

QUARTERLY REPORT Q3 2017/18: OCTOBER TO DECEMBER 2017

The ELEXON Quarterly Report for Q3 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 272](#) – 9 November 2017
- [ELEXON Report 273](#) – 14 December 2017

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Improving the customer experience

'Introducing ELEXON' seminars

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

ELEXON webinars

We held a very successful webinar in December on the 'Beginner's Guide to Settlement Performance for Suppliers'. It provided the basics of Settlement performance for Suppliers.

Developing our services

European Developments

'Brexit'

The third quarter was quiet in terms of 'Brexit' news or developments impacting the BSC.

In the preceding quarter, Ofgem had 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. We expect this work to pick up again early in 2018.

The last two European Network Codes become law

A significant milestone was reached at the end of this quarter when the last two electricity of the current suite of Network Codes and Guidelines became law.

The European Electricity Balancing Guideline (EB GL) and the Network Code on Emergency and Restoration (NC ER) both came into force on 18 December 2017.

As part of the lead up to this day, there were a series of industry code-mapping meetings in October to identify the impacts of the EB GL on, and changes needed to, the various GB codes to comply with the 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. Although the NC ER includes provisions related to imbalance settlement during periods of market suspension, currently we expect it to have less impact on the BSC.

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/>

The next three paragraphs set out some of the changes we have progressed to implement the EB GL in GB.

BSCCo (ELEXON) assigned direct responsibilities under the EB GL

The text of the EB GL requires that balancing and settlement is the responsibility of the System Operator. However, it also allows certain tasks to be assigned to other suitable bodies. On the same day as the EB GL came into force, ELEXON received the [formal assignment letter](#) from BEIS, so BSCCo (ELEXON) is now directly responsible for balancing settlement, imbalance settlement and data publication as set out in the BSC.

Imbalance Price changes

Also on 18 December 2017, we were able to apply formally to Ofgem for [a derogation](#) (two-year delay) from the EB GL requirements to implement changes to our imbalance prices (currently being progressed through BSC Modification P360). The aim of this derogation is to align the timing of these early changes to the imbalance price with later ones (yet undefined) required as part of harmonising imbalance settlement more generally across Europe.

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European balancing platforms affecting GB

One of the legal requirements of the EB GL is for European Transmission System Operators (TSOs) to design and build arrangements for sharing balancing energy. National Grid, and hence, GB industry more widely, is involved in two of these initiatives: Project TERRE for Replacement Reserve (RR) and Project MARI for manually-activated Frequency Restoration Reserve (mFRR). European Project MARI ran a public consultation in December, to which ELEXON responded. ELEXON observed that the various EU projects needed to be better coordinated to ensure consistency and that these projects should not assume that other projects are picking up certain aspects without checking.

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.

Gaining recognition of ELEXON in Europe

ELEXON and similar European independent settlement administrators went through a long series of negotiations to gain eventual recognition for our non-TSO role in the EB GL (enabling the assignment mentioned above). We are now facing similar issues with the draft Clean Energy Package of European legislation and explaining our role to MEPs and others who control the drafting. This has prompted us, via Europex, to develop a short briefing note explaining who we are, where we operate (in 11 Member States) and what we do. This note has now been published by Europex and is on our [Europe](#) page of the ELEXON website.

Other

Steve Wilkin, our European Coordination Manager, was awarded 'Master' (top) level in the Florence School of Regulation's first ever course on EU Network Codes.

Industry News

Future Code Reform

Ofgem hosted code governance workshops in late November/early December 2017. Our perspective of the themes emerging was the need:

- to identify the underlying issues against which the proposals could be tested
- for ongoing Ofgem leadership of any new process to demonstrate its importance
- for alignment of incentives on parties to engage (including code administrator business models)
- for removal of existing barriers in the current framework
- to look at how the proposals would support innovation.

Industry press and ELEXON

ELEXON's article 'Marshalling UK energy system change' (by Alina Bakhareva) was published in the November 2017 edition of 'Energy World', The Energy Institute's magazine. Our article highlights the numerous initiatives that will impact the energy systems and the need to amend industry governance to implement these effectively.

The 'BSC Sandbox' (Modification P362 Introducing BSC arrangements to facilitate an electricity market sandbox) was mentioned on New Power's website 'Elexon to offer 'sandbox' approach to bring on electricity market innovations'. <https://www.newpower.info/2017/11/elexon-to-offer-sandbox-approach-to-bring-on-electricity-market-innovations/>

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Future Electricity System Operator (ESO)

In October 2017, there were two Ofgem-hosted workshops to test industry reaction to its draft thinking on the regulatory framework required for the future ESO. The key discussion points were around the form of the incentives: financial or other and the duration over which those incentives would apply and be measured.

We responded to National Grid's views on the regulatory and incentives framework for the ESO. Our response can be found on the [Industry Insights](#) section of our website. Amongst other comments we said that the ESO's publication of information should not be fragmented, with an overarching, collaborative approach to publication between us, including using the newly improved [BMRS](#); and seeking equivalent treatment for ESO, ELEXON and other code managers when undertaking code administration tasks.

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 Levy 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.

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

We have been leading on the development of the Target Operating Model (TOM) for market wide Half Hourly Settlement through a Design Working Group (DWG) approach (including industry, Ofgem, BEIS and consumers). We have developed options for the TOMs and supporting descriptions.

Ofgem have also set out their policy work approach on the business case, data access and the future of agent functions. With the DWG we have set out the settlement processes required for different market segments; smart; Non-smart and Advanced and we have agreed how Services could be grouped to deliver the required processes. A set of five draft TOMs have been identified by the DWG for subsequent evaluation.

We will deliver the draft TOMs to Ofgem in the spring of 2018, with further detailed development and assessment in 2018/19. Ofgem will make the final decision on the approach for Market Wide HHS in late 2019.

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Faster and More Reliable Switching

We have continued to provide support to Ofgem during the Detailed Level Specification (DLS) phase of the switching programme, including reviewing the DLS products. 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.

We [responded to the Ofgem consultation](#) on 'Delivering Faster and More Reliable Switching'.

Demand Side Flexibility (DSF), Smart Grids and Innovation

We have continued to engage with industry to explore the implications and benefits of Demand Side Flexibility, and are driving progress via [BSC Modification P344](#), which is also now hoped will deliver the benefits sought from [BSC Modification P355](#).

We are following the progress with transition to Distribution System Operation, having responded to SSE Networks consultation on their transition and attended the launch event for Northern PowerGrid's DSO transition programme. We continue to call on DSOs to engage with us on local balancing issues to ensure a smooth transition to the future of energy systems.

In November, the BSC Panel raised [BSC Modification P362](#), to enable the operation of a Sandbox to facilitate innovative concepts in the BM. We have continued to engage with Ofgem's Innovation Link team, as well as innovative companies looking to participate in the BM or provide other services for the wholesale electricity markets.

We are also contributing to Ofgem's Charging Futures Forum, to help prioritise reforms to network charging arrangements and the impacts that innovation and technology can have.

Industry consultations

We responded to 10 industry consultations over the quarter. All our responses are published on the [Industry Insights](#) page of the ELEXON website.

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 272](#) – 9 November 2017
- [ELEXON Report 273](#) – 14 December 2017

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

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GOVERNANCE AND CHANGE

Modifications

Four new Modification Proposals were raised:

P361: Revised treatment of BSC Charges for Lead Parties of Interconnector BM Units

P362: Introducing BSC arrangements to facilitate an electricity market sandbox

P363: Simplifying the registration of new configurations of BM Units

P364: [Clarifying requirements for registering and maintaining BM Units](#)

No Modification Proposals were withdrawn.

Authority decision received - Approval:

P357: [Removal of GC/DC tolerance parameters from BSC Section K](#)

P358: [Roll over of BSC Seasonal GCDC](#)

Self Governance Modifications:

P363: [Simplifying the registration of new configurations of BM Units](#)

P364: [Clarifying requirements for registering and maintaining BM Units](#)

Change Proposals:

Six Change Proposals were raised:

CP1495: [Introduction of a rejection response dataflow for a D0170 'Request for Meter System Related Details' request from the Meter Operator Agent to the Licensed Distribution System Operator where a D0215 'Provision of Site Technical Details' response is required](#)

CP1496: [Introduction of two data flows for the Commissioning process for Half Hourly \(HH\) Supplier Volume Allocation \(SVA\) Current Transformer \(CT\) operated Metering Systems](#)

CP1497: [Introduction of data flows for Half Hourly Meter Operator Agents to pass on Commissioning information when there is a Change of Agent](#)

CP1498: [Updates to BSCP537 Appendix 1 'Self-Assessment Document' to incorporate an additional question for Meter Operator Agents on Meter Operation Code of Practice Agreement Accreditation](#)

CP1499: [Updates to BSCP537 Appendix 1 'Self-Assessment Document' to incorporate an additional question for Suppliers on Meter Operation Code of Practice Agreement Accreditation for Meter Operator Agents](#)

CP1500: [Amend the BSCP537 Appendices to add a requirement for Suppliers and MOAs to demonstrate the ability to send and receive Smart Meter Configuration details](#)

No Issues raised/closed

[Issue 69](#) remains open

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BSC Panel and Committee Activity

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

- NOTED that the current lack of an Electricity Market Sandbox/derogations process for the BSC hinders the trial of some innovations in the electricity market and that ELEXON intended to request at the November Panel meeting that the Panel raises a Modification Proposal to introduce an EM Sandbox/derogations process into the BSC.
- NOTED the Annual Performance Assurance Report 2016/17.
- NOTED ELEXON's annual review of the Market Index Definition Statement (MIDS) and AGREED that no change is made to the MIDS.
- NOTED details of the changes made to the Draft Network Mapping Statement (NMS) since it was issued for industry consultation; NOTED that one Party responded to the draft reference NMS consultation; NOTED the amendments made to the draft reference NMS as a result of the consultation response; NOTED that the responding Party is satisfied with the amendments made by ELEXON; APPROVED the updated draft reference NMS for use as the 2018-2019 reference NMS; and NOTED that ELEXON will provide the 2018-2019 reference NMS to the TFLA and the Transmission Company and will publish it on the BSC Website no later than 19 October 2017.
- NOTED that a Party was in Default under Section H3.1.1(g)(iv) of the BSC and AGREED to expel the Defaulting Party from the BSC.
- Received and update from National Grid on the legal separation of SO and TO roles.
- Received a summary of the 2017 ELEXON customer survey results.
- Received a verbal update on ELEXON's Architecture Strategy.
- APPROVED changes to the scope of the 2018/19 BSC Audit.
- NOTED the progress made towards the implementation of the recommendations from the review of Metering Dispensations and Non-standard BM Units.
- Received a verbal update on the design working group for Market Wide Half Hourly Settlement, covering progress to date and next steps.
- NOTED the intended publication of the BSCCO Business Plan on w/c 18 December 2017 and the invitation to industry to comment prior to 22 January 2018; and DETERMINED to provide its own comments and to nominate Panel Members to prepare a response for submission prior to 22 January 2018.

Imbalance Settlement Group (ISG):

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

- APPROVED five Metering Dispensations.
- NOTED that CP1496 had been raised and provided comments for inclusion in the CP Consultation.
- Received an update on the Performance Assurance Framework review.
- APPROVED an application for three non-standard BM Units.
- APPROVED a Trading Unit application.
- APPROVED the Delivering and Off taking ETLMO values for use in the BSC Year 2018/19.

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- APPROVED version 1.2 of the TLFA Service Description to become effective as version 2.0 on 22 December 2017.
- APPROVED CP1494 'Introduction of an objection window for Housekeeping Change Proposals' and CP1493 'Add a form and associated process steps to BSCP15 for registering Non-Standard BM Unit configurations'.
- NOTED that CP1498 'Updates to BSCP537 Appendix 1 'Self-Assessment Document' to incorporate an additional question around Meter Operation Code of Practice Agreement for Meter Operator Agents' and CP1499 'Updates to BSCP537 Appendix 1 'Self-Assessment Document' to incorporate an additional question around Meter Operation Code of Practice Agreement for Suppliers' 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 15 General Change Requests for implementation in MDD, NOTED the 48 Fast Track Change Requests for implementation in MDD and APPROVED the proposed Line Loss Factor Classes for seven Licensed Distribution System Operators.
- AGREED that the Profiling Expert Group (PEG) acts as a review group for this year's Average Fraction of Yearly Consumption (AFYC) recalculation and AGREED the proposed review timetable and calculation period.
- APPROVED amendments to BSC Procedure (BSCP) 01 for the November 2017 Release and NOTED a change to the software deployment date for Change Proposal (CP) 1484 as part of the November 2017 Release.
- APPROVED CP1492 'Causes and treatment of large Line Loss Factors', CP1493 'Add a form and associated process steps to BSCP15 for registering Non-Standard BM Unit configurations' and CP1494 'Introduction of an objection window for Housekeeping Change Proposals' for implementation.
- NOTED that the following Change Proposals had been raised:
 - CP1494 'Introduction of an objection window for Housekeeping Change Proposals'
 - CP1493 'Add a form and associated process steps to BSCP15 for registering Non-Standard BM Unit configurations'
 - CP1495 'Introduction of a rejection response dataflow for a D0170 'Request for Meter System Related Details' request from the Meter Operator Agent to the Licensed Distribution System Operator where a D0215 'Provision of Site Technical Details' response is required'
 - CP1496 'Introduction of two data flows for the Commissioning process (implemented with P283) for Half Hourly (HH) Supplier Volume Allocation (SVA) Current Transformer (CT) operated Metering Systems'
 - CP1497 'Introduction of data flows for Half Hourly Meter Operator Agents to pass on Commissioning information when there is a Change of Agent'
 - CP1498 'Updates to BSCP537 Appendix 1 'Self-Assessment Document' to incorporate an additional question for Meter Operator Agents on Meter Operation Code of Practice Agreement Accreditation'
 - CP1499 'Updates to BSCP537 Appendix 1 'Self-Assessment Document' to incorporate an additional question for Suppliers on Meter Operation Code of Practice Agreement Accreditation for Meter Operator Agents'

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- APPROVED a Central Management System for use in Settlement, on the recommendation of the Unmetered Supplies User Group (UMSUG).
- AGREED, in principle, the UMSUG's proposed approach to electric vehicle (EV) charging where the Apparatus contains a Meter.
- APPROVED a Metering Dispensation.
- Approved updates to the UMSUG and STAG Terms of Reference.

Trading Disputes Committee (TDC)

The TDC:

- upheld 24 Trading Disputes
- rejected 1 Trading Dispute

Performance Assurance Board (PAB):

In addition to normal work, the PAB:

- Received an update on a Supplier's migration to HH Settlement under P272 and a general update on P272 detailing progress since the migration deadline of 1 April 2017.
- Received an update on four Suppliers' progress against its EFR action plan for SR0074.
- ENDORSED the conclusions of the PAF Procedures reports drafted as part of the PAF review.
- APPROVED the development of a smart Meter rollout monitoring report based on existing datasets and the proposed approach for monitoring risks associated with late and incorrect smart MTDs.
- Noted that the following Change Proposals had been raised:
 - CP1498 'Updates to BSCP537 Appendix 1 'Self-Assessment Document' to incorporate an additional question around Meter Operation Code of Practice Agreement for Meter Operator Agents' ELEXON provided the PAB with an update on the PAB 2018 meeting dates
 - CP1499 'Updates to BSCP537 Appendix 1 'Self-Assessment Document' to incorporate an additional question around Meter Operation Code of Practice Agreement for Suppliers'
- APPROVED a revised approach to BSC Audit assurance.
- APPROVED and MPID's application for Qualification as an SMRA and UMSO and 10 MPID's applications as HH and NHH Suppliers.
- NOTED and update on the key TAA service changes and APPROVED the scope of the TAA audit for the Balancing and Settlement Code (BSC) year 2018/19
- NOTED a presentation from ELEXON on issues with Non Half Hourly (NHH) Settlement performance being under the required 97% standard at an industry level.

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REVIEW AGAINST THE ANNUAL BUDGET

Summary

The year to date expenditure for the third quarter of 2017/18 is £23.8m, £2.9m (10.9%) 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 £36.6m, which is £ 4.9m (11.9%) 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 | 11.4 | 1.6 | 17.3 | 0.8 |
| Demand Led | 1.0 | 0.5 | 1.7 | 2.3 |
| Contracted | 10.5 | 0.7 | 14.8 | 0.4 |
| System Strategy | 0.8 | 0.1 | 2.6 | 1.1 |
| Market Development | 0.1 | - | 0.2 | 0.3 |
| Total Elexon | 23.8 | 2.9 | 36.6 | 4.9 |

Unfavourable variances to budget are in brackets

Operational Expenditure

The performance year to date is £1.6m 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 £2.3M – majority of the savings of £2.2M 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 £14.8m, £0.4m 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

This quarter's review has allowed us to release £1.1m which is not needed to meet the requirements budgeted originally.

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Market Development

£0.1m of Market Development costs were incurred year to date and the full year forecast was reduced from £0.5m to £0.2m following on from a review of forecasted expected expenditure for the last quarter.