

ELEXON

17 January 2022

Dear BSC Party

ELEXON BOARD – CIRCULAR LETTER TO BSC PARTIES NO 10

This is the latest letter from the Elexon Board to BSC Parties and our stakeholders on our key activities as a Board. In this letter I am providing you with updates on market conditions, our Business Plan, MHHS (Market-wide Half Hourly Settlement), Elexon Kinnect and Project Helix, our latest customer satisfaction survey and changes to the leadership of the company.

Market

Since my last letter to BSC Parties and stakeholders, the electricity market has faced a period of unprecedented challenges with sharply increasing wholesale costs leading to a number of suppliers being forced to cease trading. We are very aware that the impact of this is also being felt under the BSC arrangements, including through the mutualisation of payment defaults and on the level of collateral that BSC Parties are required to lodge.

We have been focused on ensuring that the BSC arrangements continue to operate smoothly and transparently in order to mitigate the impact of Supplier failures on the market. We have taken additional steps to ensure that we have robust processes in place for forecasting the impact of Supplier failures on Elexon Clear's cashflow (Elexon Clear is the BSC counterparty for all Trading Charge and Reconciliation Charge transactions), which will enable us to provide notice to Parties in advance of the BSC [Shortfall Amount](#) mechanism being triggered; we have been undertaking stress tests of our systems and processes based on different potential market scenarios and we have, with the Panel's consent, increased Elexon Clear's overdraft facility from £1m to £5m, in order to enable us better to support the industry through our management of short-term BSC Party defaults. In addition, we have reminded Parties about the BSC arrangements relating to shortfall funding, which ensure that the total amount that Elexon is required to pay in Trading Charges on any day does not exceed the combination of its overdraft plus the total amount that it is paid or can recover from Parties.

We welcomed the Panel's decision to accelerate and streamline the processes we use for setting the Credit Assessment Price in such a fast moving market.

Business Plan

We have just published our [draft Business Plan](#) for the next financial year and we welcome comments on this from BSC Parties. The Business Plan sets out our priorities for next year, including continuing to manage Settlement to our historic high standards

and to help support the move towards Net Zero, and our budget for delivering those priorities. In developing next year's plan, we have been very aware of the financial pressure that Parties are operating under. We have therefore placed even more focus on the need for efficiency. As a consequence, whilst our total budget has increased overall due to the need to deliver mandatory industry-led changes for Helix (our name for the project of implementing MHHS on BSC central systems) and the MHHS Programme (our role as Implementation Manager of MHHS for industry), our budget for delivering regular BSC activity will actually decrease by £6.6m.

As regards our investment in Helix, whilst we had previously consulted on the costs associated with our MHHS Implementation Manager role, in this year's budget we must also include for the first time the costs for Helix. We have been able to forecast these costs following the outcomes of the Architecture Work Group.

For stakeholders who want a summary of the draft Business Plan, we will shortly be publishing one on our website.

Market-wide Half Hourly Settlement (MHHS)

In my last letter, I spoke about the measures we would be putting in place to address any potential conflicts of interest arising from Elexon's MHHS Implementation Manager role whilst ensuring that the Board had appropriate oversight of the Programme. This work has been a particular area of focus for us over the last six months.

We have worked with Ofgem to address this by creating a Separation Plan. This [plan, which was approved by Ofgem](#) on 19 November 2021 and is available on the BSC Website, sets out the operational, organisational, physical and cultural separations that we have established in order to ensure that all programme participants are treated fairly and equally. Amongst other things, this includes arrangements for separate decision-making processes, reporting and resources.

We were pleased to approve [Expleo Technology UK Limited's appointment as the Programme's Lead Delivery Partner](#). More information on this can be found on the MHHS Programme website. This contract award was made after a very robust procurement process and extensive due diligence in which key considerations were value for money, technical strength, flexibility of approach and a collaborative approach which supports working as a partner with the Programme.

Elexon Kinnect and Project Helix

In previous letters I have provided you with updates on Elexon Kinnect, our programme to re-architect BSC systems and deliver a strong, scalable digital platform, and which will be a key enabler in allowing BSC systems and processes to change at the pace needed to support the delivery of Net Zero. This programme continues to progress well and to budget and you can find [more information about Elexon Kinnect](#), including the benefits that it will bring, on our website.

I have already referred in this letter to Helix, and would note that we will be developing the Helix services on the Kinnect platform, which will enable Helix to benefit from Elexon Kinnect's scalable, future-proofed architecture. In particular, the amount of half hourly data that Elexon will be required to process under MHHS will increase exponentially compared with current levels, so the ability to scale our digital platform will deliver substantial benefits to Parties.

The Board exercises oversight over these programmes primarily through our Transformation Committee. We established this Committee in 2020 in order to provide such oversight and support the delivery of Elexon's digitalisation programme. In fulfilling this role, the Committee has scrutinised a number of investment proposals with a view to ensuring that we have robust arrangements in place with a portfolio of suppliers. This approach to sourcing will support our continuing delivery of the digitalisation programme, and Helix, using suppliers with both the necessary technical expertise and the capability to follow agile ways of working.

These agile ways of working are also a key element of the Board's work on people and culture, to which I referred in my last letter. As part of our ongoing work on embedding our values and culture, we have been transforming Elexon into an organisation that is able to work at pace, be proportionate in its approach and focus on outcomes.

Code Consolidation and Simplification

The proposals made by Government and Ofgem in July 2021 for a Future System Operator (FSO), and reforms to the existing code arrangements, will clearly have a significant impact on Elexon. We strongly believe that any changes should not lead to a loss of independence by Elexon or a reduction in our accountability to BSC Parties.

In September, we responded to the consultations conducted by Government and Ofgem and you can see our full responses to the [FSO consultation](#) and the [code reform consultation](#), which are available on our website.

In summary, however, our view is that overall these proposals constitute a sound footing on which to build an energy system to deliver Net Zero. We were pleased to see in the proposals that the FSO consultation recognised that Elexon's independence is of value to Government, Ofgem and the industry, and it should be maintained. However, we believe that the FSO must also maintain operational independence both from the industry and from Government and that this will be key to its credibility and effectiveness.

The issue of the future ownership of Elexon, as you would expect, remains a high priority for the Board.

Customer Satisfaction Survey

Elexon's Board takes great interest in receiving feedback on the company's performance, and for this purpose we commission a third party to undertake a customer satisfaction survey annually; the [full survey results](#) are available on our website. Such feedback from our customers has helped us to identify our strengths and also some areas for improvement which we will be addressing this year, including around continuing to enhance our communications. We are always very grateful for this feedback.

Board and Executive Appointments

After seven years as Chief Executive, and 10 years in total working for Elexon, Mark Bygraves stepped down as Elexon's CEO on 29 October 2021 in order to focus on, and develop, other opportunities outside of the company. The Board thanks Mark for his significant contribution to the company and wishes him well for the future.

Sara Vaughan, a Non-Executive Director of Elexon, has taken over as Interim Chief Executive until an enduring replacement is appointed. We are currently running a formal, open recruitment process, which we plan to have completed early in 2022.

We are also near the end of the process to appoint a new non industry NED to take over from David Rigney as chair of our Audit and Risk Committee from 1 July 2022.

I hope this letter has given you some insight into the work of the Board and the company. If, however, you have any comments or questions then, as ever, please do not hesitate to let me know.

Yours faithfully

Michael Gibbons CBE FEI
Chair
On behalf of the Elexon Board