

17 August 2022

Dear BSC Party

ELEXON BOARD – CIRCULAR LETTER TO BSC PARTIES NO 11

In this letter I provide updates on behalf of Elexon's Board on topics including progress on the industry's Market-wide Half Hourly Settlement (MHHS) programme and our digitalisation programme. I also reflect on the ownership of Elexon, and the Board's view on current issues impacting the market.

Elexon's digitalisation programme

The Board's Transformation Committee continues to oversee the delivery of Elexon's digitalisation programme. As with everything that we do, our focus is on efficiency as well as quality, ensuring that we optimise the total cost of delivering and running our cloud platform [Elexon Kinnect](#).

Elexon is continuing to roll out Kinnect and digitalisation of the BSC. We regard this work as essential for ensuring that our services and the BSC are ever more customer focused, flexible and adaptable, as well as being geared up to support Net Zero.

My previous Board update explained how the Elexon Kinnect platform would enable us to deliver the Helix Programme. Helix involves the redevelopment of BSC Central Systems so that we can support the new services that are being created through the MHHS Programme. Through these services we will manage a near 100-fold increase in the amount of half hourly data to be processed once MHHS is live.

The Transformation Committee has oversight of Helix. In January, following a competitive tender process, the Committee approved the appointment of technology vendors to deliver the Helix solutions. We are pleased with the progress, as it is tracking to complete on time and within budget. More information on the Helix solutions is in our 2022/23 [business plan](#).

In April we launched a [digital version of the BSC](#), housing 9,000 pages of documents. This allows users to search documents more easily compared with using PDFs. We believe that this is a really important step in making the BSC more navigable for all of our stakeholders, and in particular our customers. Over the coming year we will add new functionality, including 'natural language processing' where the search tool can understand human language as it is written. All of this will help make the BSC more accessible to users and will facilitate more efficient code changes as the requirement for more rapid change processes become necessary in the future.

MHHS Programme

Preparing for the timely implementation of MHHS has been, and will remain, one of our highest priorities. As a result, the Board has established a new sub-committee, the MHHS Committee. This Committee will be focused on Elexon's role as Implementation Manager of MHHS, whilst Helix (Elexon's role as participant in MHHS) will be governed by our Transformation Committee. This approach will enable us to ensure there is appropriate Board-level oversight of the successful delivery of MHHS, while complying with the requirements of the Business Separation Plan agreed with Ofgem.

In terms of the MHHS Committee's role in relation to the overall MHHS governance framework, it will be providing oversight of matters that, in accordance with the Business Separation Plan and framework, are within Elexon's control. They include Elexon's performance in the Implementation Manager roles, the performance of our people and our service providers and monitoring the implementation of the Business Separation Plan. The Programme itself, in conjunction with Ofgem, is responsible for other key aspects of performance, for example, risks and issue mitigation, change requests and timelines. In order to support this, we intend to invite the Independent Programme Assurance provider to participate regularly in our discussions.

The Committee expects to make a decision soon on the procurement of a Service Provider to deliver the Data Integration Platform (DIP). Once operational, Suppliers will use the DIP to share half hourly data with Elexon as part of the wider MHHS solution. In [April](#), Ofgem confirmed that Elexon will initially operate the DIP and it will be governed by the BSC, once developed. The Programme is currently procuring a provider for the DIP to begin development of the solution in October.

Future System Operator and ownership of Elexon

In April, BEIS and Ofgem announced the next steps for the Future System Operator role. National Grid ESO will become an independent, publicly owned FSO, which we support as an important step towards Net Zero. Elexon is fully owned by National Grid ESO and therefore the change of ownership structure will impact on us. BEIS is [consulting](#) on two ownership models: either public or private ownership. There is also a temporary fallback solution, of Elexon going into the public sector, only to come out again. The consultation clearly states that, without any strong case for public ownership, BEIS's preferred enduring option is industry ownership. The clear preference of the Board for Elexon's ownership is also the private, federated industry ownership model, as preferred by BEIS.

For completeness, it is worth adding that the Board is not in favour of the currently proposed temporary fallback option, which it believes would be inefficient, involve additional cost and obligations for Elexon (in terms of establishing on a temporary basis all the mechanisms linked with being in public ownership) and risks unintended consequences. The consultation closes on 22 September and subject to the responses, the Board would like to move expeditiously to implementing an acceptable form of industry ownership.

The Board believes that shared ownership by industry will allow us to retain our accountability to industry, our independence from Government and be subject to licensing from Ofgem. From industry responses to previous consultations, it is

evident that this is something that our industry values. We believe that the federated model will enable us to be highly responsive to the needs of the industry, serving those who fund Elexon. We would like to encourage BSC Parties to respond to the consultation and if possible support the federated model. We are happy to talk in detail about the consultation, should any Parties wish to understand more fully what the federated model will mean for them, and how Elexon would operate under it.

2022/23 business plan and a focus on efficiency

The Board approved Elexon's 2022/23 business plan in March, which set an increased budget of £98.2m. Around one third of this is for MHHS-related activity (the MHHS and Helix Programmes).

We recognise that any increase may not be welcome in the current circumstances and therefore we particularly challenged the assumptions and plans to ensure that we were prudent in our approach to what is needed for us to support the industry. As always, we are focused on delivering our services as efficiently as possible. That is why, in addition to reducing the costs of our 'regular BSC activity' by £6.6m (9.6%) compared with the 2021/22 budget, we worked this year on undertaking a detailed benchmarking exercise of our costs. We appointed a consultant to help with this. The consultant's report demonstrated that our costs are in line with other comparable organisations. We see this work as a baseline from which we can deliver further efficiencies to Parties in future.

Supporting the reviews of market arrangements

The wholesale price shocks have provoked much thinking in Government and across the industry on whether fundamental changes to the wholesale market model and mechanisms are needed. This is in addition to the on-going review of retail market arrangements. To that end BEIS is carrying out a Review of Electricity Market Arrangements (REMA) and Ofgem has been looking at what an energy system fit for a future Net Zero Britain might look like. Ofgem's work has also included assessing the costs and benefits of moving away from national marginal cost pricing for wholesale electricity, to a zonal, or locational marginal pricing (LMP) system.

The feedback period on the REMA ends on 10 October, and the outcome of these reviews could have major impacts on Balancing and Settlement, especially in the case of LMP. Elexon is engaging with BEIS and Ofgem on these reviews, offering our in-depth expertise and impartial views. The Board has been kept informed of the developing thinking. We will continue to consider the impact of future changes on the existing Balancing and Settlement arrangements, and what this might mean for Elexon.

The ongoing impact of the war in Ukraine

Increasing global energy demand resulting from the recovery of economies following the pandemic, has combined with the impact of the war in Ukraine to propel wholesale prices to record levels over the past several months. This has had an unprecedented impact on the energy retail market, and as a result Elexon has worked closely with the BSC Panel to manage the exit of 22 Suppliers through the Supplier of Last Resort process, during 2021/22.

The Board has discussed the impact of the war on the electricity market, Elexon

and the BSC arrangements in the same context as considering the effect on BSC Parties of high prices. We are confident that the BSC arrangements are robust enough to deal with this prolonged challenge, especially now that [P438](#) 'Amending the BSC to address sanction orders' has been approved.

The Board welcomes Simon McCalla and Tim Fitzpatrick

The Board is very pleased to welcome Simon McCalla into his role as CEO and Elexon Board member. Simon has significant experience in delivering technological change, and managing stakeholder and customer-focused organisations with many similarities to Elexon. Simon joined at the beginning of April.

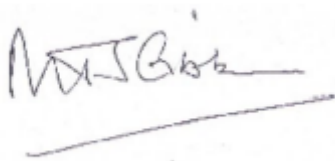
We also appointed Tim Fitzpatrick to serve on the Elexon Board, and as Chair of our Audit and Risk Committee from 1 July, succeeding David Rigney as a non-industry Non-Executive Director. Elexon has benefitted greatly from David's expertise in financial services, accounting and governance, and we thank him for his outstanding contribution over nine years. Tim is an experienced Audit Committee Chair, with a strong financial services background, and the Board is already enjoying working with him.

Sara Vaughan appointed as the new Chair of the Panel and the Board

[Last week](#) we announced that Sara Vaughan is to succeed me as Chair of the BSC Panel, and the Board. Sara also stepped into the interim CEO role for around five months until Simon arrived and we thank her for performing the role so successfully.

My tenure as Chair of the Board and the Panel comes to an end on 1 October 2022. I regard it as having been a privilege, and it has certainly been a pleasure to have served for nine years with such high-performing teams. It has been one of the highlights of my career and I would like to thank my colleagues at Elexon, the Panel and the industry for this opportunity. I am extremely confident that with Sara succeeding me as Chair, the company's future will be in very safe hands. I wish everyone connected with the BSC the great success in the future, which they deserve.

Yours faithfully,

A handwritten signature in dark ink, appearing to read 'M Gibbons', with a horizontal line drawn underneath it.

Michael Gibbons CBE FEI
Chair
On behalf of the Elexon Board