

ELEXON

10 February 2023

Dear BSC Party

ELEXON BOARD – CIRCULAR LETTER TO BSC PARTIES NO 12

This is my first letter to Parties in my new role as the Chair of Elexon's Board and the BSC Panel. I took over these roles in October 2022, following the departure of the longstanding Chair, Michael Gibbons. Michael made a huge contribution to both Elexon and the Panel during his nine years at the helm. On behalf of Elexon and the Board, I would like to thank him for the great wisdom and leadership he displayed during his tenure.

I would like to welcome our new industry non-executive Director, Ian Graves, to the Board. Ian took up his position last month (January 2023). He is Chief Executive of PeakGen and brings with him 25 years of energy industry experience in a variety of roles. Ian also has the benefit of a wide-ranging background in a number of executive and non-executive board roles.

In this letter I will update you on:

- Elexon's winter preparedness
- Development of Elexon's new strategy
- Energy Code Review and Elexon ownership
- Elexon's business plan 2023/24
- New roles for Elexon
- Market-wide Half-Hourly Settlement (MHHS) implementation progress
- The Helix Programme
- Kinnect

Winter Preparedness

As the sector headed into this winter there were significant concerns over security of electricity and gas supplies. To ensure we were best prepared for what might occur, Elexon ran a number of in-depth sessions with our technology provider CGI, and National Grid ESO, to work through how a partial, or total shutdown of the electricity system, and suspension of the electricity market would impact on the BSC.

The Board had oversight of this in order to gain assurance that the right processes were in place to manage the impact that significant power interruptions would have on BSC arrangements. We have also been monitoring the likelihood of Supplier failures under the Code. The Board was mindful of the high number of such failures over the last 18 months and therefore the need to ensure that we continued to have the resilience to deal with similar scenarios, should they arise again.

As a result of these exercises, we feel we can be confident that our processes are clear and workable.

Development of Elexon's new strategy for 2023 to 2026

The Board and the Elexon Executive team have been working together to develop a new strategy for 2023-2026 which seeks to build on what the company already does well, while giving it a sharper focus on delivering value as a high-performing code manager. The Board is expecting to approve an implementation plan for the strategy at its meeting in late March.

The strategy is designed to ensure that we are focussed on delivering exceptional value to Parties for our core services. We will also be stepping up our engagement activity, so that we can work with the industry to prepare for the forthcoming changes to the management of central services.

Energy Code Review and Elexon ownership

During the coming year we believe that, following Ofgem's recent Call for Input, Government and Ofgem will announce the next steps in relation to the Energy Code review, under which code bodies will both be licensed and be given a more proactive role. Both the [Board](#) and the [BSC Panel](#) have responded to the Ofgem Call for Input on the code reforms.

We also anticipate a decision from BEIS, or the Department for Energy Security and Net Zero, on the future ownership of Elexon, in light of the forthcoming establishment of the Future System Operator (FSO). We will then work with the relevant department on implementation of the chosen solution.

Elexon's business plan 2023/24

Elexon's latest [business plan](#) proposes a total budget of £107.7m for all activity in 2023/24 including delivery of Kinnect (Elexon's new platform), the Helix Programme, and the MHHS Programme. This is an increase of £9.5m (9.7%) against the current year's budget of £98.2m. The business plan sets out transparently the reasons for the increase.

The Board discussed the proposed budget and plan before it was published on 21 December 2022, and we were pleased to receive feedback from BSC Parties. Thank you to all those who responded and/or attended the webinar hosted by the Executive team.

We recognise that some companies will not welcome the increase in required spending at a time when many Parties are under major financial strain. However, recognising that Elexon is at a critical juncture in the delivery of major investment programmes, and the need to manage the uncertainty related to the outcome of the MHHS Programme re-plan (more on this below), the Board believes that this level of resourcing is appropriate. We are, of course, considering all comments received.

Although the budget has increased, much work has been done to keep costs as low as possible. Through efficiency savings made, *current* year controllable costs will decrease by £1m against the 2022/23 budget, which will also feed into 2023/24, and a portion of the increase in costs we have seen has also been absorbed through making efficiency savings of £1.3m

across the business. In line with our usual practices, any unused budget will be returned to Parties.

New roles for Elexon

During the autumn of 2022, Elexon took on two new roles in administering payments for the Government's Energy Price Guarantee (EPG) and Energy Bill Relief Scheme (EBRS). These are in addition to the Capacity Market Advisory Group (CMAG) secretariat function which Elexon took on in May 2022.

The Board was fully supportive of Elexon taking on these roles. They are opportunities for us to support Government and Ofgem in the management of the energy sector challenges by using our expertise and experience in scheme administration.

The EBRS and EPG schemes were set up in a matter of weeks, demonstrating our ability to work at pace and, while Elexon focused on the scheme design, the Board carefully examined the risks of taking on these roles. As Elexon's role under these schemes is effectively being funded by Parties, the Board wanted to make sure there were protections in the contracts in case the schemes developed in a way that created risk to the BSC arrangements or resulted in more onerous funding obligations on Parties.

Market-wide Half-Hourly Settlement (MHHS) implementation progress

The [MHHS implementation programme](#), which is so important for supporting the transition to Net Zero, continues to be one of the highest priorities for Elexon and the Board over the next three years. The Board has direct oversight of the programme through the MHHS sub-committee of the Board. We have welcomed Helen Tipton to Elexon's executive team as director of strategic programmes and the new Senior Responsible Owner for the MHHS Programme.

During 2022, a number of companies raised concerns around the MHHS implementation date of Autumn 2025, due to current market conditions. The Programme has therefore been working with Ofgem and all MHHS participants on an extensive re-planning exercise, expected to conclude in Q1 2023.

A proposal for a phased migration approach has already been accepted by Ofgem, with the first tranches of meters being settled through MHHS systems in line with the industry dates that will come through the re-plan exercise. The MHHS sub-committee agrees with this, and is receiving regular updates from the MHHS Programme as well from the Independent Assurance Provider, PwC, to monitor performance in line with their separation agreement responsibilities.

An important step towards MHHS implementation is the development of the Data Integration Platform (DIP), a new middleware service to process messages to and from participants using next generation event messaging architecture. On 2 February 2023, the MHHS Programme [announced](#) that Avanade had been chosen to develop the DIP. Once the DIP has been designed, built and tested, it will be handed over to Elexon for operation.

The Helix Programme

Through the [Helix Programme](#) Elexon is developing new services to process the major increase in half hourly data it will receive once MHHS is implemented. This programme is overseen through a different Board committee, the Transformation Committee (TC), in accordance with the governance arrangements required for the MHHS Programme.

The Helix Programme was well into the design, build and test phases for the new services and the committee and Elexon had anticipated that programme costs would fall by 2023/24. However, MHHS design changes and re-baselining have introduced new requirements and re-work of the new services. This is likely to continue in 2023/24, with the outcome of the MHHS re-plan. The Programme will also have to deliver new MHHS qualification processes for participants.

More detail on this and its financial impact appears in the business plan. The Board believes that, despite the impact of the re-plan, Elexon must maintain momentum on the Helix programme, so that there is no delay in being able to support the first tranches of meters switching to MHHS in 2025.

Kinnect

The TC also oversees Elexon's digitalisation programme and the delivery of [Elexon Kinnect](#). Over the next year and a half (by October 2024), Elexon will complete the roll out of the platform and switch off the ageing legacy systems that it replaces. The delivery of Kinnect is essential to Elexon's ability to serve BSC Parties efficiently and effectively, so that Elexon can fulfil the role of a Code Manager of the future. This will include being able to work with the industry to develop and deliver BSC changes and support for innovation more quickly than we can at present, by leveraging the benefits of Kinnect's cloud technology.

I hope this letter gives you some insights into the matters the Board has been considering over the past few months. I am happy to discuss any of this further if you wish.

Yours sincerely



Sara Vaughan
Chair of Elexon Limited and the BSC Panel