

QUARTERLY REPORT Q2 2016/17: JULY TO SEPTEMBER 2016

The ELEXON Quarterly Report for Q2 2016/17 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 second quarter of the financial year 2016/17, 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 2016/17.

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 255](#) – 14 July 2016
- [ELEXON Report 256](#) – 11 August 2016
- [ELEXON Report 257](#) – 8 September 2016

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Improving the customer experience

'Introducing ELEXON' seminars

We held one 'Introducing ELEXON' seminar in September. The seminar was fully booked and well attended, and the feedback received was excellent.

ELEXON webinars

In July, we hosted two webinars for the first time. The first webinar gave an overview to P305 and the changes to the price calculation. The second webinar gave an overview of the post-implementation review of P305 and discussed the key findings of our analysis.

Both webinars were well attended and we received some excellent feedback. Both webinars are available on our [Youtube video](#) area.

Trans European Replacement Reserves Exchange (TERRE) Stakeholder Forum

On Monday 4 July 2016, we hosted, on behalf of the TERRE TSOs, a Trans European Replacement Reserves Exchange (TERRE) Stakeholder Forum. The event aimed to address the key topics raised during Project TERRE's public consultation process, giving participants the opportunity to hear about how Stakeholders' comments have been taken into account and to learn further details about positions on the project's design.

Annual BSC meeting and ELEXON seminar

On Thursday 14 July, we held our [Annual BSC meeting and ELEXON seminar](#). Over 80 BSC Parties, representatives from the industry, and members of the ELEXON Board and BSC Panel, attended the meeting.

Just weeks after the publication of the final report on the CMA's energy market investigation on 24 June 2016, participants had the opportunity to hear first-hand from Roger Witcomb, Chair of the CMA's Energy Market Investigation and David Gray, Ofgem's Chairman on their views about the outcome of the investigation and the next steps to take.

P272 industry day

ELEXON hosted an industry day on 19 July 2016 to explain the latest updates on P272 and related Modification P322). P272 introduces Half Hourly (HH) Settlement for Profile Classes (PC) 5-8 from 1 April 2017. P322 requires all Suppliers to migrate their PC 5-8 from November 2015 to April 2017, submit Migration Plans (SMPs) to the Performance Assurance Board (PAB), and provide monthly Supplier Migration Plan Updates (SMUs).

The event was fully booked with excellent feedback being received.

Developing our services

European developments

The 'Brexit' referendum vote

Until informed otherwise, we continue to assume that UK will still be part of the single European energy market even if it is not within the EU. So we continue to monitor European developments that would impact the BSC on this basis.

In September, we responded to the Energy and Climate Change Select Committee Inquiry into the implications of leaving the EU on UK Energy Policy. In our response, we concentrated on the need for clarity as to whether, and if so which, EU electricity legislation the UK will continue to adopt or retain. We recommended clarity over UK objectives (e.g. cross border trading or harmonisation) as that would assist in identifying legislation that is adopted or retained. We stressed the need for UK influence, specifically over the detailed design of the single European market for electricity, which will be ongoing. This Inquiry is ongoing and has now been taken up, and expanded in scope, by the new Business, Energy and Industrial Strategy Select Committee.

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The European Guideline on Electricity Balancing (GL EB)

The European Commission to Member States released an updated draft of the EB GL (formerly named the Network Code on Electricity Balancing), just after the end of this Quarter in early October. The EB GL covers, amongst other things, settlement of balancing energy and imbalance settlement, so will have potentially significant impacts on the BSC after it comes into force.

The draft EB GL requires, amongst other things, that European Transmission System Operators (TSOs) make proposals for the harmonisation of the main features of imbalance settlement within one year of the Guideline coming into force. The European TSOs' association, ENTSO-E, has now set up a subgroup to start examining this, and will eventually make proposals. The first meeting of this group was held in mid-August.

Project TERRE (Trans European Replacement Reserves Exchange)

Much of ELEXON's European work in this Quarter concentrated on supporting [BSC Modification P344](#). P344 relates to the implementation of Project TERRE within the BSC arrangements. TERRE is an early implementation of part of the EB GL. It introduces a new balancing energy product (Replacement Reserve) available to be used by European Transmission System Operators including NGET. It is anticipated to have wide impacts both within and outside the BSC.

ELEXON hosted a Europe-wide stakeholder event organised by the European Project TERRE on 4 July. This gave GB-based parties a face-to-face opportunity to find out more about Project TERRE and meet its designers.

The Network Code on Emergency and Restoration (NC ER)

The European Commission released a revised draft of the Network Code on Emergency and Restoration in this Quarter. This Network Code may impact on Section G of the BSC as this Network Code's scope includes market suspension and restoration. We submitted comments on the draft to BEIS, Ofgem and, via Europex, to the Commission, specifically on the market interactions chapter of the Network Code. Our request for recognition of the ELEXON (non-TSO) role in undertaking imbalance settlement in respect of market suspension periods was recognised in the final text, which was subsequently approved by Member States in October.

Other Network Codes and Guidelines

The European Demand Connection Code (DCC) Network Code came into force in September.

This was closely followed by the High Voltage DC (HV DC) Network Code and the Forward Capacity Allocation (FCA) Guideline, which entered into force in October following its publication in OJEU¹ in September.

The DCC Network Code covers the requirements for grid connection of demand.

The HV DC Network Code covers the requirements for grid connection of high voltage direct current systems and direct current-connected power park modules.

The FCA Guideline sets out rules on cross-zonal capacity allocation in the forward markets, including the establishment of a single allocation platform at European level offering long-term transmission rights.

REMIT and P329

ELEXON was invited to attend an ACER² roundtable meeting for REMIT³ inside information platforms just after the end of the Quarter, in early October. The meeting covered the technical provision of web feeds to ACER as will be implemented in June 2017 as part of approved [BSC Modification P329](#).

¹ The Official Journal of the European Union

² The European Agency for the Cooperation of Energy Regulators

³ European Regulation Number 1227/2011 on wholesale energy market integrity and transparency

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The 'Winter Package'

At the September meeting of the Market European Stakeholder Committee, the European Commission presented the scope of the then upcoming 'Winter Package' of new energy legislation.

(The Commission has now formally published this proposed legislation, at the end of November, under its new name, the 'Clean Energy for All Europeans' Package. We will be examining it for potential impacts on the BSC, although as this is a proposal for new European legislation, the impact is also subject to the UK's position on Brexit.)

Electricity Market Reform (EMR)

EMR Settlement Services

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

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

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](#).

Smart Metering and Smarter Markets

The Settlement Reform Advisory Group (SRAG) made a number of recommendations to remove barriers to elective Half Hourly (HH) Settlement for domestic and small non-domestic customers in Profile Classes 1 to 4. These recommendations have now been progressed through the BSC change management process (and the Master Registration Agreement (MRA) change process for Data Transfer Catalogue changes) and are due to be implemented in early 2017. Following the publication of its conclusions paper on elective HH Settlement, Ofgem asked ELEXON to chair a cross-code working group (with MRASCo) to assess the changes needed to deliver the Change of Measurement Class (CoMC) process elective HH Settlement with smart Meters. A Change Proposal has now been raised to implement the recommendations of the working group.

ELEXON has been assisting Ofgem in developing its approach to Mandatory Half-Hourly Settlement (HHS).

ELEXON continues to provide four part-time resources to Ofgem's Faster and More Reliable Switching programme, supporting two teams – Business Process Design and Delivery Strategy – and three user groups – the External Design Advisory Group, the Delivery Strategy User Group and the Regulatory Change Group.

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Industry consultations

We responded to three industry consultations over the quarter:

- [ELEXON's response to CUSC Modification Proposals 264 & 265](#)
- [ELEXON's response to the Energy & Climate Change Committee's inquiry on Leaving the EU: implications for UK energy policy](#)
- [ELEXON's response to the ENA Teleswitch Consultation](#)

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

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OPERATION OF THE BALANCING AND SETTLEMENT CODE ARRANGEMENTS

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

- [ELEXON Report 255](#) – 14 July 2016
- [ELEXON Report 256](#) – 11 August 2016
- [ELEXON Report 257](#) – 8 September 2016

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

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GOVERNANCE AND CHANGE

Modifications

Six Modifications were raised:

- P347 'Reduction in R1 Read Threshold'
- P348 'Provision of gross BM Unit data for TNUoS charging'
- P349 'Facilitating Embedded Generation Triad Avoidance Standstill'
- P350 'Introduction of a seasonal Zonal Transmission Losses scheme'
- P351 'CGR Phase 3 Modification to align Section F to the Licence and any necessary amendments to BSCP40'
- P352 'Housekeeping changes to BSC Section M'

Zero Modifications were withdrawn.

Three Modifications were submitted to the Authority for decision:

- P333 'Inclusion of DSBR volumes into the cashout price in time for publication after the end of the Settlement Period'
- P335 'Inclusion of Non-BM STOR costs and volumes in the indicative cashout price'
- P324 'Review of BSCCo's governance: introducing improved accountability to BSC Parties'

Two Modifications were approved or rejected by the Authority:

- P333 'Inclusion of DSBR volumes into the cashout price in time for publication after the end of the Settlement Period'
- P335 'Inclusion of Non-BM STOR costs and volumes in the indicative cashout price'

One Modification was pending Authority at 30 September 2016:

- P324 'Review of BSCCo's governance: introducing improved accountability to BSC Parties'

Two Modifications were approved by the BSC Panel as Self-Governance:

- P345 'Reducing the CAP change notice period and improving its flexibility'
- P352 'Housekeeping changes to BSC Section M'

Three Modifications were implemented:

- P340 'Removal of References and Requirements Relating to the LCPD'
- P345 'Reducing the CAP change notice period and improving its flexibility'
- P352 'Housekeeping changes to BSC Section M'

Change Proposals

Five Change Proposals were raised:

- CP1468 'Adoption of a standard template for raising Modifications'
- CP1469 'Changes to support the implementation of the SRAG's recommendations'
- CP1470 'Housekeeping Change to CoPs 1, 2, 3 and 5 following P266'

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- CP1471 'Housekeeping - discrepancies in the requirements of the CRA URS'
- CP1472 'Removal of SVA proving tests for Meters with a pulse multiplier of one'

Zero Change Proposals were implemented.

BSCP40 issues

Zero BSCP40 Issues were raised or remained open during this period.

Standing Issues

One Standing Issue was raised:

- Issue 64 'Defining default price when NIV equals zero and when there is no priced action left after NIV tagging'

Zero Standing Issues were closed.

BSC Panel and Committee Activity:

The BSC Panel

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

- Approved appointments to the TDC and PAB
- Noted the results of the BM Audit, presented by National Grid
- Approved the scope of a review of the Performance Assurance Framework
- Noted an update on ELEXON's project activities and systems roadmap
- Approved 1 Novation Application
- Approved the BSC Panel meeting dates for 2017
- Received the findings of a post-implementation review of Modification Proposals P306, P307 and P310 (relating to the Credit arrangements)
- Received the findings of a post-implementation review of Modification Proposal P305 (Electricity Balancing Significant Code Review Developments)
- Noted the findings of the 2015/16 Funding Shares Audit
- Received an update on Trading Dispute DA797

Imbalance Settlement Group (ISG):

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

- Approved five non-Standard Balancing Mechanism Units (BMU)
- Approved three temporary Metering Dispensations
- Provided comments and direction on two new Change Proposals: CP1466, CP1468
- Approved six Change Proposals: CP1461, CP1462, CP1463, CP1468, CP1470, CP1471
- Approved consultation questions for annual review of MIDS
- Recommended to the Panel that no changes are made to the MIDS, CADL and DMAT
- Provided comments and direction on ELEXON's Review of BSC Credit Modifications.

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Supplier Volume Allocation Group (SVG):

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

- Oversaw the progression of approximately 80 changes to Market Domain Data
- Approved the following four Change Proposals (CPs):
 - CP1458 v2.0 'Introduction of timescales for the P283 Commissioning process for SVA CT operated Metering Systems' (for implementation in the November 2016 Release)
 - CP1461 'Amending BSCP128 to reflect a new simple SVA file format for LDSO LLF submissions' (for implementation in the November 2016 Release)
 - CP1463 'Process for ELEXON to calculate category 1 non-compliance materiality' (for implementation in the November 2016 Release)
 - CP1465 'Sending revised MTDs following a change of NHHMOA' (for implementation in the February 2017 Release)
- Rejected the following two CPs:
 - CP1455 'Sending revised Meter Technical Details following a change of Meter Operator Agent'
 - CP1464 'Requiring HH consumption data to be processed to appropriate precision'
- Agreed minor changes required to the SVA Data Catalogue following implementation of the June 2016 Release
- Approved a Metering Dispensation from Code of Practice 5 on a lifetime basis

Trading Disputes Committee (TDC):

The TDC has upheld 12 Trading Disputes with an approx. materiality of £5.46m.

Performance Assurance Board (PAB):

In addition to normal work, the PAB approved:

The Qualification of:

- Pilot Energy Ltd as a HH and NHH Supplier
- Eco Green Management as a HH NHH Supplier
- Bluebell Energy et al, six Parties, as HH and NHH Suppliers
- Energy Supply Solutions and Comet Energy Ltd as HH and NHH Suppliers
- GEN4U Ltd as HH and NHH Supplier
- Inverno Ltd et al, three Parties, as HH and NHH Suppliers
- Pioneer Energy and Santiam Energy as HH and NHH Suppliers
- AES Smart Metering Ltd et al, eight Party Agents, NHH MOA

Approved the Change of Ownership of:

- NHHMOA, HHMOA, NHHDC and NHHDA from BGlobal plc to Energy Assets Group Limited using BMET MPID

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- NHHMOA, HHMOA from Droylsden Metering Services Limited to National Grid Smart Limited using the 'DMSL' MPID

Approved the following:

- Traffic light system to monitor Supplier Performance against P322 obligations
- That P283 non-compliant candidates be subjected to the EFR as a result of TAPAP check
- Annual Performance Assurance Report 2015/16
- Risk Evaluation Register 2017/18
- Risk Evaluation Register 2016/17 within period revision
- Risk Operating Plan 2016/17 within period revision
- New set of PAF KPIs
- Actions from Technical Assurance audit on the transfer of details for Automatic Meter Reading Meters
- The BSC Qualification Service Provider's Approach to the (Re)-Qualification Service Document for the year ending September 2017.

Agreed the following:

- Initial response to the Technical Assurance Agent (TAA) annual report 2015/16 recommendations
- A performance assurance expert group should be set up once the planning phase of the PAF review is sufficiently advanced to inform its membership
- Changes that have been recommended to the 2016/17 BSC Audit Scope
- The BSC audit materiality threshold should remain at 1.3TWh
- The PAF KPIs are published quarterly on BSC Website.

Noted the following:

- P272 progress and flight path
- Trading Dispute DA793 update
- PAB strategy update.

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REVIEW AGAINST THE ANNUAL BUDGET

Summary

Following the mid-year review, expenditure for the first half of 2016/17 is £2.6m under budget and the expected full year outturn is forecast to be £3.1m (8.5%) under budget. We have conducted a detailed review of the operational provisions, market development activities, and system strategy/demand led projects in the pipeline. This has resulted in a £1.4m reduction due to clearer view of future activities and re-phasing project work.

Involvement in EMR has enabled a year to date £401k of BSC overhead to be defrayed. Full year expected to be £798k.

Expenditure by Type

The position against budget is summarised below:

£m	YTD	Var.	Full Year	Var.
Operational	7.0	1.2	16.3	1.3
Demand Led	0.4	0.2	1.3	0.5
Contracted	6.7	0.8	14.4	0.8
System Strategy	0.3	0.4	1.1	0.4
Market Development	-	-	0.1	0.1
Total Elexon	14.4	2.6	33.2	3.1

Unfavourable variances to budget are in brackets

Operational Expenditure

The full year forecast spend is £16.3m; £1.3m (7.4%) under budget, and the performance year to date is £1.2m under budget (14.6%). People costs are forecast below budget by £0.2m due to further delays in recruitment as well as reductions in overheads, and occupancy.

Demand Led Expenditure

The full year forecast is expected to be £1.3m, £0.5m (27.8%) below budget. Following the mid-year review, the forecast was reduced by £450k to £1,050k. We have incurred £304k on release projects year to date, the remainder is being held for future release costs in the current year.

Contracted Expenditure

The full year expenditure is forecast to be £14.4m, £0.8m (5.3%) under budget. Following the mid-year review, £92k of Service Improvements and £56k of security enhancements have been released from the forecast. This underspend is also driven by reduced depreciation charges for BMRS due to delay of go-live (£472k) and reductions in Market Index Data costs (£128k).

Elsewhere cost is projected to remain approximately in line with budget.

System strategy

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The full year expenditure is forecast to be £1.1m, £0.4m (26.7%) under budget. We have incurred a charge of £109k on BMRS and £206k on As Is+ projects year to date. We have released £0.5m following the mid-year review.

Market Development

The full year expenditure is forecast to be £150k; £100k under budget (40%). We are currently delivering CMA and other horizon scanning activities using existing operational resources, currently none of these have yet given rise to any external expenditure being incurred year to date.