elective half-hourly arrangements in the first quarter of 2017.

Ofgem accepted our offer to lead the development of the Target Operating Model (TOM) for HHS through a Design Working Group (DWG) approach. Ofgem set out the design principles to be used in the TOM development, which we have used to develop documentation for use by the DWG in assessment of the TOMs.

We have been working up draft options for the TOM and supporting descriptions to be discussed by the DWG at their first meeting in October. We will deliver the draft TOMs to Ofgem in the spring of 2018, with further development and assessment in 2018/19. Ofgem will make the final decision on the approach for Market Wide HHS in late 2019.

Faster and More Reliable Switching

We have continued to provide support to Ofgem during the Detailed Level Specification (DLS) phase of the switching programme. We have provided subject matter expertise to the Design and Delivery Teams and supported three industry stakeholder groups – the External Design Advisory Group (EDAG), the Delivery Forum and the Regulatory Design Forum.

Ofgem has issued (21/09/17) their consultation on the next steps of the switching programme, including the governance aspects of the Retail Energy Code. We are drafting a response.

Demand Side Flexibility (DSF), Smart Grids and Innovation

We continue to explore the implications of Demand Side Flexibility (DSF) for future market scenarios, and to work with industry to identify and progress the changes needed to open balancing markets to the demand side. Much of this work is now being progressed in the context of BSC Modifications ([P344](#), [P355](#)), and we continue to support the National Grid led Power Responsive work on both Flexibility and Storage.

We are also contributing to the work of the Electricity Networks Association (ENA) and others on developing the role of Distribution System Operator (DSO). As DSOs begin to manage power flows on their networks more actively it is important that actions they take do not cause costs to be misallocated to Suppliers, and this requires new local

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balancing markets to be integrated with current imbalance settlement arrangements. We are working closely with the ENA's Open Network Project to build an understanding of how this can be achieved.

We have spoken to a number of parties looking to innovate in areas such as storage, community energy and electric vehicle infrastructure. In order to ensure that the BSC does not prevent the trialling of innovations such as these we have taken a proposal to the BSC Panel (paper [271/04](#)) for an electricity market sandbox, and will be progressing a Modification Proposal to enable this.

Industry consultations

We responded to six industry consultations over the quarter:

- [ELEXON's response to the ENTSO-E survey on standard balancing products](#)
- [ELEXON's response to Ofgem's Targeted Charging Review consultation](#)
- [ELEXON's response to BEIS's consultation on building its industrial strategy](#)
- [ELEXON's response to Ofgem's 'minded to' decision on CUSC Modification Proposals 264 & 265](#)
- [ELEXON's response to Ofgem's consultation on future arrangements for the electricity system operator: its role and structure and the regulatory and incentives framework](#)
- [ELEXON's response to the second consultation on DCUSA Change Proposal 268 – 'DUoS Charging Using HH Settlement Data'](#)

All our responses are published on the [Industry Insights](#) page of the ELEXON website.

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OPERATION OF THE BALANCING AND SETTLEMENT CODE ARRANGEMENTS

You can find further details about our operational performance, including performance against our key performance indicators in the ELEXON reports presented to the BSC Panel every month:

- [ELEXON Report 269](#) – 10 August 2017
- [ELEXON Report 270](#) – 14 September 2017
- [ELEXON Report 271](#) – 12 October 2017

We report operational issues that affect customers in [ELEXON Circulars](#).

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GOVERNANCE AND CHANGE

Modifications

Five new Modification Proposals were raised:

- [P356: Aligning the BSC with Grid Code Modification GC0099 'Establishing a common approach to interconnector scheduling consistent with the single intraday market coupling processes set out within Regulation \(EU\) 2015/1222 \(CACM\)'](#)
- [P357: Removal of GC/DC tolerance parameters from BSC Section K](#)
- [P358: Roll over of BSC Seasonal GCDC](#)
- [P359: Mechanised process for GC/DC declarations](#)
- [P360: Making the BSC's imbalance price compliant with the European Balancing Guideline](#)

No Modification Proposals were withdrawn.

No Modification Proposals were pending Authority decision at 30 September 2017.

No Modification Proposals were approved by the BSC Panel as a Self-Governance.

Change Proposals:

Three Change Proposals were raised:

- [CP1489: Align the NETA IDD spreadsheets with the live implementation of the SAA-I014 flow](#)
- [CP1493: Add a form and associated process steps to BSCP15 for registering Non-Standard BM Unit configurations](#)
- [CP1494: Introduction of an objection window for Housekeeping Change Proposals](#)

BSCP40 issues:

- No BSCP40 issues were raised
- One BSCP40 issue remained open during this period.
 - [Issue 69 Performance Assurance Framework Review](#)

BSC Panel and Committee Activity

As well as considering the Modifications in the section above, the Panel:

- Approved the award of the Model Reviewer contract.
- Approved the amended methodology for defining LPS and SSPs.
- Approved the actual LPs and SSPs to be used in the calculation of TLFs for BSC Year 2018/19.
- Agreed to delegate ownership of the proposed methodology for defining LPs and SSPs to the ISG.
- Agreed the terms of reference of the Code Administration Code of Practice Review.
- Approved the schedule of Panel meetings for 2018.
- Approved ELEXON's proposal to develop a revised Audit scope for the interim period between the 2017/18 BSC Audit and the implementation of the PAF review outcomes.
- Approved an amendment to the Procurement Approach for the TAA Service.

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- Determined that ELEXON and the P344 Workgroup should prepare an interim report, from which the Panel may request Ofgem's provisional thinking.
- Approved the use of the TLFA software for the calculation of Nodal TLFs.
- Appointed a new PAB member and a new PAB alternate member.
- Appointed a new SVG member and a new SVG alternate member.
- Noted the lessons learned from Trading Disputes DA759 and DA797.
- Noted an update on Ofgem's Targeted Charging Review SCR.
- Noted ELEXON'S view on derogation for the European Balancing Guideline 55 requirements.
- Noted the findings of the 2016/17 Funding Shares Audit.
- Noted the proposed methodology for producing the Network Mapping Statement.
- Noted the proposed Network Mapping Statement.
- Noted the Network Mapping Statement for the Determination of Transmission Loss Factors.
- Noted the proposed approach for consulting with industry on the draft NMS.
- Noted that following the consultation, ELEXON will provide a verbal update at the September Panel meeting.
- Noted that ELEXON will present any amendments made to the draft NMS to the BSC Panel at its October 2017 meeting for approval.
- Noted an update on how assurance is provided over BSC Systems through the annual BSC Audit.
- Noted a proposal to revise BSC Audit Scope and Assurance arrangements as interim to PAF Review.
- Noted an update from National Grid on the future role of the System Operator.
- Noted an update from Ofgem on its work to ensure that the regulatory framework is fit for purpose post Brexit.
- Noted the risks borne by the implementation of the TERRE product into the GB market arrangements.
- Noted the steps that ELEXON is taking to ensure that P344 is successfully implemented in the most efficient manner.
- Noted an update from ELEXON on the progress of the Draft Network Mapping Statement consultation.

Imbalance Settlement Group (ISG):

The ISG continues to oversee and contribute to the development of the CVA arrangements. The ISG:

- Approved a single non-standard BM Unit status for Alcoa Power Station subject to the applicant resubmitting the single line diagram demonstrating Boundary of asset ownership which ELEXON will review and approve.
- Approved a single non-standard BM Unit status for Barton Hill Power Station.
- Approved the changes to approved methodologies by three LDSOs,
- Approved the consultation questions to be issued on the MIDS consultation.
- Commented on the analysis in this paper which we will present in our industry consultation.
- Approved the site-specific Metering Dispensation application (D/476) on a temporary basis for 10 years.

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- Approved a single non-standard BM Unit for the Pen y Cymoedd battery storage.
- Approved two non-standard BM Units, one for each of the West Burton B battery modules on a temporary basis, expiring 31 December 2021.
- Approved Metering Dispensation D/478 on a lifetime basis, subject to the Metering Dispensation Review Group (MDRG) reviewing and confirming to ELEXON that it is satisfied with the compensation methodology for the battery modules' Metering Systems.
- Approved the changes to NETA IDD Part 1 (Word and Excel), NETA IDD Part 2 (Word and Excel) and changes to BSCP01 and BSCP71 for P342.
- Commented on the analysis on the MIDS review, which we will present in our industry consultation.
- Noted that CP1492 had been raised; noted the proposed progression timetable for CP1492 and PROVIDED additional questions for inclusion in the CP Consultation.
- Noted the continued use of approved methodology statements by three LDSOs.
- Noted the Embedded LDSOs' intention to Mirror the Host LDSOs' LLFs.
- Noted that ELEXON will seek the SVG's approval of the LLF methodologies at its 5 September 2017 meeting.
- Noted analysis presented on the MIDS Review 2017 and RECOMMENDED to the BSC Panel that no changes be made to the MIDS.
- Noted the consultation response received for the MIDS review 2017.
- Noted ELEXON's recommendation that no system changes for the management of Authorised Signatories online are undertaken at this time.
- Noted that CP1493 had been raised.
- Noted that CP1494 had been raised.

Supplier Volume Allocation Group (SVG):

The SVG continues to oversee and contribute to the development of the SVA arrangements. The SVG:

- Approved the six General Change Requests for implementation in MDD 258 with a go-live date of 19 July 2017.
- Approved the proposed Line Loss Factor Classes (LLFCs) for two Licensed Distribution System Operators (LDSOs) for use in Settlement from 19 July 2017.
- Approved the proposed LLFCs for two LDSOs for use in Settlement from 1 April 2018.
- Approved the following Configurable Items for use with an effective date of 7 July 2017:
 - SVA Data Catalogue Volume 1 – Data Interfaces, v45.0
 - SVA Data Catalogue Volume 2 – Data Items, v35.0.
- Rejected CP1480 'Creation of a new authorisation category for corrections to BOA related data'
- Approved CP1483 'Changes to BSCP550 – Shared Metering Arrangements'
- Approved the four General Change Requests for implementation in MDD 259 with a go-live date of 16 August 2017.
- Approved the proposed Line Loss Factor Classes for two Licensed Distribution System Operators for use in Settlement from 16 August 2017.

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- Approved the seven General Change Requests for implementation in MDD 260 with a go-live date of 20 September 2017 (including one additional Unmetered Supplies Charge Code presented at the meeting).
- Approved the proposed Line Loss Factor Classes (LLFCs) for two Licensed Distribution System Operators (LDSOs) for use in Settlement from 20 September 2017.
- Approved the proposed LLFCs for three LDSOs for use in Settlement from 1 April 2018.
- Approved the six Host LDSOs' methodologies, noting the changes made to three of these.
- Noted all Embedded LDSOs' intention to Mirror the Host LDSOs' methodologies.
- Noted that the Imbalance Settlement Group (ISG) approved the Host LDSO methodologies at its meeting on 22 August 2017.
- Approved CP1487 'Removing the exclusion of CoMCs concurrent with a CoA from PARMs reports NM12 and HM12'.
- Approved CP1490 'Changes to BSCP27 and Technical Assurance Agent Service Descriptions to remove constraints to service improvement'.
- Noted that CP1490 had been raised.
- Noted the seven Fast Track Change Requests for implementation in MDD 259 with a go-live date of 16 August 2017.
- Noted that CP1492 had been raised.
- Noted the 17 Fast Track Change Requests for implementation in MDD 260 with a go-live date of 20 September 2017.
- Noted all Embedded LDSOs' intention to Mirror the Host LDSOs' methodologies.
- Noted that the Imbalance Settlement Group (ISG) approved the Host LDSO methodologies at its meeting on 22 August 2017.

Trading Disputes Committee (TDC)

The TDC:

- upheld 17 Trading Disputes
- rejected 1 Trading Dispute
- deferred 1 Trading Dispute Pending further information.

AGREED the methodology of three Extra-Settlement Determination calculations.

Performance Assurance Board (PAB):

In addition to normal work, the PAB:

- Approved an IDNO's application for Qualification as a SMRA and UMSO.
- Noted ELEXON's response to the BSC Audit opinion.
- Noted an updated timeline for proposed activity to remedy Market Issues.
- Noted the PAF KPIs for July 2017.
- Approved the Risk Evaluation Register 2018/19.
- Reviewed EFR plans for Suppliers' performance against P272.

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- Noted updates from eight Suppliers on SR0074 'The risk that NHHDCs do not collect and/or enter valid Meter readings resulting in old/default data entering Settlement'.
- Noted updates from two Suppliers on SR0081 'The risk that HHDCs do not process valid HH readings resulting in estimated data being entered into Settlement'.
- Noted an update from a Supplier on SR0072 'the risk that NHHDCs process incorrect Meter readings, resulting in erroneous data being entered into Settlement'.
- Approved the amended BSC Audit Scope Document for the 2017/18 BSC Audit year.
- Approved CP1487 – 'Remove the exclusion of Change of Measurement Classes in BSCP533 Appendix B'.
- Noted an update on the work done in the last quarter to address issues around the Commissioning process.
- Noted and update on the PAF Review and DISCUSSED and AGREED that the project team would request volunteers from the relevant Panel sub-committees to form a pool of subject matter experts.
- Approved proposed changes to the BSC Audit Scope Document 2018/19.
- Approved amended category 1.03 non-compliance thresholds for CoPs 2, 3 and 5.
- Approved the BSC Qualification Service Provider's approach to the (Re)-Qualification Service Document for the year ending September 2018.
- Approved a TAPAP check to identify underlying causes of missing MTDs.
- Approved the Annual Performance Assurance Report 2016/17.

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REVIEW AGAINST THE ANNUAL BUDGET

Summary

The year to date expenditure for the second quarter of 2017/18 is £15.2m, £2.6m (14.9%) below budget.

The material underspends in the quarter are mainly due to delays in recruitment and lower associated staff costs as well as timing differences that arise from phasing of the budget. Contained within this difference is an amount designated for contingencies that we believe is necessary for business continuity.

Following on from a mid-year review, our forecast is positioned at £39m, which is £ 2.5m (6%) below budget, as illustrated in the table below.

Expenditure by Type

The position against budget is summarised below:

£m	YTD	Var.	Full Year	Var.
Operational	7.2	1.4	17.6	0.5
Demand Led	0.7	0.5	2.8	1.2
Contracted	6.9	0.5	14.9	0.3
System Strategy	0.4	0.2	3.2	0.5
Market Development	-	-	0.5	-
Total Elexon	15.2	2.6	39.0	2.5

Unfavourable variances to budget are in brackets

Operational Expenditure

The performance year to date is £1.4m under budget mainly due to delay in recruitment as well as timing difference of actual costs versus the phasing of the budget of provisions.

Demand Led Expenditure

The full year forecast has been reduced by £1.7M – majority of the savings of £1.5M relate to savings in BSC release costs with remainder attributed to Modifications, Panel projects and PAF review.

Contracted Expenditure

The full year expenditure is forecast to be £14.9m, £0.3m under budget mainly as a result of reduced depreciation charges for BMRS due to lower project costs than anticipated last financial year which resulted in a lower capitalisation.

System strategy

Mid-year review has allowed us to release £0.5m which is not needed to meet the requirements budgeted.

Market Development

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No Market Development costs were incurred year to date and forecast is being maintained in line with budget at £500k.