



Mid Year Business Update

November 2011

In my introduction to the 2011-12 BSCCo Business Plan, I predicted that this would be a defining year for ELEXON. Six months into delivery of our most ambitious Business Strategy yet, I believe that my prediction has already come true.

Ensuring excellence in the delivery of the balancing and settlement arrangements remains our number one priority and we haven't, nor will we ever, lose focus on this. We are also continuing to evolve the business appropriately to increase value to the industry, the Government and consumers.

This update highlights our progress against the mission, vision, strategic priorities and budget published earlier this year in our 2011-12 business plan. It summarises our key achievements over the past six months, including some of our best ever customer survey results, and describes the work we've been doing to protect the integrity of our core services and drive improvements in the efficiency and effectiveness which is the mainstay of our vision "To be a leader in the efficient transformation of energy markets by providing shared solutions to address common industry problems".

1. Delivering the BSC

Delivering the BSC is at the heart of what ELEXON does. We want our customers to have confidence in the core services we deliver and the value we provide.

Actively managing and continually improving BSC services to ensure that we deliver in an efficient, effective and economic way

- The November 2010, February 2011 and June 2011 Releases were issued to time and budget with no material defects.
- We delivered an upgrade of the SVAA system to the latest version of Oracle in May seamlessly with no defects identified.
- We've been actively managing defaulting Parties to minimise financial impacts on the rest of the industry.
- We rolled out new, improved PARMS (Performance Assurance Reporting and Monitoring System) with enhanced customer support and training to ensure our customers were ready and additional validation of the first set of submissions.



- We've continued to progress a wide range of BSC Modifications in consultation with customers including:
 - New change governance processes (P262 and P263) which arose from Ofgem's Code Governance Review. These changes were complemented by the wide-ranging assessment of P264 which sought to change the way that Panel decisions are made on certain types of change.
 - We've also addressed a number of credit matters. P253 and P265 (arising in 2010) considered ways to improve the credit assessment calculations. (P253 will be implemented in the November 11 release). This was a particularly pertinent topic in 2010/11 as one BSC Party remained in extended Section H default, initially arising from difficulties in lodging appropriate credit cover.
 - Smartest Energy raised P269 to amend the way in which the BSC deals with GSP Groups which might flip their Production and Consumption status. This was the first Modification Proposal to use the new "Self Governance" mechanism introduced in January 2011 and the Panel approved its implementation without the need to make a recommendation to the Authority.
 - During the period, we've also worked on a number of off-shore and metering related changes.



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Driving efficiencies and savings in our operational business

- We've reorganised our operational teams to achieve greater alignment of end to end processes.
- In partnership with Logica and Cognizant, we've reviewed the Funds Administration Agent (FAA) and PARMS process controls. We've identified and started putting in place a number of improvements that will remove reliance on human intervention and enhance the reliability and efficiency of the FAA and PARMS services.
- We implemented a new Profiling Administration strategy, saving the industry around £2m over the next five years, and re-negotiating contract extensions for the TAA and BSC Audit, resulting in one-year benefits and savings in excess of 10% on each contract.

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- We're continuing to carry out reviews of all of our contracts to ensure that we are procuring the right services and to help us identify service improvements.

Improving the customer experience and developing richer customer relationships

- Last year, our customers told us that they really value having a named Operational Support Manager (OSM) as a single point of contact, so we've continued to focus on maintaining the high standard of our OSM service. In the first six months of this year, our OSMs provided 86 customer visits and 27 tailored training sessions.
- We're producing clearer and more readable documentation, with a particular focus on information sheets and guidance notes. This year's customer survey results show that our customers have noticed an improvement in our communication.
- Throughout this period, we continued to lead the Cross-Codes Forum. We have evolved and adapted this with National Grid to meet customers' needs and it's now firmly bedded into the calendar as a key engagement mechanism.
- We've reviewed the Service Desk to ensure it is fit for purpose and looked at reporting tools that will allow ELEXON to tailor future services to meet our customers' needs. We received excellent feedback in this year's customer survey on the increased value of the Service Desk.

2. A Customer-Centric Approach

Over the past few years, we've become much more customer focussed. One of our strategic priorities set out in the 2011-12 business plan was to improve the customer experience and deliver richer customer relationships. We measure our progress against a wide range of customer service attributes, and I'm delighted to report that the results of this year's customer survey demonstrate that we're maintaining – and in some areas, improving on - the high standards of customer feedback that we received last year. This is particularly rewarding given that it's been achieved at a time that the business has been through a complete reorganisation.



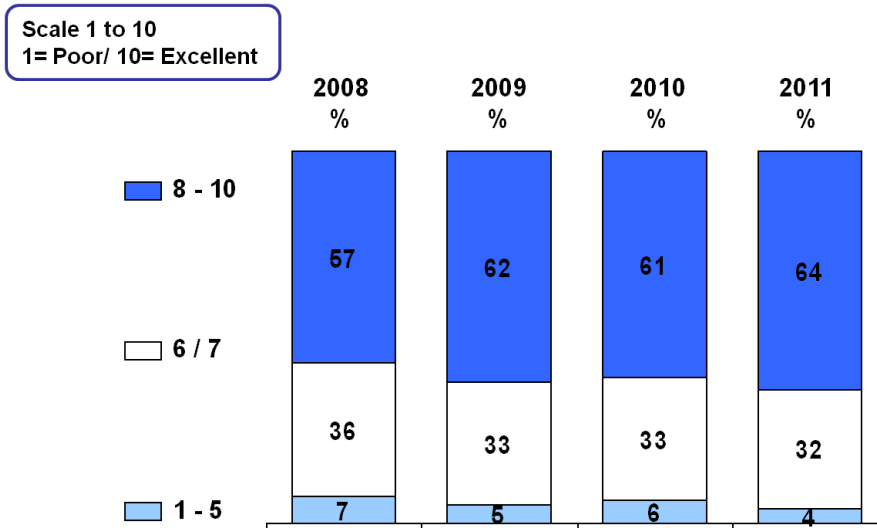
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ELEXON Customer Survey 2011: Satisfaction Scores



- Customers perceive us as more capable, more expert, more proactive, more ambitious and less bureaucratic than in preceding years. They also value us as an expert resource more than ever before.
- We're seen as more flexible - particularly in the eyes of Party Agents.
- The main perceived improvements relate to Operational Support Managers (OSMs), the service desk, our proactive approach and quality of communications.
- The website is the major area where customers would like to see improvements – particularly around speed and navigation. We have sought feedback from customers on specific aspects of the website that they'd like improved and have already delivered performance improvements. We continue to take steps to address further customer feedback.

We want to continue improving, so we'll carry on seeking feedback from our customers and developing greater insight into their needs.

3. Special Projects

ELEXON has applied its knowledge and expertise to a number of areas in order to provide advice and guidance, whilst facilitating wider debate and consultation across the industry.



Credit Review

We completed this year's BSC Review in early April. The review looked at the current Credit Cover, Credit Default, Payment Default and Section H Default processes and recommended four areas for improvement. The Panel endorsed the review and encouraged BSC Parties to raise Modifications seeking to implement its recommendations. If you'd like more information on the review and its recommendations, or are interested in progressing any of the improvements identified, we'd be delighted to hear from you.

Review of Profiling and Settlement

With the support of the Profiling and Settlement Review Group (PSRG), we're reviewing the BSC's profiling and settlement arrangements to ensure that they adequately reflect and incorporate the advances in metering technology as well as future smart developments. We don't want the settlement arrangements to be a barrier to innovative technology like electric vehicles and microgeneration. With the PSRG, we've worked on the following areas:

- Improving the existing profiling approach;
- the impact of Feed-In Tariffs on settlement; and
- how GSP Group Correction Factor could be applied to half hourly meters.

More recently, we've been focusing on optimising settlement for smart, developing a cost benefit analysis of mandating half hourly settlement for customers in Profile Classes 5-8 (which identified potential savings of up to £85m over five years) and 1-4, and removing existing barriers to half hourly settlement.

Renewable Generation

We've become aware of some inconsistencies in the processes set out in the BSC and various other codes (e.g. the Grid Code and the CUSC) for connecting new wind farms. In response, we've worked closely with the relevant industry committees to provide advice and guidance on how these issues can be resolved.

These are just a few examples of where our industry experts are well placed to provide thought leadership to the wider industry to ensure that there are no obstacles within the governance arrangements to the roll out of new technology.



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4. Supporting Industry Developments

To pursue our vision, we are continuing to develop our services to address industry challenges.

Smart metering

ELEXON's smart programme is focusing on three key areas:

- Protecting our core settlement operations.
- Supporting the Smart Metering Implementation Programme (SMIP).
- Pursuing smart roles and services that offer best value to the industry.

Over the past six months, we've been actively engaging with DECC's smart programme – both in terms of lending support through training and by identifying impacts of smart on the BSC. We've been working hard to understand what the DCC (DataComms Company) will look like. To help us develop our knowledge in this area, we've been investigating how the appropriate balance of risk and reward could be applied to optimise the effectiveness of the DCC. We've shared these findings with the BSC Panel and DECC.

Protecting the core settlement operations and ensuring that settlement is 'smart fit' remains our smart team's top priority. We've been applying our expertise to ensuring that settlement won't act as a barrier to the developments that smart will bring. For example, we've been considering how [settlement could support the introduction of new innovative tariffs](#) and also developed [a framework for the type of assurance arrangements that will be needed in a smart world](#). We've published thought leadership pieces on both these subjects.

Warm Homes

Following a competitive tender process, ELEXON has been awarded the Warm Home Discount Reconciliation contract by DECC. Under the scheme ELEXON will calculate the reconciliation payments and manage the resulting funds transfer. The assumption that we can make the existing settlement infrastructure work harder has sat at the heart of ELEXON's business strategy for some time, and it's really exciting that we are now starting to see this vision realised. BSC Parties will also benefit because ELEXON will offset income we receive from delivering this service against BSC Party charges. We will be working closely with Parties as we implement the new processes and interfaces over the coming months.



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Electricity Market Reform (EMR)

The major new policies being introduced as part of the EMR package will require specific delivery arrangements. We're actively engaging with DECC about areas where ELEXON's capabilities could be used in delivering elements of the EMR solution.

- We have a proven track record in the design and implementation of complex settlement systems
- We are experienced in data handling, administration, settlement, credit monitoring, assurance and invoicing roles.
- We hold data that we believe will be required for the settlement of Feed-in Tariffs and for monitoring generator/demand performance as part of any Capacity Mechanism.

This is a great opportunity for DECC and the industry to benefit from the wider application of our existing skills and data.

Corporate Structure and Governance

When ELEXON consulted on its annual Business Strategy this year, there was broad acknowledgement that ELEXON's current corporate structure, governance and funding arrangements are not an appropriate platform for the company to undertake any new activities in the future. Over the past six months, we've continued to engage with the industry, the government and the regulator on the organisational and governance changes needed to support our business plan. Over the summer, Ofgem commissioned an independent review of ELEXON's governance. We were delighted that the report recognised the important role ELEXON will have in helping the industry meet the challenges of a low carbon economy.

Ofgem's report, along with the findings of Standing Issue 40, have set out several models for reforming ELEXON's governance model. We look forward to Ofgem's forthcoming consultation, and to moving towards a solution that will allow ELEXON's expertise, experience and assets to be used to greater effect for the benefit of all stakeholders in the energy sector.



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5. People

Restructure and Investment in staff

Our new structure, implemented in July 2010, is now successfully bedded in, enabling operational efficiencies while also allowing us to apply expertise in key areas such as smart metering. We recognise the value to our customers of ELEXON's staff and their expertise, and have an ongoing commitment to develop and retain talent for the benefit of Parties and wider industry value. Resources in the energy sector are in demand, so retaining and attracting competent and motivated staff remains a challenge. However, we're proud of the fact that, to a greater extent than ever before, we're delivering more to the industry with fewer staff.

Our Executive team has extensive experience in major government programmes and commercial ventures. I firmly believe that ELEXON's management team has the credentials to lead ELEXON at a time of huge industry upheaval and ensure that we deliver value for wider industry and consumers.

6. Budget update

We continue to revise our budget throughout the year, ensuring that any savings are fed back to industry parties by reduced monthly billing.

With half of the budget year having passed, we are in a better position to take a more critical look at our assumptions and cost estimates around some of the more demand driven, variable elements of our 2011/2012 budget. This, coupled with our continued efforts to drive efficiencies throughout the business, has meant that we are now forecasting a full year outturn which is around £3.8m (10.7%) below our original budget of £35.5m. As a consequence, BSC Parties will see a reduction in their invoices for the remainder of the year. Some of the savings have arisen through management decisions and actions, others through changes in circumstances. The major points to note are:

- Average headcount for the first six months of year was 117, compared to a budget of 126, a reduction of 9. The end of year enduring headcount is forecast at 116, compared to a budget of 124. The reduction in headcount has driven savings of some £624k in people costs.
- In June, the trustee of our defined benefit pension scheme finalised its latest pension valuation. The actual increase in employer contribution and deficit repair



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for this financial year and next year is less than originally anticipated, leading to a £513k under-spend in people costs.

- After evaluating all the potential modifications and changes in the pipeline for the rest of the year, we've reduced Demand Led full year forecast by some £300k.
- The Company's decision to extend the current Technical Assurance Agent contract has led to the release of the provision of £255k for transition and exit cost to a new supplier.
- Our budget for work on smart metering was based on a number of assumptions and estimates. Over the past six months, we've been supporting DECC's Smart Metering Implementation Programme and ensuring that the BSC is fit for smart, and will continue to do so. Whilst the shape of the overall arrangements is becoming clearer, detail around the DCC and SEC Sec roles has not yet emerged. Their respective appointment processes have been outlined and we now understand that these will occur in 2012 – 13. In response to this definitive phasing, we are in a position to release £2m of our £3m smart metering budget back to BSC Parties.

7. Looking Ahead

More than ever before, the pace of change within our industry is escalating. I'm fully aware of the impact this change has on our customers, and I believe that ELEXON has a role in supporting them, the Government and the regulator to deliver an improved market place. ELEXON's priority is, as it always has been, to ensure that the core BSC services are protected and delivered efficiently, effectively and economically.

However, ELEXON also offers the industry a team of industry experts poised to do much more, and I'm delighted by the precedent set by DECC's recent award of the Warm Home Discount Reconciliation contract to ELEXON. I see this as active endorsement of ELEXON expanding beyond the confines of the BSC, and I look forward to the development of an enduring solution that will enable ELEXON to fully achieve its aspiration of creating long-term value to a wider stakeholder group, promoting innovation and efficiency through the provision of services and solutions to common industry problems.

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