



2017/18
BSCCO BUSINESS PLAN



01 / Foreword

By Mark Bygraves, Chief Executive

INTRODUCTION



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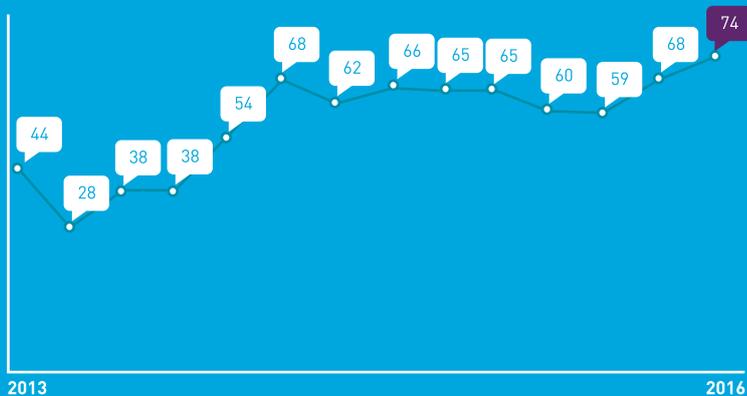
2017/18 looks set to be another busy year for both ELEXON and the wider industry.

Last year, more BSC Modifications were raised than we've seen since the early days of NETA – and this trend looks set to continue, including changes coming out of Europe, whatever the exact form that BREXIT takes. We also saw the first Supplier of Last Resort (SoLR) transfer in nearly a decade and we played our part in ensuring a smooth transition. With increased volatility in markets and other external factors, it is essential we remain flexible and able to respond to new challenges and demands placed upon us.

My main aim in presenting this BSCCo Business Plan to the industry is to reassure them of ELEXON's continued commitment to focus on the delivery of the core BSC services and, in conjunction with the BSC Panel, Panel Committees and the industry as a whole, we will be focusing on the delivery of Half Hourly Settlement, Faster Switching and Demand Side Flexibility. Our proven expertise will play a key role in all these initiatives.

At the same time, we will continue to strive towards being best-in-class at code administration, code operation and the provision of support to government and the regulator on policy delivery. Our 2016 independent customer survey results produced our strongest satisfaction score to date (with 74% of our customers rating their satisfaction with us as 8 or more out of 10) and our customers rated us more highly than any other code administrator within the industry that they interacted with, and my intention is that we continue to achieve these levels of customer satisfaction next year.

OVERALL SATISFACTION RATING (%)



Source: 2016 ELEXON independent customer survey

2016 IS OUR **STRONGEST CUSTOMER SATISFACTION SCORE TO DATE**

IN 2016, **74%** OF OUR CUSTOMERS RATED US AS **8/10 OR MORE**

The four cornerstones of our business plan will be familiar to BSC Parties and deliberately remain unchanged:

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 development of the energy market

Capability

Invest in our people to enable industry to benefit from our expertise

The business plan sets out the key pieces of work that we'll be pursuing in each of these areas, along with the associated budget requirements.

It describes the activities we'll be undertaking to ensure that we continue to deliver, that we continue to be proactive, and that we continue to provide the industry with the best support we can. Hand in hand with this is a commitment to ongoing improvements in efficiency and effectiveness for the benefit of industry and consumer. As this is the BSCCo Business plan, it is deliberately silent on activities undertaken by our subsidiary company, EMR Settlement Ltd which provides settlement services for CfDs and the Capacity Market, and which is completely ring-fenced as required by the BSC. However, there are benefits that our EMR work brings to both us and BSC Parties that are worth highlighting: it's created opportunities for our staff, gives us a chance to apply our expertise to a wider range of activities, and has contributed £750k in 2015/16 towards fixed existing overheads, that would have otherwise been borne by BSC Parties. With the agreement of BSC Parties, I would like ELEXON to be able

to provide additional services to industry and defray further BSC costs.

The task we've set ourselves for the year ahead is not a straightforward one, particularly in the context of an industry characterised by flux and change. The 2017/18 Business Plan is deliberately challenging and stretching, but I firmly believe that ELEXON has the capability and expertise to rise to that challenge. I look forward to discussing this draft strategy and budget with our stakeholders, to receiving their feedback, and to leading my colleagues in fulfilling their roles as trusted, independent, reliable market experts.

However, additional demands on ELEXON bring additional costs. We are always mindful that it is industry that funds all our BSC activities and even though we are a not-for-profit organisation, we strive to deliver our services in the most economic, efficient and effective manner. But new services relating to zonal

transmission charges, pension contributions, depreciation charges for new systems and increases to demand led costs to name but a few, have had to be taken into account when formulating this 2017/18 budget. However, we know you trust us not to spend unwisely, in the knowledge that any funds not spent are effectively returned to BSC Parties under our funding model.

Finally, licensing of central code bodies is an issue that emerged out of the CMA's investigation in 2016, and will continue to be developed by Ofgem in the coming year. This could potentially introduce huge changes in both the scope of the services ELEXON delivers and the way in which we deliver them. The problem described by the CMA and Ofgem is a lack of coordination of change across the market and the pace of change which can be impacted by industry.

My message on this remains unchanged: ELEXON has a track record of leading coordination initiatives across other industry code bodies and has driven strategic change. Half Hourly Settlement, and the way forward we championed to Ofgem in 2012 is a clear demonstration of this. We are pleased to see this work being picked up again by Ofgem this year and we are already leading on many elements to bring this about. In addition, we have led work on the Code Administrators Code of Practice (CACOP), already created forward views of forthcoming changes, and we work with our industry colleagues and support Ofgem and BEIS on policy developments and initiatives.

My caution around licensing is the risk of wrongly focusing on a mechanism, such as licensing, instead of discussing the desired outcomes and what it is that Ofgem is seeking to achieve. We can then identify the most efficient means to achieve those outcomes. I want to avoid a disproportionate solution that would result in increased costs on ELEXON and ultimately on industry and the consumer, if those same outcomes could be achieved in a more effective manner such as changes to the BSC and/or to the licences of BSC Parties.

I am also concerned that the qualities that make ELEXON, according to our customers, such a trusted, independent and reliable market expert and which give rise to such high scores of customer satisfaction, are not sacrificed by dumbing down the quality of service and by the pursuit of margin. It is no coincidence, indeed in my view there is a direct link, between on the one hand our achieving high customer satisfaction scores, our greater cost transparency and our ability to support industry, Ofgem and BEIS in policy development and delivery, and on the other, our independence and culture that puts service to industry ahead of revenues. In short, I believe it is imperative that ELEXON takes a lead role in the discussion of licensing and code-related activities and the qualities that make ELEXON such a trusted independent, reliable market expert are preserved, regardless of the direction of travel that introducing a licence regime for code administration activities brings.

A man with short brown hair and a beard, wearing a white t-shirt and a brown baseball glove, is holding a green and black baseball. The background is a blurred outdoor setting, likely a field or park, with trees and a bright sky. The text is overlaid on the image in a golden, wireframe font.

TRUSTED
INDEPENDENT
AND
RELIABLE
MARKET
EXPERTS



01 / FOREWORD

By Michael Gibbons CBE, Chairman

I've recently completed my third year as Chairman of BSCCo and the BSC Panel, and I'm delighted that the Panel and Ofgem have reconfirmed my re-appointment for another three years.

ELEXON has achieved many things over the past three years of which I'm immensely proud. Firstly, and perhaps most striking, I've seen the significant improvements in our relationships with BSC Parties, the Panel, the government and regulator which are now stronger and more trusted. We have continued to ensure a reliable service, with no major customer or systems failures and delivering without incident our regular releases three times each year. In addition, we have introduced new reports and services for customers as well as replacing and improving significant systems such as BMRS.

Looking more widely at the contribution we've made to the market, we have supported DECC (and more recently BEIS) and Ofgem in the development and implementation of policy, particularly around Electricity Market Reform, Half Hourly Settlement, Faster Switching, Demand Side Flexibility and other strategic change.



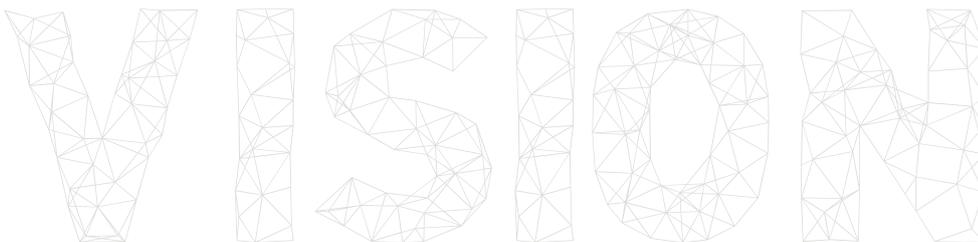
It's also been an eventful period in terms of governance. We conducted the biennial Panel election over the summer, which resulted in the appointment of three new industry elected Panel Members: Andy Knowles, Tom Edwards and Mitch Donnelly. Barbara Vest and Stuart Cotten were both re-elected to serve another term. In addition, we've welcomed Stew Horne as the second Citizens Advice appointed Panel Member. The current Panel membership provides an excellent balance of experience combined with fresh perspective, and I'm looking forward to working with the new Panel over the coming years. I'd also like to pass on my personal thanks to our outgoing Panel Members – Andy Colley, Bob Brown and Peter Bolitho. All three contributed to the Panel with diligence and enthusiasm over collective terms totalling almost 16 years and I know that my appreciation is shared by colleagues within ELEXON and around the Panel table.



01 / Foreword

Finally, significant changes to ELEXON's governance arrangements were put in place through the implementation of Modification P324 in November 2016.

This has introduced improved accountability to BSC Parties, giving them the opportunity to approve the appointment of directors and, in extremis, to vote to remove directors. P324 also gives the Board sole responsibility for approving the BSCCo Business Plan (but only after issuing to BSC Parties for comment), allows the Board to decide on the makeup and membership of the Board and, for the first time, allows the Board to appoint up to two members of the Executive team as members of the Board. In my view, this is a great step forward that will continue to strengthen the relationship between the BSCCo Board and BSC Parties. Most important, P324 clarifies the purpose of the Board and BSC Panel, aligning ELEXON's governance with best practice and increasing our accountability in delivering to the industry. It has been a particular pleasure for the Board and I to be able to appoint Mark Bygraves, our Chief Executive, to the Board. I am clear that these changes combine to make ELEXON even more accountable to the industry it serves.



VISION

02 LOOKING BACK: REVIEW OF 2016/17 BUSINESS STRATEGY

Our 2016/17 Business Plan was based on our mission and vision, with the mission refreshed to include scope for evolving the BSC to respond to industry requirements:



OUR MISSION

To deliver and evolve the BSC effectively, efficiently and economically to the benefit of our customers and stakeholders.

Our vision remained unchanged:



OUR VISION

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

The 2016/17 Business Plan was developed using the BSC Panel's strategic work programme as a starting point. We've adopted this approach for three years now, and note that Ofgem are encouraging other code bodies to publish similar work programmes. The plan centred around delivery of the core BSC services, but acknowledged the increasing need and demand for ELEXON to move from a passive, rules based service to an intelligent, value adding support service that provides proactive opinion and industry leadership. It also responded to the BSC Panel's request that we provide capability for operations to be scaled up to support the roll-out of smart metering and the potential additional work that was likely to arise from the increased level of change and flux present in the market.

Throughout 2016/17, our activities focused around our strategic priorities:



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.

A summary of some of our 2016/17 activities and achievements is set out overleaf. For more information on our operation, implementation and administration of the BSC throughout the year please refer to our quarterly reports.

02 / LOOKING BACK: REVIEW OF 2016/17

BUSINESS STRATEGY

Delivery

Our 2016/17 Business Plan put delivery of the BSC Services at its core. It set out our commitment to delivering the BSC and working with the BSC Panel and its committees to provide them with support and analysis required to fulfil their responsibilities on behalf of BSC Parties whilst creating additional value for our customers by improving BSCCo costs and driving down costs where appropriate.

It's been a busy year. We've assessed over 40 changes, issued over 60 change consultations, chaired over 140 meetings, amended in excess of 150 BSC documents, delivered nine major system changes, performed over 2300 settlement runs and resolved more than 10000 helpdesk calls. In addition, we beat all of the system availability targets for our 24/7 operation.

Significant areas of work have included post-implementation reviews of a number of changes to the credit arrangements, ongoing monitoring and review of Modification P305 (which implemented the conclusions of the Electricity Balancing Significant Code Review, including the introduction of a single imbalance price) and extensive monitoring and reporting of Suppliers' plans to implement Modification P272 (which introduced mandatory Half Hourly Settlement for Profile Classes 5-8).

We've introduced improvements to the Trading Disputes and Metered Volume Reallocation Notification processes that have resulted from a lessons learnt exercise conducted following TDC and Panel consideration of a Trading Dispute. Similar exercises are planned for early 2017 following particularly complex and material Trading Disputes, and it is likely that further improvements will be identified and implemented.

WE BEAT THE SYSTEM AVAILABILITY TARGETS FOR OUR 24/7 OPERATION



We've also initiated two reviews of key processes: a review of the Performance Assurance Framework and a review of dispensations and non-standard Balancing Mechanism Units. Both of these reviews have been launched and approved by the BSC Panel, and will continue into 2017/18.



02 / LOOKING BACK: REVIEW OF 2016/17

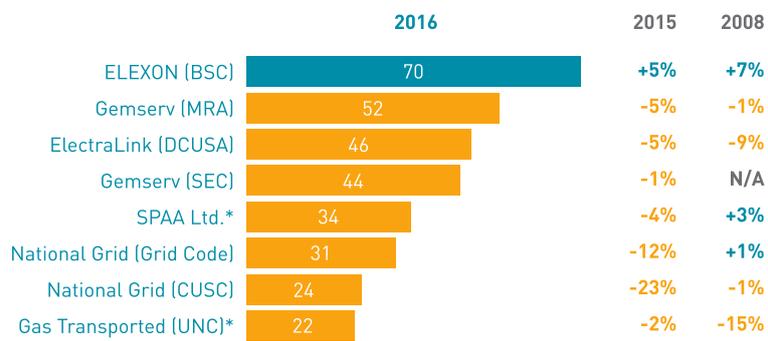
BUSINESS STRATEGY

In addition, we've developed a new Balancing Mechanism Reporting Service (BMRS). BMRS is the primary channel for providing operational data relating to the GB Electricity Balancing and Settlement arrangements. It is used extensively by market participants to help make trading decisions and understand market dynamics, and acts as a prompt reporting platform as well as a means of accessing historic data. The BMRS has a wide user base both within and outside of the energy industry and includes traders, regulators, industry forecasting teams and academics. New BMRS provides a web service (Application Programming Interface – API) for programmatic and timely access to BMRS data, and delivers a range of benefits to users, including:

- ▶ A near real time Data Push Service
- ▶ A high-performing website, with faster response and download times
- ▶ A flexible and loosely-coupled architecture that enables cheaper and quicker changes
- ▶ A modern web user interface (UI) to improve navigation and usability of the website

Finally, we have started to look at improving the quality of data, in particular Data Aggregator (DA) data that is used in the Supplier Volume Allocation Agent (SVAA) processes. Several high materiality settlement errors have arisen over the last two years because of over or understatement of consumption by DAs in the input data provided by them. If these errors could be identified earlier and prevented from entering settlement, the incidence of high materiality disputes could be reduced and the integrity of settlement would be better protected. This work will continue into 2017.

COMPARATIVE RATING OF MANAGEMENT CODES & AGREEMENTS



SCALE 1 TO 10
 1 = POOR / 10 = EXCELLENT
 8+ SCORES SHOWN

Our 2016 customer survey results show that customers rated us more highly than any other code administrator within the industry.

Source: 2016 ELEXON independent customer survey

02 / LOOKING BACK: REVIEW OF 2016/17

BUSINESS STRATEGY

Engagement

Our 2016/17 Business Plan aimed to cater for the diversity of our customer base and to meet the broad range of requirements and expectations they have of us. We made a start on improving the BSC website, delivering improved search capability and better access to key reports. We recognise there is still more that needs to be done to improve our website, so this strand of work will continue into 2017/18.

Our Operational Support Managers (OSMs) and Market Entry teams work together closely to provide ongoing support to market participants. In total, we serve over 380 market participants, and last year we helped 48 new parties enter the market. Our 2016/17 business plan set out an aspiration to focus on ensuring that our market entry support met the needs of new entrants who do not conform to traditional business models. This focus paid off – when rating our service areas, 92% of customers using the market entry service rated the service as 4 or 5 out of 5 (making it the highest rated service that we provide).

We continued to extend our senior level executive engagement, with our executive team engaging in strategic conversations with our customers to gain greater insight into their priorities and requirements. Our executive team also maintained links with some of our key stakeholders – our Panel Committee members – by each being assigned responsibility for a Panel Committee and regularly attending those meetings. This initiative was well received and will continue into the coming year.

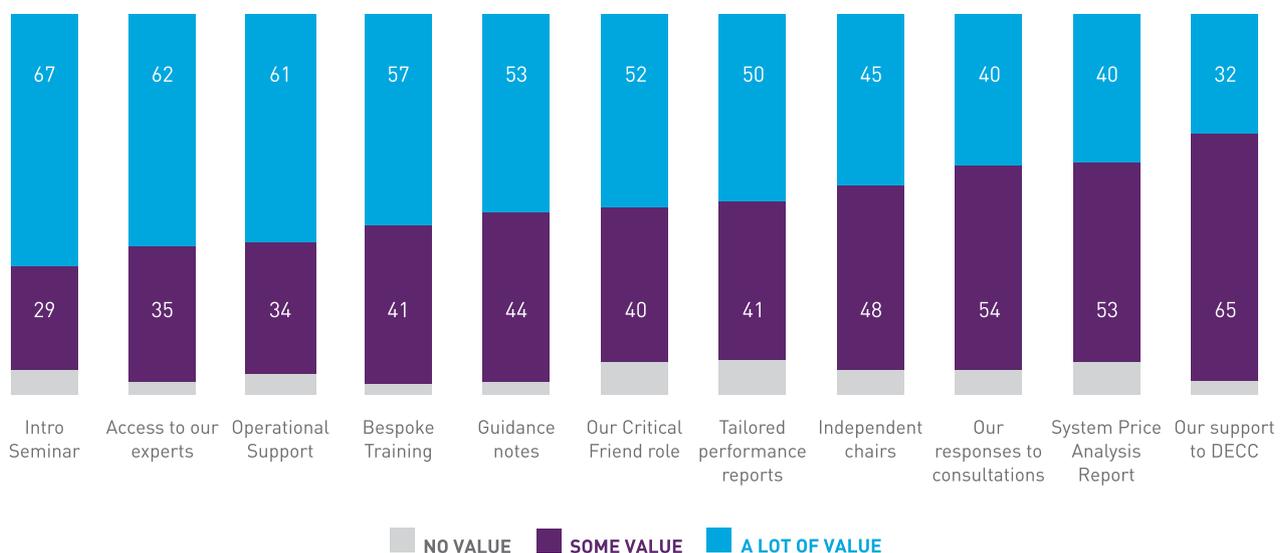
The Annual BSC Meeting, held in July, was another great opportunity for us to engage with our customers and facilitate debate around key market issues. We secured two high profile speakers: Roger Witcomb, the CMA's Energy Market Inquiry Chair, and David Gray, Ofgem Chairman. The event was attended by over 80 people, the majority of whom were representatives of BSC Parties. Feedback from attendees was that they thought the event was well organised and worthwhile, and a great improvement from

the approach of four years ago where the Annual BSC Meeting was an ill-attended mere formality.

Throughout the year we've provided support to Ofgem's Code Governance Review 3, particularly around the Code Administration Code of Practice and industry change coordination. Key deliverables have included a more coordinated approach to identifying and reporting cross-Code changes and improved interfaces with other Code Administrators.

Finally, throughout 2016/17 we continued to engage with our customers both face to face and remotely via the delivery of guidance, advice and value add services such as the introduction seminar, bespoke training sessions and a new suite of online training videos. Our customer survey results clearly indicate the value that our customers place on all of these services. 74% of our customers rated their satisfaction with us as 8 or more out of 10 and we achieved our highest ever net recommendation score.

ACTIVITIES WHERE ELEXON ADDS MOST VALUE



02 / LOOKING BACK: REVIEW OF 2016/17

BUSINESS STRATEGY

Improvement

Our 2016/17 Business Plan included a commitment to ensure that we were fully cognisant and mindful of changes within the energy industry so that, where appropriate, we could contribute to the thinking behind them. We set out to ensure that the BSC reflects change, is robust to change and doesn't obstruct or hinder the development of the energy market.

We've worked on several key areas of industry change, scanning the market, providing impartial expert guidance and advice and support to deliver policy outcomes:

- European harmonisation
- Development of smarter Markets
- Competition Markets Authority investigation
- Moving towards full Half Hourly Settlement
- Faster Switching

CHANGE

Closer to home, we've been working on improvements to ELEXON's governance arrangements via the progression of Modifications that seek to clarify the relationships between the BSCCo, the BSC Panel and the ELEXON Board and, in turn, improve our accountability to BSC Parties. P324 was implemented in November 2016, introducing refinements to BSCCo governance to bring it in line with best practice:

- ▶ BSCCo Board accountable to Parties by allowing them to vote to approve Director appointments and to remove Directors
- ▶ Parties able to vote on non-binding resolutions on other matters
- ▶ Up to two members of the BSCCo executive team able to be appointed as Directors
- ▶ Board has sole responsibility for setting BSCCo's Business Strategy

We also progressed and implemented Modification P330, which was raised by Scottish Power in December 2015 to enable ELEXON to tender for the role of Uniform Network Code Gas Performance Assurance Framework Administrator. We believe our experience of operating the electricity assurance framework could usefully be applied to the gas market and have been encouraged in this by many BSC Parties. We recognise the benefit to the gas sector, many of whom are BSC Parties, of introducing similar arrangements. We will therefore evaluate the proposed service but we will only tender for the work if we are confident it will not impact our BSC service.



02 / LOOKING BACK: REVIEW OF 2016/17

BUSINESS STRATEGY

Capability

Both we and our customers recognise that ELEXON's ability to deliver a quality service relies directly on the skills of ELEXON's people. Our customer survey results consistently show that we're regarded as expert and professional, and last year was no exception to this. Feedback on ELEXON's people is overwhelmingly positive. 89% of respondents to our 2016 customer survey graded ELEXON's 'overall professionalism' as 8, 9 or 10 out of 10; 87% graded ELEXON's 'overall helpfulness' as 8, 9 or 10 out of 10. When commenting on face to face dealings with ELEXON, our customers' perception is that we know what we're talking about, we want to help and we genuinely want to talk to our customers.

Last year, we focused on maintaining the right mix of skills, capability and knowledge to deliver the high standards of service that our customers expect of us. We invested in colleagues and developed their skills through job specific training, coaching and mentoring. In response to feedback from staff through our annual staff survey we particularly focused on management training to ensure consistency in approach across the company, and on developing a new framework for objective setting.

We have experienced some challenges around retaining and attracting staff and have been disappointed to lose some experienced and knowledgeable colleagues to the utilities industry, including those just starting out and searching for expertise such as the DCC and MOSL (the water industry market operator). We've been surprised that some other code bodies, even those funded by the energy industry, appear to be prepared to pay salaries above the market rate and would encourage all bodies to invest in training and developing their own staff.

03 LOOKING FORWARD: OUR STRATEGIC PRIORITIES FOR 2017/18

The BSCCo Business Strategy and Budget (which in combination form the Business Plan) are constructed around a set of strategic priorities. These priorities should represent the BSCCo's response to the challenges and opportunities facing our customers and the wider industry, based on an assessment of a range of factors, including:

- ▶ Our customers' views and expectations of our services
- ▶ Market developments
- ▶ The evolving technology landscape
- ▶ Our past achievements and results
- ▶ Current economic conditions and outlook

Our Business Plan for 2017/18 is based on our mission and vision:



OUR MISSION

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



OUR VISION

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

The business plan is designed to focus on delivering the core BSC services, whilst being ready to respond in a well-planned and strategic manner to additional challenges that are beyond our control. Our planned activities are split into four key areas of focus, or strategic priorities:



OUR STRATEGIC PRIORITIES

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.

**03 / LOOKING FORWARD: OUR STRATEGIC
PRIORITIES FOR 2017/18**

PRIORITIES

Development and approval of the BSCCo Business Plan

This year, approval of the BSCCo Business Plan sits entirely with the BSCCo Board (in previous years, responsibility has been split, with the Business Strategy approved by the BSC Panel and the associated budget approved by the Board). However, we have sought extensive input from the BSC Panel into the development of the Business Plan via the Panel's Strategic Work Programme and Annual Strategy. These pieces of work document in detail the areas of focus for the Panel and Panel Committees on a three year rolling basis. They are reviewed regularly, and used as the basis for the BSCCo Business Plan. As in previous years, this Business Plan has been compiled with input from the Panel and issued to BSC Parties for comment.

EMR

ELEXON's subsidiary company, EMR Settlement Limited, performs the roles of EMR Settlement Services Provider for Contracts for Difference (CfD) and the Capacity Market (CM) under a services contract with Low Carbon Contracts Company (LCCC) and Electricity Settlements Company (ESC). All costs and liabilities associated with this work are ring fenced and kept separate from BSCCo's activities and budget as required by the BSC (and so are deliberately excluded from this BSCCo Business Plan). However, BSC Parties have been, and will continue to, benefit financially from our involvement in EMR through contributions to existing BSCCo overhead costs and a consequent reduction in BSC charges. Last year, this work contributed over £750k, which directly benefitted BSC Parties.



03 / LOOKING FORWARD: OUR STRATEGIC PRIORITIES FOR 2017/18

Delivery: Actively manage our services to ensure that we deliver in a reliable, economic and efficient way



Using our expertise in Code Administration and Code Operation to deliver BSC Services that our customers value, trust and have 100% confidence in is at the heart of what we do. This comes hand in hand with complete transparency over costs, and with a commitment that we will always endeavour to secure best value for the services we provide and provide.

Our 2016 customer survey results showed that our customers' satisfaction levels are higher than ever before. Perception of value for money is unchanged, but there is an indication that our customers would like us to do more to keep costs down. So, in 2017/18 we will carry on striving to deliver value through a customer-focused service that is best in class. We will seek any opportunity to make improvements, but not at the expense of good value and efficiency. We will continue to review our strategic and key contracts to ensure optimal value for money, and re-procure those contracts which are coming up for renewal during the period, whilst seeking to ensure service improvement where appropriate.

How we'll achieve this priority →

DELIVERY OF CORE BSC SERVICES

BSC as BAU

We will continue to deliver our core BSC services to the high standards that industry expects.

Best practice change provisions

The core provisions relating to Modifications under the BSC and those that set out the document architecture should be reviewed to ensure continued best practice in light of feedback from industry. Concerns have included:

- ▶ Clarity of governance provisions for Modification Workgroups;
 - ▶ Consideration of how recommendations are put to the Panel, how the Panel makes decisions, and the recommendations it makes to the Authority;
 - ▶ Concerns that BSC provisions limit the development of Alternative Modification Proposals; and
 - ▶ A desire to ensure there is clarity in the status of, and relationship between, BSC documents.
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Ofgem's review of Code Governance

Ofgem has completed its Code Governance Stage 3 review (CGR3), the findings of which will have an impact on some of the BSCCo's processes (particularly involving our role in delivering the Modification Procedures and in providing the industry with 'critical friend' support). ELEXON and the Panel have been, and will continue to, work with the other Code Administrators to implement and ensure the success of the CGR3 proposals.

Review of CSD Architecture Principles Document

We have identified a need (endorsed by the BSC Panel) to review the Code Subsidiary Document (CSD) Architecture Principles Document to ensure that BSC obligations continue to be captured in the appropriate CSDs.

Trading Disputes Lessons learnt

We are seeing an increasing trend for complex, high value Trading Disputes. In response to this, we have scheduled three lessons learnt exercises in order to review BSCCo's processes, systems and actions and to identify improvements that could be made or steps that could be undertaken to reduce the risk of such disputes occurring in the first place.

P305 monitoring

P305 implemented the conclusions to the Electricity Balancing Significant Code Review, putting in place a single, marginal imbalance price, introduce Reserve Scarcity Pricing and introduce pricing for Demand Control actions. Further to the review presented to the ISG, Panel and industry in July, further post-implementation review of the impacts of P305 and ongoing BAU monitoring will be carried out throughout 2017/18. We plan to conduct a comprehensive review of P305 to assess its success and impacts over the 12 months following implementation. This activity will take place in the context of the November 2018 reduction in PAR value.

03 / LOOKING FORWARD: OUR STRATEGIC PRIORITIES FOR 2017/18

ADDRESSING KNOWN AND EVOLVING BSC ISSUES

Credit

ELEXON will also continue to undertake post-implementation of other recently implemented credit-related Modifications.

Metering

The most recent BSC Audit again highlighted key areas of concern about some industry participants, relating to metering and data quality issues in the non half hourly market, including:

- ▶ Errors in their capture of metered data
- ▶ Proving tests
- ▶ Change of measurement class
- ▶ Meter reads and meter technical details
- ▶ Metering system faults

In 2017/18 we will continue to deploy elements of the Performance Assurance Framework to address these issues, with the OSMs working closely with parties to help secure improvements by them in these areas.

Mandatory HH Settlement for Profile Classes 5-8

ELEXON has been working closely with BSC Parties and the PAB to monitor compliance with the mandated switch to HH Settlement for Meters in Profile Classes 5-8 by April 2017. Already it appears that many Suppliers will not meet this deadline, so we will be working closely with Ofgem and the PAB to determine approaches to managing any non-compliance.

Dispensations and non-standard Balancing Mechanism Units (BMUs)

The Imbalance Settlement Group is concerned by the high volume of metering dispensations and more recently the numbers of non-standard BMUs sought by applicants. This encompasses both new applications and requests to extend long-standing dispensations where corrective action has not been progressed. In 2016 the Panel approved the scope of a review to identify themes and observations from existing Metering Dispensations and non-standard BMUs that could identify the need for lifetime or generic Metering Dispensations and lead to a reduction in future Metering Dispensations and non-Standard BMU Applications. This review will continue and conclude in 2017.

Review of the Performance Assurance Framework (PAF)

The Panel has endorsed a comprehensive review of the Performance Assurance Framework to ensure it is fully functional and efficient and being delivered such that any changes required to reflect the introduction of Smart Metering are accounted for. Opportunities for implementing quick wins as part of BAU will be identified and passed on to the Operations team.

SVAA Validation

We are seeking to improve the quality of data, and in particular Data Aggregator (DA) data, that is used in the Supplier Volume Allocation Agent (SVAA) processes. Several high-materiality settlement errors have arisen over the last two years because of under or overstatement of consumption by DA's in the input data provided by them. If such major errors can be detected and prevented from entering settlement, the incidence of high-materiality disputes can be reduced. One or more Change Proposals (CPs) will be raised in due course to progress our recommended solutions.

Change of Measurement Class

Recent Audits, TAA reports and ad hoc Technical Assurance of Performance Assurance Parties (TAPAP) checks have identified issues around Change of Measurement Class (CoMC). We will continue to focus the PAB's efforts in this area, applying Performance Assurance Techniques as appropriate to identify and manage risks.

Business Unit Settlement Risk Reporting (BUSSR) Review

BUSSRs are used by ELEXON and the PAB to monitor Parties' performance against a range of Settlement Risks. The last full BUSSR review was carried out in March 2012. Following discussions with a number of Suppliers and Supplier Agents it has become clear that the current BUSSR criteria for a number of the top Settlement Risks do not accurately reflect the risk that a Party's poor performance may pose to Settlement. The PAB has endorsed a review of a selection of BUSSR's. This is partly complete, so additional work will continue into 2017.

03 / LOOKING FORWARD: OUR STRATEGIC PRIORITIES FOR 2017/18

EFFICIENT WORKING PRACTICE AND COMMUNICATION BETWEEN PANEL COMMITTEES

Panel governance

The Panel initiated a piece of work to consider its own governance to ensure that it remains fit for purpose and demonstrates best practice. This review, and implementation of agreed solutions, will continue into 2017/18, and includes consideration of working practices and policies, accountability and delegation of responsibilities. It will reflect the outcomes of both the CMA review and Modification Proposals P324 and P325, which are also seeking to introduce changes to the BSCCo's governance arrangements.

Flexible, efficient reporting

Delivery of an efficient, coherent and secure reporting suite that will allow BSC Parties and the Panel and its committees to have direct and timely access to their own and market-wide public data, with services such as trend based reporting and an easy to use secure online interface. Such a reporting suite will transform the way that ELEXON provides data, reports to industry and the support that can be provided to the Performance Assurance Board.

03 / LOOKING FORWARD: OUR STRATEGIC PRIORITIES FOR 2017/18

Engagement: Improve the customer experience and develop richer customer relationships



We have a diverse set of customers and stakeholders, including large vertically integrated companies, small suppliers and generators, traders, National Grid, distribution network operators, regulatory and government agencies and consumer bodies. In order to deliver a service that meets all of our customers' needs, it's vital that we understand our customers, their priorities, concerns and expectations of us.

Our business plan for 2017/18 reflects our aim of obtaining a deeper understanding of our customers so that we can better meet their needs and requirements of us while, in parallel, acting as an independent critical friend. As always, we will seek feedback from our stakeholders on how well we're doing informally throughout the year as well as via a more formal measure of customer satisfaction through our annual independent customer survey.

How we'll achieve this priority →

BSC website review and improvement

Wholesale review of the ELEXON.co.uk site to improve user experience based on feedback received. The approach will utilise a prototype to ensure that the site is intuitive, engaging and efficient at delivering the relevant information to each of our customer segments.

Improved customer support provisions

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

We will continue to provide ongoing support to all market participants via our tailored training sessions, and encourage easier access and participation via more extensive use of online training and webinars.

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, with a particular focus on ensuring that we meet the need of new entrants who do not confirm to traditional business models.

Executive engagement

We will continue with our programme of executive engagement to enable senior level, strategic discussions between our customers and ELEXON's executive team.

Industry days

We will foster debate and aim to increase understanding of key industry issues by hosting industry days and workshops and via annual events such as the Annual BSC Meeting.

03 / LOOKING FORWARD: OUR STRATEGIC PRIORITIES FOR 2017/18

Improvement: Enhance and evolve our services to support industry changes and the development of the energy market



We recognise the landscape of the UK energy market is changing. For the last few years we have dedicated resources to understanding potential European impacts on GB and BSC arrangements and are now seeing some changes finally being translated into the GB framework (e.g. TERRE). We will continue to monitor, engage with stakeholders and advise on the further changes coming from Europe (with a keen eye on BREXIT developments). In addition we are increasingly seeing greater scrutiny of the institutions, regulatory frameworks and central services that have evolved in the last 20 years to determine whether they best support the evolving market. These include code governance reform and the concept of licensing arising from the CMA recommendations to the discussions around the role of the system operator and the future needs of new technologies and business models.

We will track key institutional and market developments in the UK and across Europe and assess how we engage to ensure we can prepare and facilitate future change. We gather intelligence, develop advice and guidance and engage with key stakeholders whilst ensuring that we are equipped to support the BSC Panel in fulfilling its responsibility to keep informed of issues that fall outside the direct governance of the BSC.

How we'll achieve this priority →

Competition Markets Authority investigation into the energy industry

The CMA has published its findings, remedies and Orders. The BSC Panel has written a response to these findings and ELEXON has begun work to implement changes impacting the BSCCo and operation of the BSC. Impacts introduced by the final remedies include:

- ▶ Introduction of locational pricing for transmission losses
- ▶ Increased focus on introduction of a cost-effective HH settlement of domestic electricity meters
- ▶ Implementation of a licensing regime for code administration

Work to achieve all of these areas will continue into 2017/18.

European Harmonisation

Work continues to harmonise energy markets across Europe. It is important to ensure that the Panel is made aware of European developments via ELEXON's monitoring and updates. More widely, the Panel has a role in ensuring that appropriate support is co-ordinated within GB and that the BSC is ready to accommodate changes arising from European developments which have the potential to fundamentally impact market design and the balancing and settlement provisions.

This will be a key area of focus for ELEXON in 2017/18.

Development of Smarter Markets

There are a wide range of implications arising from the move towards smart metering and smart grids. These include:

- ▶ The practicalities and associated monitoring of mandated half hourly settlement for meters in Profile Classes 5-8
- ▶ Impacts on residual non-half hourly provisions such as profiling
- ▶ Impacts on settlement of increasing export spill volumes associated with Feed in Tariffs
- ▶ Data quality arrangements and swifter change of supplier process to enhance competition (and, in particular, changes arising from Ofgem's significant code review)
- ▶ Calls to reduce the Settlement timetable

Work will continue to progress under the BSC and under Ofgem's Smarter Markets programme.

BSC design/architecture expert representation on other Codes

Given the amount of cross-code change occurring within the industry, it will continue to be vital that we have full visibility of activities and change within the other key industry codes.

In order to achieve this, we will continue to ensure that we have expert resource available to represent the BSC on other Codes, including the DCUSA Panel, Grid Code, CUSC, MDB and IREG.

03 / LOOKING FORWARD: OUR STRATEGIC PRIORITIES FOR 2017/18

BSC systems and processes change programme

Develop an architecture strategy to ensure that we continue to be able to deliver BSC change efficiently, reliably and securely at the pace required to facilitate increasingly rapid changes to industry arrangements.

BSCCo Governance

Two modifications have been raised to alter the BSCCo governance arrangements:

- ▶ P324 'Review of BSCCo's governance: introducing improved accountability to BSC Parties' (implemented in November 2016)
- ▶ P325 'Improving the accountability of BSCCo to stakeholders and better aligning BSCCo governance with best practice'

Both Modifications have the potential to significantly alter the operation of the BSC Panel and the relationships between the Panel, the BSCCo Board and ELEXON as BSCCo.

The effects and impacts of approved Modification P234 and (if approved) P325 will be fully implemented in 2017.

Gas Assurance

In May 2016 the Authority approved Modification Proposal P330, giving ELEXON the ability to tender for the role of Uniform Network Code Gas Performance Assurance Framework Administrator. Full details of the tender process are as yet unknown, but there is scope for this issue to appear on the Panel and ELEXON's agenda and during 2017/18.

BSC systems and processes change programme

Develop an architecture strategy to ensure that we continue to be able to deliver BSC change efficiently, reliably and securely at the pace required to facilitate increasingly rapid changes to industry arrangements.



CHANGE

03 / LOOKING FORWARD: OUR STRATEGIC PRIORITIES FOR 2017/18

Capability: Invest in our people to enable industry to benefit from our expertise



ELEXON's most important asset is its people and the knowledge they bring. Our expertise encompasses market operations, settlement, metering, assurance and code governance, vested in a group of experts with over 300 years of experience in the energy market.

Recently, we have shared concerns with the BSCCo Board and BSC Panel that our experts are being targeted by other code administrators and code bodies within the utilities sector. Given this, it's more critical than ever that we have a robust plan in place to ensure that we maintain the right mix of skills, capability and knowledge to deliver the service our customers expect.

How we'll achieve this priority →

Developing our managers

We will continue to provide an internally-run management training programme for new managers and new into management at ELEXON supported by more focused training sessions on specific managerial topics in 2017. These topics are areas that we believe can sharpen our managers' people-management capability and improve their ability to fulfil their managerial responsibilities. Underpinning many of the proposed topics is a strong theme of improving the manager's ability to engage effectively and deal succinctly with challenging situations as they emerge.

Skills development

To bolster our skills and capability in Performance Assurance we will support our staff in their endeavours to obtain qualifications in Audit and Business Risk thereby improving our internal assurance capability.

Performance management

We will continue to re-appraise our effectiveness through our Performance Management Review process which seeks to not only recognise staff for doing extra but also encourages them to improve their capability through continuous improvement and skills development that are akin to the role that they perform.

Knowledge management

We will ensure that processes are in place to enable effective capture and sharing of skills and knowledge between colleagues.





SECTION B

THE BUDGET

01 OVERVIEW

This document details the budgeted costs for 2017/18 in support of our strategy, as laid out in Section A of this Business Plan. We believe this budget enables us to deliver the four strategic priorities identified in our Business Plan, particularly around improving the end to end operational delivery of the BSC; focusing on streamlining and automating the processes and systems to ensure that levels of service are fit for purpose and deliver value for money, as well as developing and adapting BSC services to address wider industry challenges.

2017/18 will be the third year ELEXON, in its role as Settlement Services Provider for 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 provides the human resources and office facilities to perform the functions of the Settlement Services Provider. Previous changes to the BSC have ensured there will not be cross subsidises between BSC and EMR. All EMR related costs are fully funded by a combination of BEIS, LCCC and ESC and the total costs of LCCC and ESC (which include those of EMRS) are consulted on separately by BEIS. There is therefore no breakdown of EMR costs in the BSCCo Business Plan but the impact to ELEXON's budget via reimbursement for providing human resources and office facilities is further explained in this document.

Our Business Plan for 2017/18 is based on our mission and vision:

Table 1 Budget Summary

Item	Year to March 2016/17 Budget £m	Year to March 2016/17 Forecast £m	Year to March 2017/18 Budget £m	Variance to 2016/17 Forecast £m	Variance to 2016/17 Forecast %	Year to March 2018/19 Projection £m	Year to March 2019/20 Projection £m
ELEXON Operational	19.8	19.0	20.2	(1.2)	(6.3)	19.4	19.7
EMR Contribution	(2.3)	(2.7)	(2.3)	(0.4)	14.8	(2.3)	(2.3)
Subtotal	17.6	16.3	17.9	(1.6)	(9.8)	17.1	17.4
Demand Led Costs	1.8	1.3	4.0	(2.7)	(207.7)	1.7	1.7
Subtotal	19.3	17.6	21.9	(4.3)	(24.4)	18.8	19.1
Contracted Costs	15.2	14.4	15.9	(1.5)	(10.4)	15.8	15.5
Total Regular Activity	34.5	32.0	37.8	(5.8)	(18.1)	34.6	34.6
System Strategy	1.5	1.1	3.5	(2.5)	(250.0)	1.5	1.5
Market Development	0.3	0.2	0.5	(0.3)	(150.0)	0.5	0.5
OVERALL TOTAL	36.3	33.2	41.8	(8.6)	(25.9)	36.6	36.6

The budget to deliver BSC activity including the additional BSC activities described in section A of this business plan will be £41.8m. This represents an increase of £8.6m (25.9 %) against the current year's forecast, which will enable us to deliver the four strategic priorities identified in our Business Plan, and particularly addressing wider industry challenges, as well as the significant increase in anticipated industry change in the coming year.

We recognise that the budget has significantly increased compared to the forecast; however our directly controllable operational costs are in the main kept consistent with current year. We believe that this budget sets our costs at a level which is appropriate, but also challenging for the year ahead. The most significant budget increase is based on known or expected increased levels of industry change. We have major changes in the pipeline such as Zonal Transmission losses, various technology upgrades, as well as our IS strategy vision, which is driven by our need to future proof the central systems. We anticipate an increase in our occupancy costs for next year and this has been reflected in our operational overheads budget. Part way through next year we conclude the amortisation of the rent free period on our lease. In addition we will undergo our contractual rent review in August.

We have also provisioned for the likely increase in rates which is projected for next financial year. Currently a full actuarial valuation of the NGC pension scheme is being carried out. The result of the valuation has yet to be published, however as we see the cost of defined benefit schemes increase, we believe it prudent to allow for additional budget in this area. Over the last two years we have invested in some of our systems, most notably BMRS; now that the development has completed and the system moves into operation, we need to amortise this asset which has also given rise to increased future costs.

PLEASE NOTE

That we started the budget process in October, so the comparison for the full year outturn for 2016/17 is based on the September 2016 forecast.

A significant proportion of our costs of delivering the BSC arrangements come from contracted expenditure for the BSC Agents. We continue to drive savings in our Contracted costs, through robust and rigorous contract and service management and re-procurement processes. Some aspects however are variable and driven by demand from industry. Where this is the case, we have identified and explained these elements in this document. Similarly, Demand Led costs are, by their very nature, driven by industry. The control we have is in ensuring that change is delivered in the most cost effective and efficient manner. We believe the level of change is likely to increase in the next year, therefore we have made further provision for this activity in this budget. Strict governance and controls are in place to ensure that any underspend in this area is returned to parties, as has been the case throughout our 15 year history.

Since we changed our approach to systems transformation in 2015, which had been to carry out a large scale transformation of the current BSC Central Systems, maintaining our strategy from last year we are still focusing on upgrading and enhancing our current underlying infrastructure of the central systems. In 2017/18 we will continue to future-proof the infrastructure and technology until 2023. Our new Application Management and Development (AMD) and Business Process Operate (BPO) outsourced contracts will commence in April 2017 and are scheduled to end in March 2020.

Our main focus is still on stabilising our systems to reduce costs and time for maintenance, increase flexibility and reduce cost of change, mitigate the risks of failure and overall to deliver better value for money to BSC parties. We have included a budget of £3.5m to deliver our IS strategy, following the development of our BSC systems Roadmap in 2016 looking at future market changes and their implications for our service, processes and systems. In light of the current and upcoming market changes, we are progressing our investigations in analysing operational risks and their implications on our BSC systems.

We have also included a provision of £0.5m 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 them 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.

COSTS OF REGULAR ELEXON ACTIVITY SINCE NETA GO LIVE (IN 17/18 MONEY)



Chart 1 above details the total costs of ELEXON regular activity as well as EMR activities since NETA go-live in 2001/02 in real terms (in 2017/18 money after applying April RPI of each year) and shows our continued success in driving efficiencies throughout the business. The increase anticipated in the coming years is driven by our need to stabilise the central systems, as well as our view of the increased levels of forthcoming industry change.

02 ELEXON OPERATIONAL

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

Table 2 ELEXON Operational

Item	Year to March 2016/17 Budget £'000	Year to March 2016/17 Forecast £'000	Year to March 2017/18 Budget £'000	Variance to 2016/17 Forecast £'000	Variance to 2016/17 Forecast %	Year to March 2018/19 Projection £'000	Year to March 2019/20 Projection £'000
People Costs	12,999	12,770	13,130	(361)	(2.8)	12,343	12,560
Other Operational Overheads	6,809	6,238	7,011	(773)	(12.4)	7,040	7,063
EMR Contribution	(2,254)	(2,711)	(2,277)	(433)	16.0	(2,277)	(2,277)
Operational Total	17,554	16,297	17,864	(1,567)	(9.6)	17,106	17,346

People (Employee and Contractor) Costs

The budget for our operational costs for 2017/18 is £17.9m, which is 9.6% above current year forecast and includes costs such as People, Occupancy, General office expenses, Consultancy and Legal support. This has also taken account of the contribution of EMR income.

Table 3 ELEXON People Costs and Headcount

£ and Headcount	Year to March 2016/17 Budget £'000	Year to March 2016/17 Forecast £'000	Year to March 2017/18 Budget £'000	Variance to March 2016/17 Forecast £'000	Variance to March 2016/17 Forecast %	Year to March 2018/19 Projection £'000	Year to March 2019/20 Projection £'000
Employee Costs	11,285	10,423	12,103	(1,680)	(16.1)	12,111	12,320
Contractors	1,714	2,347	1,027	1,320	56.2	232	240
Total People Costs	12,999	12,770	13,130	(360)	(2.8)	12,343	12,560
Average Employee Headcount	154.5	137.2	158.7	(21.5)	(15.7)	158.2	158.2
Average Contractor Headcount	12.4	15.9	7.8	8.1	50.9	2.0	2.0
Average Total Headcount	166.9	153.1	166.5	(13.4)	(8.8)	160.2	160.2

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 21.4 FTEs to deliver the services. The people costs and the associated 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, and is budgeted to be £0.6m for 2017/18.

Table 4 breaks down total headcount by the activities they perform. The increase in delivering BSC business as usual (BAU) activity is attributable to being able to deliver work in the pipeline some of which is outlined in the Panel strategy.

Table 4 ELEXON Headcount Breakdown

Headcount	Year to	Year to	Year to	Variance	Variance	Year to	Year to
	March	March	March	to March	to March	March	March
	2016/17	2016/17	2017/18	2016/17	2016/17	2018/19	2019/20
	Budget	Forecast	Budget	Forecast	Forecast	Projection	Projection
	(FTEs)	(FTEs)	(FTEs)	(FTEs)	(%)	(FTEs)	(FTEs)
BSC BAU	142.7	127.7	144.1	(16.4)	(12.8)	138.8	138.8
EMR	22.2	24.4	21.4	3.0	12.3	21.4	21.4
Panel work	2.0	1.0	1.0	0.0	-	-	-
Average Total Headcount	166.9	153.1	166.5	(13.4)	(8.7)	160.2	160.2

Over the past year we've sought to transform the organisation, to ensure that it is fit for purpose and best positioned to deliver on our mission and vision. This has been achieved through actively restructuring areas of the business, as well as challenging the immediate need to recruit when vacancies arise. In the past year our industry has been particularly buoyant, and as a consequence, we experienced an increase in staff turnover at the end of the last and this financial year. We actively seek to develop our people and therefore explore suitable internal candidates when appropriate. The impact of this however is often a lengthening of the recruitment process as we seek to bring new talent into the organisation to fill vacancies. To address the challenge of attracting talent to the organisation, the Executive reviewed our pay and reward strategy to ensure we remain competitive, as well as working towards developing other retention mechanisms.

None of the forthcoming categories of costs of Demand Led, Contracted, System Strategy or Market Development, contain funding associated with internal resources, these budgeted amounts are exclusively for external cost.

03 DEMAND LED

This area of our budget is entirely demand driven, and is set to ensure that we are appropriately funded in order to be able to implement changes requested by industry. We continue to ensure that all change is delivered in the most cost effective and efficient way.

Table 6 Demand Led

	Year to March 2016/17 Budget £'000	Year to March 2016/17 Forecast £'000	Year to March 2017/18 Budget £'000	Variance to March 2016/17 Forecast £'000	Variance to March 2016/17 Forecast %	Year to March 2018/19 Projection £'000	Year to March 2019/20 Projection £'000
Demand Led							
IA - Modification Proposals	187	167	177	(10)	(6.0)	127	128
BSC Systems Releases	1,500	1,050	3,603	(2,553)	(243.1)	1,500	1,500
Panel Committee Projects	100	65	242	(177)	(272.2)	100	100
Total Demand Led	1,787	1,282	4,022	(2,740)	(213.7)	1,727	1,728

Our budget is based on the following assumptions:

- ▶ The budget for BSC systems releases has been set at £3.6m. This is an increase on previous years due to increasing the amount of change within the industry. This budget allows a number of significant system changes to be delivered; P350 Zonal Transmission Losses, SVAA validation work in June 2018, with 75% of the work falling in the next financial year, technology upgrades, including Red-Hat and Oracle forms, and reports for the central systems and NHHDA/ EACAA.
- ▶ We've set the budget for impact assessments of modification proposals and change proposals at £177k, a decrease of £10k to reflect the savings made as part of combining the contractual arrangements for our AMD and BPO services.
- ▶ We have budgeted £242k to cover the delivery of work requested by Panel Committees.

04 CONTRACTED

Contracted expenditure includes the operating cost of our BSC Agents (e.g. Central Registration Agent (CRA), Funds Administration Agent (FAA), etc.) and contracted service providers (e.g. for Profiling, Qualification Services etc.); as well as the depreciation of the capitalised investments into our systems. These are the main costs we incur in delivering the BSC arrangements and are predominantly fixed costs, linked to indexation.

Table 5 Contracted Costs

Item	Year to March 2016/17 Budget £'000	Year to March 2016/17 Forecast £'000	Year to March 2017/18 Budget £'000	Variance to March 2016/17 Forecast £'000	Variance to March 2016/17 Forecast %	Year to March 2018/19 Projection £'000	Year to March 2019/20 Projection £'000
TOTAL CONTRACTED	15,218	14,369	15,949	(1,580)	(11.0)	15,820	15,509

The majority of our contracted costs for 2017/18 are in line with that of the 2016/17 forecast. Despite the £1.6m increase we are recognising £0.8m saving from synergies resulting from combining the AMD and BPO contracts; however these savings are offset against the below increases:

- ▶ Associated transition cost for relocating our existing data centres (£0.8m) – depreciation of the capital expenditure of the Transition project.
- ▶ Balancing Mechanism and Reporting Service (BMRS) (£0.4m) - hosting and depreciation of the capital expenditure of the BMRS project as additional licences.
- ▶ Additional assurance on central systems (£0.6m)
- ▶ Business Processes Reporting (BPR) (£0.1m) – the annual hosting, maintenance & support of phase 1 of the BPR project and the depreciation of the capital expenditure.
- ▶ Information security enhancements on Central Systems (£0.3m)
- ▶ Operate, maintain and assurance cost relating to Transmission Loss Factor Agent (£0.2m)

05 SYSTEM STRATEGY

In 2016/17 we allocated £1.5m to primarily consolidate our central services under a single service provider, as well as to assist in a number of system development activities. We have successfully transitioned our Application Management and Development (AMD) services from Cognizant to CGI. As part of this transition we will be relocating our existing data centres used to host the BSC central systems to a commercial cloud infrastructure, this will include a refresh of all existing hardware and network infrastructure.

Table 7 SYSTEM STRATEGY

Item	Year to March 2016/17 Budget £m	Year to March 2016/17 Forecast £m	Year to March 2017/18 Budget £m	Variance to March 2016/17 Forecast £m	Variance to March 2016/17 Forecast %	Year to March 2018/19 Projection £m	Year to March 2019/20 Projection £m
SYSTEM STRATEGY	1.5	1.1	3.5	(2.4)	(218.2)	1.5	1.5

A number of activities will continue after April 2017 and will include upgrading the platform versions of our BSC systems. We have made budgetary provision for this completion work in 2017/18.

- ▶ During 2016 we replaced our existing legacy Balancing Mechanism Reporting Service (BMRS) with a new improved BMRS system. This includes new API and Data-Push technologies which provides a better and more cost effective access to BSC data across BSC Parties' dedicated and internet networks. Recognising the improvements already made with new BMRS we have also made a budgetary allowance to continue further improvement work in 2017/18.
- ▶ As part of our IS strategy work, we developed our BSC systems Roadmap in 2016 looking at future market changes and their impact on our service, processes and systems. In light of the current and upcoming market changes, we are progressing our investigations in analysing operational risks and their implications for our BSC systems. We aim to develop our IS strategy/vision for the BSC systems and processes and have made provision for this work in 2017/18. This includes our approach to build, measure and learn using proofs of concepts and prototypes and any work to improve processes.
- ▶ Also in 2016 we commenced a review of the Performance Assurance Framework (PAF). As part of this review we have identified potential for a proof of concept to improve various techniques under the PAF and have allocated budget for this work.
- ▶ The remainder of the funds form contingency for any system development costs either associated with the three areas above or with any potential development for internal systems (e.g. our Business Process Reporting system)

06 MARKET DEVELOPMENT

Table 8 Market Development

Item	Year to March 2016/17 Budget £m	Year to March 2016/17 Forecast £m	Year to March 2017/18 Budget £m	Variance to March 2016/17 Forecast £m	Variance to March 2016/17 Forecast %	Year to March 2018/19 Projection £m	Year to March 2019/20 Projection £m
Market Development	0.3	0.2	0.5	(0.3)	(150.0)	0.5	0.5

The budget for Market Development has been set at £0.5m, to cover any non BAU activities regarding the developments within the GB energy market.

- There remains a number of industry developments (such as developments from European network codes, code governance reforms or the potential for discussions on the future role of system operation) that require ELEXON to continue to monitor, engage and informally assess impacts outside of the formal change process. We have again budgeted for these market developments should we require to backfill or seek additional support, expert advice or guidance. Any cost associated with or arising from Ofgem's licencing consultation will need to be funded from this budget.

COMPARISON OF 2017/18 ANNUAL BUDGET WITH 2016/17 ANNUAL BUDGET

Table 9 Comparison of 2017/18 Budget with 2016/17 Budget

Item	Year to March 2016/17 Budget £m	Year to March 2017/18 Budget £m	Variance £m	Variance %
ELEXON Operational Incl. EMR	17.5	17.9	(0.3)	(1.7)
Contracted Costs	15.2	15.9	(0.7)	(4.6)
Demand Led	1.8	4.0	(2.2)	(122.2)
Total Regular Activity	34.6	37.8	(3.2)	(9.2)
System Strategy	1.5	3.5	(2.0)	(133.3)
Market Development	0.3	0.5	(0.3)	(66.7)
OVERALL TOTAL	36.3	41.8	(5.5)	(15.2)

(Unfavourable variances are in brackets)

COMPARISON OF 2017/18 ANNUAL BUDGET AGAINST FORECAST OF 2016/17 OUTTURN

Table 10 Comparison of 2017/18 Budget against 2016/17 Forecast

Item	Year to March 2016/17 Forecast £m	Year to March 2017/18 Budget £m	Variance £m	Variance %
ELEXON Operational Incl. EMR	16.3	17.9	(1.6)	(9.6)
Contracted Costs	14.4	15.9	(1.6)	(11.0)
Demand Led	1.3	4.0	(2.7)	(213.7)
Total Regular Activity	31.9	37.8	(5.9)	(18.4)
System Strategy	1.0	3.5	(2.5)	(235.4)
Market Development	0.2	0.5	(0.4)	(233.3)
OVERALL TOTAL	33.2	41.8	(8.6)	(25.9)

(Unfavourable variances are in brackets)

07 CHARGING ANALYSIS

CHARGING ANALYSIS

This section outlines how we expect to charge the budget to BSC Trading 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 £0.0005/MWh;
- ▶ For all Base SVA BM Units a charge of £100 per month;
- ▶ SVA costs split:
 - ▶ 50 percent of costs are paid by generators on basis of metered energy volumes;
 - ▶ a fixed fee of £0.35 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 last year'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 2017/18 Annual Budget is set out in Table 12 below.

Table 12 Split of Costs

Assumed Split of Costs			
	2016/17 Forecast	2016/17 Budget	2017/18 Budget
SVA Costs	4.3	4.6	4.6
Other Costs	28.8	31.7	37.2
TOTAL	33.1	36.3	41.8

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

Table 13 Market Assumptions

Market Assumptions	2016/17 Forecast	2016/17 Budget	2017/18 Budget
Number of Trading Parties	351	318	362
Sales - Notified Contract Volumes (TWh)	827	809	852
Purchases - Notified Contract Volumes (TWh)	827	809	852
Generation (TWh)	280	267	288
Supply (TWh)	274	260	283
NHH Supply (TWh)	155	147	142
HH Supply (TWh)	116	125	135
CVA BM Units	686	685	707
SVA Base BM Units	139	115	143
SVA Additional BM Units	4	4	4
Data Line	65	82	67
Comms Software (5 Users)	38	29	39
CVA Metering Systems (MSIDs)	841	854	867
HH Supply (MSIDs)	176,891	143,617	182,198
PRS Supply (MSIDs)	42,453,874	34,468,085	43,727,491

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	2016/17 Forecast	2016/17 Budget	2017/18 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)	0.0005	0.0006	0.0005
CVA Metering Systems (£/month)	50	50	50
Base Monthly Charge (£/month)	250	250	250
SVA			
HH SVA Ops (£/msid/month)	0.35	0.60	0.35
NHH SVA Ops (£/NHH MWh)	0.008	0.008	0.008
Gen Energy SVA (£/MWh)	0.008	0.009	0.008
Main Charges			
Energy fee (£/MWh)	0.04438	0.05197	0.05802

Table 15 Cost Recovery by Item

Charge Item	2016/17 Forecast		2016/17 Budget		2017/18 Budget	
	(£m)	% of Total	(£m)	% of Total	(£m)	% of Total
Specified Charges						
CVA BM Units	0.8	2.5%	0.8	2.3%	0.8	2.0%
SVA Base BM Units	0.2	0.5%	0.1	0.4%	0.2	0.4%
SVA Additional BM Units	0.0	0.0%	0.0	0.0%	0.0	0.0%
Data Line	0.5	1.6%	0.7	1.9%	0.6	1.3%
Comms Software (total)	0.5	1.5%	0.4	1.0%	0.5	1.2%
Contract Traded	0.8	2.5%	1.0	2.7%	0.9	2.0%
CVA Metering Systems	0.5	1.5%	0.5	1.4%	0.5	1.2%
Membership Fee	1.1	3.2%	1.0	2.6%	1.1	2.6%
SVA						
HH SVA Ops (£/msid/month)	0.7	2.2%	1.0	2.8%	0.7	1.8%
NHH SVA Ops (£/NHH MWh)	1.2	3.7%	1.2	3.2%	1.1	2.7%
Gen Energy SVA (£/MWh)	2.2	6.5%	2.3	6.3%	2.3	5.5%
Main Charges						
Energy fee (£/MWh)	24.6	74.2%	27.4	75.3%	33.1	79.1%
TOTAL	33.1	100.0%	36.3	100.0%	41.8	100.0%

QUESTIONS

If you have any questions on the BSCCo Business Plan, please contact Communications at communications@elexon.co.uk.

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