

ELEXON

**Annual BSC Meeting
and Elexon Seminar**

WELCOME



VOTING ON ELEXON DIRECTORS

Voting on Elexon Directors



Anne Heal
Independent non-
executive director



David Titterton
Industry non-
executive director



Sara Vaughan
Industry non-
executive director



Clare Duffy
Industry non-
executive director



David Rigney
Senior independent
director



Michael Gibbons
Elexon Board and BSC
Panel Chairman



Mark Bygraves
Chief Executive Officer

ELEXON

**Overview of Elexon's 2020/21
performance and 2021/22
strategic priorities and building
a path to net zero**

Mark Bygraves, CEO Elexon

Elxon: a quick refresher on our role

We manage the
Balancing and
Settlement Code:

- Rules governing the 'meter to bank' process
- Imbalance prices calculated every half hour
- Market volumes and charges derived from our data

We also calculate,
collect & distribute
payments to CFD
generators
and Capacity Market
providers

Elxon is highly
transparent, not-for-
profit, and
independent



Code Administration

- Industry rules management and change
- Trusted critical friend
- Dedicated customer support (OSMs)
- Training and webinars



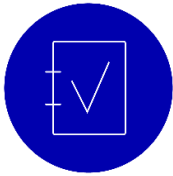
Policy Support

- Impartial, expert advice/ guidance
- Market scanning
- Providing support to BEIS/Ofgem to deliver policy outcomes



System Operation

- 24/7 Party Management
- 24/7 Settlement
- Technology Design/change implementation
- Data Analytics & Insights



Performance Assurance

- Monitor Settlement performance and compliance
- Hold Parties to account for their performance
- Assist Suppliers in creating plans to address performance issues

We serve

534

**Market
Participants
including:**

28 Distributors

114 Non-physical Traders

148 Generators

167 Suppliers

*Number of market
participants in July 2021*

Elxon – trusted, reliable independent market experts

Our priorities and the context for our work

Energy transition continued at a rapid pace in 2020 and we support the industry in managing the challenges



Net Zero: more record-breaking periods of coal-free generation and lowest carbon intensity ever for electricity generation – but so much more to do



Changing demand patterns and new sources of demand, flexibility and balancing



Increasing costs for National Grid ESO to manage the system



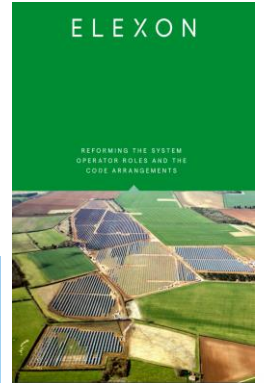
Accommodating impact of electric vehicles (incl V2G)

We support the Government and Ofgem in new policy development, sharing our views and expertise



Building our Industrial Strategy

ofgem
Department for Business, Energy & Industrial Strategy



The Clean Growth Strategy
Leading the way to a low carbon future

***Elexon's key priority has not changed:** As trusted independent experts, we must carry on delivering our BSC end-to-end' management services to our historic high standards, whilst always providing value for money.*

***Elexon's Purpose:** Serving at the heart of the energy industry, building a path to net zero*

Looking back over 2020/21: supporting the energy transition, maintaining customer focus

Energy Transition / Net Zero

- **BSC Changes to support net zero:** Approval of P375 – ground breaking change to benefit smaller asset owners
- **BSC Sandbox:** First trial approved
- **Open Data:** Approval (and implementation) of P398 – more BSC data available with no additional charges
- **Supporting implementation of major industry reforms:** TERRE (currently on hold) Ofgem's TCR and impact on MDD



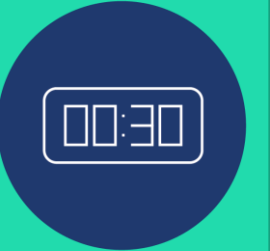
Customer-centricity

- **Consistently high customer satisfaction scores:** 71% of customers place high value on the quality of our work
- **Roll out of Elexon Kinnect Customer Solution:** A faster, digital service for new and existing participants
- **Continued support for Suppliers in managing the impact of COVID-19:** Derogations from BSC rules extended in 2021
- **Safeguarding customers and BSC Parties on market exits:** Managed five SoLRs ensuring transfer of 635,000 consumers



Preparing for Market-wide Half Hourly Settlement (MHHS)

- **Providing technical leadership** for the two industry working groups for further development of MHHS TOM:
 - **Code Change and Development Group:** Identifying the changes needed to electricity codes to support MHHS
 - **Architecture Working Group:** Has developed a reference architecture to support the new MHHS services



Elexon customer survey 2020:

- 70% of customers would speak highly of Elexon, with 88% of them saying our service had improved or stayed the same
- 94% of said our Operation Support Managers either meet their expectations or exceed them



Financial results for 2020/21

Final report and accounts



Final report and accounts for the year show cost of sales of **£55.8m**

Cost to BSC Parties in 2020/21 was **£49.3m** compared with budget of **£55.8m**

(after netting out revenue of **£5.8m** for EMRS and pass through costs of **£0.7m**)

£6.5m cost savings returning to BSC Parties



Underspent budget by **£0.8m** on Demand Led

Underspent budget by **£2.4m** on System Strategy work

Underspent budget by **£0.3m** re Market Development

Savings of **£0.9m** against budgeted operational costs

Savings of **£2.1m** against our budgeted contracted costs

EMR



£904k of existing BSC costs defrayed (offset) due to EMRS contributing to overheads

Audit



Clean Audit and no controls deficiencies identified by auditor for 10th year running

Continuing to support innovation and the energy transition



Elexon and the Panel will continue to work with industry to support further changes to the BSC that help progress to net zero



Proposals to help VLPs (and Suppliers) to submit more accurate Physical Notifications into Settlement (in cases where VLPs shares network connections with other assets which they don't control)

P376 (proposed by VLP (Enel X))



Proposals allowing consumers to trade electricity through a Virtual Lead Party (VLP)

P415 proposed by a VLP (Enel X)



Recognising the activity of smaller assets in Settlement and providing better information to DSOs on asset capabilities

Implementation of P375



Successive changes to the BSC could build on P344 'Wider Access' by opening up the energy market to smaller competitors

Code consolidation needed to ensure better support for innovators



- We will keep up support for innovators through our Sandbox service
- Expect other proposals to come forward, and through Elexon Kinnect we could support multiple, concurrent trials



- However the complexity of the codes landscape is difficult for innovators to navigate
- Slow pace of change for codes and difficulty in making sweeping cross code changes could stifle innovation

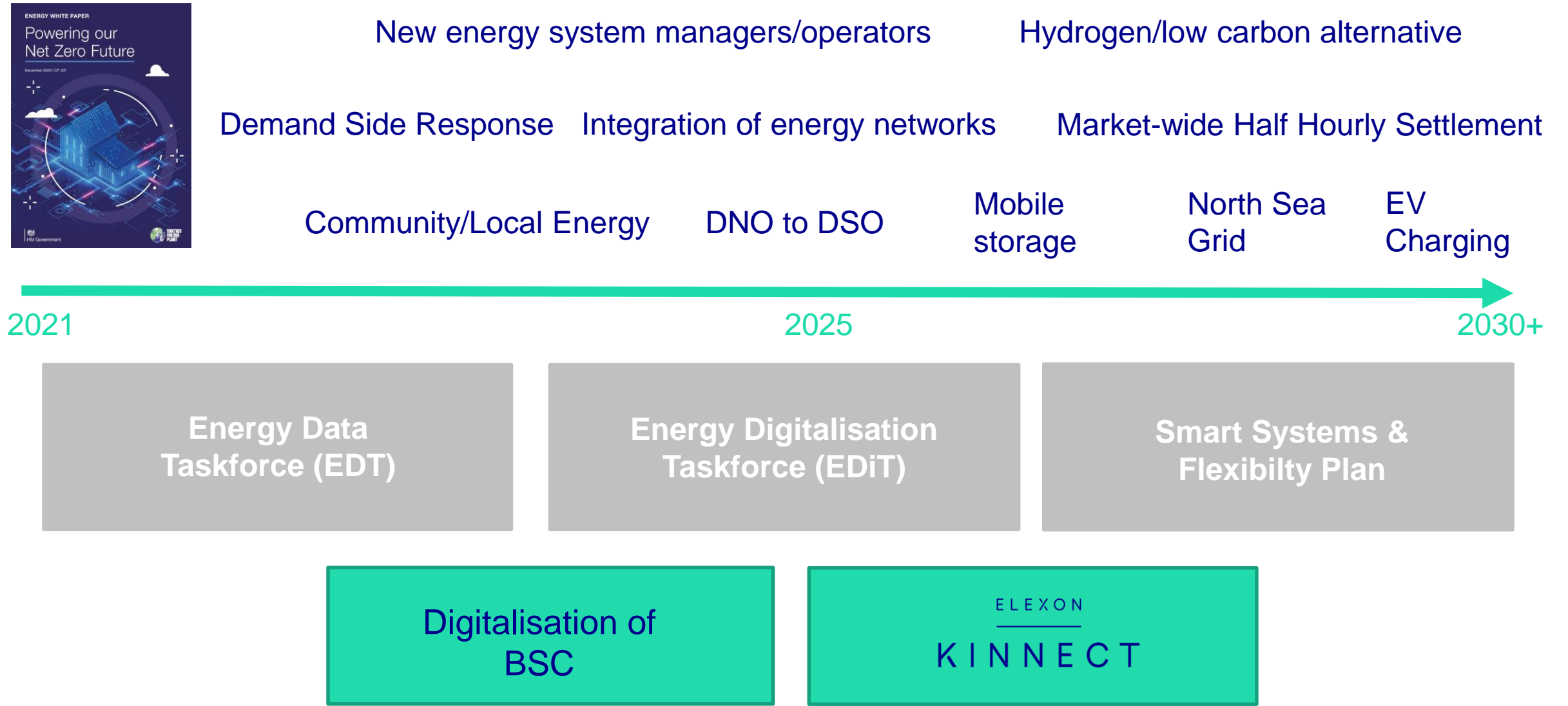


- We have been advocating for a number of years for consolidation and simplification of the central landscape
- Energy White Paper reforms are a 'golden opportunity' to complete the codes review and reform SO arrangements
- We are ready to work with Government and industry to put changes in place

ELEXON'S DIGITALISATION PROGRAMME

PETER STANLEY, DIRECTOR OF DIGITAL OPERATIONS

Elxon’s digitalisation programme – supporting market change



Elexon Kinnect – our digital platform

ELEXON KINNECT



CUSTOMER SOLUTION

First version released January 2021

- **Simpler and quicker online process** for entering the market
- **Online accounts:** register assets, register for new roles
- **Clear visibility** of customer journeys and tasks
- **Instant help:** on screen validation, guidance notes and help features
- **Customer centric:** Customer Solution User Group established for continuous improvement



SETTLEMENT SOLUTION

Second version to be released April 2022

- **Cloud-based** technology: rapid expansion
- **Modular** design: faster testing and changes
- **Future ready:** modular and scalable Settlement calculation systems
- **Accurate and fast:** improved settlement accuracy and reduced reconciliation times
- **Open data:** Settlement calculation data will be openly available via APIs



INSIGHTS SOLUTION

First version to be released November 2021

- **Comprehensive,** cloud-based data and insights service
- **Enhanced data:** essential for smart system
- **Fast and responsive:** customers can 'self-serve' data requests
- **Openly available:** the design will incorporate Open Data principles
- **Customer centric:** Data and Reporting User Group established

THE MHHS PROGRAMME

ANGELA LOVE, DIRECTOR OF FUTURE MARKETS AND ENGAGEMENT,
MHHS PROGRAMME EXECUTIVE SPONSOR

Market-wide Half Hourly Settlement (MHHS) key reform to support net zero

MHHS:

- **Enabler for innovations** – DSR, ToU Tariffs, P2P, V2G
- **Faster more accurate Settlement** - reducing from 14 months to 4 months



Elexon appointed by Ofgem as Senior Responsible Owner (SRO) and Programme Manager (PM)

The role includes:

- **Managing transition** to new systems and services
- **Co-ordinating activity and communicating** with stakeholders
- Monitoring and reporting progress of **180+ organisations**



- Ofgem's final impact assessment identifies net benefits for GB consumers of
- **£1.6bn to £4.5bn** from 2021 to 2045
- MHHS is one of the biggest changes to the market since launch of retail competition



MHHS Implementation Programme



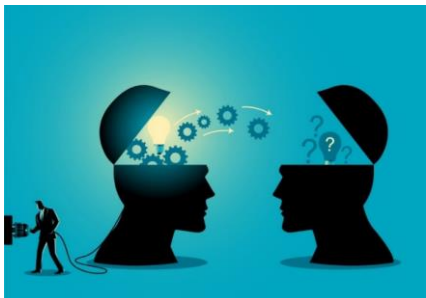
Ofgem has determined that:

- MHHS should be implemented over 4.5 years (completion by October 2025)
- Suppliers will fund the MHHS implementation programme via an increase in Elexon's BSC costs, as set out in approved **Mod P413 (Alternative)**. First payments due by Suppliers this month



Budget:

- Elexon's Board has agreed a 2021/22 budget of £14.5m for the programme
- Un-used funding will be returned to Suppliers (as with all un-used Elexon funding)



The functions of the MHHS Programme SRO/Implementation Manager role:

- The MHHS Programme has been working with Ofgem on the Programme Implementation role, relative to Ofgem
- As Implementation Manager the MHHS Programme will be responsible for Programme Management Office (PMO), Programme Party Co-ordinator (PPC) and System Integrator (SI) and to that end will be procuring a Lead Delivery Partner (LDP)

The MHHS programme and next steps on the MHHS Target Operating Model

How the implementation programme will be delivered



MHHS Programme will be independent of Elexon's BSC functions (to manage conflicts of interest) with a separate budget. It will operate the programme governance (as designated by Ofgem) and manage an independent Assurance Provider (procured by Ofgem)



Procuring central programme management functions will allow the MHHS Programme to benefit from using independent, highly skilled and experienced delivery partners, whilst augmenting the skills sets of MHHS Programme Team



The MHHS Programme will work alongside industry colleagues to leverage their expertise (including through secondments) to assist in design, system development, testing and migration

QUESTIONS & ANSWERS

VIDEO MESSAGE FROM THE RT
HON ANNE-MARIE TREVELYAN MP,
MINISTER FOR BUSINESS,
ENERGY AND CLEAN GROWTH

FINTAN SLYE, DIRECTOR NATIONAL GRID ESO

DERMOT NOLAN, DIRECTOR,
FINGLETON
NET ZERO AND ALL THAT....

State of Play

- Net zero a genuine commitment - UK serious about achieving it
- But progress seems to be in fits and starts - early part of pandemic took huge resources from policy makers and regulators. Then flurry of activity late 2020. But little since
- Awaiting transport, heat, hydrogen strategies. Possibly published last day before recess? Pressure to have “something” by COP26 in November.

Patterns

- Global move to decarbonise influencing patterns of investment - oil majors entering renewables as future suggests transport needs powered by electricity
- Future gas demand less certain - could vanish but could be primarily replaced by hydrogen. Not clear what government hydrogen strategy is.
- Future heat strategy: CCC has suggested likely to have both electric and hydrogen but has questioned whether there is “enough” hydrogen
- Overall electricity demand seems certain to rise, though extent unclear
- Also scope for innovation in adaption of new technologies – likely someone will make a lot of money..

Institutions

- BEIS and Ofgem's role not easy - clamour for investment but they are charged with ensuring this does not come at too high a price. RII02 appeals indicative of this tension
- Ongoing discussions about trade-offs and who makes them - Ofgem worried about distributional effects of changes and how vulnerable users will be affected. HMT study on this has not really made progress
- Sense of who will plan the future: fully independent and separate ESO seems clearly right but implementation stalled
- What functions would it have? Would it plan the system? Ofgem sometimes using phrase "system architect" and that seems appropriate. Corporate structure unclear
- What about DSOs?

Future changes

- 2020s must see progress in EVs - models for that developing but still not fully clear. DNO business plans just submitted to Ofgem - some variation but most plan to spend lots of capex
- All actors conscious of role of data - need to improve quality of data and make it available to more stakeholders, particularly as more and more entities enter the electricity system
- How will this affect market design? ESO already preparing for change in wholesale market on the assumption that current market structure may not be best for a net zero world
- When at Ofgem I had visions of distribution LMP market - Ofgem may still be thinking about this

Codes and Consumers

- Consumer behaviour issue perhaps most problematic - how incentivise them to embrace decarbonising transport and heat?
- Not obvious what the vision is here. Price cap due to fall away - what kind of retail market structure will replace it?
- Code reform consultation put on hold - due to be further consultation this year?
- MHHS hugely important to net-zero in all states of the world
- Whoever works out consumer adaption will do well
- But precedents not auspicious from govt end

QUESTIONS & ANSWERS

VOTING RESULTS

Annual BSC meeting 2021 voting results

	For	Against	Abstain	Result
To re-elect Mark Bygraves as a Director	3630	0	0	3630
To re-elect Clare Duffy as a Director	3630	0	0	3630
To re-elect Michael Gibbons as a Director	3630	0	0	3630
To re-elect Anne Heal as a Director	3630	0	0	3630
To re-elect David Rigney as a Director	3630	0	0	3630
To re-elect David Titterton as a Director	3630	0	0	3630
To re-elect Sara Vaughan as a Director	3630	0	0	3630

ELEXON

THANK YOU

Elexon Communications

communications@elexon.co.uk

8 July 2021